

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date MARCH 21, 1996 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William F. Jan	Campbell, Carr & Bross PA	Santa Fe
Jerry Anderson	Ensuech	Dallas, TX
Ralph Wilson	Ensuech	Dallas, TX
John Wonall	Strata	Roswell, NM
G. M. [unclear]	Strata	Roswell, N.M.
SCOTT HALL	MILLER LAW FIRM	SANTA FE
MICHAEL CONDON	Colleges Law Firm	Santa Fe
W. Kellahin	Kellahin & Kellahin	Santa Fe
Michael Shear	independent	Santa Fe
Paul R. Owen	Campbell, Carr & Bross PA	Santa Fe
Pat Tower	Enron Oil & Gas	Midland
Randy Cate	"	"
Barry Zinz	"	"
Brent May	Yates Pet.	Artesia
James Bruce	Hinkle Law Firm	SF

NEW MEXICO OIL CONSERVATION COMMISSION

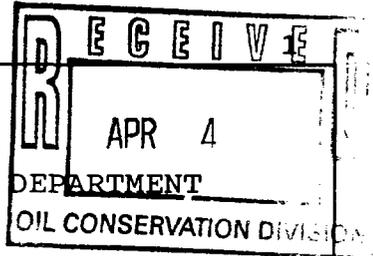
EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date MARCH 21, 1996 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Charles F West	ETS, Inc	Alton, NM,

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 ENSERCH EXPLORATION, )  
INC., FOR COMPULSORY POOLING, LEA )  
COUNTY, NEW MEXICO )

CASE NO. 11,473

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 21st, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 21st, 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.

\* \* \*

## I N D E X

March 21st, 1996  
Examiner Hearing  
CASE NO. 11,473

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JERRY ANDERSON</u> (Landman)	
Direct Examination by Mr. Hall	4
Examination by Examiner Catanach	9
<u>RALPH L. NELSON</u> (Geologist)	
Direct Examination by Mr. Hall	10
Examination by Examiner Catanach	15
REPORTER'S CERTIFICATE	18

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	9
Exhibit 2	7	9
Exhibit 3	-	9
Exhibit 4	8	9
Exhibit 5	11	15
Exhibit 6	17	17

\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

RAND L. CARROLL  
 Attorney at Law  
 Legal Counsel to the Division  
 2040 South Pacheco  
 Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.  
 125 Lincoln Avenue  
 Suite 303  
 Santa Fe, New Mexico 87501  
 By: J. SCOTT HALL

\* \* \*

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

3           EXAMINER CATANACH: At this time we'll call Case  
4   11,473.

5           MR. CARROLL: Application of Enserch Exploration,  
6   Inc., for compulsory pooling, Lea County, New Mexico.

7           EXAMINER CATANACH: Are there appearances in this  
8   case?

9           MR. HALL: Mr. Examiner, Scott Hall, Miller,  
10   Stratvert, Torgerson and Schlenker, Santa Fe, for the  
11   Applicant Enserch.

12           Two witnesses this morning.

13           EXAMINER CATANACH: Any additional witnesses?  
14           Would the two witnesses please stand to be sworn  
15   in?

16           (Thereupon, the witnesses were sworn.)

17                         JERRY ANDERSON,

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

20                                 DIRECT EXAMINATION

21   BY MR. HALL:

22           Q. For the record, please state your name.

23           A. Jerry Anderson.

24           Q. Mr. Anderson, by whom are you employed and in  
25   what capacity?

1           A.    I'm employed with Enserch Exploration,  
2 Incorporated.  I'm a landman.

3           Q.    And you've previously testified before the  
4 Division and had your credentials made a matter of record;  
5 is that correct?

6           A.    Yes, it is.

7           Q.    And are you familiar with the Application filed  
8 in this case and the subject lands?

9           A.    Yes, I am.

10           MR. HALL:  Mr. Examiner, are the witness's  
11 credentials acceptable?

12           EXAMINER CATANACH:  They are.

13           Q.    (By Mr. Hall)  If you would, please, Mr.  
14 Anderson, briefly summarize what Enserch seeks by this  
15 Application.

16           A.    We are seeking an order pooling all of the  
17 mineral interest from the surface to the base of the  
18 Delaware formation, through any and all formations and/or  
19 pools developed on 40-acre spacing in and under the  
20 southwest quarter, northeast quarter, Section 21, 25 South,  
21 Range 36 East, in Lea County, New Mexico.

22           Q.    What's the footage location of your well?

23           A.    It's 1980 from the north and 1980 from the east.

24           Q.    All right.  Let's look at Exhibit 1, if you  
25 would, please, sir.  Would you explain that to the

1 Examiner?

2 A. It's a land map prepared by Enserch. It shows  
3 the proposed proration unit, the proposed well location,  
4 and the attachment shows the ownership and the committed  
5 and uncommitted working interest.

6 Q. All right. And what is the percentage of the  
7 interest committed to the well?

8 A. 72.65621.

9 Q. All right. And you have two working interest  
10 owners who have not joined; is that correct?

11 A. That's correct.

12 Q. And you have some unleased mineral interests as  
13 well?

14 A. Yes, we have two unleased mineral interests.

15 Q. All right. If you would, please, would you  
16 summarize the efforts to secure the joinder of the working  
17 interest in the unleased mineral interests?

18 A. Yes, the first one is Mr. Henry Felt. Our broker  
19 traced him down in the county courthouse records. The  
20 lease was very old. We finally located Mr. Felt in  
21 Haledon, New Jersey. We conversed with him by phone and  
22 thought at that time we had his approval to lease. We sent  
23 a lease along with a letter with our proposal.

24 Since that time, Mr. Felt has been moved to a  
25 nursing home, and his son took over and declined to lease.

1 So we sent Mr. Felt an AFE with an offer to join in the  
2 drilling of the well.

3 Q. All right. If you would look at Exhibit 2,  
4 please, it's a combination of letters. What are those  
5 letters?

6 A. I'm sorry, what?

7 Q. Exhibit 2.

8 A. Those are proposal letters and letters that we  
9 sent to the working interest owners to join in with the  
10 drilling of the well.

11 Q. And these are transmittals to the unleased  
12 mineral interest owners as well; is that correct?

13 A. Yes, they are.

14 Q. By these letters did you transmit AFEs and JOAs  
15 to the interest owners?

16 A. Those we could find, we did.

17 Q. All right. You have an additional mineral  
18 interest under the name of Mrs. W.O. Bryant. Would you  
19 summarize the efforts to secure her joinder?

20 A. The lease in the courthouse for Mrs. W.O. Bryant  
21 was an old lease, and it was discovered that the notary was  
22 in Oklahoma, in Payne County. We hired a firm in Oklahoma  
23 City to trace her down. They went to Payne County, in  
24 Perkins, Oklahoma, and attempted to locate Mrs. W.O.  
25 Bryant, but we had no luck in that.

1 Q. All right. Page 4 of Exhibit 2 is an affidavit  
2 from Al Swanson, a landman with J.O. Easley, Inc. Who is  
3 that?

4 A. He is the broker that we hired to go out and try  
5 and locate Mrs. Bryant.

6 Q. All right. Does that affidavit summarize the  
7 efforts he undertook to try to locate her?

8 A. Yes, it does.

9 Q. Mr. Anderson, with respect to the unleased  
10 mineral interests, are you requesting the Division to enter  
11 an order providing that these interests are pooled with a  
12 statutory one-eighth royalty interest and seven-eighths  
13 working interest?

14 A. Yes, we are.

15 Q. In your opinion, Mr. Anderson, have you made a  
16 good-faith effort to locate all individuals and obtain  
17 their voluntary joinder?

18 A. Yes, we have.

19 Q. If you would refer to Exhibit 4, identify that  
20 for the record, please.

21 A. That's the JOA.

22 Q. I'm sorry --

23 A. Exhibit 4 is the AFE, I'm sorry.

24 Q. And as you've previously testified, is this a  
25 copy of the AFE transmitted to all the interest owners by

1 your earlier correspondence?

2 A. Yes, it is.

3 Q. Were Exhibits 1 through 4 compiled by you or at  
4 your direction?

5 A. Yes, they were.

6 MR. HALL: All right, that's all we have of the  
7 direct testimony of this witness, Mr. Examiner.

8 We'd move the admission of Exhibits 1 through 4.

9 EXAMINER CATANACH: Exhibits 1 through 4 will be  
10 admitted as evidence.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Anderson, the McBride interest and the Yates  
14 interest are not committed to the well?

15 A. No, sir.

16 Q. Have you made efforts to secure that interest?

17 A. Yes, we sent them AFEs, and then we flew to  
18 Roswell with the operating agreement and a copy of the AFE  
19 and had an operator's meeting with Yates and McBride in  
20 Roswell. And their response was, they would prefer to farm  
21 out.

22 So we did make a farmout offer to the parties,  
23 and they haven't responded.

24 Q. Do you anticipate they will farm out eventually?

25 A. I don't believe so.

1 Q. You did meet with McBride and Yates also?

2 A. Yes, we met with both parties.

3 Q. Do you anticipate the Felt interest to eventually  
4 participate in the well?

5 A. No, sir, I do not.

6 EXAMINER CATANACH: That's all I have of the  
7 witness, Mr. Hall. The witness may be excused.

8 MR. HALL: At this time, Mr. Examiner, we would  
9 call Mr. Ralph Nelson.

10 RALPH L. NELSON,

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

13 DIRECT EXAMINATION

14 BY MR. HALL:

15 Q. For the record, would you please state your name?

16 A. Ralph L. Nelson.

17 Q. And by whom are you employed and in what  
18 capacity?

19 A. Enserch Exploration as a geologist.

20 Q. And are you familiar with this Application and  
21 the subject lands?

22 A. Yes, I am.

23 Q. Have you previously testified before the Division  
24 and had your credentials made a matter of record?

25 A. Yes, I have.

1 MR. HALL: Mr. Examiner, we would offer Mr.  
2 Nelson as an expert geologist.

3 EXAMINER CATANACH: Mr. Nelson is so qualified.

4 Q. (By Mr. Hall) Mr. Nelson, have you had an  
5 opportunity to study the geology associated with this well?

6 A. Yes, I have.

7 Q. Based on your studies, are you prepared to make a  
8 recommendation as to a risk penalty you seek with this  
9 order?

10 A. I am. Exhibit 5 shows the geology associated  
11 with the subject well. It's a structure map with an  
12 isopach overlain on top of it. The structure map is made  
13 on the top of the Bone Spring lime, with the -- a basal  
14 Brushy Canyon orange -- a basal Brushy Canyon sand, excuse  
15 me, overlain on top. The structure map shows steep west  
16 dip on the east side that flattens out. It appears the  
17 sands are accumulating in the flattening.

18 The Number 1 Moberly 21 is a northeast offset to  
19 the Skelly West Jal 1 A in Section 21, a well drilled in  
20 1963 that was completed making 65 barrels of oil a day and  
21 eventually made 28,000 barrels cumulative.

22 Also producing in this sand is another well in  
23 Section 20, the Skelly West Jal Number 1. It was completed  
24 for 63 barrels a day, made 15,000 barrels.

25 We are attempting to offset these two wells and

1 establish commercial production.

2           The map, as you can see, has very few control  
3 points as to the sand, and there is a risk as to the  
4 continuity of these sands, although the map would suggest  
5 otherwise.

6           And the other risk that we have is whether we can  
7 effect a commercial completion. The two wells drilled by  
8 Skelly, in our opinion, based on current costs, would not  
9 be commercial.

10           Q. Let me ask you, Mr. Nelson, is Enserch requesting  
11 a 200-percent risk penalty assessment for this Application?

12           A. Yes.

13           Q. If you would elaborate, you said there was some  
14 risk associated with the completion of this well. What is  
15 that risk?

16           A. These sands have to be fracture-stimulated. The  
17 fracture treatment that was used by Skelly for the two  
18 wells was one that was not effective, and no means is  
19 anywhere near what operators today use.

20           However, in our most recent experience in another  
21 Brushy Canyon well, we frac'd out of zone, communicating  
22 water, even though initial indications were we could make a  
23 good well.

24           So the fracture technique which we've studied  
25 extensively since then is untested and therefore should be

1 considered a risk.

2 Q. With respect to the Delaware sand throughout this  
3 area, is there some risk that the sand is discontinuous?

4 A. Yes, there is. Yes, there is. In our experience  
5 in drilling offsets in other areas, we've seen great  
6 changes in sand continuity and thickness.

7 Q. In your opinion, Mr. Nelson, does the information  
8 reflected on Exhibit 5 indicate that there is some risk the  
9 well may not be commercially successful?

10 A. That is correct, both from sand continuity and  
11 completion technique.

12 Q. All right. Anything further you wish to add with  
13 respect to Exhibit 5?

14 A. No.

15 Q. If you would refer back to Exhibit 4, which is  
16 the AFE, please, sir, would you review the totals on the  
17 AFE for the Examiner?

18 A. Yes, we have a drilling cost of \$339,000 a  
19 completed well cost of \$321,500 and a total cost of  
20 \$660,500. These costs were estimates obtained by our  
21 drilling engineers from service companies.

22 Q. Do you believe these costs to be in line with  
23 what other operators are charging in the area?

24 A. Yes.

25 Q. And has Enserch drilled other Delaware wells --

1 A. They have.

2 A. -- in the immediate area?

3 And these costs are in line with the other wells?

4 A. Yes, they are.

5 Q. Have you made an estimate of the overhead  
6 administrative costs while producing and drilling the well?

7 A. Yes, I have.

8 Q. And what are those estimates?

9 A. We have estimated a drilling well rate at \$6685  
10 per month and a producing well rate at \$669 a month. These  
11 were based on a study that Enserch made in the -- around  
12 1978, companywide review of all of their operating costs,  
13 and then these figures reflect the escalation for inflation  
14 as set out in the *Ernst & Young* COPAS study.

15 Q. All right. And again, do you believe that these  
16 costs are in line with what's being charged in the area?

17 A. Yes, I do.

18 Q. Are you recommending that these figures be  
19 incorporated into any order --

20 A. I am.

21 Q. -- issued by the Division?

22 And Enserch seeks to be designated operator of  
23 the well; is that correct?

24 A. Yes, they do.

25 Q. And Mr. Nelson, in your opinion will granting

1 this Application be in the best interests of conservation,  
2 the prevention of waste and the protection of correlative  
3 rights?

4 A. Yes, it will.

5 Q. And was Exhibit 5 prepared by you or at your  
6 direction?

7 A. Yes, it was.

8 MR. HALL: That concludes our direct of this  
9 witness, Mr. Examiner.

10 We would move the admission of Exhibit 5.

11 EXAMINER CATANACH: Exhibit 5 will be admitted as  
12 evidence.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Nelson, the wells that you referred to, the  
16 West Jal Unit Federal Number 1 in Section 21, did you say  
17 that produced 28,000 cumulative barrels?

18 A. Yes, sir, 28,377.

19 Q. And that was a Brushy Canyon producer?

20 A. That was a Brushy Canyon sand producer, the same  
21 target sand as in the subject well.

22 Q. Are there any other potential Delaware sands that  
23 are productive in this area?

24 A. Not that we know of. We have searched very  
25 diligently, looking for other mud logs and other data that

1 might suggest shallower sands may be productive in this  
2 area. We've not found anything to say that they might be  
3 yet. However, typically drilling Delaware wells, there are  
4 other sands.

5 Q. This well will be 7700 feet deep?

6 A. Yes.

7 Q. Do you know what pool -- what Delaware pool this  
8 is, by any chance?

9 A. I think it's West Jal.

10 Q. Are there any producing Delaware wells at the  
11 current time on this structure here?

12 A. No, there are not. The well in Section 21 was  
13 abandoned, I believe, in 1984, and I'm not sure when the  
14 well in 20 was abandoned.

15 Q. Did we also have production up in Sections 17 and  
16 18?

17 A. There was production in a deeper horizon, not in  
18 the Brushy Canyon.

19 Q. Okay. So these two wells are the only wells that  
20 produce from the Delaware?

21 A. That is correct.

22 Q. Okay. Mr. Nelson, did you compare your proposed  
23 overhead rates to the ones listed in *Ernst & Young*?

24 A. I did not personally. These were the company  
25 rates, and I was furnished with the escalation rates.

1 Again, that was through a company study done in about 1978,  
2 as what the actual charges and costs were to operate in  
3 various areas.

4 Q. So you don't know how they compare to average  
5 costs?

6 A. I do not.

7 EXAMINER CATANACH: Okay, that's all I have of  
8 this witness, Mr. Hall.

9 MR. HALL: Mr. Catanach, Exhibit 6 is the  
10 affidavit of the mailing of notice. We move its admission.

11 That concludes our case.

12 EXAMINER CATANACH: Okay, Exhibit Number 6 will  
13 be admitted as evidence.

14 And there being nothing further in this case,  
15 Case 11,473 will be taken under advisement.

16 (Thereupon, these proceedings were concluded at  
17 8:39 a.m.)

18 \* \* \*

19  
20  
21 **I do hereby certify that the foregoing is**  
22 **a complete record of the proceedings in**  
the Examiner hearing of Case No. 11473,  
heard by me on March 21 1998.

23 David L. Catanach, Examiner  
24 Oil Conservation Division  
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 March 27th, 1996.




---

STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998