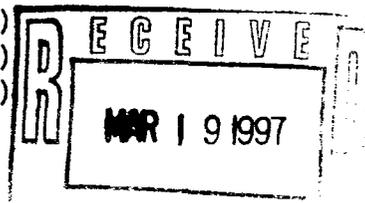


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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, DIRECTIONAL DRILLING, AND)
UNORTHODOX WELL LOCATIONS, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 11,726

ORIGINAL



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 6th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 6th, 1997, 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 6th, 1997
 Examiner Hearing
 CASE NO. 11,726

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<u>LEE M. SCARBOROUGH</u> (Landman)	
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* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 11:58 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,726.

5 MR. CARROLL: Application of ARCO Permian, a unit
6 of Atlantic Richfield, for compulsory pooling, directional
7 drilling and unorthodox well locations, Eddy County, New
8 Mexico.

9 EXAMINER STOGNER: Call for appearances.

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

13 We represent ARCO Permian in this matter, and I
14 have two witnesses.

15 EXAMINER STOGNER: Were both your witnesses
16 previously sworn?

17 MR. CARR: Yes, sir, they have been, and I would
18 request that the record reflect that they remain under oath
19 and that their qualifications as a petroleum landman and a
20 petroleum geologist have been accepted and made a matter of
21 record.

22 EXAMINER STOGNER: The record will so show.

23 Any other appearances?

24 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
25 I am promptly entering my appearance for Mewbourne Oil

1 Company in this case.

2 MR. CARR: I would like the record to reflect
3 that Mr. Bruce previously appeared in the preceding case
4 because he thought it was this case.

5 MR. BRUCE: Whoops.

6 MR. CARR: But we're always glad to have him
7 along.

8 EXAMINER STOGNER: Well, Mr. Bruce, at least you
9 didn't stand up and get halfway through your opening
10 statement before I stopped you, as it has happened before.
11 But that man had age against him; you have no excuse Mr.
12 Bruce.

13 MR. BRUCE: That's the problem.

14 EXAMINER STOGNER: Mr. Carr?

15 LEE M. SCARBOROUGH,
16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q. Will you state your name for the record?

21 A. Lee Scarborough.

22 Q. Mr. Scarborough, you testified in the previous
23 case, did you not?

24 A. Yes, sir.

25 Q. Are you familiar with the Application filed on

1 behalf of ARCO concerning the Mimosa 8 State Com Well
2 Number 1?

3 A. Yes, sir.

4 Q. Are you familiar with the status of the lands in
5 the subject area?

6 A. Yes sir.

7 MR. CARR: Are the witness's -- The witness has
8 previously been qualified, I understand.

9 EXAMINER STOGNER: Let the record so show, unless
10 Mr. Bruce has an objection now.

11 MR. BRUCE: No, sir.

12 EXAMINER STOGNER: Okay.

13 Q. (By Mr. Carr) Mr. Scarborough, could you briefly
14 state what ARCO seeks with this Application?

15 A. Yes, sir, the pooling from below 3300 foot to the
16 base of the upper Mississippian formation underlying the
17 following spacing or proration units in Section 8, Township
18 18 South, Range 28 East: South half for all formations
19 developed on 320-acre spacing, southwest for all formations
20 developed on 160-acre spacing, south half southwest for all
21 formations developed on 80-acre spacing, and southeast
22 southwest for all formations developed on 40-acre spacing.

23 Q. And to what well do you propose to dedicate these
24 spacing units?

25 A. The Mimosa 8 State Com Well Number 1, to be

1 directionally drilled from an unorthodox surface location
2 350 feet from the south line and 2003 feet from the west
3 line to an unorthodox bottomhole location in the
4 Mississippian and Morrow formations within 55 feet of a
5 point 404 feet from the south line and 1749 feet from the
6 west line of Section 8.

7 Q. Is there a reason we're requesting 55, or is 50
8 feet appropriate for the target area?

9 MR. PEARCY: Pardon me?

10 MR. CARR: Is 50 feet an appropriate target area?

11 MR. PEARCY: For this well, yes.

12 MR. CARR: Yes, I think that's a typographical
13 error on my part, Mr. Stogner. We're seeking a 50-foot,
14 not a 55-foot target area for the well.

15 EXAMINER STOGNER: We can go smaller, but if you
16 wanted 60 we would have to readvertise.

17 MR. CARR: We'll stay at 50, if that's all right
18 with you, sir.

19 Q. (By Mr. Carr) Mr. Scarborough, have you prepared
20 exhibits for presentation here today?

21 A. Yes, sir.

22 Q. Could you refer to what has been marked as ARCO
23 Exhibit Number 1, identify this and review it for the
24 Examiner?

25 A. Yes, sir, this is a land map. It shows the

1 outline of the proration unit in red. It also shows the
2 well surface and bottomhole locations, and it shows the
3 ownership by tract number.

4 Q. Offsetting operators are also indicated, correct?

5 A. Yes, sir.

6 Q. What is the primary objective in the well?

7 A. Morrow.

8 Q. Let's go to what has been marked as Exhibit
9 Number 2, your ownership breakdown, and will you review
10 this, please, for Mr. Stogner?

11 A. Yes, sir, this ties to Exhibit 1, the land plat,
12 and it's by tract number, description. It shows the owner,
13 net gross acres, working interest in the 320-acre unit, and
14 it ties to state and fee lease codes.

15 Q. What percentage of the acreage in this 320-acre
16 unit has been voluntarily committed to the well?

17 A. 62.5 percent.

18 Q. Are there any owners whose whereabouts you have
19 been unable to locate?

20 A. No, sir.

21 Q. Have you made a good-faith effort to obtain
22 voluntary participation from all working interest owners in
23 this tract?

24 A. Yes, sir.

25 Q. Could you review for the Examiner when you

1 commenced this effort and what you have done?

2 A. We proposed the well February the 4th of 1997 to
3 the working interest owners that we found and have pursued
4 them since that date to try and get them to participate or
5 farm out their interest in the well.

6 Q. Can you identify for me those interest owners who
7 may still be subject to pooling?

8 A. As of yesterday, the only one that is subject to
9 pooling would be Phillips Petroleum.

10 Q. Did you reach an agreement yesterday with Enron
11 concerning this matter?

12 A. Yes, sir, we did.

13 Q. You're going to be exchanging property interests
14 with them?

15 A. Yes, sir.

16 Q. So if this order is entered, you are only seeking
17 to pool the interest of Phillips Petroleum?

18 A. Yes, sir.

19 Q. Can you identify what's been marked as ARCO
20 Exhibit Number 3?

21 A. That's the AFE, I believe, authority for
22 expenditure, for the well.

23 Q. Okay. Can you review the totals as reflected on
24 that AFE? Do you have that?

25 A. Yes, the dryhole cost is \$450,300, completed cost

1 \$643,600.

2 Q. Are these costs in line with what is charged by
3 other operators for similar wells in the area?

4 A. Yes, sir.

5 Q. Have you made an estimate of the overhead and
6 administrative costs to be incurred while drilling a well
7 and also producing it if it is successful?

8 A. Yes, sir.

9 Q. And what are they?

10 A. \$5819 and \$564 from the Ernst and Young survey.

11 Q. And you recommend that these figures be
12 incorporated into the order that results from this hearing?

13 A. Yes, sir.

14 Q. All right. Let's go to Exhibit Number 4 and go
15 back to the efforts you've made to obtain voluntary
16 joinder. Can you simply identify for Mr. Stogner what
17 Exhibit Number 4 actually is?

18 A. The February 4th letter is to the working
19 interest owners with a well proposal.

20 We attempted to get Phillips to come in, we made
21 them an offer to view our seismic in exchange for a
22 commitment to participate or farm out their interest, and
23 it was subsequently rejected.

24 Q. And what was your most recent contact with
25 Phillips?

1 A. It was by telephone on February the 12th.

2 Q. At that point in time, you advised them you were
3 going forward with this hearing?

4 A. Yes, sir.

5 Q. Have you had any response from them since that
6 date?

7 A. No, sir.

8 Q. The last item in Exhibit Number 4 is, in fact, a
9 reference, a telephone log, reflecting when you
10 communicated with the affected interest owners by phone?

11 A. Yes, sir.

12 Q. Is that correct? And the letters that you've
13 sent to them are attached?

14 A. Yes, sir.

15 Q. Is Exhibit Number 5 a copy of an affidavit with
16 attached letters confirming that notice of today's hearing
17 has, in fact, been provided in accordance with Oil
18 Conservation Division rules and regulations?

19 A. Yes, sir.

20 Q. Can you identify Exhibit Number 6?

21 A. This is the waiver letter that we had executed by
22 Mewbourne Oil Company as offset operator.

23 Q. Does ARCO seek to be designated operator of the
24 proposed well?

25 A. Yes, sir.

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

3 A. Yes, sir.

4 MR. CARR: At this time, Mr. Stogner, we would
5 move the admission into evidence of ARCO Exhibits 1 through
6 6.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. It's my understanding that Phillips Petroleum
10 owns 37.5-percent uncommitted interest on the south half;
11 is that correct?

12 A. Yes, sir.

13 Q. Now, what tracts do they have interest in?

14 A. Tracts 1 and 2.

15 Q. And Tract 1 will be a portion of a 160-acre
16 proration unit, but not Tract 2; is that correct?

17 A. Yes, sir.

18 Q. Now, you say you're seeking to force-pool the 80
19 acres. First of all, what formations out here, or pools,
20 are spaced on 80 acres?

21 MR. PEARCY: None, to my knowledge, in this
22 immediate area.

23 EXAMINER STOGNER: Mr. Carr, we've gone through
24 this before.

25 MR. CARR: We have gone through this before.

1 EXAMINER STOGNER: It is our policy not to -- if
2 there's something that is spaced on 80 acres out there --

3 MR. CARR: That portion would have to be
4 dismissed if there's --

5 EXAMINER STOGNER: And besides, I don't show that
6 they would -- the south half of the southwest quarter would
7 not be -- no need to force-pool in it anyway --

8 MR. CARR: That's correct, no, sir.

9 EXAMINER STOGNER: -- as the 40-acres --

10 MR. CARR: Correct.

11 EXAMINER STOGNER: -- would also be --

12 MR. CARR: That's correct.

13 EXAMINER STOGNER: -- exempted from compulsory
14 pooling.

15 Q. (By Examiner Stogner) Okay, what was the
16 overhead charges again?

17 A. \$5819 a month and \$564.

18 Q. \$564?

19 A. Yes, sir.

20 Q. You first contacted Phillips by your February 4th
21 letter; is that correct?

22 A. Actually, Phillips was contacted prior to that.
23 This well was originally proposed by Amoco, and we had
24 talked to -- we had been talking to Phillips before that.

25 They had originally asked Amoco to come in and

1 look at their 3-D, and they couldn't make a deal with them,
2 and then we took over the well proposal and made them the
3 same offer.

4 October 25th is when Amoco originally contacted
5 them in writing.

6 Q. Okay. So Amoco first proposed this in October?

7 A. Yes, sir.

8 Q. And --

9 A. Different location, I believe, though, as what we
10 have proposed.

11 MR. PEARCY: Yes, sir, not quite the same
12 location.

13 EXAMINER STOGNER: One at a time. He's on the
14 witness stand.

15 THE WITNESS: We also contacted them February the
16 5th by phone, trying to set up a meeting.

17 Q. (By Examiner Stogner) Okay, let's go back to the
18 Amoco thing here.

19 When did Amoco abandon their prospect of
20 developing this area, and when did ARCO decide to take the
21 ball and run with it?

22 A. October of 1996.

23 Q. October of 1996?

24 A. Yes, sir.

25 Q. But Phillips was not contacted until February?

1 A. No, sir, Phillips was contacted --

2 Q. -- in writing by ARCO?

3 A. -- in writing by ARCO would be February, yes,
4 sir.

5 EXAMINER STOGNER: When was your Application for
6 this matter filed with the Division? Mr. Carr?

7 MR. CARR: I don't have -- No, I do. January the
8 28th.

9 Q. (By Examiner Stogner) Is that what you have,
10 sir?

11 A. Yes, sir.

12 Q. Okay. So you asked for force pooling before you
13 contacted Phillips in writing to try to reach any kind of
14 voluntary agreement?

15 A. Yes, sir, we did start the proceedings first.

16 EXAMINER STOGNER: Mr. Carr, since there's other
17 things --

18 MR. CARR: Uh-huh.

19 EXAMINER STOGNER: -- matters being considered
20 here today, I'm not going to dismiss this case. I will
21 continue it until April 6th [sic] to allow additional time
22 for voluntary agreement to be reached. I've already done
23 one this morning like that, and we've done one before.

24 Voluntary agreement -- Compulsory pooling means a
25 last-ditch effort, not something to hold over somebody's

1 head, as this would imply, and that you made the
2 application for compulsory pooling before you sent this
3 out.

4 I would hope that if you got something like that
5 from somebody, you would be in here objecting to it
6 tremendously.

7 THE WITNESS: Yes, sir.

8 EXAMINER STOGNER: No other questions of this
9 witness. You may be excused.

10 MR. CARR: At this time we'd call Mr. Pearcy.

11 EXAMINER STOGNER: Mr. Carr?

12 DAVID B. PEARCY,

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

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. State your name for the record.

18 A. David Pearcy.

19 Q. Mr. Pearcy, you testified in the previous case,
20 did you not?

21 A. Yes, I did.

22 Q. As a petroleum engineer?

23 A. As a petroleum geologist.

24 Q. Petroleum geologist. Are you familiar with the
25 Application filed in this case?

1 A. Yes, I am.

2 Q. Have you made a study of the area which is
3 involved in this Application?

4 A. I have.

5 Q. Could you refer to what has been identified as
6 ARCO Exhibit Number 7?

7 A. Number 7 shows an isopach lower Morrow net pay
8 sand in the vicinity of Section 8, showing our proposed
9 surface location and bottomhole location in the south half
10 of Section 8. It shows other nearby wells that have had
11 Morrow sand present and is indicating how it would appear
12 that this sand could not be adequately tapped, based on the
13 3-D knowledge that we hope is correct, without some kind of
14 an orthodox location very close to the south line of
15 Section 8.

16 Q. This Exhibit shows the location of the 3-D
17 seismic shot points; is that right?

18 A. That is correct.

19 Q. What are the primary zones of interest in this
20 well?

21 A. The primary zone will be the lower Morrow, which
22 has been the main pay in the area, although we will have
23 Atoka and other uphole zones that will also be available to
24 us, including all the way up into the Glorieta since we're
25 pooling from 3500 feet on down.

1 Q. Let's go to what has been marked for
2 identification as Exhibit Number 8, the production map.
3 Would you review this for Mr. Stogner?

4 A. Yes, Number 8 shows the other cums in BCF,
5 primarily from the Morrow formation in this area. This map
6 is intended to show just the Morrow penetrations.

7 There is a dry hole already in the south half of
8 Section 8, and our other producing wells have made up to
9 2.8 BCF within about a one-mile radius of the well. Also
10 many other subcommercial wells.

11 Q. Are you prepared to make a recommendation to the
12 Examiner --

13 A. Yes, I am.

14 Q. -- concerning the penalty to be assessed against
15 the nonconsenting interest owners?

16 A. Yes.

17 Q. And what is that?

18 A. I would recommend the maximum penalty of 200
19 percent.

20 Q. In your opinion, is it possible that you could
21 drill a well at this location that, in fact, would not be a
22 commercial success?

23 A. It certainly is.

24 Q. Can you explain to the Examiner why it is ARCO
25 proposes to directionally drill?

1 A. We attempted to spot a surface location at the
2 bottomhole location, but because of numerous other steel
3 pipelines in the area we're unable to.

4 Q. Can you identify what has been marked as ARCO
5 Exhibit Number 9?

6 A. Number 9 is the C-102 showing the surface
7 location and the bottomhole location that will be a little
8 less than 300 feet away.

9 Q. Can you review for the Examiner how you propose
10 to directionally drill this well?

11 A. We intend to drill normally down to around 9000
12 feet, and at that point to put a downhole motor in to
13 correct the trajectory of the well so we can hit our
14 target.

15 Q. Are you going to run a directional survey on the
16 well?

17 A. Yes, we are.

18 Q. Will a copy of the survey be provided to the Oil
19 Conservation Division?

20 A. Yes, they will.

21 Q. In your opinion, will approval of this
22 Application and the directional drilling of the well as you
23 recommend be in the best interest of conservation, the
24 prevention of waste and the protection of correlative
25 rights?

1 A. Yes.

2 Q. Were Exhibits 7 through 9 either prepared by you
3 or compiled under your direction?

4 A. Yes, they were.

5 MR. CARR: At this time, Mr. Stogner, we would
6 move the admission of ARCO Exhibits 7 through 9.

7 EXAMINER STOGNER: Any objections?

8 MR. BRUCE: No, sir.

9 EXAMINER STOGNER: Exhibits 7 through 9 will be
10 admitted into evidence.

11 MR. CARR: And that concludes my direct
12 examination of Mr. Percy.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Percy, the kickoff point is going to be at
16 9000 feet; is that correct?

17 A. Approximately 9000 feet, we'll find a dull bit
18 run, somewhere around there.

19 Q. And what does that formation correspond with, or
20 what does that depth correspond with?

21 A. That would be in the Wolfcamp, the lower part of
22 the Wolfcamp formation.

23 Q. Now, will you build up to a slant and then
24 directionally drill straight at an angle into the Morrow?
25 Are you proposing to do something like straighten it back

1 up and go down?

2 A. We are proposing to have a straight ramp that
3 will most likely be on the order of five degrees. That's
4 been our experience before in attempting to correct these.

5 Q. Now, in your Exhibit Number 7, you show the --
6 I'll call them pods. I know that's not what they are, but
7 these porosity pods, and well completions within those
8 areas. Are those producing Morrow wells, or are some of
9 them plugged and abandoned, or what is the status of the
10 Morrow wells shown on this map?

11 A. Just a moment, sir.

12 Section 7, both of those wells were inactive in
13 1995 and ceased producing at that time.

14 Number 9, the north-half well is producing at an
15 average monthly rate corresponding to a daily rate of about
16 10 MCF a day. The south-half well in Section 9 is
17 currently producing about 200 MCF a day from the Morrow.

18 In Section 16, the west-half well operated by
19 Mewbourne was inactivated in 1995.

20 North half of Section 17, the Mewbourne well was
21 last producing at about 200 MCF a day, according to the PI
22 information.

23 The well in Section 8 is shown as an oil
24 completion.

25 Similar wells in this area have been recompleted

1 back in the Grayburg San Andres, and that's the other
2 shallow zone that is producing in the area.

3 Q. And is that why the cutoff of everything below
4 3300 feet?

5 A. That's right, the rights above 3300 are generally
6 committed to the Grayburg San Andres field in this area.

7 Q. What's the size of production casing as proposed
8 for this well?

9 A. We plan to run 5-1/2-inch casing to TD and drill
10 an 8-3/4 hole to 10,700 feet.

11 Q. Conventional completion on this well, other than
12 it being a directional; is that correct?

13 A. Yes, sir.

14 EXAMINER STOGNER: I have no other questions of
15 this witness.

16 MR. CARR: That concludes our presentation.

17 EXAMINER STOGNER: As stated, this matter will be
18 continued to April 6th, 1997, at which time -- I don't
19 think there will be a necessity, unless Phillips comes in
20 and objects, at which time it can be taken under
21 advisement.

22 MR. CARR: Thank you.

23 EXAMINER STOGNER: Should there be an agreement
24 with them prior to April 6th, if you will contact me, Mr.
25 Carr --

1 MR. CARR: I will.

2 EXAMINER STOGNER: -- and submit that
3 information, then we can move on getting an order for the
4 directional drilling and an unorthodox location at that
5 time.

6 Anything further in this matter?

7 MR. CARR: No, sir.

8 EXAMINER STOGNER: With that, the hearing is
9 adjourned.

10 MR. CARR: Thank you.

11 (Thereupon, these proceedings were concluded at
12 12:20 p.m.)

13 * * *

14
15
16
17
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. 11726,
heard by me on 6 March 1997.
23 Michael E. Stogner Examiner
24 Oil Conservation Division
25

