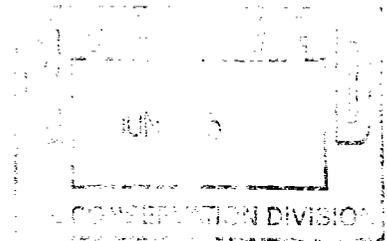


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF SANTA FE ENERGY)
RESOURCES, INC.)

CASE NO. 11,296



ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 1st, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, June 1st, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

June 1st, 1995
 Examiner Hearing
 CASE NO. 11,296

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* * *

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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: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 10:12 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 11,296.

5 MR. CARROLL: Application of Santa Fe Energy
6 Resources, Inc., for compulsory pooling, directional
7 drilling, and an unorthodox bottomhole gas well location,
8 Lea County, New Mexico.

9 EXAMINER CATANACH: Are there appearances in this
10 case?

11 MR. BRUCE: Mr. Examiner, Jim Bruce from the
12 Hinkle law firm in Santa Fe, representing the Applicant.

13 I have two witnesses to be sworn.

14 EXAMINER CATANACH: Any additional appearances?

15 There being none, will the witnesses please stand
16 to be sworn in?

17 (Thereupon, the witnesses were sworn.)

18 DANITA WALKER,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name for the record?

24 A. Danita Walker.

25 Q. And where do you reside?

1 A. Midland, Texas.

2 Q. Who do you work for?

3 A. I'm a landman for Santa Fe Energy.

4 Q. Have you previously testified before the OCD as a
5 landman?

6 A. Yes.

7 Q. And were your credentials as an expert accepted
8 as a matter of record?

9 A. Yes.

10 Q. And are you familiar with the land matters
11 involved in Case 11,296?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender Ms. Walker as
14 an expert petroleum landman.

15 EXAMINER CATANACH: Ms. Walker is so qualified.

16 Q. (By Mr. Bruce) Would you state briefly for the
17 record what it is Santa Fe seeks in this case?

18 A. Santa Fe Energy seeks an order pooling all
19 mineral interests from the surface to the base of the
20 Morrow formation, underlying the west half of Section 19,
21 Township 20 South, Range 34 East, in Lea County, New
22 Mexico.

23 We also seek approval of an unorthodox surface
24 and bottomhole location and directional drilling.

25 Q. What is Exhibit 1?

1 A. Exhibit 1 is a land plat outlining the well unit
2 and identifying the well surface and bottomhole locations.
3 Santa Fe Energy's acreage is colored yellow.

4 The unit will be dedicated to the Sinagua "19"
5 Fed Com Well Number 2.

6 Q. What is the well's location?

7 A. We will re-enter the existing Government "N"
8 Number 1-Y well, which has a surface location 660 feet from
9 the south line and 2084 feet from the west line of Section
10 19.

11 The well will be drilled directionally to a
12 bottomhole location approximately 1060 feet from the south
13 line and 2084 feet from the east line of the section.

14 Q. Why are you re-entering this well, rather than
15 drilling at a new location?

16 A. Section 19 is in the potash enclave, and it would
17 be extremely difficult to get another approved well
18 location.

19 Also, using the existing well and roads reduces
20 surface use.

21 Q. Who are the parties you seek to pool in this
22 case?

23 A. Santa Fe Energy seeks to pool Doyle Hartman, who
24 owns a half of a percent working interest, and Larry
25 Nermyr, who owns a little over 1/100-percent working

1 interest. Santa Fe Energy owns over 62 percent of the
2 working interest in the west half of Section 19.

3 Q. Let's move on to your contacts with these two
4 parties.

5 Would you refer to your Exhibit 2 and discuss
6 your contacts with Mr. Nermyr and Mr. Hartman?

7 A. Yes, sir. On April 6th, we sent a letter to Mr.
8 Nermyr and Mr. Hartman, proposing a well in the south half
9 of Section 19, and asked for them to farm out or join the
10 well and also sent them an AFE for that well proposal.

11 May 6th, we contacted both parties again with a
12 west-half proration unit in this section, changing it from
13 the south half to the west half, and asked for
14 participation in the well or a farmout with them to deliver
15 an 80-percent net revenue interest, and at payout they
16 could convert the override reserve to a 25-percent working
17 interest.

18 The interests of these parties are exactly the
19 same in either spacing unit that was proposed.

20 Q. Did the well cost change a little bit from the
21 west half to the south half?

22 A. Yes, with the change, the well cost decreased
23 approximately \$180,000.

24 Q. Decreased?

25 A. Yeah, I'm sorry, decreased, yes.

1 Q. Okay. In your opinion, has Santa Fe made a good-
2 faith effort to obtain the voluntary joinder of Mr. Nermyr
3 and Mr. Hartman in the well?

4 A. Yes, we have, and we've previously drilled two
5 wells in Section 18 in which both parties owned an
6 interest, and they were requested to join and did not
7 respond. And they were force-pooled into both of those
8 units, one case being Case Number 11,077, which was the
9 Sinagua 18 Number 2 well.

10 Q. Does Santa Fe Energy ask that it be designated as
11 operator of the well?

12 A. Yes.

13 Q. Would you refer to Exhibit 3 and identify that
14 for the Examiner?

15 A. Exhibit 3 is the AFE, and completed cost for this
16 well would be \$669,000.

17 Q. Is this proposed cost in line with those normally
18 encountered in drilling wells to this depth in Lea County?

19 A. Yes, it is, and these costs are less than the
20 Morrow wells we have drilled in Section 18 to the north.
21 The 18 Number 2 well was greater than \$1.2 million
22 completed cost.

23 Q. Do you have a recommendation for the amount which
24 Santa Fe should be paid for supervision and administrative
25 expenses?

1 A. Yes, it is our recommendation that \$5200 per
2 month be allowed for a drilling well and \$520 per month be
3 allowed for a producing well. And a well of this type is
4 14,000 feet, approximately.

5 Q. Okay, so these are reasonable well-operating
6 costs for wells of that depth?

7 A. Yes, they are.

8 Q. What penalty do you recommend against any
9 nonconsenting interest owner?

10 A. We recommend cost plus 200 percent, and our
11 geologist will discuss the reasonableness of the proposed
12 penalty.

13 Q. Okay. Now, were the parties being pooled, Mr.
14 Hartman and Mr. Nermyr, notified of this hearing?

15 A. Yes, they were.

16 Q. Regarding the unorthodox location and directional
17 drilling, who are the offset operators? And I refer you to
18 your Exhibit 4.

19 A. Okay, bear with me a minute. I don't have the
20 east half. Section 30.

21 Okay, in the east half of Section 19 it's held by
22 production, and OXY USA, Inc., appears to be an operator in
23 there, and et al., and it's listed on page 4 of this
24 exhibit.

25 Q. So Exhibit 4 does list the offsets, right?

1 A. Yes, it does.

2 Q. Now, Exhibit 4 lists the offsets for well units
3 all the way -- you know, 360 degrees around the proposed
4 well, does it not?

5 A. It does.

6 Q. Okay. Now, insofar as this Application, you
7 didn't notify everyone, or we didn't notify everyone here?

8 A. No, we did not.

9 We originally got the 360-degree offsets because
10 we were going to originally seek administrative approval,
11 and due to time constraints was unable to do so. So we
12 notified only the parties in the northeast quarter and the
13 west half of Section 30 and the east half of Section 19.

14 Q. And those parties are identified on pages 4, 5
15 and 6 of this exhibit?

16 A. Yes, sir.

17 Q. And is Exhibit 5 your affidavit of notice
18 regarding notice sent to the parties being pooled and to
19 the offsets?

20 A. Yes, it is.

21 Q. Okay. Were Exhibits 1 through 5 prepared by you
22 or compiled from company records?

23 A. Yes.

24 Q. And in your opinion, will the granting of this
25 Application be in the interests of conservation and the

1 prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, at this time I move the
4 admission of Santa Fe's Exhibits 1 through 5.

5 EXAMINER CATANACH: Exhibits 1 through 5 will be
6 admitted as evidence.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. On the -- Couple of questions on the notice
10 issue, Ms. Walker.

11 The parties you've notified, again, the operator
12 of the east half of Section 19?

13 A. Yes, sir.

14 Q. In Section 30, the northeast quarter and west
15 half?

16 A. Yes, sir.

17 MR. BRUCE: Mr. Examiner, and I -- The letters
18 attached to the Exhibit 5 are my letters regarding the
19 notice to the offsets.

20 We not only notified the operator but all of the
21 lessees in those tracts also.

22 EXAMINER CATANACH: The party -- The acreage that
23 I've just discussed, is that the only offset operators that
24 were provided notice of this Application?

25 MR. BRUCE: Yes.

1 EXAMINER CATANACH: The directional drilling
2 rule, Mr. Bruce, provides that notice shall be given to all
3 offset operators.

4 Did you -- were you going by some other -- Let me
5 look at the hearing rule, but I don't think it's --

6 MR. BRUCE: I thought I had looked at the hearing
7 rule. If necessary, we can notify them and provide
8 evidence of that notice.

9 EXAMINER CATANACH: Yeah, I'm not sure it
10 specifically addresses directional drilling in the hearing
11 notice rules.

12 MR. BRUCE: Well, if we had to re-notify some
13 people, there would probably be six or eight, and I think
14 we've notified the bulk of them.

15 EXAMINER CATANACH: Okay. Well, Mr. Carroll will
16 do some research while I...

17 Q. (By Examiner Catanach) Ms. Walker, is it still
18 your intent to also pool the 160-acre proration unit
19 consisting of the southwest quarter?

20 A. Yes, sir.

21 Q. Okay. You stated that Santa Fe currently has
22 under control 62 percent of the interest in that spacing
23 unit?

24 A. Yes, sir.

25 Q. You're pooling two very small interest owners; is

1 that correct?

2 A. Yes, sir.

3 Q. Are the remaining interest owners committed to
4 the well?

5 A. We have a proposal out to them.

6 Q. They have not verbally -- They have not agreed to
7 join in the well --

8 A. No.

9 Q. -- at this point?

10 A. No.

11 Q. Are you not including them in your pooling?

12 A. Well, they're under a joint operating agreement
13 with us. They were our partners in the previous wells in
14 Section 18.

15 Q. Okay, so they're -- You don't feel you have to
16 pool them in this instance --

17 A. No, sir.

18 Q. -- because they're subject to the joint operating
19 agreement?

20 A. Yes, sir.

21 Q. Okay. Have you had any contact with Mr. Nermyr
22 or Mr. Hartman?

23 A. No, sir, other than the notices we've sent to
24 them.

25 Mr. Nermyr picks up his mail, apparently, on an

1 irregular basis. You know, it might be two weeks, it might
2 be four weeks. And in the past we've had correspondence
3 returned that he did not claim at the post office.

4 Mr. Hartman does pick up his -- the mail, and we
5 get the return receipts but no verbal or written contact.

6 Q. So do you know if Mr. Nermyr has received any of
7 your correspondence?

8 A. Yes, sir, in the past he has signed off on
9 certain correspondence that we've sent.

10 Q. Specifically with regards to this case, have
11 you --

12 A. I have not received the card back, no, sir.

13 Q. Have you received Mr. Hartman's card back?

14 A. Yes, sir.

15 Q. Ms. Walker, the proposed directional drilling and
16 unorthodox bottomhole location, those are, I assume, for
17 geologic considerations --

18 A. Yes, sir.

19 Q. -- reasons? Okay.

20 The proposed overhead rates, are those the same
21 rates that the interest owners who are subject to the JOA
22 are obligated to pay?

23 A. Yes, sir, they are.

24 EXAMINER CATANACH: Okay. We have no further
25 questions of this witness at this time, Mr. Bruce, and I

1 think we've determined that we think the notice is adequate
2 for directional drilling in this case.

3 MIKE DILLI,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Will you please state your name for the record?

9 A. Mike Dilli.

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

11 A. Santa Fe Energy as a geologist.

12 Q. Have you previously testified before the Division
13 as a geologist?

14 A. Yes, I have.

15 Q. And were your credentials as an expert petroleum
16 geologist accepted as a matter of record?

17 A. Yes, they were.

18 Q. And are you familiar with the geological matters
19 involved in this Application?

20 A. Yes, I am.

21 MR. BRUCE: Mr. Examiner, I tender Mr. Dilli as
22 an expert petroleum geologist.

23 EXAMINER CATANACH: He is so qualified.

24 Q. (By Mr. Bruce) Mr. Dilli, what is the primary
25 zone of interest in your proposed well?

1 A. The primary zone of interest is a Lower Morrow
2 sand that is productive north of the proposed re-entry
3 well.

4 Q. Would you refer to your Exhibit 6, identify it
5 for the Examiner, and discuss the Lower Morrow geology?

6 A. Exhibit 6 is an isopach map of this Lower Morrow
7 sand.

8 As you can see, it is productive north of the
9 proposed location in Sections 7 and 18.

10 We have this interpreted as an overall channel
11 system. But as you can see from the map, we have it
12 divided into potential porosity lobes. That is due to the
13 bottomhole pressures encountered in the well in the north
14 half of 18, versus the well in the south half of 18,
15 showing the well in the south half of 18 in a different
16 pressure regime. The well in the south half of 18 was too
17 tight to produce economic hydrocarbons.

18 And we feel that this same channel continues on
19 to the south and was encountered in the well in 19, and
20 that's the primary zone of interest.

21 Q. The existing well that you're re-entering?

22 A. The existing well that we're re-entering.

23 Q. Why are you moving to the north if the well
24 goes -- the existing well goes all the way down to the
25 Morrow?

1 A. The primary reason for this is, the well was
2 drilled in 1968. It was drilled to the Devonian, and we
3 want to minimize any potential contamination of the Morrow
4 sand formation that was caused by the drilling of this well
5 and how much -- the mud they had in the formation for as
6 long as they did.

7 By moving the bottomhole location where we are,
8 we're also gaining a little bit of structure, which is
9 Exhibit 7.

10 Q. Why don't you move on to Exhibit 7, then, discuss
11 it briefly?

12 A. Exhibit 7 is a structure map drawn on top of the
13 Lower Morrow formation.

14 You can see approximately 200-feet-per-mile dip
15 in a southwesterly direction. You see the -- We will gain
16 a few feet, probably 20 feet or so, from the existing
17 wellbore.

18 Again, the primary reason, though, is to get away
19 from the potential contamination of the Morrow sands that
20 was encountered in the first wellbore, 19.

21 Q. What penalty do you recommend against any
22 nonconsenting interest owners?

23 A. Cost plus 200 percent.

24 Q. And what is this based on?

25 A. We think it's a very viable project, but it is

1 the Morrow and it is still deemed pretty risky in our shop,
2 and there are some mechanical risks involved in a
3 directional well.

4 Q. Okay. Referring to Exhibit 8, could you briefly
5 discuss the directional drilling plan?

6 A. Briefly, we're going to re-enter the existing
7 wellbore, kick it off at about 12,295 feet, build an angle
8 at 1 1/2 degrees per 100 feet to a total deviation of
9 approximately 25 degrees and drill it at that direction to
10 a total depth of approximately 14,062 feet, which will
11 represent a displacement of approximately 400 feet from the
12 surface location.

13 Q. Is this a common directional drilling procedure?

14 A. Yes, it's very similar to the one we used in
15 Section 18.

16 Q. The 18 Number 2 well?

17 A. The 18 Number 2 well.

18 Q. In your opinion, is the granting of this
19 Application in the interests of conservation and the
20 prevention of waste?

21 A. Yes, it is.

22 Q. And were Exhibits 6 and 7 prepared by you?

23 A. Yes, they were.

24 Q. And was Exhibit 8 compiled from company records?

25 A. Yes, it was.

1 MR. BRUCE: Mr. Examiner, I would move the
2 admission of Santa Fe's Exhibits 6 through 8.

3 EXAMINER CATANACH: Exhibits 6 through 8 will be
4 admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Dilli, your proposed bottomhole location will
8 be less unorthodox than the current location; is that
9 correct?

10 A. Yes, it is.

11 Q. What kind of contamination could have resulted in
12 the first -- in the drilling operations originally
13 conducted on the well?

14 A. Well, the Morrow sands are extremely sensitive to
15 drilling fluids, and any kind of water -- We're not exactly
16 sure what kind of drilling fluids they used at the time
17 they drilled that well, but the fact that they drilled it
18 down to the Devonian means that those formations were
19 exposed for quite a while to the drilling fluids while they
20 were going down to the Devonian.

21 Q. Was that a dry hole in the Devonian?

22 A. Yes, it was.

23 Q. So it was subsequently plugged and abandoned?

24 A. Yes, it was.

25 Q. You gain a little structure at the proposed

1 location. Does that help you any in the reservoir, do you
2 think?

3 A. Yes, I do. This Lower Morrow can have a water
4 leg to it. We don't know -- based on the -- what we have
5 here, we don't know exactly where that may be in this
6 Section 19.

7 But any time you can get updip, we like to do it,
8 and especially in the Lower Morrow.

9 Q. Do you also gain any sand thickness?

10 A. Potentially you can gain some sand thickness,
11 yes. The maximum we've seen the sand is -- with the net
12 pay that we're using for our cutoffs here -- is 15 feet,
13 and we only have approximately nine in the wellbore. So we
14 think we can potentially get a few -- six more feet of net-
15 pay sand.

16 EXAMINER CATANACH: I have nothing further, Mr.
17 Bruce.

18 MR. BRUCE: I have nothing further, Mr. Examiner.

19 EXAMINER CATANACH: All right, there being
20 nothing further in this case, Case Number 11,296 will be
21 taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 10:40 a.m.)

24 * * *

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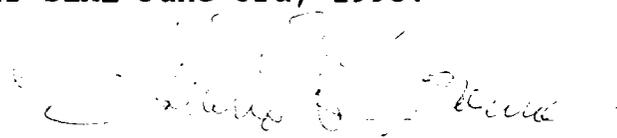
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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 June 3rd, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11296 heard by me on June 1 1995.

David R. Cantant, Examiner
Oil Conservation Division