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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING )  
CALLED BY THE OIL CONSERVATION )  
DIVISION FOR THE PURPOSE OF )  
CONSIDERING: ) CASE NO. 11079

APPLICATION OF SANTA FE ENERGY  
OPERATING PARTNERS, L.P.

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: Jim Morrow, Hearing Examiner

September 1, 1994

NOV 2

Santa Fe, New Mexico

This matter came on for hearing before the  
Oil Conservation Division on September 1, 1994, at  
Morgan Hall, State Land Office Building, 310 Old  
Santa Fe Trail, Santa Fe, New Mexico, before Deborah  
O'Bine, RPR, Certified Court Reporter No. 63, for the  
State of New Mexico.

**ORIGINAL**



A P P E A R A N C E S

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FOR THE DIVISION:        RAND L. CARROLL, ESQ.  
                              General Counsel  
                              Oil Conservation Commission  
                              State Land Office Building  
                              310 Old Santa Fe Trail  
                              Santa Fe, New Mexico 87501

FOR THE APPLICANT:       HINKLE, COX, COFFIELD,  
                              EATON & COX  
                              P.O. Box 2068  
                              Santa Fe, New Mexico 87504-2068  
BY:    JAMES G. BRUCE, ESQ.

FOR TEXACO                    CAMPBELL, CARR, BERGE &  
EXPLORATION &                SHERIDAN, P.A.  
PRODUCTION, INC.:         P.O. Box 2208  
                              Santa Fe, New Mexico 87504-2208  
BY:    WILLIAM F. CARR, ESQ.

1 EXAMINER MORROW: Call the hearing back to  
2 order in Docket 25-94 and call Case 11079. This is  
3 the application of Santa Fe Energy Operating Partners  
4 for an unorthodox gas well location in Lea County,  
5 New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce from  
8 the Hinkle law firm in Santa Fe representing the  
9 applicant. I have three witnesses to be sworn.

10 MR. CARR: May it please the examiner, my  
11 name is William F. Carr with the Santa Fe law firm  
12 Campbell, Carr, Berge & Sheridan. I represent Texaco  
13 Exploration and Production, Inc., in this matter, and  
14 I have one witness.

15 EXAMINER MORROW: Will all the witnesses  
16 please stand?

17 (Witnesses sworn.)

18 MR. BRUCE: Mr. Examiner, I call Mr.  
19 Curtis Smith to the stand. Again, ask that the  
20 record could reflect that he was previously sworn and  
21 previously qualified as an expert petroleum landman.

22 CURTIS SMITH,

23 the witness herein, after having been first duly  
24 sworn upon his oath, was examined and testified as  
25 follows:

## EXAMINATION

1  
2 BY MR. BRUCE:

3 Q. Mr. Smith, would you identify Exhibit 1  
4 and tell us about the land ownership in your well  
5 unit?

6 A. Exhibit 1 is a land plat outlining the  
7 well unit and marking the well with a red square.  
8 Santa Fe Energy's land is shaded yellow. In  
9 addition, the north half of the southeast quarter of  
10 Section 4 is a federal lease owned by Yates Petroleum  
11 and farmed out to Santa Fe. As a result, Santa Fe  
12 Energy is the only working interest owner in the  
13 south half of Section 4.

14 Q. What type of leases are involved? You  
15 mentioned the federal lease owned by Yates. What is  
16 the other lease?

17 A. The north half southeast quarter of  
18 Section 4 is a federal lease, which had an expiration  
19 date of March 31st of 1994. And the remainder of the  
20 south half of Section 4 is a state lease which  
21 expires September 30th of '94.

22 Q. What is the status of the federal lease?

23 A. It is under suspension now. The letter  
24 granting suspense is my Exhibit 2.

25 Q. Santa Fe's next witness will discuss the

1 process for obtaining and approving the APD, but will  
2 you please discuss why Santa Fe wanted to drill on  
3 the federal lease.

4 A. Yes. Of course, for geologic reasons, but  
5 also we wanted to drill on the federal lease to the  
6 Morrow formation and hopefully obtain production from  
7 the Morrow formation for the south half proration  
8 unit. But if we were trying the Morrow formation,  
9 this area has Delaware potential, and we could  
10 complete a well in the north half, southeast quarter  
11 of Section 4 in the Delaware, which would cause our  
12 earliest exploration date lease, the federal lease,  
13 to be HBP. And at the time that we made our plans  
14 for drilling and so forth, back in February, when we  
15 filed the APD, we thought we would have time to  
16 establish whether or not there would be Morrow  
17 production, and, if not, we would have Delaware  
18 production. And then that would give us time to spud  
19 a well on the state lands prior to the September 30,  
20 '94, expiration date.

21 Q. That hasn't quite happened in that  
22 fashion, has it?

23 A. No, it hasn't happened that way. We filed  
24 our APD. That was approved in June, and therefore  
25 our lease was taken out of suspension. Then we

1 thought we could have administrative approval, but  
2 Texaco objected to our location. Therefore, we're at  
3 hearing today. Our lease otherwise would have  
4 expired, this federal lease, August 31st, but the BLM  
5 has stated that they'll put it back in suspension  
6 until the expiration date of the state lease.

7 Q. Referring to Exhibit 3, who are the offset  
8 operators to Santa Fe's well?

9 A. Exhibit 3, the north half of Section 4,  
10 Texaco, Unocal, and Phillips. Texaco's lease covers  
11 Lots 2 through 4 in the southeast quarter of the  
12 northwest quarter.

13 Q. Which operator is most directly affected,  
14 if at all, by Santa Fe's location?

15 A. Unocal is the direct offset lessee. Their  
16 lease covers the south half northeast quarter, as  
17 well as Lot 1.

18 Q. Has Unocal voiced any objection to Santa  
19 Fe about the well location?

20 A. No, they have not.

21 Q. Couple other things. The north half --  
22 Section 3 to the northeast, that's Unocal?

23 A. Oh, yes, the other offset owners, north  
24 half of Section 3. Our records and our takeoff  
25 indicates the southwest quarter of Section 3 is open.

1 Q. And that is state land?

2 A. State lands. Southeast quarter of Section  
3 5 is Santa Fe Energy. Northeast quarter of Section 8  
4 is Pogo Producing Company and Marbob Energy  
5 Corporation, and northwest quarter of 10 is Maralo  
6 and David Pettinpoie, and the north half of Section 9  
7 is Santa Fe Energy with the exception of the  
8 southwest of the northwest quarter. That's Maralo.

9 Q. Is Exhibit 4 my affidavit regarding  
10 notice?

11 A. Yes, it is. And Mr. Bruce notified offset  
12 owners for me because of the short time frame we were  
13 operating under.

14 MR. BRUCE: Mr. Examiner, for your  
15 information, right behind the affidavit there is a  
16 letter dated July 28, 1994. That was actually notice  
17 of the administrative application, and we notified  
18 every operator entirely around the unit, as required  
19 by the administrative rules.

20 And then later on, after Texaco objected,  
21 we renotified, and that's toward the back -- we  
22 renotified the people to the north, to the northeast,  
23 and to the east, and those operators or lessors were  
24 notified at that time of the specific hearing date.

25 EXAMINER MORROW: That complies with our



1 rules requiring notification just to the north.

2 MR. BRUCE: Just the immediately affected  
3 offsets, yes, sir. The southwest quarter of Section  
4 3, as Mr. Smith stated, that's state lands. We could  
5 not tell whether it was leased or unleased, and so  
6 besides notifying the prior lessees, we notified the  
7 Commissioner of Public Lands also.

8 Q. Finally, Mr. Smith, what is Exhibit 5?

9 A. Exhibit 5 is a letter from the BLM to  
10 Texaco. Texaco had been the operator of north half  
11 of Section 4, which was communitized as to the Atoka  
12 formation; however, the communitization agreement,  
13 the north half of Section 4 terminated by the BLM  
14 effective February 12th of '94, and that's shown in  
15 the letter, Exhibit 5.

16 Q. What is the date of last production from  
17 the Atoka well in the north half of Section 4?

18 A. From the information that we have, it  
19 indicates March of 1991. And to our knowledge,  
20 Texaco has not conducted further operations to  
21 reestablish production from that well.

22 Q. In your opinion, is the granting of Santa  
23 Fe's application in the interest of conservation, the  
24 prevention of waste, and the protection of  
25 correlative rights?

1 A. Yes.

2 Q. Were Exhibits 1 through 5 prepared by you  
3 or compiled from company business records?

4 A. That's correct.

5 MR. BRUCE: Mr. Examiner, I move the  
6 admission of Santa Fe's Exhibits 1 through 5.

7 EXAMINER MORROW: 1 through 5 are admitted.

8 EXAMINATION

9 BY MR. CARR:

10 Q. Mr. Smith, Santa Fe has two leases in the  
11 south half of Section 4; is that correct?

12 A. Santa Fe has one lease, and we have a  
13 farmout from Yates, that's correct.

14 Q. When did you acquire the farmout on the  
15 Yates interest in the north half of the southwest  
16 quarter?

17 A. It seems like it's been -- the date of the  
18 farmout, I believe, was in March.

19 Q. Of this year?

20 A. Yes.

21 Q. And the terms of that required that you go  
22 forward and commence the well within a six-month  
23 period of time, thereabouts?

24 A. We had a commencement date of August 15th,  
25 and I had to ask them to extend that to the 31st.

1 Now I'm going to ask them to extend it to September  
2 30th.

3 Q. When did you acquire your interest in the  
4 lease that you hold in the south half of Section 4?

5 A. At the state land sale in '89, I guess,  
6 October of '89.

7 Q. Is this the first well you've proposed on  
8 the acreage?

9 A. Yes.

10 Q. If I were to have questions concerning  
11 topographic conditions, are you the correct witness  
12 to ask about those?

13 A. Our engineer, drilling engineer.

14 Q. All right. There was an administrative  
15 application filed in this case. If I were to have  
16 questions concerning the productive capabilities of  
17 the various tracts in the south half of 4, again,  
18 that should be directed to your engineering witness?

19 A. No, our geologist.

20 Q. Are you aware of the Bilbrey unit, the  
21 working interest unit?

22 A. The Bilbrey working interest unit that --

23 Q. That includes the north half of Section 4?

24 A. No.

25 Q. You're not aware that there is a working

1 interest there that is operated by Texaco?

2 A. Oh, well, yeah, by virtue of the fact that  
3 there is a communitization agreement, I naturally  
4 presume that there is an operating agreement that  
5 creates a working interest in the north half of  
6 Section 4.

7 Q. Your Exhibit No. 5, is that a notification  
8 that the Com agreement expired as to, what, the Atoka  
9 formation?

10 A. Yes.

11 Q. Your primary objective in this well is the  
12 Morrow; is it not?

13 A. Our well?

14 Q. Yes, sir.

15 A. Yes.

16 MR. CARR: That's all I have.

17 EXAMINATION

18 BY EXAMINER MORROW:

19 Q. Mr. Smith, how does the suspension work  
20 that you talked about in this letter from the BLM,  
21 how does that work?

22 A. The way that works, I can't remember -- 43  
23 CFR 31 something -- according to those rules and  
24 regulations put out by the BLM, you have to file your  
25 APD at least a month in advance of the exploration of

1 your lease. Or, in your words, if your lease expires  
2 March 31st, you have to file an APD in February.

3 Normally, the BLM should be able to  
4 process an APD in that time period. In this case,  
5 because of topographic reasons, the BLM could not  
6 approve our APD prior to the expiration date of the  
7 federal lease, which was March 31st.

8 So the lease is placed in suspension until  
9 the date, the first day of the month following the  
10 date that you receive an approved APD or your APD is  
11 denied.

12 Q. Does that time frame include applications'  
13 approval from OCD also?

14 A. No.

15 Q. Or just their approval?

16 A. No, it's their approval. Now, I called  
17 Tony Ferguson at the BLM, told him what the situation  
18 was here, because our lease was actually taken out of  
19 suspension in June when we received the APD, which  
20 because of the dates -- and they outline it in their  
21 letter, my Exhibit 2, the way the dates fall --  
22 caused our lease to expire August 31st of '94.

23 I explained the situation to him, told him  
24 that we have a September 1st hearing date, so  
25 naturally we're not going to be able to spud prior to

1 that date. And they said they would work with us and  
2 put the lease back in suspension. And we talked  
3 about the federal lease expiring October 1st or  
4 September 30th of '94, which will correspond with the  
5 state lease expiration date.

6 Q. So the state lease --

7 A. Yeah, the rest of the south half of  
8 Section 4 is a state lease.

9 Q. Does the state have similar provisions?

10 A. The state lease, you cannot get a state  
11 lease suspended. You have to spud --

12 Q. You don't have a well spudded, you've  
13 lost; is that right?

14 A. That's correct.

15 EXAMINER MORROW: Thank you, sir.

16 MR. BRUCE: Mr. Examiner, I'm calling  
17 Darrell Roberts to the stand. If we could have the  
18 record reflect that he was previously sworn and  
19 previously qualified as an expert drilling engineer.

20 DARRELL ROBERTS,

21 the witness herein, after having been first duly  
22 sworn upon his oath, was examined and testified as  
23 follows:

24 EXAMINATION

25 BY MR. BRUCE:

1 Q. Mr. Roberts, were you responsible for  
2 filing an APD for approval for this well?

3 A. Yes, I was.

4 Q. Could you discuss the sequence of events,  
5 the chronology of events when you obtained approval  
6 for the well location? And I'll first refer you to  
7 your Exhibit No. 6.

8 A. Okay. I'll just go by as it's listed on  
9 this memo. On February 2, 1994, we staked the well  
10 at 1,980 feet from the south line and 1,980 feet from  
11 the east line of Section 4. And then on February the  
12 25th, we submitted our APD to the BLM.

13 Then on March the 17th of 1994, I received  
14 a call from Kathleen Rohrbach. She said that she and  
15 a wildlife specialist had been to the location, and  
16 that our staked location was too near Buffalo Wallow  
17 or playa lake, and that there was also a raptor's  
18 nest or a bird of prey's nest in the mesquite trees  
19 located within the playa, and that she asked that we  
20 move the location to 2,310 from the south line and  
21 1,800 feet from the east line in order to avoid the  
22 playa.

23 She also asked that we delay the  
24 construction until after July 15 until the nesting of  
25 the raptors, the birds had left the bird nest.

1 Q. The birds had flown the nest?

2 A. Right, hatched their young. On March the  
3 21st, we restaked the well at 2,310 and 1,800 feet  
4 from the east line. Then on April 24th, we submitted  
5 a sundry notice to move the unorthodox location. And  
6 then on June the 23rd, we received an approved APD  
7 from the BLM.

8 Q. What is Exhibit 7?

9 A. Exhibit 7, the first page is a plat of our  
10 moved location, the unorthodox location. The second  
11 page is a topo map that I've highlighted in yellow  
12 the playa lake where we had it staked originally.

13 Q. And that's what caused the several hundred  
14 foot move?

15 A. Yeah. We moved it 376 feet. And we moved  
16 it up there, and you can see that from this topo map  
17 also, there's other playa lakes in that area. And  
18 all the other things are plats related to this  
19 staking of the well.

20 Q. And then once you received the BLM  
21 approval, because it was unorthodox at the BLM's  
22 request, then you had to apply to the OCD for  
23 approval?

24 A. Right, exactly.

25 Q. And this whole procedure has resulted in



1 the fact that you're now up against lease expiration  
2 deadlines in both cases?

3 A. That's true, as Curtis Smith testified  
4 earlier.

5 Q. In your opinion, is the granting of this  
6 application in the interests of conservation and the  
7 prevention of waste?

8 A. Yes.

9 Q. And were Exhibits 6 and 7 prepared by you  
10 or under your direction?

11 A. Yes, they were.

12 MR. BRUCE: Mr. Examiner, I move the  
13 admission of Santa Fe's Exhibits 6 and 7.

14 EXAMINER MORROW: 6 and 7 are admitted.

15 EXAMINATION

16 BY MR. CARR:

17 Q. Mr. Roberts, you originally proposed the  
18 well at the standard location; is that correct?

19 A. Yes, we did.

20 Q. You've had to move it for playa lake?

21 A. Yes, sir.

22 Q. And also because of raptors nesting in the  
23 area?

24 A. Yes, sir.

25 Q. Did you still have to move it to avoid the

1 raptors, or is that something that's over because the  
2 nesting season is over with?

3 A. No, because the raptors have left the  
4 nest, then that's gone away.

5 Q. When the location was proposed to you,  
6 2,310 from the south and 1,800 from the east line,  
7 did you talk to the Bureau of Land Management about  
8 alternative locations, or did you just accept that  
9 proposal?

10 A. No, I've discussed different alternatives,  
11 and this is the only one we could come up with that  
12 they would accept.

13 Q. They weren't interested in letting you  
14 move it either to the east or to the west?

15 A. No.

16 Q. You were involved in the preparation and  
17 filing of the administrative application, were you  
18 not?

19 A. Yes.

20 Q. In that application, it represents that  
21 the southwest quarter of the southeast quarter is as  
22 prospective as the drill site. Are you aware of  
23 that?

24 A. No, I'm not. On the APD?

25 Q. On the application for administrative

1 approval that was filed by Mr. Bruce on July 28,  
2 1994, paragraph 6 reads: "The primary target of the  
3 well is the Morrow formation. The Morrow formation  
4 in the southwest of the southeast is as prospective  
5 as the northwest of the southeast." Do you see that?

6 A. Yes. I wasn't involved with that. I  
7 thought you meant the APD.

8 Q. Would you be the person I would question  
9 about whether or not that 40 acres is as prospective  
10 as the real site?

11 A. No.

12 Q. Who would I ask?

13 A. Probably David White.

14 Q. That's the problem with being the last  
15 witness, isn't it?

16 A. Pass the buck.

17 Q. All right. Did you consider or explore  
18 with the Bureau of Land Management locating this well  
19 at any time in the southwest of the southeast of this  
20 section?

21 A. Southwest of the southeast. No. We  
22 talked about the areas that we could put the well  
23 in. They've got the pipelines and the fences and the  
24 playa lakes that all entered into the decision.

25 Q. But you were at all times planning to

1 place the well on the federal lease, were you not?

2 A. Right.

3 Q. Is it fair to say that you didn't really  
4 consider a location in the southwest of the  
5 southeast?

6 A. For me, from my standpoint, that's true.

7 Q. Have you as an engineer made a study of  
8 the Morrow production in the area?

9 A. No, I haven't.

10 Q. You don't know if it's better to the north  
11 or the south or at all?

12 A. No. I'm a drilling engineer.

13 Q. Do you know what the standard setbacks are  
14 that are required for wells on a 320-acre unit?

15 A. Yes.

16 Q. What would they be?

17 A. 1,980 from the ends and 660 from the  
18 sides.

19 Q. So you're proposing to be 330 from the  
20 south; isn't that right?

21 A. Yes, sir.

22 Q. So you're only half a setback as required  
23 by the standard rules?

24 A. Right.

25 Q. And you have no opinion as to the drainage

1 or any of those aspects of this application?

2 A. No.

3 Q. If I understand your testimony, it is that  
4 in the north half of the southeast quarter of Section  
5 4, this is the only location the BLM would approve?

6 A. Yes, sir.

7 MR. CARR: That's all I have. Thank you,  
8 Mr. Morrow.

9 EXAMINATION

10 BY EXAMINER MORROW:

11 Q. Do you know if those raptors come back to  
12 the same nest next year?

13 A. I don't know.

14 EXAMINER MORROW: Thank you.

15 THE WITNESS: I guess we'll just have to  
16 build a new one.

17 EXAMINER MORROW: I guess you'll have to  
18 move the mesquite tree.

19 DAVID WHITE,  
20 the witness herein, after having been first duly  
21 sworn upon his oath, was examined and testified as  
22 follows:

23 EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name for the

1 record.

2 A. My name is David White.

3 Q. Who do you work for and in what capacity?

4 A. I am a senior petroleum geologist with  
5 Santa Fe Energy, residing in Midland, Texas.

6 Q. Have you previously testified before the  
7 Division?

8 A. Yes, I have.

9 Q. And were your credentials as an expert  
10 geologist accepted as a matter of record?

11 A. Yes, they were.

12 Q. And are you familiar with the geology  
13 involved in this case?

14 A. Yes, I am.

15 Q. And this is your prospect?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I tender Mr.  
18 White as an expert geologist.

19 EXAMINER MORROW: We accept Mr. White.

20 Q. (BY MR. BRUCE) Mr. White, would you refer  
21 to Exhibit 8 and describe the structure in this area?

22 A. Exhibit 8 is a structure map on top of the  
23 Lower Morrow, which is above our prospective zone.  
24 It's also a very good marker for the area.

25 On this map is our proposed location.

1 That's the red square. In red is the cumulative  
2 production from the Morrow from the wells in this  
3 area.

4 The contours, as I said, are on the Lower  
5 Morrow, and they indicate by my interpretation a  
6 nosing or a high at our proposed location in the  
7 northeast of the southeast.

8 Q. So it might give you a slight structural  
9 advantage?

10 A. Yes.

11 Q. There's also a cross-section marked on  
12 this map?

13 A. Yes, also a cross-section, A-A', which is  
14 Exhibit 9.

15 Q. Okay, why don't you go back to Exhibit 9.

16 A. The north-south cross-section. Through  
17 the area, it comes from a well to the south, through  
18 our proposed location, through the -- Texaco,  
19 originally Getty Bilbrey 4 Fed Com #1 Well, and then  
20 on into what is known as the Bilbrey field, and  
21 highlighted in yellow is the prospective sands, the E  
22 and F sands in this area, Middle Morrow sands.

23 Q. Those are the two main sands you're  
24 looking at?

25 A. Those are the two main sands.

1 Q. How about moving on to Exhibit 10 then and  
2 discussing the Middle Morrow a little bit more in  
3 detail?

4 A. Exhibit No. 10 is a net sand map for the E  
5 and F sands. My interpretation are two distributary  
6 fluvial sands, channels. The sands have been  
7 deposited in the channel, which prograded from the  
8 north. Those two channels merged in approximately  
9 Sections 33 and 34. And by my interpretation, that  
10 channel proceeded down to the south, and as I  
11 interpret, the thicker part of that channel will be  
12 in our prospect.

13 It's important in this area to be in the  
14 thicker part of the channel sands. Because of the  
15 risk in the Morrow, particularly in the Middle  
16 Morrow, you try and be in the thickest and hopefully  
17 the most porous portion of the channel.

18 Q. Are the Morrow channel sands inherently  
19 risky?

20 A. Inherently risky.

21 Q. Why did you propose a location 1,980 feet  
22 from the south and east line, please.

23 A. Two reasons. The first because I feel,  
24 and I believe the geology indicates, and the  
25 knowledge of the Morrow is that, because of the risk,



1 the further north I am, that is, towards the better  
2 production, the better off we are. So for our 320,  
3 the northeast portion is our best location. As you  
4 can see, as you go to the west, you lose thickness.

5 In addition, that was a standard location.

6 Q. Mr. Carr brought something out about the  
7 administrative application where I filed a letter  
8 stating that the southwest quarter of the southeast  
9 quarter was as prospective as the northwest quarter  
10 of the southeast quarter. Did I speak with you  
11 before filing and preparing that letter?

12 A. No.

13 Q. So perhaps an attorney got something wrong  
14 there?

15 A. Oh, I'd never say that.

16 Q. Do you believe that the well should be  
17 located in the northwest quarter of the southeast  
18 quarter as opposed to further south?

19 A. Yes. As you move towards the south, you  
20 increase the risk. And in order to reduce that risk,  
21 the further north we stay, the better our opportunity  
22 to have an economic well.

23 Q. Why don't you move on to your Exhibit 11,  
24 and maybe this will clarify that point?

25 A. Exhibit 11 is an isopach map of the

1 porosity greater than or equal to 6 percent in the E  
2 and F zone. It's my feeling and from the experience  
3 particularly in this area and at this depth, we're  
4 looking at drilling a well to 15,200 feet, we're  
5 looking at an interval between 14-4 and 14-6, that  
6 you need at least 6 percent porosity to -- I used  
7 that as my productive interval.

8 In addition, all of the wells labeled in  
9 red on this map have produced or are producing from  
10 the E and F interval.

11 One of the main reasons why we need to be  
12 on the eastern side of our proration unit is the  
13 Bilbrey well, that's the Getty, now Texaco well as  
14 you see on the structure where I have the cumulative  
15 production. That well only made 100 million, whereas  
16 wells to the north have been considerably better  
17 producers.

18 Q. So even if things are, as you put them in  
19 your Exhibits 10 and 11, you're still stepping up  
20 substantially from existing production?

21 A. We're stepping up approximately a mile  
22 from reasonable production.

23 Q. And so the further south you go, the more  
24 you increase the risk?

25 A. The more we increase the risk and the

1 potential that this sand could have shifted more  
2 towards the east instead of north-south.

3 Q. Are there any other potential zones in  
4 this well?

5 A. There is potential in the Atoka and  
6 particularly potential in the Delaware.

7 Q. Are these little black dots the oil wells  
8 to the south of those primarily Delaware?

9 A. The wells, the little black dots to the  
10 south is the Livingston Ridge East Field, which is a  
11 Delaware Upper Brushy Canyon Field, yes.

12 Q. If the Division grants approval of this  
13 well location, do you think any penalty should be  
14 assessed against production from this well?

15 A. No, I don't. Our location was dictated by  
16 the BLM rather than where we would have preferred to  
17 drill. We have expiring leases, which put us in  
18 jeopardy, and as well a penalty would unduly and  
19 adversely, I believe, affect our economics as far as  
20 drilling a well.

21 Q. So adding a penalty would make a risky  
22 well that much riskier?

23 A. Exactly.

24 Q. It would be tough to gain management  
25 approval?

1 A. Yes.

2 Q. In your opinion, is the granting of Santa  
3 Fe's application in the interest of conservation, the  
4 prevention of waste, and the protection of  
5 correlative rights?

6 A. Yes.

7 Q. Were Exhibits 8 through 11 prepared by you  
8 or under your direction?

9 A. Yes, they were.

10 MR. BRUCE: Mr. Examiner, I move the  
11 admission of Santa Fe's Exhibits 8 through 11.

12 EXAMINER MORROW: 8 through 11 are  
13 admitted.

14 EXAMINATION

15 BY MR. CARR:

16 Q. Mr. Dill, is that right?

17 A. White.

18 Q. Mr. White. Mr. Bruce does this to me; he  
19 changes names on me. If I look at your Exhibit No.  
20 8, your first exhibit, if I understood your testimony  
21 correctly, there is no dispute in this case that the  
22 better Morrow production -- the Morrow production  
23 improves as you move to the north from the proposed  
24 location?

25 A. That's correct.

1 Q. And if we get a couple of sections farther  
2 north, we get 5 Bcf wells, and there's just a  
3 stepping down of the ultimate recovery of these wells  
4 as they move toward the location?

5 A. From the entire Morrow section, that's  
6 correct.

7 Q. If we go to the cross-section, the yellow  
8 lines across the section basically show that the  
9 sands in the Morrow extend from the tracts to the  
10 north, and if your interpretation is correct, they  
11 extend south and through your proposed location?

12 A. That's correct.

13 Q. If we go to Exhibit No. 10, this is your  
14 isopach map. If I look at this isopach map, it looks  
15 to me like the southwest of the southeast is as  
16 prospective, if we use this as a gauge, as the  
17 acreage under the drill site; is that not correct?

18 A. Assuming that you have no changes, yes.

19 Q. And this shows the general Morrow channels  
20 that run through the area generally north-south over  
21 the area of interest?

22 A. As I interpret it.

23 Q. You testified that with the Morrow, you  
24 really don't know what you get, I guess, until you  
25 get there; it's a very risky, just generally a risky

1 formation. Is that a fair characterization?

2 A. It's a risky formation; however, it can be  
3 very productive.

4 Q. And so with the well that you're  
5 proposing, you're really not going to know how good a  
6 well you have until you actually get to the Morrow  
7 formation and complete there?

8 A. No, right, you never do.

9 Q. And if you have a good well in the Morrow,  
10 it's fair to assume that it would in fact drain the  
11 320 acres that you're going to dedicate to the well;  
12 isn't that right?

13 A. Hopefully, yes.

14 Q. The well at your location is 50 percent  
15 closer to the acreage in the north half of Section 4  
16 than allowed by the rules; is that fair?

17 A. That's true.

18 Q. By doing that, isn't it also fair to  
19 assume that you're extending the drainage area to the  
20 north by moving the well to the north?

21 A. Possibly, yes, it is.

22 Q. You really won't know how much drainage  
23 until you get your well done?

24 A. That's correct.

25 Q. And so by going at this location as

1 opposed to a standard location, in fact, you may  
2 capture ultimately more reserves in the north half of  
3 the section than at the standard location?

4 A. That's possible.

5 Q. Again, if I go to Exhibit No. 11, I guess  
6 it's because there's no honor among thieves and  
7 lawyers are just like that, but in defense of Mr.  
8 Bruce, if I look at this exhibit, the southwest of  
9 the southeast, again, if this interpretation is  
10 correct, it does look as prospective as the proposed  
11 location?

12 A. That's true.

13 Q. Now, if we talk about a penalty, you  
14 recommend no penalty because the location was  
15 dictated by the BLM?

16 A. That's one reason, yes.

17 Q. And as I understood prior testimony, there  
18 was no effort to locate this anywhere other than on  
19 this federal lease that's under this Yates farmout;  
20 is that right?

21 A. That's correct.

22 Q. If you had proposed and located the well  
23 in the southwest of the southeast, you wouldn't be  
24 encroaching on acreage to the north; isn't that  
25 right?

1 A. That's true.

2 Q. And no matter what the reason is for the  
3 well being only 330 from the lease line, it is closer  
4 and can drain more from the north because of that;  
5 isn't that right?

6 A. That's true.

7 MR. CARR: That's all I have. Thank you  
8 very much.

9 EXAMINATION

10 BY EXAMINER MORROW:

11 Q. Mr. White, the cumulative production shown  
12 are not tied to any dates, completion dates or  
13 abandonments? That's just what happened to make up  
14 to that now, or how does that tie in with completion?

15 A. That's what is made up to my most recent  
16 information I pulled off of Dwight's, which would  
17 have been April.

18 Q. These wells on the south, were they  
19 completed about the same time as the wells to the  
20 north or later or sooner?

21 A. No. The one well to the south in Section  
22 15, is that the one you're referring to?

23 Q. There's one in 34 and one in 4, those two  
24 I guess.

25 A. There's a couple of things. The well in



1 34, the well in the south half of 33 -- the well in  
2 34 was completed just a little over two years ago.  
3 It's producing out of the E and F sand and the Lower  
4 Morrow only.

5           The two wells in 33, the south one which  
6 has no number by it, is a recent completion. The  
7 well in 33 was originally an E and F producer, but  
8 it, as in many of the wells in the northern part, the  
9 larger producers, are actually producing out of an  
10 Upper Morrow sand.

11           Many of those wells went into competition  
12 in that Upper Morrow sand, and they closed off those  
13 lower Middle Morrow sands.

14           Q.    How about the well in Section 4?

15           A.    The well in Section 4 was originally  
16 completed in the E and F zone. It only made 100  
17 million. It has, as you see on the net porosity map,  
18 it only had 16 feet of porosity. It has low porosity  
19 and was apparently, by interpretation, to have been a  
20 low permeability well. It was then recompleted to  
21 the Atoka.

22           Q.    Essentially depleted in the E and F?

23           A.    Yes.

24           Q.    Let's see, did you or Mr. Roberts say you  
25 looked at a location further south in the northwest

1 of the southeast on the federal acreage? Did you  
2 look at anything further south on that federal  
3 acreage?

4 A. Yes, they did.

5 MR. BRUCE: Mr. Examiner, they had looked  
6 at one 1,980, 1,980.

7 EXAMINER MORROW: Yes, I remember that  
8 one. That would have been on the federal acreage.

9 THE WITNESS: Right.

10 EXAMINER MORROW: That one was.

11 THE WITNESS: That one is where the sink  
12 hole is or the playa lake.

13 Q. (BY EXAMINER MORROW) Is the opportunity  
14 to produce from the Delaware based on these spots to  
15 the south of your location, or is there some more  
16 Delaware nearer?

17 A. It's based mainly on the sands in the  
18 Livingston Ridge East Field down to the south,  
19 although there are shows in the lower part of the  
20 Delaware in the wells to the north. That is, in  
21 wells in 33, 34, 28.

22 Q. In those Morrow wells?

23 A. In those Morrow wells, yes, sir.

24 Q. But there's no production up there?

25 A. No. It's all in the Morrow.

1 EXAMINER MORROW: All right, thank you  
2 sir. I appreciate it.

3 MR. BRUCE: We have nothing further in  
4 this case, Mr. Examiner.

5 EXAMINER MORROW: Okay. Thank you.

6 MR. CARR: At this time I would call Mr.  
7 Terry McCants.

8 TERRY McCANTS,  
9 the witness herein, after having been first duly  
10 sworn upon his oath, was examined and testified as  
11 follows:

12 EXAMINATION

13 BY MR. CARR:

14 Q. Mr. McCants, would you state your name for  
15 the record, please.

16 A. My name is Presley McCants.

17 Q. Where do you reside?

18 A. I live at 4205 Russell Drive, in Midland,  
19 Texas.

20 Q. By whom are you employed?

21 A. I'm employed by Texaco.

22 Q. What is your current position with Texaco?

23 A. I'm a geologist for Texaco.

24 Q. Have you previously testified before this  
25 Division?

1 A. Yes, I have.

2 Q. At the time of that testimony, were your  
3 credentials as a petroleum geologist accepted and  
4 made a matter of record?

5 A. Yes, they were.

6 Q. Does your geographic area of  
7 responsibility with Texaco include the area which is  
8 the subject of this application?

9 A. Yes, it does.

10 Q. Are you familiar with the application  
11 filed in this case by Santa Fe and the proposed well?

12 A. I am.

13 Q. Are you prepared to make certain  
14 recommendations to the examiner concerning this  
15 application?

16 A. Yes, I am.

17 MR. CARR: Are the witness's  
18 qualifications acceptable?

19 EXAMINER MORROW: Yes.

20 Q. (BY MR. CARR) Mr. McCants, would you just  
21 briefly state what Texaco seeks in this case?

22 A. Texaco requests that the application filed  
23 by Santa Fe be denied. And if the application is  
24 approved, Texaco seeks a 50 percent production  
25 penalty down the pipeline.

1 Q. Mr. McCants, if we go to Section 4, the  
2 section at issue in this case, who operates the north  
3 half of that section?

4 A. Texaco is operator of the Bilbrey unit,  
5 which the north half of Section 4 is included in.

6 Q. And that is a working interest unit?

7 A. Yes, it is.

8 Q. Let's go to your Exhibit No. 1. Could you  
9 identify that for Mr. Morrow?

10 A. Exhibit 1 is a photocopy of a map that I  
11 made in early '93 and updated after the drilling of  
12 the Bilbrey 33 Federal No. 2, which is in the south  
13 half of 33.

14 The map is a structure map on top of the  
15 Morrow Clastics, and it shows basically regional dip  
16 to the southeast and a well spot for Santa Fe which  
17 is located 2,310 off the south line and 1,800 feet  
18 off the east line.

19 It also shows, the dark splotches are the  
20 Morrow producers, and, as Mr. White testified  
21 earlier, production does increase substantially to  
22 the north, the north half of 33, 32, and Section 28.

23 Q. Basically, we don't disagree with the  
24 presentation of Mr. White?

25 A. No. We think that's quite accurate.

1 Q. What control is available to any of you  
2 who are trying to map the Morrow in Section 4 and  
3 south of there?

4 A. Of course, the obvious control to the  
5 north, but to the south the control is very limited.  
6 As shown on some of the previous exhibits, several  
7 miles away is the nearest point of control.

8 Some of the sands in Boot Leg Ridge,  
9 several sections south, do appear to show  
10 stratigraphically equivalent sands in the Morrow to  
11 the Bilbrey, the Middle Morrow and the Bilbrey pay.  
12 So it is possible that additional sands could be  
13 encountered at their unorthodox location.

14 Q. If, in fact, the well is drilled at their  
15 proposed location, and they have a good Morrow  
16 producer, what impact could this have on the Texaco-  
17 operated property in the north half of Section 4?

18 A. There would be substantial drainage in the  
19 north half of Section 4.

20 Q. What does Texaco then recommend?

21 A. We recommend that the application be  
22 denied. It does appear that a legal location could  
23 be pursued in the southwest of the southeast quarter  
24 section, Section 4.

25 Q. If the application is granted, what do you

1 recommend?

2 A. We recommend that a 50 percent production  
3 penalty be assessed, based on the well's ability to  
4 produce down a pipeline. Basically, the penalty  
5 would reflect the drilling of the well 50 percent too  
6 close to the unit boundary.

7 Q. Due to the nature of the Morrow, as  
8 discussed by Mr. White, would any other factor, in  
9 your opinion, be an appropriate way to impose a  
10 penalty on a Morrow well at an unorthodox location  
11 prior to it being drilled?

12 A. Based on the unpredictability of the  
13 Morrow and the limited control to the south, I see  
14 any other means for assessing a penalty would be  
15 speculative.

16 Q. If the penalty impacts the economics of  
17 the well, based on your understanding of the  
18 application, there would be a legal location  
19 available to Santa Fe that they could then move their  
20 well to?

21 A. I believe at this point there would be one  
22 to pursue, yes.

23 Q. Was Exhibit No. 1 prepared by you?

24 A. Yes, it was.

25 MR. CARR: At this time, Mr. Morrow, we

1 move the admission of Texaco Exhibit 1.

2 EXAMINER MORROW: Exhibit 1 is admitted.

3 MR. CARR: That concludes my examination  
4 of this witness.

5 EXAMINATION

6 BY MR. BRUCE:

7 Q. Mr. McCants, I think you said you agree  
8 that the Morrow is very risky?

9 A. Yes, it is.

10 Q. And you talked about unpredictability to  
11 the south. There's very little well control down  
12 there, isn't there?

13 A. That's correct.

14 Q. So the further south you move, the greater  
15 the risk is?

16 A. Based on the well control that we have,  
17 that is correct.

18 Q. You talked about drainage. Have you  
19 personally conducted any Morrow drainage studies in  
20 this area?

21 A. No, I have not.

22 Q. What is the name of the Texaco well in the  
23 north half of Section 4?

24 A. It's the Federal Com No. 1, Getty Federal  
25 Com No. 1.



1 Q. When was that well drilled?

2 A. Oh, gee, I don't recall.

3 Q. The 1980's?

4 A. The 1980's vintage.

5 Q. When did it last produce?

6 A. Oh, gee. Probably not over the past year,  
7 in the Atoka.

8 Q. Do you see Santa Fe's Exhibit 5, the  
9 letter from the BLM that stated it hadn't produced  
10 since March '91?

11 A. Yeah, I hadn't seen that. That was sent  
12 to a field engineer, but I wouldn't argue against  
13 that fact, no.

14 Q. Has Texaco done anything since March of  
15 '91 to bring this well back on production?

16 A. I submitted a workover request to  
17 perforate the Atoka that they were reviewing pending  
18 the drilling of our well in the south half of 33,  
19 hoping that maybe the Atoka sands would thicken.  
20 They did not, and as far as I know, they're still  
21 kind of waffling with that, whether they want to  
22 pursue it or not.

23 Q. So to the best of your knowledge, in the  
24 last three and a half years, no work has been done on  
25 the Fed Com No. 1 well?

1 A. That's correct.

2 Q. One final question. If Texaco had a well  
3 in this area assessed a 50 percent penalty, would it  
4 drill the well?

5 A. Probably not.

6 MR. BRUCE: I have no further questions,  
7 Mr. Examiner.

8 EXAMINER MORROW: All right, sir.

9 EXAMINATION

10 BY EXAMINER MORROW:

11 Q. Mr. McCants, if a penalty were imposed,  
12 you say down the pipeline, I assume that's  
13 deliverability into the pipeline. Would that be on a  
14 one-day basis or 30 days, or how would you propose  
15 that that be calculated?

16 A. I would say more than a day and 30 days  
17 would be acceptable to Texaco.

18 Q. If a penalty were imposed, would you  
19 propose that that be a penalty against the initial  
20 producing capacity of the well, and that that be the  
21 end of the penalty, or would you want to keep on  
22 penalizing as the capacity declined?

23 A. I would say that half of the ability of  
24 the well to produce.

25 Q. Initial producing capacity?

1           A.    Well, as it declined, then I'm sure that  
2 Texaco would be willing to --

3           Q.    Forego that?

4           A.    Yeah.

5           Q.    Do you all have any plans for Morrow  
6 development in the north half of Section 4, maybe the  
7 northeast quarter?

8           A.    Presently, we don't, and that would not  
9 say that at some point in time we would come back and  
10 drill a well there pending some offset activity and  
11 see how well our well in the south half of 33  
12 performs. That was completed in April of this year.

13          Q.    But this penalty you're proposing would be  
14 against Morrow production; is that correct?

15          A.    That's correct.

16          Q.    And you feel that that would be depleting  
17 your Morrow reserves, which you may or may not decide  
18 to drill for?

19          A.    That's correct.

20                   EXAMINER MORROW: Does anybody have  
21 anything further?

22                   MR. CARR: I'd like to make a very brief  
23 statement, with your permission.

24                   EXAMINER MORROW: All right.

25                   MR. CARR: Mr. Morrow, you have a case

1 before you today that talks about everything but  
2 really the issue before you. We've talked about  
3 raptors, we've talked about sinkholes and roads, but  
4 the question before you is one of drainage and well  
5 spacing, and well spacing and setbacks are rooted in  
6 concepts of drainage. They're designed to keep  
7 people from encroaching on their neighbor in a way  
8 that will result in one party gaining an unfair  
9 advantage on the other.

10 Santa Fe is before you today, and they  
11 have a problem. The BLM says, "You need to drill  
12 here if you are in that 40-acre tract," but there is  
13 other acreage, and there are other standard locations  
14 available to them that their exhibits and their  
15 attorneys say are equally prospective. That's the  
16 reason we ask you to deny the application.

17 If you approve the application, we're  
18 talking about the Morrow. We're not going to know  
19 what we have until we get there. They're 50 percent  
20 closer to us than they should be, and if they get a  
21 good well there, they will have gained a substantial  
22 advantage. The Morrow is an unusual character, and  
23 there are a lot of ways we could try and construct a  
24 penalty, but we've picked the only thing we really  
25 know before you spud the well, and that is how much

1 too close they are to us.

2 For that reason, we've asked you to do  
3 what the statute authorizes you to do, set a penalty  
4 to offset the advantage they are gaining on us as the  
5 offsetting operator and impose a penalty on their  
6 well, if they drill this location, equal to 50  
7 percent of the ability of that well to produce into  
8 the pipeline.

9 MR. BRUCE: I'll be short also, Mr.  
10 Examiner. Santa Fe wanted a standard location. The  
11 BLM said no. It's drilling at as close to a standard  
12 location in that particular quarter-quarter section  
13 as the BLM will allow. And this whole procedure at  
14 the BLM caused timing problems. Now Santa Fe may be  
15 unable to get an approved APD anywhere in the unit  
16 before the end of September, and that will cause loss  
17 of leases if the wells are not drilled and a  
18 substantial economic harm to Santa Fe.

19 As Mr. White said, we still need to drill  
20 in the northwest quarter of the southeast quarter for  
21 geologic reasons in order to lessen the risk to an  
22 acceptable level. Everybody agrees, these Morrow  
23 sands are inherently risky.

24 Texaco has a remedy. They can go drill a  
25 well in the north half. It has had a well there for

1 years. It has failed to rework its existing well for  
2 three and a half years. Furthermore, Texaco seems to  
3 be admitting it will only drill a well in the north  
4 half if Santa Fe is successful in the south half. I  
5 don't think there's any impairment of correlative  
6 rights whatsoever. Why didn't it act years ago?

7 We don't believe there's any reason for a  
8 penalty. If anything, Santa Fe will help prove up  
9 Texaco's acreage in the north half of Section 4, and  
10 we request approval of this well location without  
11 penalty. Thank you.

12 EXAMINER MORROW: Thank you. And I need  
13 to ask one more question of Santa Fe.

14 MR. BRUCE: Sure.

15 EXAMINER MORROW: And I'll ask all three  
16 of you, and whoever wants to can answer. Did you  
17 consider a directional well in this situation as you  
18 did in the previous case?

19 MR. ROBERTS: No, sir.

20 MR. SMITH: No.

21 EXAMINER MORROW: Anything further?

22 Case 11079 will be taken under  
23 advisement. We'll adjourn for the day.  
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
COUNTY OF SANTA FE )

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL, October 31, 1994.

*Deborah O'Bine*  
DEBORAH O'BINE  
CCR No. 63

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11079, heard by me on 9-1 1994.

*[Signature]*, Examiner  
Oil Conservation Division