

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 TMBR/SHARP DRILLING,)
INC., FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO)

CASE NO. 12,550

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 7th, 2000

Santa Fe, New Mexico

00 DEC 21 PM 10:20

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 7th, 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.

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December 7th, 2000
Examiner Hearing
CASE NO. 12,550

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A P P E A R A N C E S

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 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 9:54 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call
4 Case 12,550, the Application of TMBR/Sharp Drilling, Inc.,
5 for compulsory pooling, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: May it please the Examiner, my
8 name is Michael Feldewert. I'm with the law firm of
9 Campbell, Carr, Berge and Sheridan, representing the
10 Applicant in this case, TMBR/Sharp Drilling, Inc., and I
11 have two witnesses today.

12 EXAMINER CATANACH: Any additional appearances?
13 Will the witnesses please stand to be sworn?

14 (Thereupon, the witnesses were sworn.)

15 DENNIS J. HOPKINS,

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. FELDEWERT:

20 Q. Mr. Hopkins, would you please state your full
21 name for the record?

22 A. Dennis J. Hopkins.

23 Q. And where do you reside?

24 A. Midland, Texas.

25 Q. And by whom are you employed?

1 A. I'm self-employed and act as a consultant to
2 various organizations.

3 Q. Are you acting as a consultant here today for
4 TMBR/Sharp?

5 A. Yes, I am.

6 Q. Have you previously testified before this
7 Division?

8 A. No, I have not.

9 Q. Why don't you summarize your work experience for
10 the Examiner?

11 A. Over 22 years experience in the petroleum land
12 management business, various organizations, currently
13 serving on the certification committee for the American
14 Association of Professional Landmen, and I am a certified
15 professional landman myself.

16 Q. Has your experience been onshore or offshore?

17 A. Offshore.

18 Q. And are you familiar with the Application that's
19 been filed by TMBR/Sharp in this case?

20 A. Yes, I am.

21 Q. And are you familiar with the status of the lands
22 in the subject area?

23 A. Yes, I am.

24 MR. FELDEWERT: We tender Mr. Hopkins as an
25 expert witness in petroleum land matters.

1 EXAMINER CATANACH: He is so qualified.

2 Q. (By Mr. Feldewert) Mr. Hopkins, would you please
3 briefly state what TMBR/Sharp seeks with this Application?

4 A. TMBR/Sharp seeks an order pooling all minerals
5 from the surface to the base of the Morrow formation, under
6 the west half of Section 21, Township 18 South, Range 32
7 East, for all formations and/or pools developed on 320-acre
8 spacing, which includes but is not necessarily limited to
9 the Undesignated North Lusk-Morrow Gas Pool and the
10 Undesignated -- and I'm going to kill this name -- Querecho
11 Plains-Atoka Gas Pool.

12 Q. And this is to be dedicated to which well?

13 A. This will be dedicated to the TMBR/Sharp Federal
14 21 Well Number 1, also at a standard location.

15 Q. And what's the location?

16 A. 1980 feet from the south line and 990 feet from
17 the west line.

18 Q. Okay. If this well is an oil well which would be
19 developed on 40-acre spacing, does TMBR/Sharp own all the
20 working interest in the northwest quarter of the southwest
21 quarter?

22 A. Yes, sir.

23 Q. Why don't you then identify and review for the
24 Examiner TMBR/Sharp Exhibit Number 1?

25 A. Exhibit Number 1 is an ownership plat indicating

1 the ownership in the west half of said Section 21. In it
2 you have the well location as marked in red, and ownership
3 is in three separate tracts, yellow being the TMBR/Sharp
4 acreage, the blue being Anadarko Petroleum Corporation, and
5 the green being the Murjo Oil Company, et al.

6 Q. What is the status of the acreage in the west
7 half of the section?

8 A. All of the acreage is federal acreage, HBP.

9 Q. And what is the primary objective of the proposed
10 well shown on this exhibit?

11 A. This would be a wildcat Morrow-formation well,
12 the top of which is approximately 12,200 feet.

13 Q. Okay, why don't you identify and review for the
14 Examiner TMBR/Sharp Exhibit Number 2?

15 A. Exhibit Number 2 is the ownership breakdown as to
16 the west half of Section 21. You may note that I have it
17 broken out into the three tracts, Tract 1 containing 200
18 acres, which is the yellow acreage on the ownership plat,
19 which is owned by TMBR/Sharp Drilling; Tract 2, the east
20 half, southwest quarter, 80 acres, being that shown in
21 green -- or, excuse me, blue, on the ownership map, owned
22 by Anadarko Petroleum Corporation; and Tract 3 being the
23 northeast of the northwest quarter of 40 acres, owned by
24 Murjo Oil Company, et al., which is indicated in the green.

25 Q. Okay. Now, aside from TMBR/Sharp's percentage of

1 the working interest, what other working interest is
2 voluntarily committed to this well?

3 A. Currently, right now, we have 64 percent
4 physically committed, either by signed AFE or operating
5 agreement. The rest have been contacted, and I have some
6 verbal approvals to grant a term assignment of oil and gas
7 lease.

8 Q. Okay. Why don't you identify for the Examiner
9 who has voluntarily committed to the well?

10 A. Voluntary committed to the well at this time in
11 Tract 3 is F. Kirk Johnson, III, who would be the fourth
12 name down on that list, and Clarence W. Stumhoffer and wife
13 Frieda T., which is the last name on that list.

14 Q. Are there any working interest owners on that
15 list that you have been unable to locate?

16 A. No, we've been able to locate all of them. Or I
17 believe we have good addresses, et cetera, on them.

18 Q. Okay. In your opinion, have you made a good-
19 faith effort to obtain voluntary joinder from these working
20 interest owners?

21 A. Yes.

22 Q. Why don't you summarize your efforts to obtain
23 voluntary joinder, beginning with your first contact?

24 A. Okay. The first contact that I was aware of
25 would be in July of 2000. The prospect had been worked

1 prior to the time that I was asked to assist on it.
2 Numerous letters were sent, some mail was returned, we got
3 valid addresses at that point, phone calls were made. We
4 have had response from just about all the people except for
5 really two parties that were -- they'd think about it, and
6 never responded back.

7 Q. The two parties that you're referring to, the
8 letters were not returned?

9 A. That's correct.

10 Q. They were not returned, okay, sir.

11 What is the current status of negotiations with
12 the uncommitted working interest owners?

13 A. At this time with Murjo Oil Company, Debra
14 Johnson Head and DeMar Johnson Hopson, I have a verbal
15 commitment to it. At this point I'm waiting on the return
16 of the assignments of oil and gas lease. F. Kirk Johnson
17 did sign an AFE, was willing to participate in the well,
18 and Clarence Stumhoffer is willing to participate in the
19 well, and they have signed an AFE.

20 Q. Okay. Now, the remaining two names, Ann H.
21 Johnson McReynolds and C. Daniel Walker, are those the two
22 individuals that you sent letters to but you had not heard
23 back from them?

24 A. Yes, sir.

25 Q. Okay. Why don't you identify for the Examiner

1 TMBR/Sharp Exhibit Number 3?

2 A. Exhibit Number 3 are letters, correspondence,
3 back and forth between the various working interest owners,
4 in some cases myself, and efforts to contact, solicitations
5 to join, et cetera.

6 Q. Would you identify, then for the Examiner,
7 TMBR/Sharp Exhibit Number 4?

8 A. Exhibit Number 4 is the authorization for
9 expenditure or the AFE for drilling the Federal 21 Number 1
10 well.

11 Q. What is the dryhole total set forth in this
12 exhibit?

13 A. The dryhole cost is \$855,104, estimated.

14 Q. And the completed cost?

15 A. Completed well cost would be \$1,280,000.

16 Q. Are these costs in line with what has been
17 charged by other operators in the area for similar wells?

18 A. Yes, sir.

19 Q. Is TMBR/Sharp Exhibit Number 5 an affidavit with
20 attached letters giving notice of this hearing?

21 A. Yes, sir.

22 Q. Have you made an estimate of the overhead and
23 administrative costs while drilling this well and also
24 while producing this well if you are successful?

25 A. Yes, sir.

1 Q. And what are those estimates?

2 A. Drilling well rate would be \$6000 per month, and
3 a producing well rate would be \$600 per month.

4 Q. Where did you obtain those figures?

5 A. It's kind of a combination from an Ernst and
6 Young survey and also other operators in the area,
7 including Anadarko Petroleum, who is going to stand out on
8 this well.

9 Q. So in your opinion, are these costs in line with
10 what is being charged by other operators in the area?

11 A. Yes, sir.

12 Q. Do you recommend that these figures be
13 incorporated into any order that results from this hearing?

14 A. Yes, sir.

15 Q. Does TMBR/Sharp Drilling seek to be the
16 designated operator of the proposed well?

17 A. Yes, sir.

18 Q. Does TMBR/Sharp Drilling request that the
19 overhead rates approved by the Division be subject to
20 increases according to COPAS guidelines?

21 A. Yes, sir.

22 Q. Were Exhibits 1 through 5 compiled by you or
23 prepared under your direction and supervision?

24 A. They were prepared by me.

25 MR. FELDEWERT: Okay, at this point I would move

1 into evidence TMBR/Sharp Exhibits 1 through 5.

2 EXAMINER CATANACH: Exhibits 1 through 5 will be
3 admitted as evidence.

4 MR. FELDEWERT: That concludes my examination of
5 this witness.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Hopkins, you received verbal from three
9 parties. Do you expect to get a formal commitment from
10 them?

11 A. The three in Tract 3 on my ownership list?

12 Q. Yes.

13 A. Yes, I do expect to get assignments in hand. I
14 might point out that Anadarko Petroleum Corporation, who
15 would have a 25-percent interest in the well, as part of
16 Exhibit 3, did send me a letter saying they were going to
17 stand out.

18 Q. Okay. The two interest owners that you have not
19 heard from, have you spoken to them at all, or they just
20 did not respond to your letters or -- ?

21 A. The party who handled this prior to when I
22 stepped in earlier this year, there are notes and various
23 things in the files, pencil marks and such, that indicated
24 some kind of a conversation and then follow-up letters.

25 Q. But you have not tried to contact these parties?

1 A. The one party, Ann Johnson McReynolds, I've
2 spoken to a former husband of hers, F. Kirk Johnson, and he
3 was relaying it because she's the managing conservator of
4 his children.

5 Q. And the Walker interest, you haven't tried to --

6 A. I have been unable to contact Mr. Walker.

7 Q. Do you know when these parties were first
8 contacted?

9 A. They were first contacted prior to July, and then
10 I believe offers, et cetera, were made beginning in July,
11 formal, written offers.

12 Q. And are those part of this exhibit book, Mr.
13 Hopkins?

14 A. Yeah, those are copies of the letters there.

15 Q. Okay, the first letter I show to the McReynolds
16 interest, in fact, is September...

17 A. Okay, that's correct.

18 MR. FELDEWERT: Just for the record, I think, Mr.
19 Examiner, I also show that for Mr. Daniel Walker as well.

20 Q. (By Examiner Catanach) Okay. Mr. Hopkins, are
21 you going to keep trying to secure a voluntary agreement
22 with some of these parties?

23 A. If it's possible, especially the ones who have
24 verbally committed and do have paperwork with them, we do
25 want to see that completed. It's, I think, to their best

1 interest.

2 Q. Are you going to make any other attempt to
3 contact the other parties that have not responded?

4 A. I haven't been instructed to, but I could.

5 Q. Has TMBR/Sharp drilled any Morrow wells in this
6 area recently?

7 A. I'm not sure about recently. They are a drilling
8 contractor plus an operator of their own, and they have
9 drilled Morrow wells, I know, in southeastern New Mexico.

10 EXAMINER CATANACH: Okay, I have nothing further
11 of this witness.

12 MR. FELDEWERT: Just one more question.

13 FURTHER EXAMINATION

14 BY MR. FELDEWERT:

15 Q. Mr. Hopkins, is there a relationship that you're
16 aware of between Ann H. Johnson McReynolds and Clarence W.
17 Stumhoffer?

18 A. I don't believe so.

19 Q. Okay.

20 A. There is a relationship there with F. Kirk
21 Johnson, however.

22 Q. I'm sorry?

23 A. There is a relationship with F. Kirk Johnson.

24 Q. The Third?

25 A. The Third.

1 Q. Okay, I'm sorry, what is that relationship?

2 A. Ex-spouse.

3 Q. Okay. And F. Kirk Johnson, III, is one of the
4 parties who has committed to this?

5 A. He has committed to this.

6 MR. FELDEWERT: Okay, that's all I have.

7 MITCHELL E. CHENEY,

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

10 DIRECT EXAMINATION

11 BY MR. FELDEWERT:

12 Q. Mr. Cheney, could you please state your full name
13 and place of residence?

14 A. Mitchell E. Cheney, Spring, Texas.

15 Q. And by whom are you employed and in what
16 capacity?

17 A. I'm self-employed.

18 Q. Have you previously testified before this
19 Division or one of its Examiners?

20 A. Yes.

21 Q. And have your credentials as a petroleum
22 geologist been accepted and made a matter of record?

23 A. Yes.

24 Q. Are you familiar with the Application that has
25 been filed by TMBR/Sharp in this case?

1 A. Yes.

2 Q. And have you made a technical study of the area
3 which is the subject of this Application?

4 A. Yes, I have.

5 Q. And are you prepared to share the results of your
6 work with the Examiner?

7 A. Certainly.

8 MR. FELDEWERT: I would tender Mr. Cheney as an
9 expert witness.

10 EXAMINER CATANACH: He is so qualified.

11 Q. (By Mr. Feldewert) Mr. Cheney, have you prepared
12 an exhibit for your presentation in this case?

13 A. Yes, I've prepared a geologic montage consisting
14 of a structure map and isopach and a geologic cross-
15 section.

16 Q. Okay. Before we get to that, are you aware, has
17 TMBR/Sharp drilled other Atoka-Morrow wells in this area?

18 A. In Eddy and Lea County, yes, they have, over the
19 years they have consistently drilled Morrow and Atoka
20 wells.

21 Q. Okay. And why don't you turn now to what's been
22 marked as TMBR/Sharp Exhibit Number 7? I would note for
23 the record, Mr. Examiner, that there is no Exhibit Number
24 6. Identify that and review it with the Examiner, please.

25 A. Sorry for the size.

1 EXAMINER CATANACH: No problem.

2 THE WITNESS: There are three components to this
3 montage: a structural cross-section focused on the Morrow
4 section, a structure map, and a net-sand isopach of the
5 middle Morrow.

6 I guess we'll start with the cross-section first.
7 It's a line of section beginning at the west with the
8 Atlantic Richfield Fed Number 1. It's an updip well, and
9 the interval of interest is between what's noted as the top
10 of the Morrow clastics and the top of the lower Morrow.
11 This is a gamma-ray neutron-porosity log. As you know, the
12 gamma ray is used to qualify sand presence, and there's not
13 much sand present in that section. This is the highest
14 well on the cross-section.

15 As we move east and downdip slightly, we go to
16 our proposed location where we've postulated the presence
17 of several sands built up. And then continuing on south
18 and east, we go to the Depco Number 1, which is a downdip
19 well. The gamma ray shows good development of sands. And
20 based on the development of the sands in that well and the
21 isopach map we'll talk about in a minute here, we've
22 postulated that we'll have sands in our proposed location.

23 Further downdip, we go to the Mark Production Fed
24 Number 1, and we've correlated a similar package of sands.
25 This is the only Morrow-productive well in the cross-

1 section and the only commercial Morrow well in the area.
2 This well has cum'd 3.6 BCF and 98,000 barrels of oil. It
3 IP'd for 2.4 million cubic feet of gas a day.

4 There's a couple points that I want to make with
5 this montage. One is, to state the obvious, there's a lot
6 of risk here. We've got two dry holes and one producer.
7 And what we're trying to do is get updip to a well that had
8 good sand accumulation, we're not so updip that we go out
9 of the channel and emulate the Atlantic Richfield well,
10 which had no sand at all.

11 The point of this part of the testimony is to
12 justify the risk and the risk penalty. And I think it's
13 pretty clear, based on the montage, that there's
14 substantial risk in testing the Morrow on this well.

15 I want to turn your attention to the structure
16 map on the upper left-hand part of the montage, and it just
17 illustrates the line of section here. These are 25-foot
18 contours. Updip is to the northwest, downdip is to the
19 southeast, and shows that our proposed location is downdip
20 from the Atlantic Richfield Fed Number 1 by about 75 feet.

21 The other map on the montage, at the lower left-
22 hand corner, is a net-sand isopach. And we summed the net
23 sand over 6 percent in the Depco well, the Mark Fed Well,
24 and a couple other Morrow penetrations on the map. From a
25 regional perspective and studies I've done, I know that the

1 sands in this area trend from the northeast to the
2 southwest, and within that regional context we've contoured
3 them this way on this local map here.

4 The other formation we've targeted in the area is
5 the Atoka, for 320-acre gas spacing, that is. And there's
6 one producer from the Atoka, and that's in Section 28, in
7 the southeast corner. And it's the only Atoka well in the
8 area that had any production. And it was commingled with
9 the Morrow, by the way. That Atoka well IP'd for 2 million
10 cubic feet a day at 750 barrels of condensate. But as I
11 said, it's been commingled with the Morrow, and we're not
12 sure how much of that hydrocarbon comes from the Atoka.

13 The Atoka-Morrow on this prospect is an
14 objective. Our primary objective is uphole in the Strawn
15 and in the Wolfcamp. Tom Braun of TMBR/Sharp felt that for
16 the incremental cost to go on down and tag the Morrow, it
17 was worth the risk, especially in light of today's gas
18 prices and the expense of doing a dedicated Morrow test in
19 the section.

20 And that's all I have on this montage.

21 Q. (By Mr. Feldewert) Mr. Cheney, based upon your
22 analysis, are you prepared to make a recommendation to the
23 Examiner as to the risk penalty that should be assessed
24 against nonconsenting interest owners?

25 A. I recommend the maximum risk penalty. I

1 understand we're limited to 200 percent. I'd ask for more
2 if we could get it.

3 Q. Do you believe that there's a chance that you
4 could drill a well at the proposed location that would not
5 be a commercial success?

6 A. Yes.

7 Q. Okay. And in your opinion will the granting of
8 this Application be in the best interests of conservation,
9 the prevention of waste and the protection of correlative
10 rights?

11 A. Yes.

12 Q. Was this Exhibit Number 7 prepared by you?

13 A. Yes.

14 MR. FELDEWERT: I would move at this time the
15 admission into evidence of TMBR/Sharp Exhibit Number 7.

16 EXAMINER CATANACH: Exhibit Number 7 will be
17 admitted as evidence.

18 MR. FELDEWERT: And that concludes my examination
19 of this witness at this time.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Cheney, the Depco well, was it never tested?

23 A. That's correct. They were tested, no shows
24 reported. We tried to get the mud log on it to see if
25 there were any shows, hydrocarbon shows, and haven't been

1 successful in that, so we've assumed that they have no
2 shows. There are no perforations reported in the scout
3 tickets, no tests reported.

4 Q. But the sands were present in that well?

5 A. Yes, they sure were.

6 Q. Should that well be productive?

7 A. No, the resistivities, given comparable
8 porosities, are less than the downdip well and the Mark
9 Production well, and so -- And that's why we've separated
10 them by a facies change, and that's why we have two
11 different channels on this map here.

12 Q. Are you saying that those sands will be tight in
13 that well; is that correct?

14 A. No, I'm saying that if they were perforated
15 they'd be water-wet.

16 Q. They would be water-wet. Have you estimated
17 where that contact is in that reservoir, the gas-water
18 contact?

19 A. In the reservoir we've targeted with our well?
20 No.

21 Q. These are all separate sands. I assume that
22 they're isolated from one another?

23 A. Yes.

24 Q. So you hope to encounter several sands in your
25 well?

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 December 10th, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002