

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 ELAND ENERGY, INC., FOR)
 COMPULSORY POOLING, CHAVES COUNTY,)
 NEW MEXICO)
)

CASE NO. 12,742

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

October 18th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, October 18th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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

I N D E X

October 18th, 2001
 Examiner Hearing
 CASE NO. 12,742

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 11:10 a.m.:

3 EXAMINER BROOKS: At this time we will call Case
4 Number 12,742, Application of Eland Energy for compulsory
5 pooling, Chaves County, New Mexico.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
7 representing the Applicant. I have two witnesses in this
8 matter.

9 EXAMINER BROOKS: Will the witnesses please
10 identify themselves for the record?

11 MR. WOOD: Kyle Wood.

12 MR. KEDOO: Gordon Kedoo.

13 (Thereupon, the witnesses were sworn.)

14 KYLE D. WOOD,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your full name for the
20 record?

21 A. Kyle Dean Wood.

22 Q. Where do you reside?

23 A. Carrollton, Texas.

24 Q. Who do you work for and in what capacity?

25 A. I am a senior landman for Eland Energy, Inc.

1 Q. Have you previously testified before the
2 Division?

3 A. No, I have not.

4 Q. Would you please summarize your educational and
5 employment background for the Examiner?

6 A. I attended the University of Oklahoma from 1974
7 to 1979, majoring in petroleum land management, began my
8 career as a petroleum landman in August of 1979, working
9 for Spindletop Oil and Gas Company in Dallas. I worked for
10 them for approximately 19 years as a landman or land
11 manager, predominantly in the states of Texas, Oklahoma,
12 Illinois and Indiana. While there I had an opportunity
13 also to administer non-operated properties in several other
14 states including New Mexico. I earned my certificate of
15 being a certified professional landman in May of 1989 and
16 went to work for Eland Energy in my current capacity in
17 April of 1998.

18 Q. Does your area of responsibility at Eland include
19 southeast New Mexico?

20 A. Yes.

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

23 A. Yes, I am.

24 MR. BRUCE: Mr. Examiner, I'd tender Mr. Wood as
25 an expert petroleum landman.

1 EXAMINER BROOKS: He is so qualified.

2 Q. (By Mr. Bruce) Mr. Wood, would you identify
3 Exhibit 1 and describe what Eland seeks in this case?

4 A. Exhibit 1 is a land plat showing Section 3,
5 highlighting the west half of Section 3, Township 9 South,
6 Range 26 East, and showing predominantly the pre-Abo wells
7 that have been drilled in the vicinity of Section 3.

8 We seek an order pooling the west half of Section
9 3 from the base of the Abo formation to the base of the
10 Ordovician formation for all pools or formations spaced on
11 320 acres.

12 Q. Before I forget, there's one thing, the well is
13 noted as the Federal -- I guess that's "one" -- is that
14 "one X"?

15 A. IX.

16 Q. IX Com Well Number 3, which is your location.
17 Actually, the west half is a single federal lease, is it
18 not?

19 A. That's correct.

20 Q. So there shouldn't -- this is not a communitized
21 well?

22 A. Right, and that's an error and that well name
23 will be changed.

24 Q. Okay. What is the proposed well's footage
25 location?

1 A. 660 feet from the south line and 660 feet from
2 the west line of Section 3.

3 Q. What is the ownership of the well unit? And I
4 refer you to Exhibit 2.

5 A. Exhibit 2 shows the west half of Section 3.
6 These are rights below 5131 feet, the operative oil and
7 gas lease covering 320.62 acres, more or less. The
8 leasehold ownership is owned by Eland Energy, 37 1/2
9 percent; Providence Energy Company, 12 1/2 percent; and
10 Exco Resources, Inc., 50 percent.

11 Q. Has Providence Energy joined in your proposed
12 well?

13 A. Yes, they have.

14 Q. Okay. So at this point you only seek to pool
15 Exco Resources, Inc.; is that correct?

16 A. That is correct.

17 Q. Let's discuss your efforts to obtain the
18 voluntary joinder of Exco in the well, and I think -- your
19 discussions have gone on for a long time, but let's just
20 start with your Exhibit 3 and discuss your most immediate
21 contacts with them. What is Exhibit 3?

22 A. Exhibit 3 is a well proposal that Eland sent to
23 the record title owners on August 23rd, including Exco
24 Resources, proposing the drilling of a pre-Abo well at the
25 location we discussed.

1 Q. Have you had any follow-up talks with Exco
2 regarding this well?

3 A. I've had phone conversations with Exco
4 representatives on September 21st, October 16th and October
5 17th and spoke with a landman there in person on October
6 12th. Also our -- Eland's geologic representative, Gordon
7 Kedoo, has had several discussions with Exco's geologist.

8 Q. Now, did discussions with Exco commence with this
9 August 23rd letter, or had they been ongoing for a while?

10 A. They had been going on -- have been ongoing since
11 at least September of 2000.

12 A little bit of history. What started all this
13 activity, Yates Petroleum had proposed a well. It's shown
14 on Exhibit 1 to the east of Eland's proposed well. At the
15 time Yates proposed the well they did not own an interest
16 in the drillsite, but they did own interest in the east
17 half of Section 3.

18 We had discussions with Yates and Exco at that
19 time. Yates was proposing at that time to form a 320-acre
20 unit covering the south half of Section 3. Those plans of
21 theirs were not approved by the BLM. The BLM required that
22 it be a standup covering the west half of Section 3.

23 Q. And that's because of leasehold ownership in this
24 area?

25 A. That's correct.

1 Q. Okay.

2 A. So that well was never drilled. Most of the
3 conversations that we had, and discussions, were with Yates
4 at that time, because they were the party proposing the
5 well, but we also had discussions with Exco at that time as
6 well.

7 Q. Okay. So as of this date, even though the formal
8 proposal letter went out almost about eight weeks ago, you
9 had been having discussions for over a year with Exco
10 regarding this well?

11 A. That's correct.

12 Q. Okay. In your opinion, has Eland Energy made a
13 good-faith effort to obtain the voluntary joinder of Exco
14 in this well?

15 A. Yes, we have.

16 Q. Would you please identify Exhibit 4 for the
17 Examiner and discuss the cost of the proposed well?

18 A. Exhibit 4 is an AFE prepared by Eland personnel,
19 proposing the drilling of a 6250-foot test with an
20 estimated dryhole cost of \$315,000 and a completed well
21 cost of \$765,000.

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

24 A. Yes, sir.

25 Q. Does Eland request that it be designated operator

1 of the proposed well?

2 A. Yes.

3 Q. Do you have a recommendation for the amounts
4 which Eland should be paid for supervision and
5 administrative expenses?

6 A. We request that \$5000 per month be allowed for
7 drilling well cost and \$700 per month be allowed for
8 producing well cost.

9 Q. How do these amounts compare to those charged by
10 other operators for wells that you are in, in Chaves
11 County?

12 A. Eland is an interest owner in 20 wells in Chaves
13 County that are operated either by Yates Petroleum or Exco
14 Resources. The average producing well rate for those 20
15 wells is \$770 per month.

16 Q. And those are wells in Chaves County?

17 A. Yes, sir.

18 Q. And are they as deep as this well or are they
19 shallower?

20 A. They're shallower, they're Abo tests.

21 Q. Okay. And so in your opinion these amounts are
22 equivalent to those normally charged by other operators?

23 A. Based on the information we have, we wanted to
24 charge less than they were charging, yes, sir.

25 Q. Do you request that this rate be adjusted

1 periodically as provided by the COPAS accounting procedure?

2 A. Yes, we do.

3 Q. And was Exco Resources, Inc., notified of this
4 hearing?

5 A. Yes, sir.

6 Q. And is Exhibit 5 my affidavit of notice?

7 A. Correct.

8 Q. Were Exhibits 1 through 5 prepared by you or
9 under your supervision or compiled from company business
10 records?

11 A. Yes.

12 Q. And in your opinion is the granting of Eland's
13 Application in the interests of conservation and the
14 prevention of waste?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I'd move the admission
17 of Eland's Exhibits 1 through 5.

18 EXAMINER BROOKS: Eland's Exhibits 1 through 5
19 will be admitted.

20 MR. BRUCE: And I pass the witness.

21 EXAMINER BROOKS: Okay, let's see if I have
22 anything I need to ask this witness. I assume your next
23 witness will be your technical --

24 MR. BRUCE: Yes, sir.

25 EXAMINER BROOKS: -- person?

1 Okay, well, I will defer my questions until I've
2 heard the testimony of the next witness. Thank you.

3 JOHN G. KEDOO,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your name for the record?

9 A. John Gordon Kedoo.

10 Q. Where do you reside?

11 A. I'm a resident of Dallas, Texas.

12 Q. What is your occupation?

13 A. I'm a consulting geologist.

14 Q. And you have been employed by Eland Energy,
15 Incorporated, with respect to this matter?

16 A. Yes, I have.

17 Q. And not only with respect to this case but with
18 respect to this general area?

19 A. This general area, right.

20 Q. Have you previously testified before the
21 Division?

22 A. I have not.

23 Q. Would you summarize your educational and
24 employment background for the Examiner?

25 A. I have a BS degree in geology from the Kansas

1 State University. I joined Panhandle Eastern Pipeline
2 Company after I got out of college. I spent 40 years
3 working for first them, for Michigan Consolidated and
4 several other companies in various capacities as a
5 geologist and in various management positions.

6 I've been a consultant operating out of Dallas,
7 Texas, since 1984. I've worked this area, New Mexico, the
8 rest of the Rocky Mountains and Oklahoma, Texas and
9 Louisiana for Eland.

10 Q. Okay. And you are familiar with the geologic
11 matters involved in this case?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I tender Mr. Kedoo as
14 an expert petroleum geologist.

15 EXAMINER BROOKS: He is so qualified.

16 Q. (By Mr. Bruce) Before we begin, what is the
17 primary zone of interest in your proposed well?

18 A. The primary zone is in the Wolfcamp. It's been
19 identified as the Spear zone, it's the lower part of the
20 Wolfcamp section.

21 Q. Okay, and is there a secondary zone?

22 A. The secondary zone is in the Ordovician.

23 Q. And that is below the Wolfcamp?

24 A. That is below the Wolfcamp.

25 Q. And the well will be drilled to a depth

1 sufficient to test the Ordovician?

2 A. It will.

3 Q. Mr. Kedoo, I think there's some production data
4 on Exhibit 1, so you might want to keep that in front of
5 you, but why don't you run through your exhibits, starting
6 with Exhibit 6, and discuss the primary zone of interest
7 and production from that zone?

8 A. Okay. Exhibit Number 6 is a structure map with
9 the datum at the top of the Wolfcamp Spear zone. The data
10 demonstrate a monocline gently dipping to the east across
11 Sections 15, 10 and 3. The rate of dip seems to increase
12 as you get over to about the middle of Section 11, and on
13 to the east it becomes a little steeper.

14 You'll note there are a few wells on here for
15 which there are no datums, and that's because I don't have
16 any data. The logs have not been released on those wells.
17 I utilized the data that I've been able to find.

18 The porosity zone that produces in this interval
19 is a little below the top. It's a small, roughly five-foot
20 zone that seems to be a stratigraphic accumulation, a
21 stratigraphic-developed trap, that more or less follows
22 along the minus-1600-foot contour line, a little bit on
23 either side of it, but we do not know the west extent
24 because there's no data in the immediate vicinity, and to
25 the east we can see it dropping off a little as we go that

1 direction.

2 Q. Okay, so what you're saying, as far as data goes,
3 although there are several wells in this immediate area,
4 you have very little data on those wells?

5 A. That is correct.

6 Q. Okay. Why don't you move on to your Exhibit 7,
7 and again discuss the Wolfcamp?

8 A. Exhibit 7 is an isopach of the porous interval
9 within the Wolfcamp Spear zone that we're interested in.
10 You can see the maximum thickness is found in the wells for
11 which I have data, down in Section 15 and in Section 16.
12 These are two wells drilled and completed by Yates
13 Petroleum. Both seem to be reasonably good wells.

14 There are two wells that have recently been
15 drilled in Section 9, for which I have no data.

16 The Leontodon has been completed. I don't have
17 any production data on the well. I identified about 2 1/2
18 feet of net pay within this interval. I don't have any
19 data on the other well in Section 10, or in the south half
20 of Section 10.

21 The well in the northwest quarter of Section 10
22 is the original well that kicked off this play over here in
23 the Abo. It had been drilled originally Honolulu Oil and
24 Gas in 1951. It was re-entered in 1977 by Yates. They
25 perforated the Ordovician, they perforated the Spear zone,

1 they perforated, I think, some other intervals through
2 there that will be shown on the cross-section that follows.
3 They ultimately completed the well in the Abo, and it's
4 currently producing from that zone.

5 The most -- the closest well for which we have
6 much data is in the northeast quarter of Section 4. It's
7 the discovery well for the Foor Ranch Northeast field.
8 That was also drilled by Yates. This well has been a good
9 producer, about 3 1/2 feet of pay identified on the log,
10 and it tends to give us the north end that we see so far.

11 You'll note that I have not -- I have a little
12 note on here that selected wells to the pre-Abo are shown.
13 There are wells down here in Section 14 that don't really
14 bear on what we're talking about that I have not put on,
15 and I do not have data for the wells in Section 33. There
16 were some permitted up in 33 but I can't find any
17 production data on them. I didn't find the logs, so my
18 assumption is, for the moment at least, that they're
19 nonproductive wells.

20 Q. Okay, why don't you move on to your cross-section
21 and discuss the zones we're looking at here.

22 A. Exhibit 7 [sic] is a structural cross-section
23 hung on a datum of 1200 feet below sea level. We can see
24 that the east dip that I referred to is pretty well shown
25 there.

1 The index for the location of the wells on the
2 cross-section is shown down here near the title block, it
3 extends from the discovery well, the Engwell R.L. Federal,
4 down through the McConkey well that was recompleted in 1977
5 by Yates, and extends over to the Desert Rose well in
6 Section 11 that is also producing -- let me go back to the
7 identification plat -- producing out of the Pennsylvanian
8 clastics. It did penetrate down through the section that
9 we were interested in.

10 And you can see, starting on the left at the
11 Engwell well that they tried to complete down in the
12 Ordovician. That was apparently not successful, there's
13 not much information. They set a bridge plug at 5550 and
14 perforated the Spear zone in the Wolfcamp, and you can see
15 just a very, very thin porous zone -- it's about 3 1/2 feet
16 -- and it's done well productionwise, but it is a very thin
17 zone.

18 The McConkey well that was re-entered and all the
19 completion work done by Yates was perforated in the
20 Ordovician in a couple of places, they've perforated in the
21 Mississippian, they perforated the Spear zone and they set
22 plugs and all these things and completed up in the Abo. So
23 I don't really have any results. There's -- They tested,
24 and testing is all that's reported, no fluid entry data was
25 on the scout cards I was able to find.

1 The well that Eland proposes to drill is 1320
2 feet directly north of the McConkey State well.

3 The well on the far right is the Desert Rose Unit
4 Number 3 well that was drilled by Yates. You can see that
5 it was drilled down into the Mississippian, it did not
6 penetrate the Ordovician. They perforated a zone down here
7 in the thin clastics, and the well is still producing from
8 that zone per the records I've been able to find.

9 If you look in the Wolfcamp Spear zone interval,
10 you'll note that on the gamma-ray side, on the left side of
11 the log, that the clean carbonate has thinned considerably,
12 and you'll notice on the left-hand side, on the formation
13 density curve, that the porosity that produces over in the
14 Engwell well is absent.

15 But we see it pinching out going to the east, and
16 it's because of this reason that we believe that the well
17 should be drilled as far to the west as practical in
18 Section Number 3.

19 Q. Okay, this is a pretty zone; is that correct?

20 A. It is very thin.

21 Q. Okay. In your opinion, based on the lack of data
22 out here and the fact that there's really nothing to the
23 east and north of you that's productive or commercially
24 productive in this zone, should the maximum cost-plus-200-
25 percent penalty be assessed against any interest owner who

1 goes nonconsent in that well?

2 A. Absolutely.

3 Q. And were Exhibits 6 through 8 prepared by you or
4 under your supervision?

5 A. Yes, they were.

6 Q. And in your opinion is the granting of Eland's
7 Application in the interest of conservation and the
8 prevention of waste?

9 A. Yes, it is.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Eland Exhibits 6 through 8.

12 EXAMINER BROOKS: Eland Exhibits 6 through 8 will
13 be admitted.

14 MR. BRUCE: I pass the witness.

15 EXAMINATION

16 BY EXAMINER BROOKS:

17 Q. Okay, the Wolfcamp Spear zone, is that the
18 objective?

19 A. Yes, that's the primary objective.

20 Q. Primary objective, okay. Is there a pool
21 designation for this area in the Wolfcamp?

22 A. I believe one has been recently issued for the
23 Foor Ranch Northeast at the Engwell Federal well. I do not
24 have the identification of that field rule.

25 Q. Foor Ranch Northeast?

1 A. Yes, that's in Section 4. I don't know whether
2 that extends into Section 3.

3 MR. BRUCE: And Mr. Examiner, I also looked and I
4 think that was recent, and I think there was also -- I
5 believe that's it. I think it was called the Foor Ranch
6 Pre-Permian, and I think it was just within the past four
7 weeks that it came up on the Commission's docket on the
8 nomenclature proceeding.

9 EXAMINER BROOKS: Okay, do you know if it
10 includes Section 3?

11 MR. BRUCE: It does not include Section 3, but it
12 would be within a mile.

13 EXAMINER BROOKS: Okay, so this would be
14 undesignated at this time?

15 MR. BRUCE: That is correct.

16 EXAMINER BROOKS: Okay, do you know if there are
17 any other pools -- You said all pools within this vertical
18 interval spaced on 320 acres. Do you know if --

19 MR. BRUCE: I personally looked at the records,
20 and I found nothing in the Division's books, and the only
21 thing I saw was that Foor Ranch, which was very recent.

22 EXAMINER BROOKS: Very good. I believe that is
23 my only question.

24 Thank you.

25 THE WITNESS: Thank you very much.

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MR. BRUCE: I have nothing further in this matter, Mr. Examiner.

EXAMINER BROOKS: Very good, Case Number 12,742 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:35 a.m.)

* * *

Oct 18, 2001 12742
Edward K. Brooks
Examiner

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 October 22nd, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002