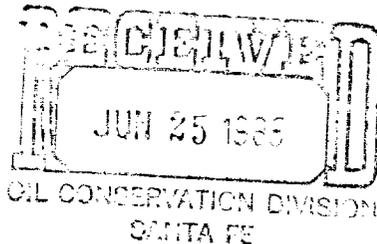


CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL  
BRUCE D. BLACK  
MICHAEL B. CAMPBELL  
WILLIAM F. CARR  
BRADFORD C. BERGE  
J. SCOTT HALL  
PETER N. IVES  
LOURDES A. MARTINEZ



JEFFERSON PLACE  
SUITE 1 - 110 NORTH GUADALUPE  
POST OFFICE BOX 2208  
SANTA FE, NEW MEXICO 87501  
TELEPHONE: (505) 988-4421  
TELECOPIER: (505) 983-6043

June 19, 1985

Zia Energy, Inc.  
Post Office Box 2219  
Hobbs, New Mexico 88240

Re: Oil Conservation Division Case 8639: Application of Zia Energy, Inc. for an Unorthodox Well Location and Simultaneous Dedication, Lea County, New Mexico

ATTENTION: Ferris Nelson

Gentlemen:

This letter is in response to your letter dated June 13, 1985, in which you requested a waiver from Doyle Hartman to the unorthodox Jalmat location for your reentry of the Penroc Oil Corporation CSO Well #2 located 1650 feet from the North line and 2310 feet from the West line of Section 20, Township 22 South, Range 36 East, N.M.P.M., Lea County, New Mexico.

Mr. Hartman is willing to waive objection to the above-referenced location if in return Zia Energy, Inc. and Conoco, Inc. waive objection to Hartman's plans to obtain approval of a non-standard proration unit to be comprised of the NE/4 of Section 20 and the NW/4 of Section 21, Township 22 South, Range 36 East, N.M.P.M., Lea County, New Mexico. Mr. Hartman proposes to simply reinstate the prior proration unit which was broken into two 160-acre tracts by Sun during 1984. Mr. Hartman would also condition his waiver on his receiving a waiver from Zia and Conoco to the possible unorthodox location of a well on his proposed proration unit, and furthermore, upon written assurances from Zia that, if they encounter water production in the Penroc Well, the well would not be shut-in in such a fashion as to allow water to cross flow into other zones present on the Hartman lease.

We are hopeful that this mutual exchange of waivers will permit the additional development in this areas to proceed in a timely fashion. We would appreciate a response to this proposal by June 25, 1985.

Zia Energy, Inc.  
June 19, 1985  
Page two

If you have questions concerning the above, please advise.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Carr", written in dark ink. The signature is fluid and extends to the right with a long horizontal stroke.

William F. Carr

WFC/ba

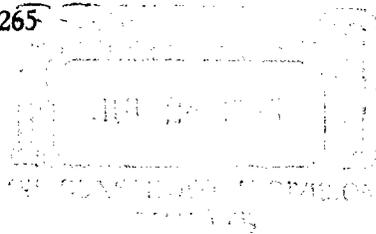
cc: ✓ W. Thomas Kellahin, Esq.  
R. L. Stamets, Director, OCD

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
El Patio - 117 North Guadalupe  
Post Office Box 2265  
Santa Fe, New Mexico 87504-2265

Telephone 982-4285  
Area Code 505

July 22, 1985



Mr. Gilbert Quintana  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87504

Re: Application of Zia Energy, Inc., for  
approval of unorthodox location and  
NSPU, Jalmat Gas Pool, Lea County,  
New Mexico, NMOCD Case 8639

Dear Mr. Quintana:

Last week you discussed with Karen Aubrey of our office whether or not Zia Energy had copies of return receipts showing notice to offset operators for the referenced case which was heard by you on July 2, 1985.

Please find enclosed a copy of a letter agreement between Mr. William F. Carr, on behalf of Doyle Hartman and me on behalf of Zia Energy, Inc., stipulating on mutual waivers. You will note from the record that Mr. Carr entered his appearance in this case. Mr. Hartman is the directly affected offset operator.

The only other operators in the area that might be potentially affected would be Conoco Inc. Prior to the hearing I discussed Conoco's position and possible objection with Mr. Hugh Ingram of Conoco's Hobbs Office. Mr. Ingram advised me that Conoco would not object but would not sign a waiver.

Because this matter was set for a Division hearing, we followed the Division hearing procedures which do not require certified notices to offset operators. However, we have accomplished the same result with actual notice to Conoco and Hartman.

Please call me if you have any questions.

Very truly yours

  
W. Thomas Kellahin

WTK:ca  
Enc.

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL  
BRUCE D. BLACK  
MICHAEL B. CAMPBELL  
WILLIAM F. CARR  
BRADFORD C. BERGE  
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TELEPHONE: (505) 988-4421  
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July 1, 1985

Zia Energy, Inc.  
Post Office Box 2219  
Hobbs, New Mexico 88240

ATTN: Ferris Nelson  
W. Thomas Kellahin

Re: Application of Zia Energy, Inc. for approval of an Unorthodox Gas Well Location, a Non-Standard Proration Unit and Simultaneous Dedication of Acreage for the CSO Federal #2 Well, located 1,650 feet from the North line and 2,310 feet from the West line of Section 20, Township 22 South, Range 36 East, Lea County, New Mexico (New Mexico Oil Conservation Division Case 8639)

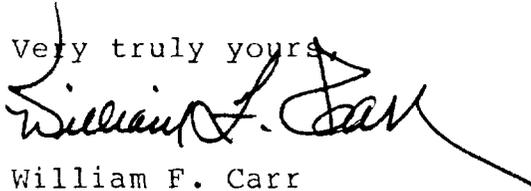
Gentlemen:

We are in receipt of your application to the New Mexico Oil Conservation Division and request for waiver in the above-referenced matter.

Please accept this letter as Mr. Hartman's waiver of objection to your application, with the stipulation that Zia Energy, Inc. and Conoco, Inc. agree to execute a like waiver to the creation by Mr. Hartman of a non-standard proration unit to be comprised of the NE/4 of Section 20 and the NW/4 of Section 21, Township 22 South, Range 36 East, N.M.P.M., Lea County, New Mexico and the unorthodox location of a Jalmat Well to be drilled on said unit in the event an unorthodox location for such a well is proposed by Mr. Hartman. No location for a Jalmat Well on this unit has been selected by Mr. Hartman but it is understood and agreed that the proposed unorthodox well location, if any, would be no closer than 330 feet to the outer boundary of the proposed Hartman non-standard spacing or proration unit.

Zia Energy, Inc.  
July 1, 1985  
Page two

If you agree to accept our waiver with the above stipulation and to notify the Oil Conservation Division of our waiver, please execute one copy of this letter, arrange for a copy to be executed by an authorized representative of Conoco, Inc., and return it to this office.

Very truly yours,  
  
William F. Carr  
Attorney for Doyle Hartman

AGREED AND ACCEPTED this 1 day of July, 1985.

ZIA ENERGY, INC.  
By 

CONOCO, INC.  
By \_\_\_\_\_

cc: Doyle Hartman



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

TONEY ANAYA  
GOVERNOR

August 9, 1985

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-5800

Mr. Thomas Kellahin  
Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 2265  
Santa Fe, New Mexico

Re: CASE NO. 8639  
ORDER NO. R-4139-B

Applicant:

Zia Energy, Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Division order recently entered in the subject case.

Sincerely,

R. L. STAMETS  
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD   x    
Artesia OCD   x    
Aztec OCD           

Other William F. Carr

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
State Land Office Building  
Santa Fe, New Mexico

2 July 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Zia Energy, Inc. for           CASE  
an unorthodox gas well location and       8639  
simultaneous dedication, Lea County,  
New Mexico.

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Jeff Taylor Legal Counsel to the Division Oil Conservation Division State Land Office Bldg. Santa Fe, New Mexico 87501
For Zia Energy, Inc.:	W. Thomas Kellahin Attorney at Law KELLAHIN & KELLAHIN P. O. Box 2265 Santa Fe, New Mexico 87501
For Doyle Hartman:	William F. Carr Attorney at Law CAMPBELL & BLACK P. A. P. O. Box 2208 Santa Fe, New Mexico 87501

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I N D E X

FARRIS NELSON

Direct Examination by Mr. Kellahin

4

E X H I B I T S

Zia Exhibit One, Land Plat

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Zia Exhibit Two, Contour map

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Zia Exhibit Three, Cross Section

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Zia Exhibit Four, Decline Curve

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Zia Exhibit Five, Tabulation

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Zia Exhibit Six, BHP Test

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Zia Exhibit Seven, Schematic

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Zia Exhibit Eight, Form

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MR. QUINTANA: Application of Zia Energy, Inc., for an unorthodox gas well location and simultaneous dedication, Lea County, New Mexico.

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant and I have one witness to be sworn.

MR. QUINTANA: Are there other appearances?

MR. CARR: May it please the Examiner, my name is William F. Carr, with the law firm Campbell and Black, P. A., of Santa Fe, appearing on behalf of Doyle Hartman.

I will not call a witness this afternoon.

MR. QUINTANA: Will the witnesses, witness or witnesses, please stand and be sworn at this time?

(Witness sworn.)

FARRIS NELSON,  
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

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DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Nelson, for the record would you please state your name and occupation?

A Yes, I am Farris Nelson, employed by Zia Energy, Incorporated, as their petroleum engineer.

Q Mr. Nelson, have you previously testified as a petroleum engineer before this Commission?

A Yes, I have.

MR. KELLAHIN: We tender Mr. Nelson as an expert petroleum engineer, Mr. Quintana.

MR. QUINTANA: He's considered as an expert petroleum engineer.

You may proceed.

Q Mr. Nelson, let me refer you to what is marked as Exhibit Number One and have you identify the land plat and describe briefly what you seek to accomplish with this application.

A Exhibit Number One is simply showing the existing proration unit in relation to the offsetting leases.

Q The existing proration unit consists of how many acres, Mr. Nelson?

A Consists of 280 acres in the southwest

1 quarter of Section 20, the east half of the northwest quar-  
2 ter, and the southwest of the northwest quarter of Section  
3 20.

4 Q That non-standard Jalmat gas proration  
5 unit has been previously approved by the Division adminis-  
6 tratively, has it not?

7 A Yes, it has, by Order R-4139 on May the  
8 6th, 1971.

9 Q And what is the current well in the Jal-  
10 mat to which the nonstandard proration unit is dedicated?

11 A It's the Zia Energy Cities Federal No. 2,  
12 located in Unit letter M of Section 20.

13 Q All right, sir, if you'll turn now to Ex-  
14 hibit Number Two, when we look at the west half of Section  
15 20 as depicted on Exhibit Number Two, with the exception of  
16 the 40-acre tract in the northwest of the northwest, does  
17 that describe for us the non-standard proration unit?

18 A Yes, it does.

19 Q Again on this exhibit, would you identify  
20 the current Jalmat gas well to which this non-standard pro-  
21 ration unit is dedicated?

22 A Currently the only producing Jalmat gas  
23 well is the Zia Energy Cities Federal No. 2, located in Unit  
24 letter M, Section 20.

25 Q All right sir, let me direct your atten-

1 tion now to the subject well, which is the Cities Service  
2 No. 2 Well, located in the -- is that the Penroc No. 2?  
3 I'm sorry, it's the Penroc.

4 A CSO Federal No. 2 in Unit letter F.

5 Q All right. Let me direct your attention  
6 to the well in Unit letter F, the CSO Federal No. 2 Well.

7 Is that the subject well of this hearing?

8 A Yes, it is.

9 Q All right. Would you describe for the  
10 Examiner what has been the history for that well; it's pro-  
11 duced from what formations?

12 A The CSO Federal No. 2 is presently pro-  
13 ducing from the South Eunice Seven Rivers-Queen formation.

14 Q As an oil well.

15 A As an oil well.

16 Q And it is your desire to recomplete that  
17 well as a Jalmat gas well?

18 A Yes, that is correct.

19 Q And by doing so that well will be an un-  
20 orthodox gas well location.

21 A Yes, that's correct.

22 Q What is the footage location of the well?

23 A It's located 1650 feet from the north  
24 line, 2310 from the west line of Section 20, Township 22  
25 South, Range 36 East.

1           Q           That location is 330 feet closer to the  
2 east boundary of the proration unit than allowed by the Jal-  
3 mat Gas Pool rules.

4           A           Yes, that's correct.

5           Q           And who is the operator of the Jalmat gas  
6 rights in the northeast quarter of Section 20?

7           A           Doyle Hartman has the Jalmat gas rights  
8 in the northeast quarter of Section 20.

9           Q           Mr. Nelson, have you exchanged mutual  
10 waivers with Mr. Hartman concerning your location and a pro-  
11 posed location for Mr. Hartman in his acreage?

12          A           Yes, we have.

13          Q           With regards to the two wells, now, that  
14 are on the non-standard proration unit in the Jalmat Gas  
15 Pool, do you have a recommendation to the Examiner as to how  
16 those wells will be produced in relation to the maximum al-  
17 lowable?

18          A           We would like for those two wells to be  
19 produced with the allowable to be produced in any quantity  
20 from either well up to the maximum allowable.

21          Q           Is the well in the southwest corner, the  
22 Cities Service No. 2 well, is that well currently capable of  
23 making its maximum Jalmat allowable?

24          A           No, it isn't. The April production indi-  
25 cated 189 MCF per day.

1           Q           All right, sir, let's turn to Exhibit  
2 Number Three, which is your cross section and have you iden-  
3 tify that for us.

4           A           Exhibit Number Three is a cross section  
5 trending from the southwest to the northeast across the sub-  
6 ject proration unit, extending from the Zia Energy No. 2,  
7 located in Unit letter M of Section 20, to the Doyle Hartman  
8 (not understood) No. 3-B.

9                       This cross section shows the Yates forma-  
10 tion is consistent throughout the proration unit and the  
11 logs indicate that it should be -- should reasonably be ex-  
12 pected to produce Jalmat gas throughout the entire proration  
13 unit and certainly in the proposed CSO Federal No. 2.

14           Q           Mr. Nelson, is it your desire to continue  
15 the historic way in which the non-standard proration unit  
16 has been produced insofar as it relates to the Jalmat gas  
17 wells?

18                       In other words, you don't propose to  
19 break out the non-standard proration unit into smaller  
20 tracts.

21           A           Yes, that's correct, and this proration  
22 unit is sa farmout from Cities Service and it's subject to  
23 certain farmout conditions which would endanger certain of  
24 our lease rights provided there were no producing well on  
25 any parcel of the proration unit.

1           Q           Do you have an opinion as to whether it  
2 is most effective and efficient for your operations to con-  
3 tinue the practice of operation of this non-standard prora-  
4 tion unit for Jalmat wells in combinations with each other,  
5 rather than as broken out separately?

6           A           We feel that this unit can be most effec-  
7 tively drained by two or more producing wells in the prora-  
8 tion unit.

9           Q           Let me turn your attention now, sir, to  
10 Exhibits Four and Five, which tabulate for the Jalmat pro-  
11 duction.

12          A           Exhibit Number Four is simply a decline  
13 curve for the Cities Federal No. 2 Well, which was placed on  
14 production in December of 1983, through April production for  
15 1985.

16                       The Exhibit Number Five is just a tabula-  
17 tion by months for the production from the Cities Federal  
18 No. 2.

19                       It should be noted that there are three  
20 wells which have their cumulative Jalmat production listed.  
21 The Cities Service Clausen No. 6-E produced a cumulative of  
22 1,615,000 MCF before it was plugged and abandoned.

23                       The Zia Energy Cities Federal No. 1 pro-  
24 duced 764,000 MCF before it was converted to a salt water  
25 disposal well.

1                   Then the Zia Energy Cities Federal No. 2  
2 Well has produced up to this time a cumulative of 166,000  
3 MCF.

4                   Q           In your opinion, Mr. Nelson, are there  
5 remaining Jalmat Gas reserves underlying this tract that can  
6 be effectively and efficiently produced by the recompletion  
7 of this well as a Jalmat gas well?

8                   A           Yes, we feel like there's considerable  
9 reserves to be produced by the recompletion of the CSO  
10 Federal No. 2.

11                  Q           All right, sir, let me direct your  
12 attention now to the last two exhibits, which are the  
13 schematic for the recompletion and then the Commission form  
14 showing the completion history originally for the well.

15                                Would you describe for Mr. Quintana how  
16 you propose to recomplete the well into the Jalmat?

17                  A           Yes, that's Exhibit Number Seven. It  
18 shows the current casing program for the CSO Federal Well.

19                                It has 4-1/2 casing set at 4040 feet  
20 using 650 sacks of cement that brought the cement back up to  
21 within 100 feet of the surface.

22                                We propose to set a bridge plug at  
23 approximately 3700 feet and then that will be isolating the  
24 present perforations from 3898 to 3978 in the South Eunice  
25 Yates Seven Rivers Queen Field.

1                   We will then recomplete in the Jalmat  
2 zone from the top of the Yates through zones that indicate  
3 possible productive porosity in the Yates.

4                   Stimulation will be whatever is deemed to  
5 be necessary for those zones.

6                   Q           All right, sir, then the last exhibit, I  
7 believe it's Number Seven?

8                   A           Number Eight.

9                   Q           All right, Number Eight, would you iden-  
10 tify that for us?

11                  A           That's simply the present well -- the  
12 original well completion file as filed by Penroc Oil Corpor-  
13 ation and it's the information that is currently on file  
14 with the Oil Conservation Division.

15                  Q           All right, sir. Mr. Nelson, let me  
16 direct you back to Exhibit Number Six, which is the bottom  
17 hole pressure survey for this subject well. Would you iden-  
18 tify -- no, it's the Cities Service No. 2 Well.

19                  A           It's the number -- Exhibit Number Six is  
20 the bottom hole pressure test on the Cities Federal No. 2  
21 Well, which was taken just shortly after the well was com-  
22 pleted in December of 1983.

23                                You'll note that it indicates a bottom  
24 hole pressure of 228 psi.

25                  Q           With the exception of Exhibit Number

1 Eight, were Exhibits One through Seven prepared by you or  
2 compiled under your direction and supervision?

3 A Yes, they were.

4 Q And in your opinion, Mr. Nelson, will ap-  
5 proval of this application be in the best interest of con-  
6 servation, the prevention of waste, and the protection of  
7 correlative rights?

8 A Yes, we feel that it will.

9 MR. KELLAHIN: We move the in-  
10 troduction of Exhibits One through Eight, Mr. Quintana.

11 MR. QUINTANA: Exhibits One  
12 through Eight will be admitted as evidence.

13 Mr. Carr, did you have ques-  
14 tions of the witness?

15 MR. CARR: I have no questions.

16 MR. QUINTANA: I have no ques-  
17 tions of this witness, either.

18 Are there any further questions  
19 of the witness?

20 If not, he may be excused.

21 Case 8639 will be taken under  
22 advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8639 heard by me on JULY 2 1985.

Richard P. Quintana Examiner  
Oil Conservation Division

