

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:)
) CASE NO. 10169
 APPLICATION OF PACIFIC ENTERPRISES)
 OIL COMPANY (USA) FOR COMPULSORY)
 POOLING, EDDY COUNTY, NEW MEXICO.)
 -----)

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 19, 1990
 11:22 a.m.
 Santa Fe, New Mexico

This matter came for hearing before the Oil
 Conservation Division on December 19, 1991, at 11:22 a.m.
 at the Oil Conservation Division Conference Room, State
 Land Office Building, 310 Old Santa Fe Trail, Santa Fe,
 New Mexico, before Maureen R. Hunnicutt, RPR, Certified
 Shorthand Reporter No. 166, for the State of New Mexico.

FOR: OIL CONSERVATION
 DIVISION

BY: MAUREEN R. HUNNICUTT, RPR
 Certified Shorthand Reporter
 CSR No. 166

I N D E X

December 19, 1991
 Examiner Hearing
 CASE NO. 10169

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a P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
 General Counsel
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FOR THE APPLICANT: KELLAHIN, KELLAHIN & AUBREY
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 BY: DAVID R. VANDIVER
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 Artesia, New Mexico 88210

* * *

1 EXAMINER STOGNER: On the record. Case No. 10169
2 I'll call that at this time.

3 MR. STOVALL: The application of Pacific Enterprises
4 Oil Company (USA) for compulsory pooling, Eddy County,
5 New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the
8 Santa Fe law firm of Kellahin, Kellahin & Aubrey,
9 appearing on behalf of the applicant.

10 EXAMINER STOGNER: Are there any other appearances?

11 MR. VANDIVER: Mr. Examiner, my name is David Vandiver
12 with the firm of Fisk & Vandiver of Artesia, appearing on
13 behalf of Yates Petroleum Corporation. I have no
14 witnesses.

15 MR. STOVALL: Yates, I assume, is one of the parties
16 to be force pooled, Mr. Vandiver?

17 MR. VANDIVER: Yes.

18 EXAMINER STOGNER: Are there any other appearances?

19 (No response.)

20 MR. KELLAHIN: May the record reflect, Mr. Examiner,
21 that both Mr. Craig Clark and Mr. Rick Ricketts have been
22 duly sworn, continue under oath and have been qualified as
23 respective experts in their field?

24 EXAMINER STOGNER: The record will so show.

25 Mr. Kellahin, you may proceed.

1 MR. KELLAHIN: A preliminary matter, Mr. Examiner. I
2 have taken out a Byram's Reporting Service and highlighted
3 in yellow what I think are the applicable orders and
4 description of acreage that might be involved in the
5 formations to be pooled.

6 We've got at least four that I could find --
7 four if not five potential different gas pools, all of
8 which are reflected on the docket with the exception of
9 one. It's not fatal, and it's certainly not critical, but
10 in looking at the information, it would appear that there
11 is also a south Millman-Morrow gas pool in the approximate
12 vicinity of this section, and that's one of them that's
13 not identified in the docket sheets. So as reference
14 material, there are the pools that we could find.

15 EXAMINER STOGNER: Thank you, Mr. Kellahin.

16 M. CRAIG CLARK,

17 the Witness herein, having been previously duly sworn, was
18 examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Clark, let me direct your attention, sir,
22 to Exhibit No. 5. Within this particular area, your
23 company has filed an application to pool for 320-acre gas
24 spacing from the top of the Wolfcamp to the base of the
25 Pennsylvanian?

1 A. That's correct.

2 Q. In attempting to consolidate the acreage in
3 order to form on a voluntary basis a 320-acre gas spacing
4 unit, was it your responsibility to perform those duties?

5 A. Yes, it was.

6 Q. What did your company determine would be the
7 orientation of the 320 in Section 21?

8 A. It would be the south half of Section 21,
9 19 South, 28 East.

10 Q. When we look at Exhibit No. 5, there is a
11 window in the top of the display that summarizes. It
12 says, "320-acre Drilling Ownership."

13 A. Uh-huh.

14 Q. What does that right reflect?

15 A. That reflects when you take the interest of the
16 parties within the individual tracts and then multiply it
17 out, and by a 320-acre unit it will show their working
18 interest ownership in that unit.

19 Q. "PEOC" is Pacific, the applicant?

20 A. That is correct.

21 Q. When we break that interest out into individual
22 leases in the 320, how is that shown on the display?

23 A. It shows Pacific acquired its interest from
24 Bulldog Energy. We acquired a farmout from them, and that
25 is

1 in the southwest quarter of southeast quarter. The
2 remaining part of the southeast quarter is owned a hundred
3 percent by Chevron.

4 And then the southwest quarter is owned by
5 ARCO, Yates, Marathon and DeKalb, and their ownership is
6 reflected on that hundred percent tract. And again, when
7 you look back up and see the 320-acre, it is just
8 basically cut in half, since they own 50 percent of the
9 320-acre unit.

10 Q. Have you also taken the information shown on
11 that display and tabulated it?

12 A. Yes, I have.

13 Q. How was that shown?

14 A. That is shown on Exhibit No. 6 where it has,
15 again, the 100 percent ownership of the various tracts,
16 and these are, again, there is shallow production in this
17 area that we are not particularly looking at. We are
18 seeking to force pool from below the -- from Wolfcamp
19 below, and therefore, these interests reflect the deep
20 rights. The shallow rights could be owned by different
21 people; however, we're not seeking to pool those parties.

22 And then at the bottom of page 6 or Exhibit 6,
23 it shows the 320-acre ownership.

24 Q. You're seeking a pooling order in the absence
25 of voluntary agreement from all parties shown on

1 Exhibit No. 6 in the summary excluding Pacific
2 Enterprises?

3 A. That's correct.

4 Q. Describe for us your first efforts to form a
5 working, voluntary agreement among the working interest
6 owners.

7 A. Well, first efforts are shown on Exhibit 7, we
8 sent a letter out August 8th, and that was to Chevron. We
9 knew that they were going to take a longer time than the
10 other parties to respond, and therefore, we proposed -- we
11 formally proposed the well to them.

12 And then, Exhibit 8, we proposed the well to
13 the remaining interest owners.

14 Q. So in August you went to Chevron, and then
15 followed it up in September's letter, Exhibit 8, with the
16 rest of the working interest owners?

17 A. And Chevron again. We did -- The second page
18 of Exhibit 8 has ARCO. It has the parties that own the
19 southwest quarter. The third page, since we had already
20 proposed it to Chevron, we dealt with differently. We
21 used the same front letter, but it was sent to two
22 different parties, two different ways.

23 Q. All right.

24 A. And that's also reflected on the AFE, had the
25 owners in the southwest quarter and shows Pacific, et al.,

1 owning 50 percent, which was supposed to include Chevron,
2 and then the next page shows Pacific, et al., when we were
3 dealing with Chevron's interest.

4 Q. And you've provided to those various interest
5 owners not only their percentage, but you've calculated
6 for them what you estimated to be their share of the costs
7 of the AFE?

8 A. That's correct.

9 Q. And when you turn through some of that, you
10 finally get to the AFE itself?

11 A. That is correct.

12 Q. What's the vintage of the AFE?

13 A. This AFE was prepared in August; and since that
14 point with the Middle East crisis, the prices have come
15 up --

16 (Discussion off the record with the reporter.)

17 -- since that point, the Middle East crisis, the
18 prices for drilling have come up somewhat from that August
19 AFE.

20 And if you'll turn to Exhibit 9, we proposed a
21 new well -- or not -- we sent out a new AFE November 27th
22 when we had to continue this hearing; and at that time we
23 advised them that we were continuing the hearing, and we
24 sent out this new AFE to have costs that were more
25 reflective of the current situation.

1 Q. All right. The revision in the AFE has
2 resulted in a slight increase, oh, about 47,000 increase
3 -- \$47,000 increase, approximate?

4 A. Approximately.

5 Q. Okay.

6 A. And that's mainly due to the footage work. It
7 went from, I believe, \$15 a foot on our original AFE, and
8 this new AFE has it at \$22 a foot for drilling.

9 Q. Have you received any objection from any of the
10 working interest owners as to the AFE?

11 A. No, we have not.

12 Q. Has anyone objected to the orientation of the
13 spacing unit?

14 A. No, they have not.

15 Q. To the well location?

16 A. No.

17 Q. Have you submitted to them a proposed joint
18 operating agreement?

19 A. We have not submitted a proposed joint
20 operating agreement. I've talked to Chevron. They just
21 haven't come up with the decision of what they want to do
22 yet.

23 We have a farmout, as I said, from Bulldog, and
24 so we are under a deadline. That's why we're pushing
25 forward with getting this thing done. I contacted Marrow

1 Brosely (phonetic approximation) when I sent out this
2 letter November 27th, just to find out if they had come
3 up, and they just had not reached a decision yet as to
4 whether they were going to participate or farm out.

5 Q. The plan, as you understand it, is to locate
6 the well at a standard location within the lease shown on
7 Exhibit No. 5, held by Bulldog Energy?

8 A. Yes. We plan our location being 1,980 from the
9 east line and 660 from the south line, just a standard
10 location.

11 Q. Your time constraints with Bulldog on the
12 farmout requires that you commence the well by when?

13 A. Middle of February.

14 Q. All right. We've looked at Exhibit 9.
15 Identify and describe Exhibit 10.

16 A. Exhibit 10 is a memo from our operations
17 department. It's just detailing the costs for drilling
18 this well, and this again is -- they use costs that
19 they're familiar with, that they've been drilling wells in
20 the last month or two.

21 MR. KELLAHIN: Excuse me just a second.

22 (Discussion off the record.)

23 MR. KELLAHIN: Thank you.

24 EXAMINER STOGNER: Mr. Kellahin.

25 Q. (By Mr. Kellahin) Back on the record.

1 A. This is a memo from our operations department
2 saying that they believe that these costs are in line with
3 costs to drill this well, and it also does make a notation
4 in here that they received a preliminary AFE from an
5 outside consultant to get a different view of the AFE.

6 Q. Did the processing of the AFE follow its normal
7 course of evolution through your company with your
8 consultants?

9 A. Yes, it did.

10 Q. It completed the process. It was revised and
11 submitted to working interest owners?

12 A. That's correct.

13 Q. Let's go to Exhibit 11.

14 A. Exhibit 11 is the only response we've had from
15 any of the parties in this, and this is where Chevron has
16 agreed to farm out to us on terms which was -- basically
17 they're asking for a 35 percent back-in. We feel that
18 Marboff (phonetic approximation) farmout only had a 25
19 percent back-in, and we feel with the amount of risk
20 involved in this well, a 35 percent back-in is too high to
21 do that.

22 So Exhibit 12 is our reply to their letter and
23 we have had no response to that yet.

24 Q. All right. What do you recommend to the
25 Examiner for overhead rates, Mr. Clark.

1 A. For drilling well rates, we'd like to have
2 \$5,500, producing well rates would be \$550 a month.

3 Q. Again does this fall in line with the Ernst &
4 Young well cost averages that they've tabulated for
5 southeastern New Mexico?

6 A. Yes, it does.

7 MR. KELLAHIN: That concludes my examination of
8 Mr. Clark. We move the introduction of these
9 Exhibits 4 through 12.

10 THE WITNESS: 5 through 12.

11 MR. KELLAHIN: I'm sorry, 5 through 12.

12 EXAMINER STOGNER: Exhibits 5 through 12 will be
13 admitted into evidence.

14 (Applicant PEOC Exhibits 5 through 12
15 were admitted into evidence.)

16 EXAMINER STOGNER: Mr. Vandiver, your witness.

17 CROSS EXAMINATION

18 BY MR. VANDIVER:

19 Q. Mr. Clark, have you contacted any of these
20 parties to be force pooled by telephone?

21 A. Yes, I have.

22 Q. And you've just had no response from Yates?

23 A. No, we have not. I talked to Mr. Bullock. As
24 I say, we were scheduled to go to a hearing the end of
25 November, and he said that they had not made up their

1 minds as to whether they were going to participate or not
2 yet.

3 Q. And you must commence under your Bulldog
4 farmout by -- you said mid-February, was the date?

5 A. The date, I believe, was the 14th.

6 MR. VANDIVER: I have no further questions.

7 EXAMINER STOGNER: Thank you, Mr. Vandiver.

8 Are there any other questions of this witness?

9 MR. KELLAHIN: Nothing.

10 EXAMINER STOGNER: You may be excused.

11 Mr. Kellahin.

12 RICK RICKETTS,

13 the Witness herein, having been previously duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Mr. Ricketts, have you as a petroleum geologist
18 for your company made a geologic investigation of this
19 prospect?

20 A. Yes, I have.

21 Q. As part of your study were you able to reach a
22 conclusion with regards to the risk involved in drilling
23 this well?

24 A. Yes, I have.

25 Q. Have you been able to assess that risk in

1 terms of the percentage that the division awards for
2 undertaking the drilling of this well to be charged
3 against nonconsenting working interest owners?

4 A. Yes, I have.

5 Q. What is your recommendation and opinion?

6 A. I recommend we get the maximum penalty for
7 nonconsent.

8 Q. Identify and describe your displays and show us
9 why you've reached that conclusion.

10 A. Okay. Exhibit 1 is a structure map contoured
11 on the base of the Lower Morrow shale, 50-foot contour
12 interval. The wells indicated on here are all the
13 penetrations of Wolfcamp or deeper. It does not include
14 the shallow wells, just Wolfcamp or deeper.

15 And you'll see there are quite a few Morrow
16 penetrations and quite a few Morrow completions on here.
17 However, if you examine the production on these Morrow
18 completions -- and what I did, I took a 9-square-mile
19 block around Section 21, and in that area there were 13
20 Morrow penetrations, 9 Morrow completions with 70 percent
21 of them completed in the Morrow, which is a pretty good
22 percentage. However, the average production on those 9
23 wells is only 900 million cubic feet of gas. And at this
24 depth 900 million cubic feet of gas is pretty marginal
25 completion.

1 Q. We're dealing with a well that costs
2 approximately \$840,000?

3 A. I think that's correct.

4 Q. What would you estimate would be the price
5 received for the gas sold from the well?

6 A. Okay. At this point we're estimating it to be
7 around \$1.50.

8 Q. And if you were to get a bcf of gas out of it,
9 that would give you a million and a half dollars?

10 A. That's correct.

11 Q. You'd get back less than twice your money.

12 A. Quite a bit less. That does not include the
13 overrides and the net interest we'd have would be quite a
14 bit less than half; that's correct, or twice.

15 Q. In terms of gross dollars, a 100 percent
16 interest without taking the overrides, you'd get your
17 money back one and a half times?

18 A. About that, yeah.

19 Q. How do you assess that?

20 A. Well, I think it makes the well fairly risky.
21 In other words, you have to make considerably better than
22 the average well for it to be an economical well for
23 Pacific Enterprises.

24 Q. Can you show the Examiner those wells among the
25 13 that have been able to produce in excess of a bcf of

1 gas?

2 A. Okay. There are actually three wells that will
3 produce an excess. The first one would be in Section 16,
4 the Yates No. 1 Millman "SB" State in the north half of
5 Section 16, which is cum 1.4 bcf to date.

6 Q. Just a minute.

7 A. I'm sorry.

8 Q. I need to find out --

9 A. Yes.

10 Q. In 16?

11 A. Yes, the north half -- north half northeast
12 quarter of Section 16.

13 Q. You've got two wells in 16. The north half
14 well has got 1.4 bcf cum?

15 A. That's correct.

16 Q. All right. That's one of the good ones. Where
17 is the next one?

18 A. Okay. In Section 17 in the southeast quarter
19 of Section 17, the Yates Millman HD State No. 1 is cummed
20 a little over 1.5 million.

21 Q. All right, sir. Any others?

22 A. In Section 28, the south half of Section 28,
23 the Oxy No. 1 "CX" State Comm. has produced 2.4 bcf.

24 I might add, there is one other well that is
25 just below a million cubic feet of gas -- or a billion

1 cubic feet of gas, and that is the Meridian Featherstone
2 State in the northeast of section 20, so you have three
3 that are over bcf, and one just right at bcf. The rest of
4 them are considerably below.

5 Q. Let's look at how you've mapped the reservoir.

6 A. Okay.

7 Q. Let's see what the sand map looks like.

8 A. Okay. Exhibit 2 is an isopach map of the
9 "A" sand porosity. The "A" sand is really the main thing
10 we're shooting for here. There are, of course, a number
11 of Morrow sands stacked in this area, as we'll see when we
12 look at the cross section. But the "A" sand is really the
13 -- by far the most prolific producer.

14 Q. Let's go get them all out, then. If the top
15 one is the "A."

16 A. The top one on that map is the "A"; that's
17 correct.

18 Q. Okay.

19 A. What I've done, I went through and mapped the
20 standard or very continuous that I could map over the
21 entire area, and that basically included two sands, the
22 "A" and the "B."

23 Q. All right. We go lower, then. We get the B.

24 A. That's correct. There are other sands that are
25 less continuous and far more difficult to map. I did not

1 map on an individual basis.

2 Q. In constructing the cross section, which is
3 Exhibit 4, did you use the same wells in the cross section
4 to show the "B" and the "A" sand?

5 A. Yes, uh-huh.

6 Q. Okay. Let's look at the cross section then and
7 see how those appear.

8 A. This is a stratigraphic cross section found on
9 the top of the Morrow clastics, the blue-shaded line at
10 the top, runs basically south to north as you're looking
11 at it, A - A', and the "A" sand is the very continuous
12 sand that runs -- that lies between the top of the Morrow
13 clastics and the base of the Lower Morrow shale.

14 The "B" sand is the continuous sand, the
15 thicker, continuous sand below the base of the Lower
16 Morrow shale. And as I mentioned, you can see a number of
17 other sands that are less continuous that are present in
18 the area. Most of the prolific wells actually are
19 producing out of the "A" sand.

20 Q. Let's make a comparison of both sand maps and
21 look at the two wells in 16.

22 A. Okay. Neither well in Section 16 are -- the
23 Yates "SB" State No. 2 and the "SB" State No. 1, neither
24 one are actually producing out of the "A" zone. The "A"
25 zone is behind pipe in both of those wells, potentially

1 productive, but it currently -- it's not producing out of
2 either zone.

3 Q. Okay. When we go to the "B" sand --

4 A. Okay. The "B" sand is present in both wells.
5 It is not producing in the "SB" State No. 1. Gross end
6 tests of the right interval were covered condensate and
7 salt water, so it may never be productive.

8 Q. Look at the cum on production, though.

9 A. The -

10 Q. How do you --

11 A. That's coming out of a stray sand much lower in
12 the section.

13 Q. Okay.

14 A. In fact, it's the lowest sand in the section.
15 It indicated -- the red indicates the perforations on that
16 particular zone.

17 Q. If we look at the cross section, then,
18 Exhibit No. 4, look at the Millman "SB" State 1 Well, the
19 red perforation is in this lower --

20 A. Yeah. Kind of a stray sand, yeah.

21 Q. Do you find that lower sand string (sic) are
22 producing gas in any of these other wells that indicate --

23 A. No, I don't.

24 Q. You can't pick it up again?

25 A. Not that I can definitely correlate it with it,

1 no.

2 Q. Well, that's one of your three wells that
3 produces more than a bcf?

4 A. That's correct.

5 Q. What does that tell you about the risks?

6 A. Well, it tells you at least one of your three
7 wells in there, you're probably not going to hit that
8 particular sand.

9 Q. Okay.

10 A. As far as the "B" sand goes on these two wells,
11 like I said, it's behind pipe. In the "SB" State No. 1,
12 the bsq (phonetic approximation) over that interval were
13 covered condensate and salt water. It was a long
14 interval, so we can't tell for sure what came from what.

15 If you look at the "SB" State No. 2, however,
16 it has a nice, thick porous "B" sand and has produced
17 essentially nothing. It's basically a case-dry hole.

18 Q. All right. Make a comparison for me in terms
19 of sand thickness and cumulative production between the
20 other two good wells. You've got a well in Section 20
21 just under a bcf?

22 A. That's correct.

23 Q. 17 feet in the --

24 A. It's producing out of the "B" sand, and --
25 yeah, producing out of the "B" sand.

1 Q. When you look to the "B" sand production out of
2 the well in 28 with nine feet, are we getting "B" sand
3 production out of that well?

4 A. We're getting both "B" and "A" sand production
5 out of that particular well; and it's difficult to say
6 what -- how much is coming from each zone.

7 Q. And when you make that same comparison of the
8 "A" sand with the well in Section 20 and the well in
9 Section 28 --

10 A. Section 20 does not produce out of the "A."

11 Q. Right. When you get down to 28, you've got
12 15 feet?

13 A. That's correct.

14 Q. Typical high-risk, Morrow channel deposition,
15 that it's hard to project the quality of your sand or the
16 productivity of your well --

17 A. That's correct.

18 Q. -- isn't that true?

19 A. That is correct. Particularly in "B." The
20 thing that hurts you in the "B" sand so much is the "SB"
21 State No. 2 in the south half of 16, which has a
22 good-looking sand on the log and it is not producing
23 anything.

24 Q. Any reservations at all, Mr. Ricketts, about
25 recommending the maximum penalty?

1 A. No, none whatsoever.

2 MR. KELLAHIN: Move the introduction of Exhibits 1
3 through 4.

4 EXAMINER STOGNER: Exhibits 1 through 4 will be
5 admitted into evidence.

6 (Applicant PEOC Exhibits 1 through 4
7 were admitted into evidence.)

8 MR. KELLAHIN: That concludes my examination of
9 Mr. Ricketts.

10 EXAMINER STOGNER: Thank you, Mr. Kellahin.

11 Mr. Vandiver, your witness.

12 MR. VANDIVER: I have no questions.

13 EXAMINER STOGNER: Does anybody else have any
14 questions of this witness?

15 (No response.)

16 EXAMINER STOGNER: Anything else further in Case No.
17 10169?

18 (No response.)

19 EXAMINER STOGNER: If not, this case will be taken
20 under advisement.

21 (The foregoing hearing was concluded at the
22 approximate hour of 11:46 a.m.)

23 * I*do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case No. 10169,
heard by me on 19 December 1990.

 , Examiner

Oil Conservation Division
HUNNICUTT REPORTING

(505) 982-9770

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3 STATE OF NEW MEXICO)
4) SS.
5 COUNTY OF SANTA FE)

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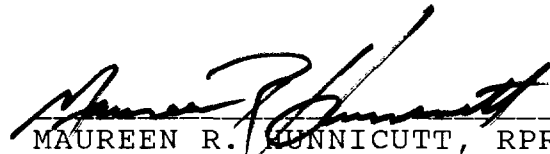
REPORTER'S CERTIFICATE

I, MAUREEN R. HUNNICUTT, RPR, a Certified Shorthand Reporter and Notary Public, DO HEREBY CERTIFY that I stenographically reported these proceedings before the Oil Conservation Division; and that the foregoing is a true, complete and accurate transcript of the proceedings of said hearing as appears from my stenographic notes so taken and transcribed under my personal supervision.

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

DATED at Santa Fe, New Mexico, this 29th day of January, 1991.

My Commission Expires:
April 25, 1993


MAUREEN R. HUNNICUTT, RPR
Certified Shorthand Reporter
CSR No. 166, Notary Public