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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 10,010

EXAMINER HEARING

IN THE MATTER OF:

Application of Oxy USA, Inc., for Compulsory  
Pooling, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

July 25, 1990

**ORIGINAL**

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FOR THE DIVISION:

RAND L. CARROLL  
Attorney at Law  
Natural Gas Programs  
P.O. Box 2088  
Room 206, State Land Office Building  
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL & BLACK, P.A.  
Attorneys at Law  
By: WILLIAM F. CARR  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208

ALSO PRESENT:

JAMES MORROW  
Chief Engineer  
Oil Conservation Division  
State Land Office Building  
Santa Fe, New Mexico 87504

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APPLICANT'S EXHIBITS:

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1           WHEREUPON, the following proceedings were had  
2 at 8:24 a.m.:

3           EXAMINER CATANACH: Call Case 10,010.

4           MR. CARROLL: Application of Oxy USA, Inc.,  
5 for compulsory pooling, Eddy County, New Mexico.

6           EXAMINER CATANACH: Appearances in this case?

7           MR. CARR: May it please the Examiner, my  
8 name is William F. Carr with the law firm Campbell and  
9 Black, P.A., of Santa Fe.

10           We represent Oxy USA, Inc., and I have two  
11 witnesses.

12           EXAMINER CATANACH: Any other appearances?

13           (Thereupon, the witnesses were sworn.)

14                       BILL SELTZER,

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

17                               DIRECT EXAMINATION

18 BY MR. CARR:

19           Q. Will you state your full name and place of  
20 residence?

21           A. Bill Seltzer, Midland, Texas.

22           Q. Mr. Seltzer, by whom are you employed and in  
23 what capacity?

24           A. I'm employed by Oxy USA as a land consultant.

25           Q. Have you previously testified before this

1 Division and had your credentials as a land consultant  
2 accepted and made a matter of record?

3 A. Yes.

4 Q. Are you familiar with the Application filed  
5 in this case on behalf of Oxy USA, Inc.?

6 A. Yes.

7 Q. Are you familiar with the subject area?

8 A. Yes.

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

11 EXAMINER CATANACH: They are.

12 Q. (By Mr. Carr) Mr. Seltzer, would you briefly  
13 state what Oxy seeks with this Application?

14 A. We seek an Order pooling all of the interests  
15 in the Pennsylvania formation covering the east half of  
16 Section 29, Township 21 South, Range 27 East, Eddy  
17 County, New Mexico.

18 Q. Would you refer to what has been marked for  
19 identification as Oxy Exhibit Number 1, identify this  
20 exhibit and review it for Mr. Catanach?

21 A. Exhibit Number 1 is a plat showing the east  
22 half of Section 29 of Township 21 South, Range 27 East.

23 Outlined in yellow is the proration unit, and  
24 the lower part of it showing lots that I have been  
25 leasing to form a voluntary unit for all of the east

1 half of Section 29.

2 Q. What is the acreage on this exhibit that is  
3 cross-hatched?

4 A. The acreage on this exhibit cross-hatched in  
5 the lower part, in that south half of the southeast  
6 quarter, are those tracts which I have been unable to  
7 secure voluntary pooling at this time.

8 However, my office informed me yesterday I  
9 have two leases in hand, and upon examination of those  
10 leases and to see if they are properly executed, I will  
11 dismiss the parties or delete the parties from your  
12 Order.

13 Q. And so at this time you have certain  
14 agreements in hand, you just have not had an  
15 opportunity to review them?

16 A. Right, correct.

17 Q. And is the subject well the Simpson A Number  
18 2 well?

19 A. Yes.

20 Q. And it's indicated on this plat?

21 A. It's indicated on the plat as 1980 feet from  
22 the south and east line of Section 29.

23 Q. Is that a standard well location?

24 A. That is a standard location.

25 Q. Would you identify Exhibit Number 2 and

1 review it for Mr. Catanach?

2 A. Exhibit Number 2 is a list of the owners of  
3 the interest in the east half of Section 29. Oxy owns  
4 all of the interests with the exceptions of those  
5 listed below, showing Fred O'Cheskey and his heirs,  
6 Alvin Perrin, and Fermin Garcia and Dora Garcia, who I  
7 understand are now deceased. I am in the process of  
8 securing a lease from their daughter, but I do not have  
9 it in hand at this time.

10 Q. And you have the lease in hand from Mr.  
11 O'Cheskey's heirs --

12 A. Yes.

13 Q. -- you just haven't reviewed that?

14 What percent of the ownership is voluntarily  
15 committed to the well at this time?

16 A. Prior to receiving the leases in hand, I  
17 believe I have 97.3 percent.

18 Q. Would you identify Exhibit Number 3, please?

19 A. Exhibit Number 3 is an AFE showing the cost  
20 of a dryhole and a completed well.

21 We have a dryhole of \$453,650, with a  
22 completion cost of \$301,850, for a total cost of  
23 \$755,500.

24 Q. Are these costs in line with what is being  
25 charged by other operators in the area for similar

1 wells?

2 A. Yes, they are.

3 Q. Could you summarize for Mr. Catanach the  
4 efforts you have made to identify and obtain the  
5 voluntary joinder in this project of all interest  
6 owners in the spacing unit?

7 A. For the last 90 days I have contacted all  
8 unleased owners in the proration unit, and I have a  
9 copy of the -- certified copy of my letters to each  
10 uncommitted owner, inviting them to join or lease, and  
11 my date of my letters are May the 8th, June the 13th,  
12 June the 15th, and July the 1st -- July the 2nd, 1990.

13 Q. And with these letters, you've provided not  
14 only proposed leases but an AFE?

15 A. Correct.

16 Q. In your opinion, has Oxy made a good-faith  
17 effort to obtain the voluntary joinder in this well of  
18 all interest owners in the acreage they propose to  
19 dedicate to it?

20 A. Yes, I believe we have.

21 Q. Has Oxy drilled other Pennsylvanian wells in  
22 the immediate area?

23 A. Yes, we have.

24 Q. Could you identify what is marked as Oxy  
25 Exhibit Number 4?

1           A.    That is my letters to each of the owners,  
2    inviting them to either join, lease in this particular  
3    well.

4           Q.    Is Exhibit Number 5 a copy of an affidavit  
5    from Campbell and Black confirming that notice has been  
6    provided of this hearing as required by OCD Rules?

7           A.    Yes.

8           Q.    Have you made an estimate of the overhead  
9    administrative costs that will be incurred while  
10   drilling the well and then while producing if, in fact,  
11   it is a successful well?

12          A.    Yes, we have. We figure -- estimate that  
13   \$5500 per month for a drilling well, \$550 per month for  
14   a producing well.

15          Q.    And are these costs in line with what other  
16   operators charge for similar wells?

17          A.    Yes, they are.

18          Q.    Do you recommend that these figures be  
19   incorporated into any Order which results form this  
20   hearing?

21          A.    Yes.

22          Q.    Does Oxy USA, Inc., seek to be designated  
23   operator of the well?

24          A.    Yes.

25          Q.    In your opinion, will granting this

1 Application be in the best interest of conservation,  
2 the prevention of waste and the protection of  
3 correlative rights?

4 A. Yes.

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

7 A. Yes, they were.

8 MR. CARR: Mr. Catanach, at this time we move  
9 the admission of Oxy USA Exhibits 1 through 5.

10 EXAMINER CATANACH: Exhibits 1 through 5 will  
11 be admitted as evidence.

12 MR. CARR: We will call another witness to  
13 testify as to the risk penalty involved in drilling  
14 this well.

15 EXAMINER CATANACH: Okay.

16 MR. CARR: That concludes my direct of Mr.  
17 Seltzer.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Seltzer, are the parties listed on  
21 Exhibit 2, those are the only three parties that are  
22 being pooled?

23 A. There were three parties originally. It was  
24 the O'Cheskey and his brothers and sisters under the  
25 estate of Fred O'Cheskey. My office informed me

1 yesterday that that lease did come in. I have not seen  
2 if it's properly executed or not.

3 Fermin Garcia and -- That last one down at  
4 the bottom is Fermin Garcia and his wife Dora, who I  
5 just found out are deceased. They left no will. They  
6 lived in Carlsbad, New Mexico. I have run down the  
7 sole and only heir, who is a Rachael Garcia Barrera,  
8 and I am getting a lease from her. Upon receiving the  
9 lease properly executed and acknowledged, then I'll ask  
10 that that party be deleted from the Order.

11 The Alvin Perrin is -- lives in Las Vegas and  
12 will not respond to telephone calls or attempts to make  
13 a lease with.

14 Q. Now, the Rachael Garcia interest, you said  
15 you will secure a lease with her?

16 A. Yes.

17 Q. Okay.

18 A. As soon as I find that it's properly executed  
19 and acknowledged, I'll ask it to be deleted from your  
20 Order.

21 Q. So you have been in contact with this party?

22 A. Yes.

23 Q. You said that Oxy has drilled Pennsylvanian  
24 wells in this area?

25 A. Yes.

1 Q. Recently?

2 A. I would say yes.

3 Q. Okay. And these costs are pretty much in  
4 line --

5 A. Yes --

6 Q. -- with what they have incurred?

7 A. -- they are.

8 EXAMINER CATANACH: I have no further  
9 questions.

10 Anything else?

11 The witness may be excused.

12 MR. CARR: At this time we call Robert Doty.

13 ROBERT DOTY,

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your full name and place of  
19 residence?

20 A. Robert Doty, Midland, Texas.

21 Q. Mr. Doty, by whom are you employed and in  
22 what capacity?

23 A. I'm employed by Oxy USA as exploitation  
24 manager.

25 Q. Have you previously testified before the New

1 Mexico Oil Conservation Division?

2 A. No, sir.

3 Q. Would you review for Mr. Catanach your  
4 educational background and then briefly summarize your  
5 work experience?

6 A. I have a bachelor's degree in geology from  
7 the State University of New York and a master's degree  
8 in geology from Northern Arizona University.

9 I've been employed in the oil and gas  
10 business for over 12 years by Oxy USA and its  
11 predecessor company, City Service.

12 Q. Are you familiar with the Application filed  
13 in this case by Oxy?

14 A. Yes, sir.

15 Q. Are you familiar with the area that is the  
16 subject of this Application?

17 A. Yes, sir.

18 MR. CARR: We tender Mr. Doty as an expert  
19 witness in petroleum geology.

20 EXAMINER CATANACH: He is so qualified.

21 Q. (By Mr. Carr) Mr. Doty, have you studied the  
22 area which is the subject of this Application?

23 A. Yes, I have.

24 Q. Would you refer to what has been marked as  
25 Oxy Exhibit Number 6, identify this and then review the

1 information contained thereon?

2 A. Oxy Exhibit Number 6 is a type log that we're  
3 using for the Burton Flat Morrow field to identify the  
4 Morrow channelized reservoir in that field.

5 It's the Oxy USA CDM "A" Number 1, which is  
6 to the north of the proposed Simpson A 2.

7 Q. In the proposed well, does Oxy intend to test  
8 all the zones that are shown on the type log in both  
9 the Morrow "A" and "B" sands?

10 A. Yes, sir.

11 Q. What are your primary objectives in the well?  
12 The "A" or the "B"?

13 A. The "B" sands.

14 Q. Let's go now to Exhibit Number 7, the cross-  
15 section, and I'd ask you to review this exhibit for the  
16 Examiner.

17 A. Exhibit Number 7 is a cross-section which  
18 further identifies each individual Morrow channelized  
19 sand that goes through the proposed location, the  
20 Simpson A Number 2, and it further identifies -- helps  
21 explain the following exhibits.

22 Q. All right. Let's use this just as a -- more  
23 or less an index map or general reference point and  
24 move to Exhibit Number 8, and I would ask you to  
25 identify first what Exhibit Number 8 is.

1           A.     Exhibit Number 8 is a structure map on the  
2 top of the Morrow "A". That would be the Upper Morrow  
3 A, as marked on the cross-sections.

4                     It shows that the proposed location, Simpson  
5 A Number 2, will be one of the lowest wells  
6 structurally in the area, the Burton Flat field. The  
7 significance of that is, the Morrow "A" sands in that  
8 low a structural position are wet in this area and  
9 nonproductive.

10           Q.     Okay. Let's now go to Exhibit Number 9 and  
11 review that.

12           A.     Exhibit Number 9 is a net sand isopach  
13 identifying the amount of pay which should be  
14 encountered in the lower Morrow "A" sequence --  
15 reservoir quality sand, not necessarily pay -- in the  
16 area of the Simpson A Number 2.

17                     This sand will be wet as it is wet in all  
18 higher wells in the area, with the exception as we go  
19 farther to the east it is productive, when we go  
20 upstructure.

21           Q.     Okay. At this location the sand is present,  
22 but you anticipate it will be wet?

23           A.     Yes.

24           Q.     All right. Let's go to Exhibit Number 10.

25           A.     Exhibit Number 10 is a net sand isopach of

1 the upper Morrow "A" again identified on the cross-  
2 section.

3 It also should be present but fairly thin at  
4 the Simpson A 2 location, but again it would be wet.

5 So the structure map and these two sand  
6 isopachs indicate that at this location, about half of  
7 the productive -- potentially productive sands in the  
8 Morrow -- entire Morrow sequence -- will be wet at this  
9 location, which greatly increases our risk.

10 Q. All right. Now, let's go to Exhibit Number  
11 11 and look at the "B-1" sand.

12 A. Exhibit 11 is a net sand isopach of the  
13 Morrow "B-1", which is identified on the cross-section  
14 also. And at the Simpson A Number 2 location, we're  
15 projecting between five and ten feet of potentially  
16 productive Morrow "B" sand.

17 What we've done is, we've observed in areas  
18 of better control, such as way to the north, where you  
19 can see the sand going from very thin, thickening again  
20 up to a maximum of about 15 feet and then thinning  
21 again on either side, with a channel thickness of about  
22 -- oh, a little a less than a mile. And we're  
23 projecting that same trend to continue to the south,  
24 although we really have no control to fully quantify  
25 where it will be.

1 Q. Okay. Now let's go to Exhibit Number 12.

2 A. Exhibit 12 is net sand isopach for the Morrow  
3 "B-2" sand, which is the most likely pay sand for the  
4 Simpson A 2 location.

5 It's well developed in the CDM A Number 1 to  
6 the northwest of the location. The sand is very thick  
7 in the Oxy Simpson A Number 1 location to the  
8 northeast.

9 However, in that well even though the sand  
10 was present and appeared to have porosity, occasionally  
11 there is a random distribution of poor permeability in  
12 the sand, and this seems to be what occurred in the  
13 Simpson A 1.

14 Simpson A 1 DST'd this sand and tested gas at  
15 non-economic rates, and it did not make a Morrow  
16 completion. It failed and made a non-economic Wolfcamp  
17 completion, in fact.

18 So that the presence of sand, we feel fairly  
19 confident that we should have this sand at the Simpson  
20 A 2 location. We're hoping that it will have the  
21 permeability that the Simpson A 1 lacked.

22 Q. Let's move, now, to Exhibit Number 13.

23 A. Exhibit 13 is the Morrow "B-3" sand, which  
24 appears to be thickening to the south of the -- both  
25 the Simpson A Number 1 and the CDM A unit well to the

1 north. And again we're projecting trends based on  
2 better controlled areas, that the sand may extend  
3 through that area of the south half of the southeast  
4 quarter of Section 29.

5 Q. Let's move to the "B-4" sand on Exhibit 14.

6 A. "B-4" is very similar to "B-3" in that again,  
7 if some of the productive trends that we've observed  
8 elsewhere continue in this area, the sand should be  
9 present, a little over five feet at the Simpson A 2, if  
10 these trends do indeed continue.

11 Q. Based on these projections, the sand is not  
12 present south -- or thins to the south of this  
13 location; is that right?

14 A. It would -- Actually, based on this  
15 projection, it would thicken to the south of the  
16 Simpson A 2 location.

17 Q. All right.

18 A. Based on the well control, however, we have a  
19 well far to the south, the Oxy Tracy C Number 1, that  
20 had some of the sand, not a great deal. We're hoping  
21 it would thicken in between.

22 Q. Okay. Let's go now to Exhibit Number 15.

23 A. Exhibit Number 15 is a Morrow "B-5" net sand  
24 isopach, which is not projected to be extremely thick  
25 in the area. There's a few wells in the northeast that

1 encountered up to 11 feet of the sand, one foot in the  
2 Simpson A 1, one foot in the CDM A Number 4, and it was  
3 absent in all the wells to the south. We do hope,  
4 however, that we may encounter somewhat over five foot  
5 of sand in that location.

6 Q. Mr. Doty, based on your geologic study of  
7 this area, are you prepared to make a recommendation to  
8 the Examiner as to the risk penalty that should be  
9 assessed against any interest owner who doesn't  
10 voluntarily participate in the well?

11 A. Yes, sir.

12 Q. And what would that penalty be?

13 A. 200 percent.

14 Q. In your opinion, is it possible at the  
15 proposed location that Oxy could drill a well that  
16 would not, in fact, be a commercial success?

17 A. Yes, sir.

18 Q. In fact, the Simpson A Number 1 well, the  
19 immediate offset, was a commercial failure in the  
20 Morrow interval; is that not correct?

21 A. That's correct.

22 Q. Were Exhibits 6 through 15 prepared by you or  
23 compiled under your direction and supervision?

24 A. Yes, sir.

25 Q. Have you reviewed them and can you testify as

1 to their accuracy?

2 A. (Nods)

3 MR. CARR: At this time, Mr. Catanach, we  
4 would move the admission of Oxy USA, Inc., Exhibits 6  
5 through 15.

6 EXAMINER CATANACH: Exhibits 6 through 15  
7 will be admitted as evidence.

8 MR. CARR: And that concludes my direct  
9 examination of Mr. Doty.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Doty, what is being produced in the CDM A  
13 Unit Number 1?

14 A. The "B-1" sand has been perforated in that  
15 well. The "B-2" sand, the "B-3" sand, and that's all.  
16 Each individual sand isopachs has a circle around those  
17 wells which was perforated in that interval.

18 Q. And those are the sands that you're most  
19 likely to obtain production from the proposed well?

20 A. Yes, sir.

21 Q. Was the A well -- I'm sorry, the CDM A well,  
22 was that tested in the "A" zone?

23 A. No sir, it wasn't tested, but log  
24 calculations indicate that it's clearly wet.

25 Q. The Simpson A Number 1, that was drilled as a

1 Morrow test?

2 A. Yes, sir.

3 Q. And it was tested in the "A" as well as the  
4 "B"?

5 A. It was DST'd in the "B" zone, flowed gas at  
6 166 MCF per day, and analysis of that DST indicates  
7 very poor permeability.

8 Q. Which "B" zone was that in?

9 A. It would include "B-3" through "B-1".

10 Q. And it indicated low permeability, did you  
11 say?

12 A. Yes, sir.

13 EXAMINER CATANACH: I have no further  
14 questions of the witness. The witness may be excused.  
15 Anything further in this case?

16 MR. CARR: Nothing further.

17 EXAMINER CATANACH: Case 10,010 will be taken  
18 under advisement.

19 (Thereupon, these proceedings were concluded  
20 at 8:43 a.m.)

21 \* \* \*

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1 CERTIFICATE OF REPORTER

2

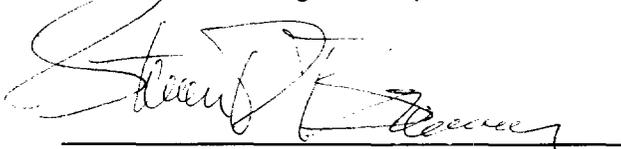
3 STATE OF NEW MEXICO )  
 4 COUNTY OF SANTA FE ) ss.

5

6 I, Steven T. Brenner, Certified Shorthand  
 7 Reporter and Notary Public, HEREBY CERTIFY that the  
 8 foregoing transcript of proceedings before the Oil  
 9 Conservation Division was reported by me; that I  
 10 transcribed my notes; and that the foregoing is a true  
 11 and accurate record of the proceedings.

12 I FURTHER CERTIFY that I am not a relative or  
 13 employee of any of the parties or attorneys involved in  
 14 this matter and that I have no personal interest in the  
 15 final disposition of this matter.

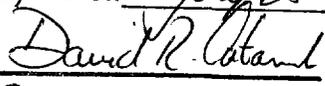
16 WITNESS MY HAND AND SEAL August 8, 1990.

17   
 18 STEVEN T. BRENNER  
 19 CSR No. 106

20 My commission expires: October 14, 1990

21

22 I do hereby certify that the foregoing is  
 23 a complete record of the proceedings in  
 24 the Examiner hearing of Case No. 10010,  
 25 heard by me on July 25 1990;

  
 David R. Cotland, Examiner  
 Oil Conservation Division