

## NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date SEPTEMBER 21, 2000 Time 8:15 A.M.

<u>NAME</u>	<u>REPRESENTING</u>	<u>LOCATION</u>
Al Hendrick	Tevakoma 096	Albee, NM
Raye Miller	Marbob Energy	Artesia
Martin Joyce	Marbob Energy	Artesia
William F. Jay	Conquest, Inc, 800 + Jordan	Santa Fe
John Heckel	Murchison Oil & Gas	Midland, TX
Mike Daugherty	Murchison Oil & Gas	Plano TX
Jim Brown	—	SF
Jim Richardson	Tevakoma 096	Stanley, NM
Chad Turner	OCG Artec	Artec

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 MURCHISON OIL AND GAS, )  
INC., FOR COMPULSORY POOLING, EDDY )  
COUNTY, NEW MEXICO )

CASE NO. 12,491

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 21st, 2000

Santa Fe, New Mexico

00 OCT -4 PM 7:54

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner on Thursday, September 21st, 2000, 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

September 21st, 2000  
 Examiner Hearing  
 CASE NO. 12,491

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JOHN B. HUCKABAY</u> (Landman)	
Direct Examination by Mr. Bruce	5
Examination by Examiner Stogner	9
<u>MICHAEL S. DAUGHERTY</u> (Engineer)	
Direct Examination by Mr. Bruce	11
Examination by Examiner Stogner	19
REPORTER'S CERTIFICATE	22

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	9
Exhibit 2	7	9
Exhibit 3	8	9
Exhibit 4	12	19
Exhibit 5	13	19
Exhibit 6	16	19

\* \* \*

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

## FOR THE DIVISION:

LYN S. HEBERT  
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  
3304 Camino Lisa  
Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## FOR EOG RESOURCES, INC.:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2           8:20 a.m.:

3           EXAMINER STOGNER: This hearing will come to  
4           order, Docket Number 26-00. Please note today's date,  
5           Thursday, September the 21st, 2000. I'm Michael Stogner,  
6           appointed Hearing Examiner for today's cases.

7           At this time I will call Case Number 12,491,  
8           which is the Application of Murchison Oil and Gas, Inc.,  
9           for compulsory pooling, Eddy County, New Mexico.

10          Call for appearances.

11          MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
12          representing the Applicant. I have two witnesses.

13          MR. CARR: May it please the Examiner, my name is  
14          William F. Carr with the Santa Fe law firm Campbell, Carr,  
15          Berge and Sheridan. We would like to enter our appearance  
16          on behalf of EOG Resources, Inc.

17          We are not appearing in opposition to the  
18          Application. We have not yet made our election on this  
19          proposal; we're waiting for data from an offsetting well.  
20          But we want it understood that we're not here in an effort  
21          to delay or otherwise cause any sort of postponement.

22          EXAMINER STOGNER: Okay. Any other appearances?

23          Okay, will the two witnesses stand to be sworn at  
24          this time?

25          (Thereupon, the witnesses were sworn.)

1 EXAMINER STOGNER: Mr. Bruce, you may proceed.

2 JOHN B. HUCKABAY,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q. Will you please state your name for the record?

8 A. John Huckabay.

9 Q. What is your occupation?

10 A. Independent contract landman.

11 Q. Who do you work for in this case?

12 A. Murchison Oil and Gas, Inc.

13 Q. Have you previously testified before the  
14 Division?

15 A. Yes, sir.

16 Q. And were your credentials -- As a petroleum  
17 landman?

18 A. Yes.

19 Q. And were your credentials as an expert petroleum  
20 landman accepted as a matter of record?

21 A. Yes.

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

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I'd tender Mr. Huckabay

1 as an expert petroleum landman.

2 EXAMINER STOGNER: Mr. Huckabay is so qualified.

3 Q. (By Mr. Bruce) Mr. Huckabay, could you identify  
4 Exhibit 1 for the Examiner and describe what Murchison  
5 seeks in this case?

6 A. Yes, Exhibit 1 is a land plat showing the north  
7 half of Section 12 well unit, Township 17 South, Range 28  
8 East. Murchison seeks an order pooling the north half,  
9 Section 12, to the base of the Morrow formation for all  
10 pools or formations spaced on 320 acres.

11 Q. What is the leasehold ownership in the well unit?

12 A. The north half of Section 12 is comprised of four  
13 leases:

14 State Lease E-9359, covering the south half,  
15 northwest quarter, owned by Atlantic Richfield, Marbob  
16 Energy, and Pitch Energy;

17 State Lease V-5009, covering the northwest  
18 quarter, northwest quarter, owned by Chase Oil Corporation;

19 State Lease E-7596, covering the north half,  
20 northeast quarter, the southwest quarter of the northeast  
21 quarter and the northeast quarter of the northwest quarter,  
22 owned by EOG Resources, Inc.;

23 State Lease V-3138, covering the southeast  
24 quarter, northeast quarter, owned by Chase Oil Corporation.

25 Q. What is Murchison's interest in this half section

1 of land?

2 A. Murchison owns by contractual interest under the  
3 working interest unit that we established, of which we're  
4 the operator.

5 Q. Okay. So Murchison is the operator under this  
6 working interest unit?

7 A. Yes.

8 Q. And is Chase Oil -- have they joined that working  
9 interest unit?

10 A. Yes.

11 Q. And has Marbob Energy joined that?

12 A. Yes.

13 Q. What about ARCO?

14 A. ARCO is transferring their interest to Marbob,  
15 who is committed.

16 Q. Oh, okay, and then you mentioned the other one,  
17 Pitch Energy Corporation. Have they also joined?

18 A. Yes.

19 Q. Okay. Now, let's discuss Murchison's efforts to  
20 obtain the voluntary joinder of EOG in this proposed well.  
21 What is Exhibit 2?

22 A. Exhibit 2 contains a copy of correspondence with  
23 EOG. We first sent a letter to EOG on May the 1st of this  
24 year, requesting formation of a working interest unit,  
25 covering Sections 1, 2, 11, 12 in 17 South, 28 East. I

1 made numerous follow-up telephone calls.

2 EOG did not want to form a working interest unit,  
3 so on July the 15th, 2000, I sent a proposal letter to EOG  
4 regarding the proposed well. That letter enclosed an AFE  
5 and a joint operating agreement and requested EOG to  
6 participate in the well. We made several follow-up  
7 telephone calls.

8 Q. So this is the well proposal, and then you made  
9 several phone calls to EOG as follow-up?

10 A. Right.

11 Q. And their response was?

12 A. That they did not want to join in the proration  
13 unit drilling the well.

14 Q. In your opinion, has Murchison made a good faith  
15 effort to obtain the voluntary joinder of the interest  
16 owners in this well?

17 A. Yes.

18 Q. And was EOG notified of this hearing?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, Exhibit 3 is my  
21 affidavit of notice, with the copy of the notice letter and  
22 certified return receipt.

23 Q. (By Mr. Bruce) Mr. Huckabay, were Exhibits 1 and  
24 2 prepared by you or under your supervision?

25 A. Yes.

1 Q. In your opinion, is the granting of Murchison's  
2 Application in the interests of conservation and the  
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I'd move the admission  
6 of Murchison Exhibits 1 through 3.

7 EXAMINER STOGNER: Exhibits 1 through 3 will be  
8 admitted into evidence.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. Huckabay, in referring to Exhibit 1, again,  
12 looking at the south half of the northwest quarter, my  
13 document shows here 50 percent-50 percent, ARCO-Marbob, but  
14 you mentioned Pitch Energy was also an interest owner?

15 A. Yes, sir, they came in as a partner with Marbob.

16 Q. With Marbob. Do you know what that split is?

17 A. Fifty-fifty, half. Each has half, yes, sir.

18 Q. So that would essentially be -- for this  
19 particular portion, that would be Pitch Energy having 25,  
20 Marbob having 25, with ARCO 50 --

21 A. Right.

22 Q. -- and as I understand from your testimony, ARCO  
23 has transferred their interest to Marbob?

24 A. Yes, sir.

25 Q. Okay. And Pitch has joined the working interest

1 agreement?

2 A. Yes, sir.

3 Q. Your Exhibit Number 2 is the first contact with  
4 EOG concerning this agreement or the drilling of the well  
5 to the Morrow in this north-half proration unit?

6 A. Yes, sir.

7 Q. Who did you talk to in your subsequent phone  
8 conversations with EOG?

9 A. Pat Tower.

10 Q. When was your last correspondence with Mr. Tower?

11 A. The last correspondence was the letter proposing  
12 the well.

13 Q. Okay, I guess I should have said what was your  
14 last telephone conversation with him?

15 A. Approximately six weeks ago.

16 Q. And again, why didn't EOG agree to this? Or are  
17 they still looking at it?

18 A. I'm not aware of their reasons. They may still  
19 be looking at it, but they indicated that they did not want  
20 to participate in the well at this time.

21 Q. But they didn't give you a reason why?

22 A. Did not.

23 Q. Essentially, we have had a little over 60 days  
24 since first contact. Is that adequate time for Murchison  
25 to make some sort of a proposal if another operator

1 approached Murchison for a similar type of an agreement?

2 A. Yes, sir.

3 Q. In your past dealings with other operators in  
4 similar situations, what is the time frame that Murchison  
5 has usually taken to sign the agreement or not sign it or  
6 agree to it?

7 A. When we've been contacted by the parties?

8 Q. Yes.

9 A. I don't know of any case where it's taken us  
10 longer than 30 days.

11 EXAMINER STOGNER: Any other questions of this  
12 witness?

13 MR. BRUCE: No, sir.

14 EXAMINER STOGNER: You may be excused. Thank  
15 you, Mr. Huckabay.

16 THE WITNESS: Thank you.

17 MR. BRUCE: Call Mr. Daugherty to the stand.

18 MICHAEL S. DAUGHERTY,

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. BRUCE:

23 Q. Would you please state your name and city of  
24 residence for the record?

25 A. Michael S. Daugherty, Plano, Texas.

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

2 A. Murchison Oil and Gas, and I'm vice president of  
3 operations.

4 Q. Have you previously testified before the  
5 Division?

6 A. Yes.

7 Q. As an engineer?

8 A. Yes.

9 Q. And are you familiar with engineering matters  
10 involved in this Application?

11 A. Yes.

12 Q. And when you testified before, were your  
13 credentials as an expert petroleum engineer accepted as a  
14 matter of record?

15 A. Yes, sir.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Daugherty  
17 as an expert petroleum engineer.

18 EXAMINER STOGNER: Mr. Daugherty is so qualified.

19 Q. (By Mr. Bruce) Mr. Daugherty, could you identify  
20 Exhibit 4 and discuss the primary zone of interest for this  
21 well?

22 A. Exhibit 4 is a production plat of the area with  
23 the proposed well unit outlined. The primary zone of  
24 interest for this well is the Morrow formation. The map  
25 covers an area of four miles by four miles, or 16 sections,

1 with the proposed well in the approximate center of the  
2 map. The proposed well is about a mile and a half from any  
3 existing Morrow production.

4 Q. Are there any secondary zones of interest in this  
5 area?

6 A. Yes, there may be Atoka production. The Atoka is  
7 present and productive in some wells to the west. There  
8 may also be some upper Pennsylvanian production and several  
9 shallow zones as the Yeso, Glorieta and Yates that produce  
10 in the general area. However, it would be my opinion that  
11 these are secondary objectives, and by themselves they  
12 would not make the drilling of this proposed well economic.

13 Q. Now, looking at this map, just one final  
14 question. This only shows Morrow penetrations on it, does  
15 it not?

16 A. That's correct.

17 Q. There's a lot of shallow oil wells in this  
18 general area?

19 A. That is correct.

20 Q. Okay. Let's move on to your next exhibit. What  
21 is Exhibit 5?

22 A. Exhibit 5 is a gross isopach of a regional marker  
23 that's near the top of the Morrow clastics section to the  
24 base of the Pennsylvanian.

25 This isopach indicates that a relatively thick

1 section exists at the proposed wells location. It's not an  
2 isopach of porosity or sandbodies, but only a thick  
3 interval in which sand accumulations capable of storing  
4 recoverable hydrocarbon could exist. I believe that the  
5 depositional environment provides for a reasonable  
6 probability of finding commercial hydrocarbons.

7 Q. Now, again, let's clarify in this map. This only  
8 shows Morrow penetrations or Pennsylvanian penetrations?

9 A. Yes, sir, it shows the same well control that we  
10 had on the previous production map.

11 Q. Okay. In looking to the east and northeast of  
12 your proposed well, there are three wells with blackened  
13 circles. Could you identify what those wells are, or what  
14 happened in those wells?

15 A. Those are wells that were drilled to the Morrow  
16 and, for whatever reasons, never produced from the Morrow.  
17 They drilled through the complete section, and they  
18 represent data points for the isopach map that I'm  
19 presenting here.

20 But the fact that they don't have red surrounding  
21 them means they did not produce from the Morrow, and they  
22 currently are producing from some shallow horizon, and  
23 since it's a black dot that's probably oil.

24 Q. Okay. And so the three wells closest to your  
25 proposed well were not productive in the Morrow?

1 A. That's correct.

2 Q. One other thing we might want to point out on  
3 this map is, over in -- what? -- Section 7, there are two  
4 circles. Could you just briefly describe what those wells  
5 are?

6 A. Those are proposed wells.

7 Q. Okay. And one of them is an EOG?

8 A. Yes, sir, the EOG Warp Speed Fed Com Number 1 is  
9 a well we picked up on commercial data proposing the well.

10 Q. Okay. And so based on the well control to the  
11 east and the well control to the west, it looks like it  
12 thickens and then it thins, and what you're seeing here, what  
13 you hope to see, is a thickening at your well location; is  
14 that correct?

15 A. Yes, we don't really have any control on this map  
16 to indicate that this thick exists, but our geologist  
17 thinks it does.

18 And what that red line indicates is sort of an  
19 arbitrary marking, but it's the center of the axis of what  
20 we call a channel or a -- we basically call this a ditch  
21 map, and that's where the ditch is, it's the thickest at  
22 that point.

23 Q. Okay, the red line with the arrow marker?

24 A. That's correct.

25 Q. Okay. What is the depth of your proposed well?

1 A. 10,300 feet.

2 Q. Now, at that depth -- There's always the risk of  
3 some mechanical problems with a well at that depth, isn't  
4 there?

5 A. Well, I don't anticipate any significant drilling  
6 problems, but in today's environments the service companies  
7 seem to be operating at full capacity, and they've got some  
8 inexperienced people, and I think we can drill the well  
9 without incident, but we could experience some problems and  
10 some increased costs.

11 Q. And in your opinion, what penalty should be  
12 assessed against EOG if it elects to go nonconsent in this  
13 well?

14 A. The actual cost of the well plus 200 percent.

15 Q. What is Exhibit 6, Mr. Daugherty?

16 A. Exhibit 6 is a copy of the AFE that we presented  
17 to all the working interest owners for the drilling of this  
18 well.

19 Q. What are the estimated costs?

20 A. The estimated costs of the well are \$520,000 for  
21 dryhole cost. And completion cost, including the dryhole,  
22 would be \$872,400.

23 Q. Okay. Are these costs in line with the costs of  
24 other wells drilled to this depth in this area of New  
25 Mexico?

1 A. Yes.

2 Q. Are you a participant in any of the wells over to  
3 the west of your proposed well?

4 A. Yes, sir, we're a working interest owner in all  
5 four of the red dots.

6 Q. Okay.

7 A. Actually, the Hiawatha has been drilled and  
8 they're in the process of completing it. So the map is  
9 technically correct, but we're a participant in that well  
10 also.

11 Q. Okay. And is this cost in line with the cost of  
12 those wells?

13 A. Yes, sir, it is.

14 Q. Does Murchison Oil and Gas, Incorporated, request  
15 that it be designated operator of this well?

16 A. Yes.

17 Q. And do you have a recommendation for the amounts  
18 which Murchison should be paid for supervision and  
19 administration expenses?

20 A. We're requesting \$5000 a month be allowed for  
21 drilling overhead and \$500 a month be allowed for producing  
22 well overhead.

23 Q. Are these amounts equivalent to those normally  
24 charged by Murchison and other operators in this area for  
25 wells of this depth?

1           A.    Yes, they're pretty standard.  That's the rate  
2   that's being charged under the operating agreement that we  
3   proposed to EOG, and it was accepted by the other owners  
4   that joined in the working interest unit.

5           Q.    Are you in any Morrow wells with EOG?

6           A.    Yes, we are.

7           Q.    And are these rates equivalent to the rates  
8   charged by EOG for overhead rates --

9           A.    I believe that they're less than what EOG is  
10  charging us, but I'm not sure.  They're --

11          Q.    They're equivalent?

12          A.    They are very close.

13          Q.    Okay.  Does Murchison request that these rates be  
14  adjusted according to the COPAS accounting procedure if  
15  necessary?

16          A.    Yes.  And again, the adjustments that we're  
17  talking about are annual adjustments that increase  
18  overhead, and they were acceptable to the other working  
19  interest owners in the unit.

20          Q.    Were Exhibits 4, 5 and 6 prepared by you or under  
21  your supervision or compiled from company business records?

22          A.    Yes, sir, they were.

23          Q.    And in your opinion, is the granting of this  
24  Application in the interests of conservation and the  
25  prevention of waste?



1 General American well?

2 A. As of December, 1999 -- and I apologize for --  
3 that's the data we had on our production map -- it was  
4 currently an active producer. Its cum production was 1.973  
5 or 1.9 BCF of gas and 21,000 barrels of oil.

6 Q. And who's the operator of that well?

7 MR. BRUCE: Mr. Examiner, if I could answer that,  
8 Phillips was the operator, but I believe in the process of  
9 this Mewbourne new well, Mewbourne will become operator of  
10 both wells, in accord with Division procedure.

11 EXAMINER STOGNER: Okay, good answer. You saw  
12 where I was going on that one.

13 Q. (By Examiner Stogner) Okay, Exhibit Number 5,  
14 the basis for the geology on this one was just well  
15 control, or is this seismic data also?

16 A. No seismic.

17 Q. No seismic.

18 A. Subsurface well control.

19 Q. So the nearest Morrow well is a mile and a half?

20 A. I testified the nearest producing well was a mile  
21 and a half. There have been penetrations a little closer  
22 than that.

23 Q. But you did not know why those completions, even  
24 though they were drilled down to the Morrow, were not  
25 completed?



