

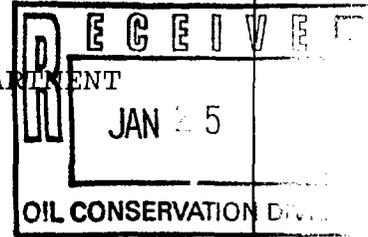
## NEW MEXICO OIL CONSERVATION COMMISSION

## EXAMINER HEARING

SANTA FE, NEW MEXICOHearing Date JANUARY 11, 1996Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Lee Scarborough	ARCO Permian	Midland
David Pearcy	ARCO Permian	Midland
William F. Carr	Campbell, Carr + Buge	Santa Fe
MICHAEL J. CONDON	GALLEGOS LAW FIRM	SANTA FE
SCOTT HALL	MILLER LAW FIRM	ST
W. Kellali	Kellali & Kellali	Santa Fe
Ralph Nelson	Enserch	DALLAS
GREG STRICKLAND	ENSERCH	DALLAS
Jerry Anderson	Enserch	DALLAS, TX
DANA DELVENTHAL	REDWOLF PRODUCTION	FARMINGTON
Darrick Stallings	Yates Petroleum	Artesia
James Bruce	Hinkle Law Firm	
Joe Clement		
TIM GUM	NMOC	ARTESIA
CLAYTON		

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 ARCO PERMIAN, A UNIT OF )  
ATLANTIC RICHFIELD, FOR COMPULSORY )  
POOLING AND AN UNORTHODOX WELL LOCATION, )  
EDDY COUNTY, NEW MEXICO )

CASE NO. 11,442

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 11th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 11th, 1996, 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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## I N D E X

January 11th, 1996  
 Examiner Hearing  
 CASE NO. 11,442

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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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Attorney at Law  
Legal Counsel to the Division  
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Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

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P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

## FOR LOUIS DREYFUS NATURAL GAS CORPORATION:

KELLAHIN & KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:18 a.m.:

3           EXAMINER STOGNER: This hearing will come to  
4   order.

5           I'm Michael Stogner, appointed hearing officer  
6   for today's cases. Please note today's date, Thursday,  
7   January 11th, 1996. This is for Docket Number 1-96.

8           And at this time I'll call Case Number 11,442.

9           MR. CARROLL: Application of ARCO Permian, a unit  
10   of Atlantic Richfield, for compulsory pooling and an  
11   unorthodox well location, Eddy County, New Mexico.

12          EXAMINER STOGNER: Call for appearances.

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

16          We represent ARCO Permian in this matter, and I  
17   have two witnesses.

18          EXAMINER STOGNER: Are there any other  
19   appearances in this matter?

20          MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
21   the Santa Fe law firm of Kellahin and Kellahin, appearing  
22   this morning on behalf of Louis Dreyfus Natural Gas  
23   Corporation. We do not have a witness.

24          EXAMINER STOGNER: Any other appearances in this  
25   matter?

1 Will the two witnesses please stand at this time  
2 to be sworn?

3 (Thereupon, the witnesses were sworn.)

4 EXAMINER STOGNER: Mr. Carr?

5 MR. CARR: Thank you, Mr. Stogner.

6 LEE M. SCARBOROUGH,

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

9 DIRECT EXAMINATION

10 BY MR. CARR:

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

12 A. Lee M. Scarborough.

13 Q. And where do you reside?

14 A. Midland, Texas.

15 Q. By whom are you employed?

16 A. ARCO Permian.

17 Q. And what is your current position with ARCO  
18 Permian?

19 A. Landman.

20 Q. Mr. Scarborough, have you previously testified  
21 before the New Mexico Oil Conservation Division?

22 A. No, sir.

23 Q. Could you summarize your educational background  
24 for Mr. Stogner?

25 A. 1977 graduate, Texas A&M University, bachelor of

1 business administration in management.

2 Q. Since graduation, for whom have you worked?

3 A. Hunt Energy Corporation, Lewis Energy  
4 Corporation, Abraxas Petroleum Corporation, Cotton  
5 Petroleum Corporation, and ARCO Permian.

6 Q. Is it fair to say that since graduation from  
7 college at all times you've been employed as a petroleum  
8 landman?

9 A. Yes, sir.

10 Q. And when did you go to work for ARCO Permian?

11 A. November, 1995.

12 Q. And are you familiar with the Application filed  
13 in this case on behalf of ARCO?

14 A. Yes, sir.

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

17 A. Yes, sir.

18 Q. Are you familiar with the proposed well?

19 A. Yes, sir.

20 MR. CARR: We tender Mr. Scarborough as an expert  
21 witness in petroleum land matters.

22 EXAMINER STOGNER: Any objections?

23 MR. KELLAHIN: No objection, Mr. Examiner.

24 EXAMINER STOGNER: Mr. Scarborough is so  
25 qualified.

1 Q. (By Mr. Carr) Would you briefly state what ARCO  
2 seeks with this Application?

3 A. Yes, sir, pooling from the base of the Abo to the  
4 base of the Morrow formation under the east half of Section  
5 32 for formations developed on a 320-acre spacing in the  
6 Township 17 South, Range 28 East.

7 Q. And you're not seeking a pooling order for  
8 formations above the base of the Abo; is that correct?

9 A. Yes, sir.

10 Q. And to what well do you propose to dedicate this  
11 proposed pooled unit?

12 A. The Dancer 32 State Com Well Number 1, to be  
13 drilled at an unorthodox location 1728 feet from the north  
14 line and 916 feet from the east line.

15 Q. Mr. Scarborough, what are the applicable well-  
16 location requirements for this east-half unit?

17 A. 1980 from the north line and 660 from the east  
18 line.

19 Q. So the well is, in fact, encroaching slightly to  
20 the north from a standard location?

21 A. Yes, sir.

22 Q. Have you prepared certain exhibits for  
23 presentation in this case?

24 A. Yes.

25 Q. Would you refer to what has been marked for

1 identification as ARCO Permian Exhibit Number 1, identify  
2 this and review it for Mr. Stogner?

3 A. This is a nine-section plat with our drill-site  
4 section in the middle. It shows the pooled unit and the  
5 location.

6 Q. Who operates the sections 28 and 29 to the north  
7 of the proposed spacing unit?

8 A. Amoco.

9 Q. And those are the only tracts toward which this  
10 well is being moved?

11 A. Yes, sir.

12 Q. How is Amoco involved in this project?

13 A. Amoco is a partner of ours. We have an area of  
14 mutual interest that includes Sections 28, 29 and also the  
15 drill-site section.

16 Q. And what is the primary objective in this  
17 proposed well?

18 A. Morrow.

19 Q. Let's go to Exhibit Number 2. Can you identify  
20 and review that?

21 A. Yes, sir, Exhibit 2 is a plat of our drill-site  
22 section. It shows the location, the unit outline and the  
23 ownership breakdown.

24 Q. What percentage of the acreage under this pooled  
25 unit has been voluntarily committed to this well?

1 A. Approximately 74 percent.

2 Q. Let's refer now to what has been marked ARCO  
3 Exhibit Number 3. Can you identify this, please?

4 A. Yes, sir, this is a spreadsheet that shows the  
5 working interest owners, total unit participation and tract  
6 participation.

7 Q. Could you identify from this list those interest  
8 owners who have voluntarily committed to the well?

9 A. Voluntary commitments are ARCO, Amoco, Dreyfus,  
10 Marathon and Yates Energy.

11 Q. And the remaining 12 interest owners, then, are  
12 the owners who hold the remaining 26 percent that could be  
13 subject to pooling?

14 A. Yes, sir.

15 Q. Are you continuing to negotiate with those other  
16 owners?

17 A. Yes, we are.

18 Q. Fina, for example, are you talking with them?

19 A. Yes, sir.

20 Q. And if you reach an agreement with them, then  
21 they would not be subject to this pooling Application?

22 A. That's right.

23 Q. In your opinion, Mr. Scarborough, have you made a  
24 good faith effort to obtain the voluntary joinder in the  
25 proposed well of all the interest owners in the east half

1 of this section?

2 A. Yes, sir.

3 Q. Could you identify what has been marked ARCO  
4 Exhibit Number 4?

5 A. ARCO Exhibit 4 is the letters reflecting attempts  
6 to obtain voluntary joinder to the well.

7 Q. And when did you commence your effort to obtain  
8 voluntary participation in this well?

9 A. November 2nd of 1995.

10 Q. What did you offer the other interest owners?

11 A. We offered them a chance to either join the well  
12 or to farm out their acreage.

13 Q. In addition to these letters, have you also  
14 followed up with telephone calls?

15 A. Yes, sir.

16 Q. And could you identify what has been marked  
17 Exhibit Number 5?

18 A. Exhibit 5 is a telephone log and call sheet, with  
19 the date, caller, company, contact, status, telephone  
20 numbers and remarks of each phone call.

21 Q. Why don't we refer back to Exhibit Number 4, and  
22 I'd direct your attention to the last couple of pages in  
23 that exhibit.

24 Is this the AFE for the proposed Dancer 32 State  
25 Com Number 1 well?

1 A. Yes, sir.

2 Q. And was this AFE provided to all interest owners  
3 in the east half of Section 32?

4 A. Yes, it was.

5 Q. Is it current and accurate as of today?

6 A. Yes, sir.

7 Q. What are the totals set forth on this AFE?

8 A. The total dryhole cost is \$496,800.

9 Q. And the completed well cost?

10 A. \$713,800.

11 Q. Are these costs in line with what is charged by  
12 other operators in this area for a similar well?

13 A. Yes, sir.

14 Q. Does this AFE include costs associated with  
15 surface equipment?

16 A. No, sir, it does not.

17 Q. And if that were included, what impact would it  
18 have on the total for a completed well?

19 A. It would increase it approximately \$75,000.

20 Q. Is Exhibit Number 6 an affidavit confirming that  
21 notice of this hearing has been provided in accordance with  
22 OCD rules?

23 A. Yes, sir.

24 Q. And there's a large number of interest owners who  
25 have been notified; is that right?

1           A.    Yes, we notified not only the working interest  
2 owners within the pool, the potential unit, but also all of  
3 the offsetting owners.

4           Q.    So all offsetting owners have been notified, not  
5 just Amoco as the owner to the north?

6           A.    Yes, sir.

7           Q.    Have you made an estimate of the overhead and  
8 administrative costs incurred while drilling the well --

9           A.    Yes, sir.

10          Q.    -- and also while producing it, if it is  
11 successful?

12          A.    Yes, sir.

13          Q.    And what are those?

14          A.    Drilling well rates of \$5828 a month and  
15 producing well rates of \$546 a month.

16          Q.    What is the source of these figures?

17          A.    The *Ernst & Young* survey, 1995.

18          Q.    Do you recommend that these figures be  
19 incorporated into any order which results from this  
20 hearing?

21          A.    Yes, I do.

22          Q.    And does ARCO seek to be designated operator of  
23 the proposed well?

24          A.    Yes, sir.

25          Q.    Will ARCO call a geological witness to review the

1 portions of this case which relate to the imposition of  
2 risk penalty?

3 A. Yes, sir.

4 Q. Were Exhibits 1 through 6 either prepared by you  
5 or compiled under your direction?

6 A. Yes, they were.

7 MR. CARR: Mr. Stogner, at this time we would  
8 move the admission into evidence of ARCO Exhibits 1 through  
9 6.

10 EXAMINER STOGNER: Any objections?

11 MR. KELLAHIN: No objection.

12 EXAMINER STOGNER: Exhibits 1 through 6 will be  
13 admitted into evidence.

14 MR. CARR: And that concludes my direct  
15 examination of Mr. Scarborough.

16 EXAMINER STOGNER: Thank you, Mr. Carr.

17 Mr. Kellahin, your witness.

18 MR. KELLAHIN: Mr. Examiner, I have no questions  
19 for Mr. Scarborough.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Scarborough, let me make sure I understand or  
23 have heard those figures right on the overhead rates. That  
24 was \$5828 --

25 A. Yes, sir.

1 Q. -- drilling?

2 And \$546 while producing?

3 A. Yes, sir.

4 Q. Okay. And your Exhibit Number 5, this is your  
5 telephone log, and at the end column you refer to well, and  
6 you either have "both", "Dorothy" or "Dancer". Whenever  
7 you refer to "both", does that include the Dancer well that  
8 you're being force-pooled in this particular case?

9 A. Yes, sir, it does.

10 Q. And on Exhibit Number 3, you have reached  
11 voluntary agreement with Yates Energy or Yates Petroleum?

12 A. Yates Energy.

13 Q. Okay, that's found in about the middle of the  
14 page; is that correct?

15 A. Yes, sir.

16 Q. And that -- The ARCO, Amoco, Dreyfus, Marathon  
17 and Yates Energy represents 74 percent of the --

18 A. Yes, sir.

19 Q. -- interest?

20 And who is the royalty interest under this part  
21 of Section 32, or does it vary?

22 A. It varies.

23 Q. And how much is state and how much is fee and how  
24 much is federal?

25 A. We've got -- I believe this one is -- This is all

1 state.

2 Q. So it's not varied, it is all state?

3 A. It would not vary, no, sir.

4 EXAMINER STOGNER: Mr. Carr, I have no other  
5 questions of Mr. Scarborough. He may be excused.

6 MR. CARR: Thank you, Mr. Stogner.

7 At this time we would call Dave Pearcy.

8 DAVID B. PEARCY,

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

11 DIRECT EXAMINATION

12 BY MR. CARR:

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

14 A. David B. Pearcy.

15 Q. Where do you reside?

16 A. I live in Midland, Texas.

17 Q. By whom are you employed?

18 A. I'm employed by ARCO.

19 Q. And what is your position with ARCO?

20 A. I'm a senior geologist.

21 Q. Mr. Pearcy, have you previously testified before  
22 this Division and had your credentials as a petroleum  
23 geologist accepted and made a matter of record?

24 A. Yes, I have.

25 Q. Are you familiar with the Application filed in

1 this case on behalf of ARCO?

2 A. Yes, I am.

3 Q. And are you familiar with the proposed well and  
4 the subject spacing unit?

5 A. Yes, sir.

6 Q. In fact, have you made a geological study of the  
7 area involved in this case?

8 A. That is correct.

9 MR. CARR: Are the witness's qualifications  
10 acceptable?

11 EXAMINER STOGNER: Are there any objections?

12 MR. KELLAHIN: No objection.

13 EXAMINER STOGNER: He is so qualified.

14 Q. (By Mr. Carr) Mr. Percy, have you prepared  
15 certain exhibits for presentation in this case?

16 A. Yes, I have.

17 Q. Before we go into those, would you identify the  
18 primary objective in this well?

19 A. The primary objective is the Morrow sand.

20 Q. And are there secondary objectives?

21 A. The secondary objectives would include both the  
22 Atoka and the Cisco intervals.

23 Q. And if you were to complete a -- or able to make  
24 a well in one of those other formations, you in fact would  
25 have smaller spacing units; is that not right?

1           A.    If it does end up being an oil well, which is a  
2 slim chance, that's correct, it would presumably be on  
3 40-acre spacing.

4           Q.    At this time is it fair to say that you either  
5 have the voluntary commitment or are in negotiations that  
6 appear to be going that with all interest owners in the  
7 40-acre spacing unit?

8           A.    That's correct, we really have all of our working  
9 interest within the 40-acre drill site committed.

10          Q.    Has ARCO drilled other Morrow wells in this area?

11          A.    We have drilled 31 other Morrow wells in a six-  
12 township area around this well.

13          Q.    Let's refer to what has been marked for  
14 identification as ARCO Exhibit Number 7.  Would you  
15 identify this and review it for the Examiner?

16          A.    Exhibit Number 7 is a structure map on the top of  
17 the Lower Morrow Marker.  It can be an interval that is  
18 frequently mapped by geologists in the area, showing  
19 general monoclinal dip down to the southeast.

20          Q.    How significant is structure in terms of making a  
21 successful well in this area?

22          A.    In this area structure has very little to do with  
23 a successful well.

24          Q.    All right, let's move to Exhibit Number 8.  Could  
25 you identify that?

1           A.    Exhibit 8 is the net pay map for what I'm calling  
2 the lower Morrow "C" interval.  It's been the major  
3 interval that's been productive in this area.

4                    I want to point out that the Amoco well  
5 immediately north of our location in Section 29 has 72 feet  
6 of pay in this "C" sand, and we're expecting somewhere  
7 around 40 feet in our well.

8           Q.    Have there been dryholes in this interval in the  
9 area?

10          A.    There have been numerous dryholes, both east and  
11 west of this sand pod that I have mapped, and that  
12 certainly increases the risk chance that we're facing.

13          Q.    And what did you use to construct this well map?  
14 Well control?

15          A.    That's correct, I used the well control.

16          Q.    Was any seismic information integrated into this  
17 interpretation?

18          A.    No, there was not.

19          Q.    Let's move to Exhibit Number 9.  What is this?

20          A.    Exhibit 9 is a cross-section that -- the line of  
21 which is shown on the previous exhibit, heading from the  
22 good Amoco well on the right-hand side, through the  
23 proposed location, and to an old Stanolind well, which is  
24 located in the northwest quarter of Section 32.

25          Q.    And what does it show?

1           A.    This cross-section indicates that the interval of  
2   Morrow "C" pay shown on the microlog on the right-hand side  
3   is what we expect to be the pay interval in the Dancer 32  
4   State Com. That interval was essentially missing in the  
5   other well on the left-hand side, the Stanolind State Gas  
6   Unit C 1.

7           Q.    All right. Let's go to Exhibit Number 10, your  
8   production map, and I'd ask you to review that for the  
9   Examiner.

10          A.    Yes, sir, the production map indicates a black  
11   arrow at the Dancer 32 State Com location and shows the  
12   exceptional cum, over 33 BCF, on the Amoco well to the  
13   north and generally small cums in the other surrounding  
14   wells, indicating the high risk of not encountering the  
15   sand at all.

16          Q.    Mr. Percy, are you prepared to make a  
17   recommendation to the Examiner concerning the risk that  
18   should be assessed against any interest owner who does not  
19   voluntarily participate in the well?

20          A.    Yes, sir, I recommend a 200-percent penalty.

21          Q.    Do you believe there is a chance that a well at  
22   the proposed location could in fact not be a commercial  
23   success?

24          A.    Yes, there certainly is. This is a typical  
25   Morrow prospect, we're chasing a channel sand, and we

1 recognize in this area that those sands frequently  
2 disappear over short distances.

3 Q. In your opinion, will granting this Application  
4 and the drilling of the proposed well be in the best  
5 interest of conservation, the prevention of waste and the  
6 protection of correlative rights?

7 A. Yes, it would.

8 Q. How soon does ARCO propose to commence the  
9 drilling of this well?

10 A. In February of this year.

11 Q. Were Exhibits 7 through 10 prepared by you?

12 A. Yes, they were.

13 MR. CARR: At this time, Mr. Stogner, we would  
14 move the admission into evidence of ARCO Exhibits 7 through  
15 10.

16 EXAMINER STOGNER: Any objections?

17 MR. KELLAHIN: No objection, Mr. Examiner.

18 EXAMINER STOGNER: Exhibits 7 through 10 will be  
19 admitted into evidence.

20 MR. CARR: And that concludes my direct  
21 examination of Mr. Percy.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Mr. Percy, in looking at -- What is that?  
25 Exhibit Number 8? It looks like to me that you're on the

1 east of the structural high or what you're considering the  
2 thickest portion of the channel; is that correct?

3 A. That's correct. We're dealing with some point  
4 bars here, an effluvial system, and have reason to believe  
5 that the best sand permeability would be developed on the  
6 eastern side.

7 Q. Now, the Amoco well up to the north, have you had  
8 a chance to study it?

9 A. Yes, I have.

10 Q. That appears to be on the west side?

11 A. Well, we're mapping that about in the center, and  
12 that's just a matter of having to deal with the thick pay  
13 section that we have in that well of 72 feet, and virtually  
14 none on the east or the west. So that's been more of a  
15 case where we just have to cram the contours in, and I've  
16 chosen to show that in the middle.

17 Q. Okay. I guess what I'm trying to get at is, what  
18 makes being on the eastern side of that -- on that  
19 structure --

20 A. Okay, this channel sequence?

21 Q. Yes.

22 A. The channel that we're dealing with has some  
23 meanders to it, and there will be times when the better  
24 developed sand is going to be on the east side, west side  
25 or in the middle. We geologists like to think we can

1 figure that out. We're hoping we're doing the right thing,  
2 sir.

3 Q. Has this thought been pretty consistent  
4 throughout some of the other wells that you're familiar  
5 with in the area, about being on the eastern side or the  
6 western side, depending on the flow of the channel?

7 A. To some extent. On the exhibits that we'll show  
8 in the following case, we're trying to target there towards  
9 the middle of a sandbody. But I do believe that these  
10 sands are not going to be always straight, and we just need  
11 to try and put our best science into picking the best  
12 location.

13 EXAMINER STOGNER: Any other questions?

14 You may be excused.

15 MR. CARR: We have nothing further in this case,  
16 Mr. Stogner.

17 EXAMINER STOGNER: Anybody else have anything  
18 further in Case Number 11,442?

19 This case will be taken under advisement.

20 (Thereupon, these proceedings were concluded at  
21 8:36 a.m.)

22 \* \* \*

**I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 11442,  
heard by me on Jan 11 1994.**

*Michael E. Stogner*, Examiner  
Oil Conservation Division

25