

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 MATADOR PETROLEUM)
CORPORATION FOR COMPULSORY POOLING)
AND AN UNORTHODOX GAS WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

CASE NO. 12,572

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 11th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday January 11th, 2001, 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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OIL CONSERVATION DIV.
01 JAN 24 PM 4:00

I N D E X

January 11th, 2001
 Examiner Hearing
 CASE NO. 12,572

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

ALSO PRESENT:

MICHAEL E. STOGNER, NMOCD Hearing Examiner

* * *

1 WHEREUPON, the following proceedings were had at
2 9:47 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,572, the Application of Matador Petroleum Corporation
5 for compulsory pooling and an unorthodox gas well location,
6 Lea County, New Mexico.

7 Call for appearances in this case.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have two witnesses to be
11 sworn.

12 EXAMINER CATANACH: Additional appearances?

13 Okay, will the two witnesses please stand to be
14 sworn in?

15 (Thereupon, the witnesses were sworn.)

16 MR. KELLAHIN: Mr. Examiner, our first witness is
17 Mark Virant. Mr. Virant is a petroleum landman.

18 MARK A. VIRANT,

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. KELLAHIN:

23 Q. For the record, sir, would you please state your
24 name and occupation?

25 A. Mark A. Virant, and I'm landman for Matador

1 Petroleum.

2 Q. Where do you reside, sir?

3 A. Dallas, Texas.

4 Q. On prior occasions have you testified before the
5 Division as a petroleum landman?

6 A. I have.

7 Q. In fact, you testified back in October before
8 Examiner Stogner on a compulsory pooling case?

9 A. That's correct.

10 Q. As part of your landman duties for Matador, have
11 you identified the interest owners that would participate
12 in the working interest portion of this well that's been
13 proposed in the south half of Section 19?

14 A. I have.

15 Q. And you were the landman responsible for
16 negotiating with those companies?

17 A. That's correct.

18 MR. KELLAHIN: We tender Mr. Virant as an expert
19 petroleum landman.

20 EXAMINER CATANACH: He is so qualified.

21 Q. (By Mr. Kellahin) Let's start with a map that
22 orients the Examiner. If you'll look at Exhibit 1,
23 identify this for me.

24 A. This is an outline of the proposed unit, which is
25 the south half of Section 19, 20 South, 37 East.

1 Q. Show me how the south half of 19 is subdivided.

2 A. We have four State of New Mexico leases. The
3 southwest quarter is owned by Matador and our partner Icon.
4 The east half of the southeast is once again owned by
5 Matador and its partner Icon. The northwest of the
6 southeast is likewise owned by Matador and Icon. And the
7 southwest of the southeast is owned by Chevron.

8 Q. As of today's hearing, what tracts or interest
9 owners within individual tracts have not committed
10 themselves on a voluntary basis to the well?

11 A. Chevron.

12 Q. Chevron's the only one?

13 A. Chevron's the only one.

14 Q. The well has a location that is unorthodox, is
15 that not true?

16 A. That's correct.

17 Q. This is a re-entry of an old plugged-and-
18 abandoned well, isn't it?

19 A. Yes, sir.

20 Q. In terms of sending notifications for the
21 unorthodox location portion of the Application, have you
22 notified the working interest owners in the north half of
23 Section 19?

24 A. We have.

25 Q. And who are those owners?

1 A. Those would be Texaco, Icon and Southwestern
2 Energy.

3 Q. To the best of your knowledge, have you had any
4 objection from those owners concerning the use of this
5 wellbore for re-entry and production from the deep gas
6 zones?

7 A. No objections.

8 Q. What is the status of your efforts with Chevron?

9 A. Chevron has been instructed not to dispose of any
10 assets because of the pending merger with Texaco. Chevron
11 has advised us it will be necessary to initiate force-
12 pooling procedures in order to obtain a decision. Chevron
13 has indicated they will not oppose us.

14 Q. All right. Let's look at the summary of
15 activity. If you'll turn to Exhibit 2, identify and
16 describe what's shown on this spreadsheet.

17 A. It shows the three working interest owners in the
18 well and the fact that Chevron is the only one who has not
19 elected to participate or farm out.

20 Q. Mr. Virant, let's turn to Exhibit 3. What have
21 you tabulated for us on Exhibit 3?

22 A. This is just a summary of our written
23 correspondence, meetings and phone correspondence with
24 Chevron.

25 Q. Exhibit Number 4?

1 A. Exhibit Number 4 is the well proposal to Chevron.

2 Q. Included in that formal written well proposal,
3 did you submit to Chevron an AFE?

4 A. Yes, sir, we did.

5 Q. Turn to Exhibit 5 and identify that.

6 A. Exhibit 5 is the AFE for the well. This AFE has
7 been executed by the other partner, Icon Exploration Joint
8 Venture.

9 Q. To the best of your knowledge and belief, Mr.
10 Virant, does this AFE represent current and reasonable well
11 costs for a re-entry such as this?

12 A. Yes, it does.

13 Q. Prepared by your engineering department of
14 Matador in the course of their regular business?

15 A. Correct.

16 Q. In addition to making a well proposal to Chevron,
17 did you offer them any other voluntary solution concerning
18 their interest in the spacing unit?

19 A. Yes, in the well proposal which is Exhibit 4, we
20 advised them that we would be willing to purchase a term
21 assignment, should they elect not to participate.

22 Q. What's Exhibit Number 6?

23 A. Exhibit Number 6 is just a follow-up letter to
24 the meeting we had with Chevron discussing the well
25 proposal, reiterating our desire to have them participate

1 or farm out to us, and then it's an additional proposal for
2 some acreage offsetting this well location.

3 Q. As of the hearing day this morning, you've
4 exhausted all opportunity to get Chevron to execute a
5 voluntary agreement with you?

6 A. Yes, sir, their hands are tied, and they're
7 unable to make any decisions at this time.

8 Q. Let's look at Exhibit 7. This is the operating
9 agreement for the re-entry, and this is the one that's been
10 signed by Icon?

11 A. That's correct.

12 Q. It shows in the COPAS attachment to the operating
13 agreement a proposed overhead rate for drilling of \$7000 a
14 month?

15 A. Yes, sir.

16 Q. And then a producing well rate on a monthly basis
17 of \$700?

18 A. Uh-huh.

19 Q. What is your recommendation to the Examiner for
20 inclusion in the pooling order?

21 A. The \$7000 and \$700 is what we negotiated with our
22 partner, Icon Exploration. Matador is prepared to accept
23 \$6500 and \$650, which was established in an October 20th
24 force pooling hearing, in which Matador is the operator. I
25 believe that's Case Number 12,519, Order 11,484.

1 Q. All right. And you'd want the COPAS escalation
2 provisions applicable to the force-pooling provisions?

3 A. Yes, sir.

4 MR. KELLAHIN: That concludes my examination of
5 Mr. Virant.

6 We move the introduction of his Exhibits 1
7 through 7.

8 EXAMINER CATANACH: Exhibits 1 through 7 will be
9 admitted as evidence.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. I'm sorry, Mr. Virant, Matador is willing to
13 accept what rates again?

14 A. \$6500 and \$650.

15 Q. Now, this was applicable to a Matador pooling
16 case recently?

17 A. Yes, sir, it was October 19th. The order came
18 out in November.

19 Q. And can you tell me why your overhead rates have
20 gone up since then?

21 A. Well, this was our negotiated -- \$7000 and \$700
22 was our negotiated rate with Icon, just due to increased
23 costs.

24 Q. And Icon has agreed to those rates?

25 A. And Icon has agreed to those rates, yes, sir.

1 Q. Has Chevron expressed any concern over those
2 rates?

3 A. No, sir.

4 Q. This is a re-entry of an old plugged-and-
5 abandoned well; is that correct?

6 A. Correct.

7 Q. Now, the only thing you're charging the interest
8 owners is the actual drilling costs to re-enter the well?

9 A. Yes, that's correct.

10 Q. And what is the exact well location? There seems
11 to be some confusion as to the exact well location. The
12 advertisement has it 1981 from the west and 2205 from the
13 south, and in some of your letters there seems to be a
14 slightly different well location.

15 A. It should be 1981 from the west and 2206 from the
16 south.

17 Q. 2206, or -5? The ad has it 2205 from the south.

18 MR. KELLAHIN: Let's see if I have a C-102 for
19 that well.

20 EXAMINER CATANACH: Okay.

21 Q. (By Examiner Catanach) Mr. Virant, you don't
22 believe that Chevron will participate, or they cannot make
23 a decision?

24 A. They cannot because of the pending merger right
25 now. They've been told not to dispose of any of their

1 assets. They're not interested in participating, is what
2 they've indicated. Since they can't dispose of their
3 assets because of the pending merger, they have told us to
4 go ahead and force-pool them in order to force a decision.

5 EXAMINER CATANACH: Okay.

6 MR. KELLAHIN: Mr. Examiner, if I may approach
7 you, the C-102 for that well looks like a 2205, but it's
8 awful difficult to tell if that's a 6 or a 5.

9 Q. (By Examiner Catanach) Okay. Mr. Virant, this
10 well will be -- according to your AFE, this well will be
11 deepened from 9620 down to 12,300?

12 A. Yes, sir.

13 Q. So I guess that Texaco well was just drilled to a
14 depth of 9620; is that your understanding?

15 A. That's my understanding.

16 EXAMINER CATANACH: Okay, I have no further
17 questions.

18 MR. KELLAHIN: Our next witness is a petroleum
19 geologist. His name is Martin Emery.

20 MARTIN EMERY,

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

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Emery, for the record please state your name

1 and occupation.

2 A. My name is Martin Emery. I'm a geologist with
3 Matador Petroleum.

4 Q. Mr. Emery, on prior cases have you testified
5 before the Division in compulsory pooling matters?

6 A. Yes.

7 Q. And you have been involved as the geologist with
8 regards to making the geologic recommendations concerning
9 this re-entry?

10 A. That is correct.

11 Q. Based upon that study do you have an opinion as
12 to the appropriate risk factor --

13 A. Yes, sir.

14 Q. -- to associate with this well to assess against
15 Chevron's interest?

16 A. Yes, I do.

17 MR. KELLAHIN: We tender Mr. Emery as an expert
18 geologist.

19 EXAMINER CATANACH: He is so qualified.

20 Q. (By Mr. Kellahin) Mr. Emery, what is your
21 recommendation?

22 A. We recommend the maximum penalty of 200 percent.

23 Q. Let's talk about how you got to that conclusion.
24 If you'll turn to Exhibit 8, before you describe the
25 details, tell us what we're looking at.

1 A. Exhibit 8 is a production map. It illustrates
2 all of the wells surrounding Section 19 and within Section
3 19. Most of these wells are shallow oil and gas producers
4 from formations shallower than the base of the San Andres.

5 Outlined in orange is the prospect outline for
6 our South Monument-McKee prospect.

7 Q. Let's talk about that. How did you derive this
8 interpretation of the possible outline of the prospect?

9 A. The outline of the prospect is defined by what we
10 believe to be the structural configuration of the trap for
11 the McKee sandstone, which --

12 Q. How did you do that?

13 A. That was derived from depth conversion of a time-
14 structure interpretation from speculative 3-D seismic data.

15 Q. Is there any well control yet available to you to
16 confirm the accuracy of that interpretation?

17 A. No, not within the mapped area.

18 Q. Is there any deep gas production within the area
19 of the map?

20 A. No.

21 Q. So this is highly speculative and very risky?

22 A. Correct.

23 Q. Okay. What is the advantage of the re-entry, as
24 opposed to a new wellbore?

25 A. If we can move ahead to Exhibit 9 --

1 Q. All right, let's look at that.

2 A. -- which is that structure map. Illustrated is
3 the anticlinal trap closure that we have depicted for the
4 McKee sandstone, and the only well illustrated now on the
5 map is the old Texaco New Mexico "H" State NCT-4 Number 36
6 well, which is drilled to a total depth of 9620 feet into
7 the Devonian and is the well that we intend to deepen.
8 You'll see that it's within the prospect outline and is
9 actually at a favorable structural position on the
10 structural interpretation.

11 Q. Do you gain anything substantially by drilling a
12 new wellbore at a -- and new wellbore, and removed from the
13 re-entry?

14 A. No.

15 Q. The advantage of using the re-entry is a
16 substantial cost savings, I would assume?

17 A. That is correct.

18 Q. And is it at an appropriate place within the
19 reservoir to test your concept?

20 A. That is correct.

21 Q. Let's look at the cross-section, Exhibit 10, so
22 we can show the Examiner in a vertical sense what your plan
23 is. Let's talk about the Texaco and start with the Texaco
24 log.

25 A. Okay.

1 Q. What did they do and what happened?

2 A. The Texaco well that we intend to re-enter is the
3 center well in the cross-section. This is a north-south
4 structural cross-section, or south to north, from left to
5 right, structural cross-section, which extends through the
6 mapped area, through the Texaco well. The Texaco well is
7 depicted on the cross-section, as you can see, drilled to a
8 total depth of 9620 feet, TD'd in Siluro-Devonian
9 carbonates. And the intent of that well was to test those
10 carbonates.

11 Q. Did it produce?

12 A. No.

13 Q. Your plan is to do what, Mr. Emery?

14 A. Is to re-enter the old wellbore and deepen that
15 to what is highlighted in yellow towards the bottom part of
16 the cross-section, and the McKee sandstone.

17 Q. That's your target?

18 A. That's our main target.

19 Q. To achieve that target, in reality, you actually
20 drill through that and will touch the Ellenburger to assure
21 yourself that you've fully penetrated the Simpson
22 intervals, and particularly the McKee portion?

23 A. Yes, because of the uncertainty in the structural
24 map.

25 Q. All right, so the wellbore will go down until

1 you're certain as a geologist that you've penetrated the
2 entire interval and you're in the Ellenburger?

3 A. That is correct.

4 Q. You've asked for a compulsory pooling order for
5 all of the deep gas from the top of the Wolfcamp on down?

6 A. Correct.

7 Q. So you would use the existing wellbore portion in
8 the Wolfcamp and look for that possibility?

9 A. From actually the base of the Abo --

10 Q. Base of the Abo on down?

11 A. Correct.

12 Q. All right. We are in an area that it's likely
13 the entire Wolfcamp is absent; is that not true?

14 A. That is true.

15 Q. All right. And then some portion of the
16 Pennsylvanian series would be absent as well?

17 A. Correct.

18 Q. Why are you trying to target the McKee? Is there
19 a log on this map that shows you that opportunity?

20 A. Yes, you can see wells to the south, wells to the
21 north, including fields to the north and to the northwest,
22 have penetrated the McKee. It's productive in the fields,
23 the McKee sandstone is excellent reservoir, is present in
24 all of the well penetrations.

25 Q. Let's look at the little locator on the cross-

1 section down in the right-hand corner.

2 A. Uh-huh.

3 Q. Do you see that?

4 A. Yes.

5 Q. How far do you have to go in your cross-section
6 to pick up these logs that had wells producing from the
7 McKee?

8 A. None of the wells on the cross-section produce
9 from the McKee. The closest McKee production is Monument-
10 McKee field, and the nearest producers are in Section 6 of
11 Township 20 south, Range 37 East, so that's approximately
12 three miles to the north.

13 Q. So there's no doubt in your mind, Mr. Emery, that
14 there's a substantial risk associated with the re-entry?

15 A. Correct, it's a wildcat well.

16 Q. And it justifies the maximum penalty?

17 A. That is correct.

18 MR. KELLAHIN: That concludes my examination of
19 Mr. Emery. We move the introduction of his Exhibits 8, 9
20 and 10.

21 EXAMINER CATANACH: Exhibits 8, 9 and 10 will be
22 admitted as evidence.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. This Texaco well was actually drilled to 12,600;

1 is that correct?

2 A. No, that's our intended permit depth.

3 Q. Okay. On your cross-section, is that a fault
4 that you show down in the McKee section?

5 A. Correct. We believe that this structural trap is
6 bounded on the northeast by a reverse fault, as illustrated
7 on the structure map as well.

8 Q. By the red line?

9 A. Correct.

10 Q. Okay. And you said the closest McKee is three
11 miles to the north. Have there been any wells in this area
12 that penetrate that formation?

13 A. Within the area of the map, no. The two wells on
14 the south side or the left side of the cross-section, the
15 ARCO well is located in Section 4 of Township 21 South, 36
16 East. The Shell well is located in Section 32 of Township
17 20 South, Range 37 East. Those are the nearest wells to
18 the south.

19 The closest well to the north is the Barnsdall
20 Oil Alaska-Cooper Number 9, which is in Section 12 of
21 Township 20 South, Range 36 East.

22 Q. Did both those wells produce from that section?

23 A. No, none of those wells produced from the McKee.

24 Q. Okay. This McKee data was generated by -- was it
25 3-D seismic you used here?

1 A. Yes, the structure map is a derivative of a time-
2 structure interpretation from speculative 3-D seismic data.

3 Q. What about the potential uphole from the McKee
4 and any of the other formations below the Wolfcamp?

5 A. Probably the best objective would be in the
6 Siluro-Devonian, the upper part of the Siluro-Devonian,
7 immediately beneath the Woodford. That was tested by the
8 Texaco well, although there were no production tests, no
9 drill stem tests of that particular well. It was just
10 penetrated.

11 EXAMINER CATANACH: Okay, I have nothing further,
12 Mr. Kellahin.

13 Is there anything further in this case?

14 MR. KELLAHIN: No, sir.

15 EXAMINER CATANACH: There being nothing further
16 in this case, Case 12,572 will be taken under advisement.

17 (Thereupon, these proceedings were concluded at
18 10:20 a.m.)

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25
FILED IN CASE NO. 12572
JANUARY 11 2001
DAVID K. CATANACH
STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE

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 January 15th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002