

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. 11,098
)
APPLICATION OF ANSON GAS)
CORPORATION)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 15th, 1994

Santa Fe, New Mexico

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This matter came on for hearing before the Oil Conservation Division on Thursday, September 15th, 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
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 Examiner Hearing
 CASE NO. 11,098

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

1 EXAMINER STOGNER: At this time I'll call Case
2 11,098.

3 MR. CARROLL: Application of AnSon Gas
4 Corporation for compulsory pooling and an unorthodox oil
5 well location, Lea County, New Mexico.

6 EXAMINER STOGNER: At this time call for
7 appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan.

11 We represent AnSon Gas Corporation in this case,
12 and I have two witnesses.

13 EXAMINER STOGNER: Are there any other
14 appearances in this matter?

15 Will the witnesses please stand and be sworn?

16 (Thereupon, the witnesses were sworn.)

17 MR. CARR: At this time we call Charles Lundeen.

18 CHARLES LUNDEEN,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your full name and place of
24 residence?

25 A. Charles E. Lundeen. I live in Edmond, Oklahoma.

1 Q. By whom are you employed and in what capacity?

2 A. I'm employed at AnSon Gas Corporation as a land
3 manager and division attorney.

4 Q. Have you previously testified before this
5 Division?

6 A. Yes, I have.

7 Q. At the time of that testimony were your
8 credentials as a petroleum landman accepted and made a
9 matter of record?

10 A. They were.

11 Q. Are you familiar with the Application filed in
12 this case and the subject area?

13 A. I am.

14 MR. CARR: Are the witness's qualifications
15 acceptable?

16 EXAMINER STOGNER: They are.

17 Q. (By Mr. Carr) Mr. Lundeen, would you briefly
18 state what AnSon seeks with this litigation?

19 A. AnSon seeks a pooling order to issue from this
20 Application from the surface to the base of the Strawn
21 formation underlying the east half, southeast quarter,
22 Section 11, 17 South, 37 East, Lea County, New Mexico.

23 Q. Will the well be at an unorthodox location?

24 A. Yes, sir. We have an unorthodox location of 1650
25 feet from the south line and 510 feet from the east line.

1 Q. And what acreage are you dedicating?

2 A. It will be -- What acreage am I dedicating?

3 Q. Yes, the acreage factor?

4 A. Yes.

5 Q. And it is a standard spacing unit?

6 A. Standard spacing unit.

7 Q. And in what pool will the well be located?

8 A. Humble City-Strawn Pool.

9 Q. Have you prepared exhibits for presentation here
10 today?

11 A. Yes, sir.

12 Q. Would you refer to what has been marked as AnSon
13 Exhibit No. 1 --

14 A. Yes.

15 Q. -- identify this and review it for Mr. Stogner?

16 A. Yes, sir. This is land map. It shows our
17 proration unit, our proposed well location.

18 And the ownership in this unit is -- AnSon owns
19 83 percent of this 80 acre unit at this time.

20 Q. Who are the offsetting operators to the proposed
21 spacing unit?

22 A. In Section 12 immediately to the west -- excuse
23 me, to the east, in the north half, southwest quarter is
24 AnSon.

25 The south half of the southwest quarter is

1 Nearburg.

2 In Section 11, which is our unit, the north half
3 is Conoco and other parties. And the south half is AnSon
4 and the parties that we're seeking to pool today.

5 Q. And who has the north half of 14?

6 A. Bonneville Fuels.

7 Q. And the north half of 13?

8 A. Bonneville Fuels.

9 Q. The well is unorthodox in what regard, Mr.
10 Lundeen?

11 A. The 510 from the east line is okay, but the 1650
12 from the south line is unorthodox and it's moving a little
13 bit south.

14 Q. And so it is actually unorthodox toward the
15 center of the dedicated spacing or proration unit?

16 A. Yes, sir.

17 Q. What is the status of the acreage in the east
18 half of the southeast quarter of 11?

19 A. It is -- Right now we own 83 percent or 66.4 net
20 leasehold acres, and we seek to pool the remaining 17
21 percent or 13.6 acres.

22 Q. This is a fee tract?

23 A. It's a fee tract, and it's currently held by
24 production, the Devon Shipp Number 4 well.

25 Q. What is the primary objective in the well?

1 A. It's a Strawn lime.

2 Q. Let's go to Exhibit Number 2. Would you identify
3 this for the Examiner, please?

4 A. This is an ownership breakdown of the acreage
5 position in the east half, southeast quarter of Section 11.

6 The top half of the exhibit represents AnSon's
7 interest that we own, and the bottom half reflects those
8 mineral owners and their net acreage and percentage that we
9 seek to pool.

10 Q. In the bottom half of this exhibit, could you
11 identify the interest owners whom you have been unable to
12 locate?

13 A. We have been unable to locate John
14 Christopher; Ronald U. Kolb, K-o-l-b; A. R. Miller; Ruth
15 Potish Berger, trustee; Ronald Sotere, S-o-t-e-r-e; Minerva
16 A. Sweitzer Williams; and John M. Thomas.

17 There are seven parties out of this group that we
18 have had returns from and that we have attempted to find.

19 Q. What efforts has AnSon made to locate these
20 individuals?

21 A. We've checked county records, probate records,
22 tax and lien records, judgments.

23 There's a nationwide telephone directory service
24 called American Business Information and Metro Mail
25 Service. We went through them, on nationwide phone

1 directories attempting to find them, and checked with a
2 company out of Oklahoma City called Pangea, Inc., that
3 takes social security numbers, names and last known
4 addresses of all parties nationwide and were unable to
5 locate these parties.

6 Q. You've also worked through some friends and
7 relatives to identify some of these owners, have you not?

8 A. Yes.

9 Q. In your opinion, have you made a good-faith
10 effort to locate each interest owner who owns an interest
11 in the east half of the southeast quarter of this section?

12 A. Yes, sir.

13 Q. Could you identify what has been marked as AnSon
14 Exhibit Number 3?

15 A. Exhibit Number 3 is our authority for
16 expenditures.

17 Q. And could you review just the totals set forth on
18 this AFE?

19 A. The dry hole cost on our AFE is \$437,400,
20 additional completion costs of \$318,800, for a total
21 completed well cost of \$756,200.

22 Q. Are these costs in line with the actual costs
23 incurred by AnSon in drilling similar wells in the area?

24 A. Yes, sir. In fact, we'll be using the same rig
25 that we have just drilled two wells on that we've pooled

1 also.

2 Q. Could you identify what has been marked as AnSon
3 Exhibit Number 4?

4 A. Exhibit Number 4 is a copy of all letters that
5 were sent to all working interest owners within this unit
6 in an attempt to obtain their voluntary joinder, and...

7 Q. Is Exhibit Number 5 a copy of an affidavit
8 confirming that notice of today's hearing has been provided
9 to the interest owners who are being pooled in accordance
10 with OCD rules?

11 A. Yes, sir.

12 Q. Have you made an estimate of the overhead
13 administrative costs while drilling the well and then
14 producing it if it is successful?

15 A. Yes, sir. \$6000 a month, producing -- Excuse me,
16 drilling, and \$600 a month producing.

17 Q. \$600 producing, \$6000 drilling?

18 A. Yes, sir.

19 Q. What's the basis of these figures?

20 A. These were taken from the *Ernst & Young* survey as
21 provided by our accounting department.

22 Q. And have these figures been adopted by the
23 Division previously this year in order to force-pool tracts
24 for Strawn wells in the immediate area?

25 A. Yes, sir.

1 Q. Do you recommend that these figures be
2 incorporated into any order that results from today's
3 hearing?

4 A. Yes, sir.

5 Q. Does AnSon request to be designated operator of
6 the well and spacing unit?

7 A. Yes, sir, AnSon Gas Corporation.

8 Q. Will AnSon be calling a technical witness to
9 review the risk associated with this prospect?

10 A. Yes, sir.

11 Q. Were Exhibits 1 through 5 either prepared by you
12 or compiled under your direction?

13 A. Yes, sir.

14 MR. CARR: Mr. Stogner, at this time we move
15 admission of AnSon Exhibits 1 through 5.

16 EXAMINER STOGNER: Exhibits 1 through 5 will be
17 admitted into evidence.

18 MR. CARR: And that concludes my direct
19 examination of this witness.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Lundeen, you said the \$6000 drilling and \$600
23 producing were taken from the *Ernst and Young*. Do you --
24 Which edition was that taken out of?

25 A. I'm not sure. Our controller advised me that it

1 was escalated accordingly with their survey, and I'm not
2 real sure, to tell you the truth, sir.

3 Q. And you said this has been charged in some other
4 wells --

5 A. Yes, sir.

6 Q. -- that has been issued from this Division?

7 A. Yes, sir, Order No. R-10,126 and I don't have the
8 other order number.

9 MR. CARR: Mr. Stogner, there was an order
10 recently issued that -- I will be happy to provide the
11 order number.

12 EXAMINER STOGNER: Or just make a reference to
13 it, if you would.

14 MR. CARR: All right.

15 Q. (By Examiner Stogner) The packet of letters on
16 Exhibit 4, that was the first attempt, written attempt, to
17 contact the parties in which --

18 A. No, sir. We had been attempting to lease
19 interests since the beginning of the year, since January,
20 February.

21 We had sent out several letters through our
22 broker, J.O. Easley, and as it got near time -- As we
23 accumulated quite a bit of interest and we just had a few
24 parties that were left, we wrote the remaining parties in a
25 last effort to acquire their interest.

1 But we've got numerous correspondence with all
2 parties and numerous telephone conversations with all
3 parties in addition to this.

4 Q. So at the first of the year?

5 A. Yes, sir.

6 EXAMINER STOGNER: Okay. Any other questions of
7 this witness?

8 MR. CARR: No further questions, Mr. Stogner.

9 EXAMINER STOGNER: You may be excused at this
10 time.

11 MR. CARR: At this time we call Mr. Hal
12 Hawthorne.

13 HAL W. HAWTHORNE,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. State your name for the record, please.

19 A. Hal W. Hawthorne.

20 Q. Where do you reside?

21 A. Edmond, Oklahoma.

22 Q. By whom are you employed and in what capacity?

23 A. AnSon Gas Corporation as a petroleum geologist.

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 made a
4 matter of record?

5 A. Yes, they were.

6 Q. Are you familiar with the Application filed in
7 this case?

8 A. Yes, I am.

9 Q. Are you familiar with the geology of the subject
10 area?

11 A. Yes, I am.

12 MR. CARR: Are the witness's qualifications
13 acceptable?

14 EXAMINER STOGNER: Mr. Hawthorne is so qualified.

15 Q. (By Mr. Carr) Mr. Hawthorne, would you refer to
16 what has been marked as AnSon Exhibit No. 6, identify this
17 and review it for Mr. Stogner?

18 A. Exhibit Number 6 is a porosity isopach map,
19 contoured on porosity greater than four percent found
20 within the lower Strawn limestone.

21 Geographically, it consists of all of Section 11,
22 the west half of Section 12, north half of Section 14 and
23 the northwest quarter of 13.

24 It depicts the Strawn porosity and a map view of
25 the occurrence, as well as wells that currently produce or

1 have produced from that formation in green.

2 Our 80-acre proration unit is outlined in yellow,
3 with our proposed location in red.

4 Q. This exhibit also has a trace for a subsequent
5 cross-section, does it not?

6 A. Yes, it does, and that will be reflected by
7 Exhibit 2.

8 Q. Let's go to Exhibit No. 7, and I'd ask you to
9 review this for Mr. Stogner.

10 A. Exhibit 7 is a four-well stratigraphic
11 cross-section hung on the top of the Atoka clastics. In
12 the middle of that section is a well trace which is our
13 proposed Angell well.

14 This cross-section shows the Strawn thickening
15 into our proposed location, as well as the Nearburg Byers
16 well, which to our east did penetrate unproductive porosity
17 within the lower Strawn, as well as the Harding Shipp
18 Number 4, which is now the Devon Shipp Number 4, which was
19 noncommercial or nonproductive from the Strawn as well.

20 Q. So really, based on wellbore information from
21 wells both east and west of the proposed location, that's
22 the basis for your interpretation?

23 A. That's correct.

24 Q. Are you prepared to make a recommendation to the
25 Examiner as to the risk that should be assessed against

1 those interest owners who do not voluntarily participate in
2 the well?

3 A. Yes, I am.

4 Q. And what is that?

5 A. Based on the fact that, you know, not only do we
6 have to find porosity with this test, which was not in the
7 Harding Shipp Number 4, which we're going to be moving 330
8 feet from, Nearburg's well shows that even finding porosity
9 can also be nonproductive.

10 So it's my recommendation that the maximum 200-
11 percent penalty be assessed.

12 Q. Do you believe there's a chance that the proposed
13 well could in fact be a noncommercial well?

14 A. Yes, I do.

15 Q. In your opinion, will the approval of this
16 Application and the drilling of the well as you propose be
17 in the best interest of conservation, the prevention of
18 waste, and the protection of correlative rights?

19 A. Yes, I do.

20 Q. And how soon does AnSon hope to commence the
21 drilling?

22 A. Well, we're currently drilling a well, and we
23 should be through with that rig within the month, and we
24 will move from there to this location.

25 Q. Were Exhibits 6 and 7 prepared by you?

