

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

APPLICATION OF COLLINS & WARE) CASE NO. 10373
FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)
- - - - -)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner
August 22, 1991
10:30 a.m.

This matter came for hearing before the Oil Conservation Division on August 22, 1991, at 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Linda L. Bumkens, Certified Court Reporter No. 3008, for the State of New Mexico.

FOR: OCD (COPY)

BY: LINDA BUMKENS CCR
Certified Court Reporter
CCR No. 3008

I N D E X

1
2 August 22, 1991
3 Examiner Hearing
4 CASE NO. 10373

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15 A P P E A R A N C E S

16
17 FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
18 General counsel
19 Oil Conservation Commission
20 310 Old Santa Fe Trail
Santa Fe, New Mexico
87501

21 FOR COLLINS & WARE: CAMPBELL, CARR, BERG &
22 SHERIDAN P.A.
23 BY: MR. WILLIAM F. CARR, ESQ.
24 110 North Guadalupe
Santa Fe, New Mexico

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MR. MORROW: Call case 10373.

MR. STOVALL: Application of Collins & Ware, Inc. for compulsory pooling, Eddy County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell, Carr, Berg & Sheridan in Santa Fe. I represent Collins & Ware in this case, and I have two witness.

MR. MORROW: Will the witnesses stand and be sworn, please?

(At which time the witnesses were sworn.)

EXAMINATION

BY MR. CARR:

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

A. My name is Bill Seltzer, Midland, Texas.

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

A. I'm employed by Collins & Ware as a land consultant.

Q. Mr. Seltzer, have you previously testified before this division?

A. Yes, I have.

1 Q. And were you qualified at that time as an
2 expert witness in petroleum land matters?

3 A. Yes.

4 Q. Are you familiar with the application filed
5 in this case on behalf of Collins & Ware?

6 A. Yes, I am.

7 Q. And are you familiar with the subject area?

8 A. Yes.

9 MR. CARR: Are the witness's qualifications
10 acceptable?

11 MR. MORROW: Yes, sir.

12 Q. (By Mr. Carr) Would you briefly state what
13 Collins & Ware seek with this application?

14 A. Collins & Ware's application seeks an order
15 to pool all the mineral interest in all the
16 formations below 7,000 feet to the base of the
17 Morrow in the south half of Section 25, Township 23
18 south, Range 28 east Eddy County, New Mexico.

19 Q. Have you prepared certain exhibits for
20 presentation in this hearing?

21 A. Yes, sir.

22 Q. Would you identify what has been marked as
23 Collins & Ware Exhibit Number 1 and review that for
24 the Examiner?

25 A. Sure. May I have that copy? Exhibit Number

1 1 is a land plat showing the proration unit for this
2 proposed test well being the south half of Section
3 25 of Township 23 south, range 28 east Eddy County,
4 New Mexico, together with a location being 1,980
5 feet from the west line, and 897 feet from the south
6 line.

7 Q. And that is the standard location, is it
8 not?

9 A. That's the standard location.

10 Q. What is the primary objective in this well?

11 A. To test the Atoka Morrow formation.

12 Q. Let's go to Exhibit Number 2 and I would
13 ask you to indentify that for Mr. Morrow.

14 A. Exhibit Number 2 is a land plat consisting
15 of the south half of Section 25 showing the
16 acreage -- how it is cut up into -- I believe, it's
17 eight separate tracts -- and below the land plat at
18 the top of the page you are identifying the tract
19 numbers, the description, the lease ownership under
20 each tract, and below at the bottom of the page is
21 the summary of the interest that our -- in this
22 proration unit with Collins & Ware having
23 approximately 74.8 percent, Reed and Stevens 22.6,
24 Silvite 2.1, and Ray Allen and his wife Jackie own
25 .375.

1 Q. So Collins & Ware have obtained the
2 voluntary joinder in this effort of 74.8 percent of
3 the working interest on it?

4 A. That's correct.

5 Q. Okay. Let's move now to Exhibit Number 3
6 AFE, and I'd ask you to review the totals for this
7 proposed well.

8 A. The AFE for this proposed well shows a well
9 to the casing point to be \$807,590, and completion
10 of \$333,600, for a total completed well of
11 \$1,141,190.

12 Q. Are these costs in line with what is
13 charged by other operators in the area for similar
14 wells?

15 A. Yes, they are.

16 Q. Now, Mr. Seltzer, we are pooling from
17 Exhibit Number 2, the interest of Reed and Stevens
18 Silvite and Mr. And Mrs. Allen; is that right?

19 A. Correct.

20 Q. Could you summarize for Mr. Morrow the
21 efforts you have made to obtain a voluntary gender
22 in this project?

23 A. I have written letters to each party by
24 certified mail which is on exhibits --

25 Q. Are those contained in Exhibit Number 4?

1 A. Exhibit Number 4, wherein I requested the
2 parties to farm out their interest to Collins & Ware
3 or join us and participate and pay their proportion
4 for the drilling of this test well.

5 Q. And in addition to these letters, have you
6 contacted the parties by telephone?

7 A. Yes, I have contacted each party by
8 telephone.

9 Q. And the letters contained in Exhibit 4
10 contain not only letters to the parties for pooling,
11 but also to parties who have participated?

12 A. Correct.

13 Q. What is the status of the Enron interest at
14 this time?

15 A. Enron had just yesterday at noon, are going
16 to assign their interest to Collins & Ware.

17 Q. And that interest is included in the 74
18 percent figure that you've indicated?

19 A. That's correct, as shown on -- I believe
20 it's Exhibit 2.

21 Q. In your opinion, have you made a good faith
22 effort to identify and obtain the voluntary
23 participation of all interest owners in this strike?

24 A. Yes, I have.

25 Q. Could you identify what has been marked as

1 Collins & Ware Exhibit Number 5?

2 A. These are letters from Mr. Carr's office to
3 each party giving notice of this hearing.

4 Q. Have you made an estimate of the overhead
5 and administrative costs that will be incurred while
6 drilling the well and also well producing if, in
7 fact, it's a successful well?

8 A. Yes, we have.

9 Q. And what are they?

10 A. We propose a \$5,570 drilling well rate, and
11 \$505 producing well rate.

12 Q. Are these costs in line with what other
13 operators in the area use for similar wells?

14 A. Yes, they are.

15 Q. And you recommend that these figures be
16 incorporated into the order which results from this
17 hearing?

18 A. Yes.

19 Q. Does Collins & Ware seek to be designated
20 as operator of the well?

21 A. Yes, Collins & Ware does seek to be
22 operator of this proposed test well.

23 Q. In your opinion, will granting this
24 application be in the best interest of conservation
25 and the prevention of waste and the protection of

1 correlative rights?

2 A. Yes.

3 Q. Were Exhibits 1 through 5 prepared by you
4 or compiled under your direction?

5 A. Yes, they have.

6 MR. CARR: At this time, Mr. Morrow, we would
7 move the admission of Collins & Ware Exhibits 1
8 through 5.

9 MR. MORROW: One through five are admitted.

10 (C&W Exhibit 1- 5 were admitted into
11 evidence.)

12 MR. CARR: That concludes my direct
13 examination of Mr. Seltzer.

14 EXAMINATION

15 BY MR. MORROW:

16 Q. Mr. Seltzer, tell me again what the
17 recommended drilling rate and producing rate are.

18 A. \$5,570 for the drilling rate.

19 Q. Okay.

20 A. \$505 for producing.

21 Q. What was the response from these interest
22 owners that aren't committed to the unit?

23 A. The ones who have not responded?

24 Q. Yes.

25 A. Reed and Stevens has not responded one way

1 or the other. Silvite Corporation has made a
2 contract with us to sell our interest, but I have
3 not received the assignment. I have sent the
4 assignment to them, but it has not been received in
5 my office.

6 Q. To sell their interest?

7 A. Yes, to sell their interest. C. Ray Allen
8 and his wife Jackie have said that they will farm
9 out their interest. I've prepared a farm-out
10 agreement and have sent it to them, but they have
11 not signed it nor returned it to me.

12 Q. Okay. What did Reed and Stevens say when
13 you talked to them on the phone?

14 A. They did not respond one way or the other
15 whether they were going to join or farm out.

16 Q. I see. Okay.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Was your July 29th letter the first time
20 that this well was proposed to these parties?

21 A. I had talked to those people probably the
22 day or two before that.

23 Q. And then Mr. Carr filed a notice for forced
24 pooling a day after you actually sent the first
25 opportunity to join the well?

1 A. I believe that's correct.

2 Q. Does that constitute good faith
3 negotiations?

4 A. It is because I think we are in a time bind
5 of starting this well by September the 15th.

6 Q. Who created the time bind?

7 A. A lease which is owned by Santa Fe up in
8 tract Number 1, and it contains 50 acres up there,
9 and we have to get on that thing by that date.

10 Q. How long has Collins & Ware had the
11 opportunity to drill this well?

12 A. It has been approximately a little less
13 than 30 days. These people came to us and asked us
14 to drill this well -- Santa Fe.

15 Q. When did they do that? Were you the
16 contact person with Santa Fe on that deal?

17 A. I was part of it.

18 Q. And they came to you when, 30 days?

19 A. Oh, approximately 30 days ago.

20 Q. Had you negotiated with them at all before
21 that?

22 A. No.

23 Q. Okay. I have no further questions.

24 MR. MORROW: Thank you, Mr. Seltzer --

25 MR. CARR: I have one other question if I may?

1 FURTHER EXAMINATION

2 BY MR. CARR:

3 Q. Mr. Seltzer, when do you need to be on
4 this?5 A. We need to be on this by September the
6 15th. We've got that lease expiration.7 Q. And you request that the order be
8 expedited?

9 A. We certainly do.

10 MR. CARR: That's all I have.

11 FURTHER EXAMINATION

12 BY MR. STOVALL:

13 Q. That does raise a question. The forced
14 pooling order normally gives a party 30 days.

15 A. I understand that, and they will have that.

16 Q. You may actually be drilling while they're
17 making a decision; is that right?

18 A. That's correct.

19 MR. MORROW: Thank you, Mr. Seltzer.

20 MR. CARR: At this time we will call
21 Curtis Anderson.

22 EXAMINATION

23 BY MR. CARR:

24 Q. Would you state your name for the record,
25 please?

1 A. Curtis Anderson.

2 Q. Where do you reside?

3 A. Midland, Texas.

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

6 A. I'm a geologist for Collins & Ware.

7 Q. Have you previously testified before this
8 division and had your credentials as a geologist
9 accepted and made a matter of record?

10 A. Yes, I have.

11 Q. Are you familiar with the application filed
12 in this case by Collins & Ware?

13 A. Yes.

14 Q. Have you made a geological study of the
15 area that's involved?

16 A. Yes, I have.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 MR. MORROW: Yes.

20 Q. (By Mr. Carr) And, Mr. Anderson, you've
21 prepared certain exhibits for presentation in this
22 hearing, have you not?

23 A. Yes, sir.

24 Q. And in presenting the results of your study
25 on this area, would it be useful to you to discuss

1 all the exhibits at one time?

2 A. Yes, it would.

3 Q. Could we identify those by exhibit number
4 for the Examiner? What is Exhibit Number 6?

5 A. Exhibit Number 6 is an isopach map of the
6 primary objective Atoka Sandstone at the proposed
7 location.

8 Q. And Exhibit Number 7?

9 A. Exhibit Number 7 is a structure map on the
10 top of the Lower Atoka.

11 Q. And then your cross section? A' and B' are
12 exhibits 8 and 9?

13 A. Yes, sir. They are cross sections through
14 the Atoka clastic interval.

15 Q. All right. Could you refer to these
16 exhibits and explain to Mr. Morrow the result of
17 your geological study of this area?

18 A. Please refer to Exhibit Number 8, which is
19 cross sectioned A A'. On that you'll see the sand
20 body called the "AD" or Atoka "AD" Sand. This is a
21 sand of the -- that's the subject of the isopach
22 map, which is Exhibit Number 6.

23 On Exhibit Number 6, please note that all
24 the circled wells are Atoka control points. The
25 purple wells are wells that do produce from the "AD"

1 Sand, and the red square is the proposed location in
2 the south half of Section 25.

3 The Atoka "AD" Sand is interpreted as to be
4 deposited by a stream that flows generally north to
5 the south across this particular area. Cross section
6 A A' which begins in Section 23 and ends in Section
7 13 of 23 south, 28 east. Please note the center
8 well on cross section A A'. This is in the northeast
9 quarter of Section 23. This well was drilled in 1977
10 when it drilled into the "AD" Sand. The well blew
11 out, caught fire and destroyed the rig. After
12 controlling the well and getting it on production,
13 this particular sand in this well produced
14 cumulative to 5191 and 14.8 BCF of gas.

15 After that well was drilled and controlled
16 and completed, Delta Drilling offset this well to
17 the west, which is a one 40-acre location to the
18 west, and that is on the left end of cross section A
19 A'. As you can see, they missed the sand entirely.

20 Looking at the right end of the cross
21 section, which is the well located in the southeast
22 or -- excuse me -- southwest quarter of Section 13,
23 you can see that well drilled by Delta Drilling.
24 Also -- well, this well was completed in 1980, also
25 missed the Atoka "AD" Sand. And I think this helps

1 establish the risk factor involved in the "AD" Sand
2 as a primary objective in drilling in this area.

3 Now some recent drilling by Enron in a well
4 located down in Section 36 in the southeast quarter,
5 did encounter the "AD" Sand. This well is currently
6 being completed. It is not perforated in the "AD"
7 Sand, but looks like it should be productive. The
8 well in the northwest quarter of Section 36 was
9 drilled in the early '80s by Amoco Production
10 Company. It had five feet of "AD" Sand, and has
11 produced not quite 500 million cubic feet of gas to
12 date, which is a noncommercial well.

13 Now looking at cross section B B', which
14 starts on the left side of the cross section, at a
15 well located in the northeast quarter of Section 26,
16 you can see that the "AD" Sand is not present in
17 that borehole. Going through the proposed location,
18 we have projected in the "AD" Sand, and to the right
19 end of the cross section, a well located in the
20 north half of Section 25. A well drilled by Amoco
21 Production Company also did not encounter the "AD"
22 Sand.

23 Now, I'd like to refer to Exhibit
24 Number 7, which is the structure map contour on top
25 of the Lower Atoka, and if we refer to cross section

1 B B', you see the Lower Atoka at the bottom part of
2 that cross section. This structural horizon is just
3 underneath the objective Sand. The purpose of this
4 map is to show that the regional dip is south to
5 southwest across this area, and to highlight the
6 "AD" Sand producers, and the production that is
7 cumulative to 5191 is highlighted next to those
8 wells.

9 Q. What conclusions have you reached
10 concerning the risk associated with the proposed
11 well?

12 A. Well, I think there is considerable risk in
13 the fact that trying to find this narrow channel,
14 and I think the cross section demonstrates that, and
15 also I think there's considerable mechanical risk
16 involved in that the Atoka can be extremely high
17 pressured.

18 Q. Are you prepared to make a recommendation
19 to the Examiner as to the risk penalty that should
20 be assessed against any interest owner that doesn't
21 voluntarily participate in this well?

22 A. Yes, I am. I think it should be 200
23 percent.

24 Q. In your opinion, could a well be drilled at
25 this location that would not be a commercial

1 success?

2 A. Yes.

3 Q. If this application is granted and 200
4 percent risk penalty imposed, do you believe the
5 correlative rights of all interest owners in the
6 dedicated acreage will be protected?

7 A. Yes.

8 Q. And will waste be prevented?

9 A. Yes.

10 Q. Were Exhibits 6, 7, 8 and 9 prepared by
11 you?

12 A. Yes, they were.

13 MR. CARR: At this time, Mr. Morrow, we would
14 move the admission of Exhibits 6 through 9.

15 MR. MORROW: Six through nine are admitted.

16 (C&W Exhibits 6- 9 were admitted into
17 evidence.)

18 MR. CARR: That concludes my direct
19 examination of Mr. Anderson.

20 EXAMINATION

21 BY MR. MORROW:

22 Q. Mr. Anderson, are the wells, the Atokay
23 wells, the "AD" Sand wells indicated on Exhibit 6,
24 are those wells still producing to your knowledge?

25 A. I think the majority of them are. For

1 instance, I think the well in Section 23, which is
2 the center well in the cross section A A', I think
3 has been recompleted now to the Delaware formation.
4 This is right in the center of the Loving East
5 Delaware field that's currently being developed out
6 there.

7 Q. And is the Amoco well in Section 36
8 producing at this time?

9 A. Yes, sir.

10 Q. And the "AD" Sand, that's your objective.
11 You don't know of any other opportunities out there?

12 A. There is several secondary objectives, yes.

13 Q. What are those?

14 A. There are several Sands that can develop in
15 this area, although not productive, in the near
16 offset wells. There is an "AC" Sand which is
17 developed just above the "AD" Sand, "AA" Sand which
18 is -- would be in the interval just above where this
19 cross section cuts off, and there's an "AE" Sand
20 which is developed down in the Lower Atoka.

21 Q. All those are Atoka?

22 A. Yes, sir.

23 Q. And you're proposing to exclude formations
24 above 7,000 feet, I believe?

25 A. Yes, sir. We do not own rights to those.

1 Q. Is the Delaware above 7,000?

2 A. Yes, sir.

3 Q. Okay. I don't have anything further. Thank
4 you, sir. You may be excused.

5 MR. CARR: We have nothing further in this
6 case.

7 MR. MORROW: All right. Case 10373 will be
8 taken under advisement.

9 (The foregoing case was concluded at the
10 approximate hour of 11:45 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10373
heard ~~here~~ on 22 Aug. 19 91

Michael S. Stinson, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO) ss.
3

4 REPORTER'S CERTIFICATE

5 BE IT KNOWN that the foregoing transcript of
6 the proceedings were taken by me, that I was then
7 and there a Certified Shorthand Reporter and Notary
8 Public in and for the County of Bernalillo, State
9 of New Mexico, and by virtue thereof, authorized to
10 administer an oath; that the witness before
11 testifying was duly sworn to testify to the
12 whole truth and nothing but the truth; that the
13 questions propounded by counsel and the answers of
14 the witness thereto were taken down by me, and that
15 the foregoing pages of typewritten matter contain a
16 true and accurate transcript as requested by counsel
17 of the proceedings and testimony had and adduced
18 upon the taking of said deposition, all to the best
19 of my skill and ability.

20 I FURTHER CERTIFY that I am not related to
21 nor employed by any of the parties hereto, and have
22 no interest in the outcome hereof.

23 DATED at Bernalillo, New Mexico, this day
24 September 24, 1991.

25 My commission expires
April 24, 1994

Linda Bumkens
LINDA BUMKENS
CCR No. 3008
Notary Public