

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 SANTA FE ENERGY)
 RESOURCES, INC., FOR COMPULSORY POOLING)
 AND UNORTHODOX GAS WELL LOCATION, LEA)
 COUNTY, NEW MEXICO)
)

CASE NO. 11,787

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 29th, 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, May 29th, 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.

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I N D E X

May 29th, 1997
Examiner Hearing
CASE NO. 11,787

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* * *

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:

JAMES G. BRUCE, Attorney at Law
 612 Old Santa Fe Trail, Suite B
 Santa Fe, New Mexico 87501
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:10 a.m.:

3

4

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6 EXAMINER STOGNER: Hearing will come to order.

7 Call next case, Number 11,787.

8 MR. CARROLL: Application of Santa Fe Energy
9 Resources, Inc., for compulsory pooling and unorthodox gas
10 well location, Lea County, New Mexico.

11 EXAMINER STOGNER: Call for appearances.

12 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
13 Fe, representing the Applicant. I have two witnesses to be
14 sworn.

15 EXAMINER STOGNER: Any other appearances?

16 Will the witnesses please stand to be sworn?

17 (Thereupon, the witnesses were sworn.)

18 MR. BRUCE: Mr. Examiner, this case is for
19 compulsory pooling and an unorthodox gas well location.

20 In the hopes of settling the pooling matter, I
21 had also filed an administrative application for an
22 unorthodox location.

23 So that you don't have to deal with both of them,
24 I ask that you take that record into consideration but just
25 issue one order here today for both matters.

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JOE W. HAMMOND,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Hammond, would you please state your full name and city of residence.

A. Joe W. Hammond, H-a-m-m-o-n-d, Midland, Texas.

Q. By whom are you employed and in what capacity?

A. Santa Fe Energy Resources as a senior landman.

Q. Have you previously testified before the Division as a petroleum landman?

A. Yes, I have.

Q. And are you familiar with the land matters involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I would tender Mr. Hammond as an expert petroleum landman.

EXAMINER STOGNER: Mr. Hammond is so qualified.

Q. (By Mr. Bruce) Mr. Hammond, what is it that Santa Fe Energy seeks in this case?

A. We seek an order pooling the west half of Section 21, 21 South, 33 East, Lea County, New Mexico, from the surface to the base of the Morrow formation for all pools or formations spaced on 320 acres, and the southwest

1 quarter of Section 21 for all pools or formations spaced on
2 160 acres.

3 And we also seek approval of the unorthodox
4 location.

5 Q. Would you refer to Exhibit 1 and identify that
6 for the Examiner, please?

7 A. Yes, this is a land plat of the existing Abe
8 unit, and if you will note, there is an arrow pointing
9 toward our proposed well location. The -- Santa Fe
10 Energy's acreage is shaded in yellow, and of course the
11 proposed 320-acre unit will be the west half of Section 21.

12 Q. And what is the footage of the proposed well?

13 A. It is 660 feet from the south line and 660 feet
14 from the west line.

15 Q. Okay. On this Exhibit 1 you have Santa Fe's
16 acreage shaded yellow. Is Santa Fe Energy the operator of
17 that acreage?

18 A. Yes, we are.

19 Q. Okay.

20 Q. Let's discuss leasehold ownership in the west
21 half of Section 21. Would you please identify Exhibit 2
22 and describe its contents?

23 A. Exhibit 2 is a listing of the ownership in the
24 west half. The first lease I'll talk about is State of New
25 Mexico Lease Number 3583, which covers, among other lands,

1 the northwest quarter and the west half of the southwest
2 quarter of Section 21.

3 The operating rights of that lease is owned by
4 Santa Fe, one-third; Southwestern Energy, one-third; Louis
5 Dreyfus, one-third.

6 Again, this acreage, this lease, is subject to
7 the Abe Unit agreement and Abe Unit operating agreement.
8 So therefore, the costs and expenses of this well will be
9 shared by Santa Fe in the proportion of 46.56-percent
10 working interest; Southwestern Energy, 46.56-percent
11 working interest; and Louis Dreyfus Natural gas, 6.86-
12 percent working interest.

13 The next lease, which would round out the west
14 half of Section 21, is State of New Mexico Lease Number
15 E-1932, covering the east half of the southwest quarter.
16 That lease is owned by Phillips Petroleum Company, 100-
17 percent operating rights, and that's who we're seeking to
18 pool today.

19 Q. Only Phillips Petroleum?

20 A. Only Phillips Petroleum, yes.

21 Q. And the other companies have signed the AFE for
22 the well?

23 A. Yes, they have. Both Southwestern Energy and
24 Louis Dreyfus have signed our AFE to drill this well.

25 Q. Okay. And Santa Fe Energy Resources and

1 Southwestern Energy Production Company are the only offsets
2 to the unorthodox location; is that correct?

3 A. Yes, that is correct.

4 Q. Now, let's discuss your contacts with Phillips.
5 What is Exhibit 3?

6 A. Exhibit 3 is my initial proposal letter, dated
7 April 8th, proposing the well to Phillips. I also sent an
8 identical letter, more or less, to Southwestern and Louis
9 Dreyfus, who has since already responded.

10 And page 2 of this exhibit is, again, our AFE.
11 Page 3 of this exhibit is the copy of the green card,
12 showing where Phillips did receive the well proposal.

13 Q. Other than this letter, what contacts have you
14 had with Phillips?

15 A. Prior to me mailing the letter, I contacted
16 Phillips on April 7th to find out, number one, who this
17 should be sent to. And I determined it was to be mailed to
18 Georgia Fenton in the Phillips office in Odessa and told
19 her basically that we were going to propose a well, and the
20 well proposal was on the way.

21 I then called back on April 21st and left a
22 message for Georgia Fenton, got her answering machine. She
23 returned my call on the 22nd, and we discussed the
24 proposal, and at that time Phillips -- not -- was working
25 on the proposal.

1 On May the 2nd, I called back Mrs. Fenton and
2 left a message. I did not get a call back any time real
3 soon, so on May the 8th I called back again and talked with
4 the secretary in the land department. She advised me that
5 Georgia Fenton was no longer in that office and that Jim --
6 Jamie Welin was now handling that area, and she would --
7 She indicated that she would leave a message for him to
8 call me back.

9 On April the 13th -- I never did receive a call
10 back. On April the 13th I did call Mr. Welin, and he
11 indicated at that time that he was aware of the proposal
12 and they've had it since -- at the start, and that they
13 were leaning toward either farming out or giving us a term
14 assignment. But again, they didn't know yet.

15 And my last contact with them was on May the 27th
16 where I called Mr. Welin and again left a message asking
17 him if they had made a decision yet or not.

18 EXAMINER STOGNER: Mr. Bruce --

19 MR. BRUCE: Yes, sir.

20 EXAMINER STOGNER: -- you mentioned April 13th
21 that you talked to Mr. Welin, I believe it was. Should
22 that have been May 13th?

23 THE WITNESS: May 13th, yes, I'm sorry.

24 EXAMINER STOGNER: Mr. Bruce?

25 Q. (By Mr. Bruce) In your opinion, Mr. Hammond, has

1 Santa Fe Energy made a good-faith effort to obtain the
2 voluntary joinder of Phillips in this well?

3 A. Yes, we have.

4 Q. Now, would you identify Exhibit 4 and describe
5 the cost for this well?

6 A. Exhibit 4 is a copy of Santa Fe's AFE that was
7 sent to all partners. I will tell you that the dryhole
8 costs for this 15,100-foot Morrow well is \$1,412,000. The
9 completed well cost is \$1,768,000.

10 Q. And is this cost in line with the costs of other
11 wells drilled to this depth in this area of New Mexico?

12 A. Yes, it is.

13 Q. And to sidetrack for a minute, Mr. Hammond, this
14 is the second well drilled in this unit; is that correct?

15 A. It is, yes.

16 Q. And the first well was of a similar depth also?

17 A. It is, yes.

18 Q. Okay. And were those costs in line with these
19 costs?

20 A. Yes, they were.

21 Q. Okay. Does Santa Fe Energy request that it be
22 designated operator of the well?

23 A. Yes.

24 Q. And do you have a recommendation for the amounts
25 which Santa Fe should be paid for supervision and

1 administrative expenses?

2 A. Yes, the overhead rates would be \$5725 for the
3 drilling well rate and \$572.55 for the producing well rate.

4 Q. And are these similar to the Abe Unit Well Number
5 1 operating costs?

6 A. Yes, they are. They are the exact costs which
7 we're charging on the Abe Unit Number 1.

8 Q. And otherwise, are these costs similar to those
9 normally charged by Santa Fe Energy and other operators in
10 this area for wells of this depth?

11 A. Yes.

12 Q. And was Phillips Petroleum Company notified of
13 this hearing?

14 A. Yes, they were.

15 Q. And is Exhibit 5 my affidavit evidencing notice
16 and return receipt regarding that notice?

17 A. Yes.

18 Q. Were Exhibits 1 through 5 prepared by you or
19 compiled from company business records?

20 A. Yes.

21 Q. And in your opinion, is the granting of Santa Fe
22 Energy's Application in the interests of conservation and
23 the prevention of waste?

24 A. Yes, it is.

25 MR. BRUCE: Mr. Examiner, I would move the

1 admission of Santa Fe Exhibits 1 through 5.

2 EXAMINER STOGNER: Exhibits 1 through 5 will be
3 admitted into evidence.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Yes, you -- Mr. Bruce had asked you a question
7 if this was the second well on the unit. Let's go into a
8 little bit more detail on that. What was the first well on
9 the unit?

10 A. First well, if you look on Exhibit 1, is the Abe
11 Unit Number 1, drilled in the south half of Section 28.
12 That -- first of all, the unit -- I'll go ahead and give
13 you a brief history of the unit.

14 The unit was approved effective August 10th,
15 1995. It unitizes 3200 acres. 3160 acres of that is state
16 leases, 40 acres are fee leases.

17 And if you look, again, on Exhibit 1, you will
18 notice that the Phillips acreage is not shaded. Phillips
19 did not join in the unit. They are an uncommitted interest
20 owner in the unit; their interest is uncommitted. And
21 that's one reason why we are force pooling.

22 The Abe Unit was spud on August 25th, 1995, and
23 completed on November 30th, 1995, as a Morrow gas well.

24 EXAMINER STOGNER: Mr. Bruce, could you,
25 subsequent to the hearing, reference the Division Order --

1 MR. BRUCE: Oh, sure.

2 EXAMINER STOGNER: -- that approved the Abe Unit?

3 MR. CARROLL: Are you going to drill a well in
4 the north half of 28? Is there any plans?

5 THE WITNESS: There's a possibility, yes. I
6 mean, everything hinges on Section 21 right now, as to the
7 results of that.

8 Of course, under any unit agreement, we're
9 required to drill a well every so often, and -- that this
10 will be our next well for this unit, is the Abe Unit Number
11 2, which we're proposing right now.

12 Q. (By Examiner Stogner) Well, I have to admit this
13 is a first. I've been here what? Sixteen years. But I
14 have never had cents given to -- as part of the overhead
15 charges.

16 So that is \$572.55; is that correct?

17 A. Well, I looked that up right before I came,
18 because I knew you were going to ask that question. And
19 that's exactly what we're charging on the Abe 1. So I
20 can't get any more close than that.

21 EXAMINER STOGNER: With that, I have no other
22 questions.

23 THE WITNESS: Okay.

24 EXAMINER STOGNER: Thank you.

25 MR. BRUCE: Call Mr. Huggard to the stand.

1 eight years for them.

2 Q. And does your area of responsibility include this
3 part of southeast New Mexico?

4 A. Yes, it does.

5 Q. And are you familiar with the geologic matters
6 pertaining to this Application?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender Mr. Huggard as
9 an expert geophysicist.

10 EXAMINER STOGNER: Mr. Huggard, where did you
11 work for Helmerich and Payne?

12 THE WITNESS: In Tulsa.

13 EXAMINER STOGNER: In Tulsa. Did you ever go
14 overseas.

15 EXAMINER STOGNER: Yes, Mr. Huggard is so
16 qualified.

17 Q. (By Mr. Bruce) Mr. Huggard, first identify
18 Exhibit 6 and, you know, discuss, perhaps, the primary
19 zones of interest in this well.

20 A. Exhibit 6 is a structure map on the top of the
21 Morrow carbonate, which is essentially the top of the
22 Morrow formation.

23 On the map we have shown the depths, subsea
24 depths, in all the Morrow penetrations. The Morrow
25 penetrations are circled, and there are producing wells

1 shown on this map that are colored.

2 The color codes are, yellow with a red circle as
3 various Morrow sand producers. There is a blue triangle in
4 the upper part of the map in Section 17 that was a very
5 marginal Atoka producer; it's now plugged. The two wells
6 that have green hexagons around them in the southwest part
7 of the map are Bone Springs producers and also very
8 marginal. The Morrow wells that are shown on the map are
9 also very marginal wells.

10 Q. Now, the Morrow you're looking at, are you
11 looking at any particular zone or the entire Morrow?

12 A. We're primarily looking at the A sand in the
13 upper Morrow sequence; that's why we've provided this map.
14 It is known as the Bilbrey Number 3 sand, which we will
15 show on a subsequent exhibit.

16 And the importance of the structure map is the
17 fault, the down-to-the-south fault shown by a brown east-
18 southeasterly-striking fault. Placement of the fault is
19 somewhat tenuous, because we do not have any fault cuts
20 seen in any wells, either on this map or to the west where
21 we trend the fault from.

22 The fault placement could be moved southward
23 toward the steeper dip that you see running across the Abe
24 unit, where the contours are more or less jammed together.
25 We would like to stay downthrown to this fault to establish

1 production.

2 Q. Okay. Now, before we move on to your next
3 exhibits, what you're telling me, that as far as any uphole
4 potential, it's fairly limited in your opinion?

5 A. That is correct.

6 Q. Okay. Let's move on to the Morrow itself. Why
7 don't you just refer to your next three exhibits, perhaps,
8 in sequence, 7, 8 and 9, and discuss the three Morrow zones
9 and what we're looking at in this well.

10 A. Exhibit 7 is a map of the Bilbrey sands in the
11 upper Morrow sequence that are productive in Bilbrey field,
12 one township to the west. The most productive sand in that
13 field is the Bilbrey 3 sand, shown in the red contours.

14 This is a risky extrapolation of the sands, but
15 we believe that the structure map, in combination with the
16 westerly east-west sand projection, from west to east, we
17 would have the possibility of establishing commercial
18 production in the Bilbrey 3 sand closest to the fault and
19 on the structural nose shown on Exhibit 6.

20 Exhibit 8 is a conglomeration of net middle
21 Morrow sands. It's a grouping of sands over the total
22 middle Morrow sequence, somewhat imprecise because it's a
23 grouping of sands. The values for net and gross are shown
24 next to each well.

25 So these sands have produced in the wells denoted

1 by the red color in the three wells, one to the north of
2 our proposed location and the two to the south of our
3 proposed location. They are very limited in permeability
4 over the entire middle Morrow sequence and have tested
5 water in some of them also.

6 The Exhibit 9 is a lower Morrow sand. It is
7 isolated by good shale markers above and below. It's a
8 more precise definition of a sand trend. The positive
9 control that we have, again, are the wells shown north and
10 south, the value in Section 17 for 19 feet of gross sand,
11 the value in the south part of Section 28 for 25 feet of
12 gross sand, and in the north part of 33 for 22 feet.

13 In addition to the values that you see on the
14 Morrow penetrations on the map, there was an omission of
15 zero values for the Morrow penetrations to the east of our
16 proposed lower Morrow trend. Section 15, 13 and 35 should
17 have zeroes next to them.

18 So we are hoping to establish production in this
19 lower Morrow sand by crowding the faults as much as we can
20 and try to move toward the center of this thick sand trend.

21 Q. Now, as far as the unorthodox location goes, is
22 it your opinion that this location is the best, looking at
23 all three sands together?

24 A. That is correct. We expect that the Bilbrey 3
25 sand is controlled by that east-west-trending fault. It

1 was more or less penecontemporaneous with the upper Morrow
2 deposition.

3 The lower Morrow sand trend is to the west of us,
4 so that's why we've picked the location in the very
5 southwest corner of the section.

6 Q. And again, you want to stay away from that fault
7 which could be further south than you've put it on Exhibit
8 6?

9 A. That is correct. We may even go upthrown to the
10 fault, just the way the contouring -- It's a very risky
11 location.

12 Q. In your opinion, what penalty should be assessed
13 against Phillips if it goes nonconsent in this well?

14 A. Cost plus 200 percent, and that's based on a
15 substantial stepout from existing marginal wells and dry
16 holes in the map area.

17 Q. Were Exhibits 6 through 9 prepared by you or
18 under your direction?

19 A. Yes, sir.

20 Q. And in your opinion, is the granting of Santa Fe
21 Energy's Application in the interests of conservation and
22 the prevention of waste?

23 A. Yes, sir.

24 MR. BRUCE: Mr. Examiner, I would move the
25 admission of Santa Fe's Exhibits 6 through 9.

1 EXAMINER STOGNER: Exhibits 6 through 9 will be
2 admitted into evidence.

3 I have no question of this witness.

4 Any questions?

5 You may be excused.

6 Mr. Bruce?

7 MR. BRUCE: Nothing further in this matter, Mr.
8 Examiner.

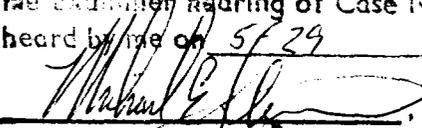
9 EXAMINER STOGNER: If nobody else has anything
10 further in Case Number 11,787, then this matter will be
11 taken under advisement.

12 And Mr. Bruce, if you could --

13 MR. BRUCE: I'll contact you, yeah.

14 (Thereupon, these proceedings were concluded at
15 10:32 a.m.)

16 * * *

17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the ~~examined~~ hearing of Case No. 11787,
heard by me on 5/29 1997.
21  Examiner
22 Oil Conservation Division
23
24
25

