

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. 11,371
)
APPLICATION OF ANSON GAS)
CORPORATION)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

SEP 7 1995

August 24th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 24th, 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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August 24th, 1995
 Examiner Hearing
 CASE NO. 11,371

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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 1:00 p.m.:

3 EXAMINER CATANACH: At this time we'll call the
4 hearing back to order and call Case 11,371, the Application
5 of AnSon Gas Corporation for compulsory pooling, Lea
6 County, New Mexico.

7 Are there appearances in this case?

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

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

13 EXAMINER CATANACH: Will the witnesses please
14 stand to be sworn in?

15 (Thereupon, the witnesses were sworn.)

16 AL SWANSON,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Will you state your full name and place of
22 residence?

23 A. My name is Al Swanson, and I reside in Roswell,
24 New Mexico.

25 Q. Mr. Swanson, by whom are you employed?

1 A. I am employed by J.O. Easley, Inc., Roswell, New
2 Mexico, representing AnSon in this case.

3 Q. And what is your position with J.O. Easley?

4 A. I'm a landman.

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

7 A. Yes, I have.

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

11 A. Yes, they were.

12 Q. Are you familiar with the Application filed in
13 this case?

14 A. Yes, I am.

15 Q. And are you familiar with the status of the lands
16 in the subject area?

17 A. Yes, I am.

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

20 EXAMINER CATANACH: They are.

21 Q. (By Mr. Carr) Mr. Swanson, would you briefly
22 state what AnSon seeks with this Application?

23 A. This Application seeks an order pooling all
24 minerals from the surface to the base of the Strawn, for
25 the northwest quarter of the northwest quarter of Section

1 9, Township 17 South, Range 38 East, Lea County, New
2 Mexico.

3 And this is to be dedicated to what is now called
4 our Schaap 9 Number 1 well, to be drilled at a standard
5 location of 330 from the north line and 330 from the west
6 line of the northwest quarter.

7 Q. Have you prepared exhibits for presentation here
8 today?

9 A. Yes, we have.

10 Q. Let's refer to what has been marked AnSon Gas
11 Corporation Exhibit Number 1. I'd ask you to identify this
12 and then review it for Mr. Catanach.

13 A. Okay, Exhibit Number 1 is a land map. Shaded in
14 blue is the proration unit that we seek to establish. It
15 also shows our location of our proposed well, and it also
16 represents AnSon's percentage of working interest to date.

17 Q. Attached to this exhibit is an application for
18 permit to drill?

19 A. Yes, sir, that's correct.

20 Q. And it has been approved by the Oil Conservation
21 Division?

22 A. That is correct, it has.

23 Q. What is the primary objective in the proposed
24 well?

25 A. Our primary objective is the Strawn formation.

1 Q. Let's go to Exhibit Number 2, and I'd ask you to
2 refer to this exhibit and review the status of the
3 ownership in the proposed spacing unit.

4 A. Okay, Exhibit Number 2 is the mineral interest
5 breakdown, the first part of that being all parties that
6 are leased to AnSon that we have currently in hand, showing
7 our leased acreage in percentages, next set showing all
8 those parties that have leased to someone else other than
9 AnSon, being William F. Smith, and the bottom part being
10 all mineral owners that are unleased as of the date of this
11 Application.

12 Q. And what percentage of the working interest is
13 voluntarily committed to the well at this time?

14 A. That will be 71.4464 percent.

15 Q. Would you identify and review for Mr. Catanach
16 AnSon Exhibit Number 3?

17 A. Exhibit Number 3 is an AFE for the captioned
18 well. The AFE shows that dryhole costs for this well will
19 be \$459,000, with an additional \$295,500 for completion,
20 making the total well cost of \$754,500.

21 Q. Are these costs in line with what has been
22 charged for other similar Strawn wells in the area?

23 A. Yes, they are.

24 Q. Mr. Swanson, could you summarize the efforts you
25 have made to obtain the voluntary joinder of all working

1 interest owners and mineral interest owners in this
2 proposed spacing unit?

3 A. Yes, we have, by letter prior to -- in our
4 leasing activity, we did notify everybody that we had
5 addresses for in writing, explaining to them that we would
6 be pooling this. We also followed that up with company
7 letters from AnSon directly, and then they were also
8 followed up by letters that were sent out by Counsel's
9 office.

10 Q. Can you identify what has been marked AnSon
11 Exhibit Number 4?

12 A. Yes, I can. Exhibit Number 4 is copies of all
13 correspondence to unleased mineral owners or other working
14 interest parties, showing our offer to them to lease prior
15 to pooling, and showing that they have responded either by
16 signature of certified card or by letter response.

17 Q. Is Exhibit Number 5 an affidavit confirming that
18 notice of today's hearing has been provided to each of
19 these interest owners, as required by OCD rule?

20 A. Yes, sir, it is.

21 Q. Have you made an estimate of the overhead and
22 administrative costs to be incurred while drilling this
23 well and also while producing it if in fact it is
24 successful?

25 A. Yes, we have. We have imposed a cost while

1 drilling of \$6000 per month and while producing \$600 per
2 month, and this coincides with other orders that we have
3 done in the area, as well as coincides with *Ernst & Young*
4 surveys that we have used on prior orders.

5 Q. Are you recommending that these figures be
6 incorporated into any order which results from this
7 hearing?

8 A. Yes, we are.

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

11 A. Yes, they were.

12 MR. CARR: At this time, Mr. Catanach, we move
13 the admission into evidence of AnSon Gas Corporation
14 Exhibits 1 through 5.

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

17 MR. CARR: That concludes my direct examination
18 of this witness.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. Mr. Swanson, was the -- Your initial well
22 proposal letter dated July 21st, was that actually the
23 initial letter sent to these interest owners?

24 A. No, sir, except for Texaco, we contacted
25 everybody else by telephone, and at that time they told us

1 that they were either not interested in leasing or were
2 willing to wait till a formal request was made by either
3 AnSon or Counsel.

4 Q. What was the date of that telephone
5 correspondence?

6 A. There were various dates. This prospect has been
7 going on for about a year prior to this, and we had been
8 making contact all the way along in this prospect that
9 we've been working on. There are various dates.

10 Q. So for the most part, these interest owners had
11 more than a month's notice to think about this?

12 A. Yes, sir, we've been buying leases in this
13 particular area for approximately a year and a half, so we
14 have been communicating with them all along, all the way
15 through this.

16 Q. What was the situation with Texaco?

17 A. Texaco was notified, we were trying to obtain a
18 lease from them, they wrote us back and said that they were
19 unwilling to lease their interest. And then after
20 discussions with Ron Lanning, the landman at Texaco, he
21 informed me that they were wanting to be pooled and would
22 make an election underneath the order.

23 Q. Do you anticipate signing anybody else up?

24 A. At this time I do not see anybody that will
25 lease. There is a possibility that the parties that are

1 shown as William F. Smith -- that is what is of record --
2 they are going to be assigned to Maralo. Maralo has
3 indicated that they will participate in a well, but nothing
4 has been formally signed at this time.

5 Maralo was courteously sent a letter as well, to
6 show that we were proposing a well.

7 Q. Has AnSon drilled a Strawn test in this area
8 recently?

9 A. We have drilled several unsuccessful Strawn wells
10 in the area, yes.

11 Q. So your drilling costs are pretty much in line
12 with what --

13 A. Yes, sir, we have been in pooling orders off and
14 on over the last year, and the costs are relatively close
15 on all of them.

16 EXAMINER CATANACH: Nothing further.

17 MR. CARR: At this time we call Hal Hawthorne.

18 HAL E. HAWTHORNE,

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 name for the record, please?

24 A. My name is Hal Hawthorne.

25 Q. Where do you reside?

1 A. Edmond, Oklahoma.

2 Q. By whom are you employed?

3 A. AnSon Gas Corporation.

4 Q. And what is your current position with AnSon?

5 A. Geologist.

6 Q. Mr. Hawthorne, have you previously testified
7 before this Division?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as a petroleum geologist accepted and made a
11 matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application filed in
14 this case?

15 A. I am.

16 Q. Are you familiar with the proposed well?

17 A. Yes, I am.

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

20 EXAMINER CATANACH: Yes, they are.

21 Q. (By Mr. Carr) Have you prepared certain exhibits
22 for presentation here today?

23 A. Yes, I have.

24 Q. And are you prepared to make a recommendation to
25 the Examiner as to the risk penalty that should be assessed

1 against any nonconsenting interest owner in this spacing
2 unit?

3 A. I am.

4 Q. And what is the recommendation?

5 A. The recommendation is the maximum 200-percent
6 penalty.

7 Q. Mr. Hawthorne, I'd ask you at this time to go to
8 Anson Exhibit Number 6, and using this exhibit I would like
9 to have you review for Mr. Catanach the risk associated
10 with the development of this project.

11 A. Okay, this exhibit is a four-section plat,
12 highlighting Section 9, with the diminishing yellow squares
13 being 160 acres down to our 40 acres with the little 10-
14 acre box around our proposed Schaap well, which I refer to
15 as the High Lonesome.

16 This is a porosity isopach which honors the well
17 control to the west where I have some well control data.
18 As a matter of fact, AnSon, ourselves, last year drilled
19 the Gipson dryhole to the west.

20 But this is a porosity map inferring from seismic
21 the size of the algal mound feature we feel that sits in
22 here in Section 9. And it is a two-mile stepout from
23 commercial production from the Strawn, across a regional
24 fault into an area that is a wildcat for Strawn production.
25 And because we've had one unsuccessful well, we feel like

1 the riskiness of this venture merits the maximum penalty.

2 Q. Do you believe there is a chance that at this
3 location you could in fact drill a well that would not be a
4 commercial success?

5 A. That's correct.

6 Q. You say you call this well the High Lonesome.
7 Are you changing the name of the well?

8 A. Yes, I believe we're trying to change the name.

9 Q. And you'll be filing appropriate forms to change
10 it from the Schaap to the High Lonesome?

11 A. That's correct.

12 Q. Does AnSon seek to be designated operator of the
13 proposed well?

14 A. Yes, we do.

15 Q. In your opinion, will the granting of this
16 Application and the drilling of this well result in the
17 recovery of hydrocarbons that otherwise may be left in the
18 ground?

19 A. Yes.

20 Q. Will approval of the Application also be in the
21 best interest of conservation and the protection of
22 correlative rights?

23 A. Yes, I believe --

24 Q. Was Exhibit 6 prepared by you?

25 A. Yes, it was.

1 MR. CARR: At this time, Mr. Catanach, we move
2 the admission into evidence of AnSon Exhibit Number 6.

3 EXAMINER CATANACH: Exhibit Number 6 will be
4 admitted as evidence.

5 MR. CARR: And that concludes my examination of
6 this witness.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Hawthorne, what data did you use to map that
10 algal mound?

11 A. We've shot some three-dimensional seismic in
12 here.

13 Q. The well to the west, the two wells -- Well,
14 there's three wells in that -- in Section 8?

15 A. Yes, sir.

16 Q. Are those all dry holes in the Strawn?

17 A. Well, you see the Hood well that is an oil well
18 with a hached symbol through it. It was a -- It recovered
19 a slight show of oil from an algal mound over there. It
20 just -- It proved to be tight. That was in the late
21 Eighties.

22 Q. And the one west of that, the Gipson?

23 A. Yes, sir, that's a well we drilled trying to
24 offset the Hood well. We felt there was a larger feature
25 in there, and we attempted to offset the Hood well, and we

1 encountered 21 foot of porosity and basically tested salt
2 water from it.

3 And it was at that point that we shot a three-
4 dimensional seismic survey and exposed this larger feature
5 to the east.

6 Q. From what you know of these porosity mounds, is
7 it possible that if you encounter one of these mounds at
8 your proposed well site, is that likely to drain an area of
9 greater than 40 acres?

10 A. Historically, in the play proper to the west, I
11 would say yes. It's spaced on 80 acres to the west.

12 This being a wildcat area, I've already got a
13 couple of wells that are showing some perm problems, and
14 I'm not totally sure as to ultimately if we establish
15 commercial production, will it be supported on 80s or 40s?
16 I don't know until we establish commerciality.

17 EXAMINER CATANACH: I have nothing further.

18 MR. CARR: That concludes our presentation in
19 this case.

20 EXAMINER CATANACH: There being nothing further,
21 Case 11,371 will be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 1:15 p.m.)

24 * * *

25

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 August 30th, 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. 1137, heard by me on 8/24 1995.

David R. Catant, Examiner
 Oil Conservation Division