

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. 11,359
)
APPLICATION OF DAMAR ENERGY)
COMPANY)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 7th, 1995

Santa Fe, New Mexico

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

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Examiner Hearing
CASE NO. 11,359

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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 WHEREUPON, the following proceedings were had at
2 9:13 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 11,359.

5 MR. CARROLL: Application of Damar Energy Company
6 for compulsory pooling, Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 (Off the record)

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

12 We represent Damar Energy Company in this matter,
13 and I have one witness.

14 EXAMINER STOGNER: Are there any other
15 appearances?

16 Will the witness please stand to be sworn?

17 (Thereupon, the witness was sworn.)

18 EXAMINER STOGNER: Mr. Carr?

19 BRAD D. BURKS,

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

22 DIRECT EXAMINATION

23 BY MR. CARR:

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

25 A. My name is Brad, middle initial D., Burks,

1 B-u-r-k-s.

2 Q. Where do you reside?

3 A. Tulsa, Oklahoma.

4 Q. By whom are you employed?

5 A. I am a self-employed petroleum engineer. I have
6 been contracted by Damar Energy Company to represent them
7 in this matter.

8 Q. Have you previously testified before the Oil
9 Conservation Division?

10 A. Yes, I have.

11 Q. At the time of that prior testimony, were your
12 credentials as a petroleum engineer accepted and made a
13 matter of record?

14 A. Yes, they were.

15 Q. Are you familiar with the Application filed in
16 this case on behalf of Damar?

17 A. Yes.

18 Q. And are you familiar with the subject area?

19 A. Yes.

20 MR. CARR: Are the witness's qualifications
21 acceptable?

22 EXAMINER STOGNER: Mr. Burks is so qualified.

23 Q. (By Mr. Carr) Mr. Burks, would you briefly state
24 what Damar seeks in this case?

25 A. Damar seeks an order to pool all mineral

1 interests from the surface to the base of the Delaware
2 formation in the southeast of the southeast quarter of
3 Section 22, Township 23 South, Range 28 East, and that is
4 Eddy County, New Mexico.

5 Q. Mr. Burks, have you prepared certain exhibits for
6 presentation in this case?

7 A. Yes.

8 Q. Would you refer to what has been marked for
9 identification as Damar Energy Company Exhibit Number 1,
10 identify that and review it for Mr. Stogner?

11 A. Exhibit 1 is the lease ownership and well plat,
12 or, in other words, a land map of the area around the
13 southeast-southeast quarter of Section 22.

14 On that map are all wells currently existing or
15 known to be existing. What are platted on there are the
16 Delaware wells only.

17 Q. Spacing unit is indicated?

18 A. Yes, sir.

19 Q. Well location is shown?

20 A. Yes. Approximate well location is shown as a
21 small circle in the shaded green area.

22 Q. You say "approximate location". Why is that?

23 A. Some surface problems have arisen in staking the
24 well.

25 We have one preferred location and three

1 alternates that we would like to be able to work with.

2 Surface problems, again, examples of, are
3 farming, cattle ranching, barns. So we need to try to pick
4 the best location possible.

5 Q. This case has been advertised to pool this tract
6 for a well at a standard location?

7 A. Yes.

8 Q. In any event, will the well be drilled at a
9 standard well location?

10 A. Yes, the well will be drilled at a standard well
11 location.

12 Q. Let's go to what has been marked Exhibit Number
13 2. Can you identify and review that for Mr. Stogner?

14 A. Exhibit 2 is the lease ownership percentage
15 breakdown of the 40-acre proration unit of the southeast-
16 southeast quarter.

17 Q. And what percentage of the working interest has
18 been voluntarily committed to this well?

19 A. 92 -- Approximately 92 percent of the lease
20 owners have voluntarily committed to this well.

21 Q. Could you identify for Mr. Stogner those interest
22 owners who are not voluntarily in this project?

23 A. The eight percent who are not voluntarily
24 committed at this time are Norma Chanley; R.F. Fort, Inc.;
25 Rhonda L. May, Trustee; Ronald T. May; and Primavera

1 Resources.

2 Q. What is the current status of negotiations with
3 Mr. Fort and Ms. Chanley?

4 A. Those negotiations are ongoing as we speak.
5 They've exhibited an interest as late as yesterday to
6 voluntarily join.

7 Q. And if an agreement is reached with those
8 individuals, will Damar advise the Oil Conservation
9 Division?

10 A. Yes.

11 Q. Have you been able to locate all of the
12 individuals identified on this exhibit?

13 A. All but one.

14 Q. And who is that?

15 A. One gentleman, Ronald T. May.

16 Q. And could you just review for the Examiner your
17 efforts to locate Mr. May?

18 A. Mr. May has been notified, or we have attempted
19 to notify him with two registered mailings, phone calls and
20 nonregistered mailings. Also attempts to contact his
21 sister, who is Rhonda L. May, have resulted in no return
22 phone calls.

23 We believe he is possibly out of the country.

24 Q. But you've attempted to reach him, not only
25 directly but through his sister as well?

1 A. Yes.

2 Q. And you have been unable to do so?

3 A. Correct.

4 Q. Primavera Resources, when did you first discover
5 they had an interest in this property?

6 A. Approximately mid-August, we learned that they
7 had a small interest in this 40-acre area.

8 Q. And how did they acquire that interest?

9 A. They acquired that interest from a contractual
10 agreement with Amoco Production Company in the early 1980s.

11 Q. Did Amoco advise you of this -- assignment of
12 this interest to Primavera after they received notice of
13 this pooling application?

14 A. Yes, that is correct.

15 MR. CARR: Mr. Stogner, because of that, we have
16 had to renotify Primavera. We did not know of this
17 interest. It's not of record. We didn't know of it at the
18 time notice was provided.

19 So at the conclusion of this case we will ask
20 that it be continued for four weeks so that appropriate
21 notice periods can run.

22 Q. (By Mr. Carr) Mr. Burks, could you refer to what
23 has been marked as Damar Exhibit Number 3 and identify
24 this, please?

25 A. Yes, Exhibit Number 3 is the AFE or the

1 authorization for expenditure issued to all potential
2 working interest owners in the well.

3 Q. Could you review the total cost for the well as
4 proposed in the AFE?

5 A. Yes, the total estimated cost of the well is
6 \$414,000.

7 Of that, the dryhole cost, assuming that the well
8 needs to be plugged and abandoned after drilling, dryhole
9 cost is \$158,500.

10 Q. Are these costs in line with what has been
11 charged by other operators for Delaware wells in this area?

12 A. Yes.

13 Q. And have you been personally involved with the
14 drilling of additional Delaware wells in the immediate
15 area?

16 A. Yes, I have. I have been involved in the
17 drilling and completing of 28 wells in this Delaware field.
18 Damar will be retaining my services on this well.

19 Q. And these are reasonable costs as set forth on
20 the AFE?

21 A. Yes, they are.

22 Q. Would you identify what has been marked as Damar
23 Exhibit Number 4?

24 A. Damar Exhibit Number 4 are -- is an example of
25 the letters sent to the lease owners to obtain voluntary

1 joinder.

2 Q. The original letter was sent June the 15th?

3 A. Original letter was sent June 15th. A correction
4 was made in the operating agreement, and those letters and
5 new operating agreements were resubmitted mid-July.

6 Q. And was that changed at the request of Mr. Fort,
7 one of the interest owners who is today potentially subject
8 to pooling?

9 A. Yes.

10 Q. And in addition to the letters, have there been
11 telephone calls to each of the interest owners outstanding
12 except for Mr. May?

13 A. Yes.

14 Q. In your opinion, has Damar made a good-faith
15 effort to obtain the voluntary participation of all
16 interest owners in this tract?

17 A. Yes.

18 Q. Is Exhibit Number 5 a copy of an affidavit
19 confirming that notice of today's hearing has been provided
20 to all interest owners affected by this Application, except
21 Primavera --

22 A. Yes.

23 Q. -- as required by OCD rule?

24 A. Yes, it is.

25 Q. Would you identify for Mr. Stogner Damar Exhibit

1 6?

2 A. Exhibit 6 is a type log from a well which is a
3 northwest offset to the proposed 40.

4 Q. And what does this exhibit show?

5 A. What this exhibit shows is the main Delaware pay,
6 which is produced in the Loving field.

7 Breaking it down into three zones shows an upper
8 C, a lower C and a D sand. D sands come and go. This well
9 happened to have all three sands in it.

10 Other wells in the immediate area, you typically
11 only have two of the three sands.

12 Q. And these are the primary sands in the field that
13 are the subject of this --

14 A. Yes.

15 Q. Let's go to Exhibit Number 7. Can you identify
16 and review that?

17 A. Exhibit 7 is the current production plat for the
18 Delaware wells in the immediate area. The 40-acre
19 proration unit which is the southeast-southeast quarter is
20 shaded in green.

21 All offset wells are shown with their current
22 daily production, barrels of oil per day and MCF gas per
23 day.

24 Q. And Exhibit Number 8?

25 A. Exhibit Number 8 is similar to Exhibit Number 7.

1 Rather than showing current production, this is a
2 cumulative production plat, with cumulative production
3 through 1-1 of 1994. Only oil and gas cumulatives are
4 shown on this plat.

5 Q. Mr. Burks, what do Exhibits 7 and 8 tell you
6 about the chances for drilling a successful well in the
7 proposed location?

8 A. Exhibits 7 and 8 show that the better wells in
9 the field exist to the north and to the east of the shaded
10 green area of the southeast-southeast quarter of Section
11 22.

12 Wells to the south, which are now on the south
13 tip of the Loving-Delaware field, demonstrate that as we
14 move south production declines, or production quality
15 declines sufficiently that there is a substantial amount of
16 risk involved in obtaining a commercially successful well
17 on this end of the field.

18 Q. Are you prepared to make a recommendation to Mr.
19 Stogner as to the risk penalty that should be assessed
20 against any nonparticipating interest owner?

21 A. Yes, I am.

22 Q. And what is that?

23 A. 200 percent.

24 Q. Have you made an estimate of the overhead and
25 administrative costs to be incurred while drilling this

1 well and also while producing it if, in fact, it is
2 successful?

3 A. Yes, sir, we have. After contacting *Ernst &*
4 *Young* regarding their 1990 [*sic*] survey of oil and gas
5 producers and operators, we have arrived at a figure of
6 \$4200 per month overhead for drilling and completing and an
7 operations overhead of \$420 a month.

8 Q. And these are based on the 1995 *Ernst & Young*
9 survey?

10 A. That's correct.

11 Q. Do you recommend that these figures be
12 incorporated into any order that results from today's
13 hearing?

14 A. Yes.

15 Q. Does Damar Energy Company seek to be designated
16 operator of this well?

17 A. Yes.

18 Q. In your opinion, will approval of this
19 Application and the drilling of the proposed well be in the
20 best interest of conservation, the prevention of waste and
21 the protection of correlative rights?

22 A. Yes, sir, it will.

23 Q. Were Exhibits 1 through 8 prepared by you or
24 compiled at your direction?

25 A. Yes, they were.

1 MR. CARR: At this time, Mr. Stogner, we move the
2 admission into evidence of Damar Energy Company Exhibits 1
3 through 8.

4 EXAMINER STOGNER: Exhibits 1 through 8 will be
5 admitted into evidence.

6 MR. CARR: And that concludes my direct
7 examination of Mr. Burks.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Mr. Burks, in looking at your Exhibits 7 and 8 --

11 A. Yes, sir.

12 Q. -- you show that this proration unit is somewhat
13 surrounded, other than back to the west, by existing
14 producing wells. Perhaps you can go into a little bit more
15 detail about the risk in this particular proposal to
16 request a maximum 200 percent.

17 A. Okay. As I mentioned before, the primary center
18 of the field is to the north and to the east, and what you
19 see on this plat happened to be the wells on the southern
20 tip of the field. We have offsets to the north and the
21 east that have produced since -- some since 1987.

22 One risk that will be encountered in drilling a
23 well on this 40 is the amount of depletion which has
24 occurred by the offset producers to the north and the east.

25 Producers to the south have not produced enough

1 oil, I believe, to have substantially drained any of the
2 subject 40 acres involved.

3 Similarly, though, the wells to the south are
4 typically not considered commercial successes.

5 As an example, on Exhibit 8 you have cumulatives
6 of the four wells shown in Section 27, cumulative oil of
7 4000 barrels, 11,000 barrels, 7000 barrels and 38,000
8 barrels. And these are wells that are currently five years
9 old, so we do not consider those anywhere near being
10 commercial successes.

11 So because of the two problems -- potential
12 problems -- number one being drainage by wells to the north
13 and the east, and the fact that the wells to the south have
14 not been commercial successes, we desire a 200-percent
15 penalty.

16 We have the potential of drilling and completing
17 a well similar to the four wells in Section 27.

18 EXAMINER STOGNER: I have no other questions of
19 Mr. Burks.

20 MR. CARR: That concludes our presentation in
21 this case.

22 EXAMINER STOGNER: Does anybody else have
23 anything further at this time in Case 11,359?

24 Then this case will be continued to the
25 Examiner's hearing scheduled for October 5th, 1995. At

1 that time it will be recalled. And I doubt we'll need any
2 further testimony, unless there happens to be a contested
3 -- or an objection in this matter. At that time it will
4 probably be taken under advisement.

5 With that, if there's nothing further in this
6 case, we'll move on.

7 (Thereupon, these proceedings were concluded at
8 9:30 a.m.)

9 * * *

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21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 11359,
24 heard by me on 3 September 19 95.
25 Michael J. [Signature], Examiner
Oil Conservation Division

