

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

1 July 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Energy
Operating partners, L.P., for
compulsory pooling, Eddy County,
New Mexico.

CASE
9160

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

James G. Bruce
Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87504

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MR. CATANACH: Call next Case
9160.

MR. TAYLOR: The application of
Santa Fe Energy Operating Partners, L.P., for compulsory
pooling, Eddy County, New Mexico.

MR. CATANACH: Are there ap-
pearances in this case?

MR. BRUCE: Mr. Examiner, my
name is Jim Bruce, from the Hinkle Law Firm in Santa Fe, re-
presenting the applicant.

I have two witnesses to be
sworn.

MR. CATANACH: Are there any
other appearances in this case?

The witnesses will please stand
and be sworn in.

(Witnesses sworn.)

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

1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q Would you please state your full name and
4 address, please?5 A My name is Gary Green, Unit No. 4, Auburn
6 Court, Midland, Texas.7 Q What is your occupation and who is your
8 employer?9 A I'm employed as a landman for Santa Fe
10 Energy Company.11 Q And have you previously testified before
12 the OCD and had your credentials as a professional petroleum
13 landman accepted?

14 A Yes.

15 Q And are you familiar with the land mat-
16 ters involved in Case Number 9160?

17 A Yes.

18 MR. BRUCE: Mr. Examiner, are
19 the witness' credentials acceptable?

20 MR. CATANACH: They are.

21 Q Mr. Green, would you please state briefly
22 what Santa Fe Energy Operating Partners seeks in its appli-
23 cation.24 A Santa Fe seeks an order pooling all
25 mineral interests from the surface to the base of the Morrow

1 formation underlying the west half of Section 34, Township
2 23 South, 31 East, Eddy County, New Mexico, to be dedicated
3 to a well at a standard location.

4 Santa Fe also requests consideration of
5 the cost of drilling and completing the well and an alloca-
6 tion of the costs thereof, as well as actual operating costs
7 and charges for supervision.

8 Santa Fe requests that it be named well
9 operator and that a charge for the risk involved in the
10 drilling of the well be assessed against nonconsenting
11 owners.

12 Q All right. Would you please refer to Ex-
13 hibit Number One, and just briefly discuss its contents?

14 A Exhibit Number One is a land plat showing
15 the proposed location for Santa Fe's well and located in
16 Section 34, Township 23 South, 31 East, Eddy County, New
17 Mexico.

18 Q And is the well at a standard location?

19 A Yes, it is

20 Q And what unit will be dedicated to the
21 well?

22 A The west half of Section 34.

23 Q Who are the working interest owners in
24 the west half of Section 34?

25 A Pogo Producing Company, CNG Producing

1 Company, Texas Gas Exploration Company, Paine Webber/Geodyne
2 Energy Income, Florida Exploration Company, Mobil Producing
3 Texas and New Mexico, Primary Fuels, and Heathary Resources,
4 Santa Fe Energy Company.

5 Q Who does Santa Fe seek to force pool?

6 A Santa Fe seeks to force pool all of the
7 working interest owners with the exception of Mobil
8 Producing Texas and New Mexico.

9 Q Would you please describe your efforts to
10 get these interest owners to join in the well?

11 A We have requested -- sent out notices
12 requesting all the working interest owners to participate in
13 the drilling of the well by letter dated June the 2nd.

14 We have also requested that those who do
15 not wish to participate would farm out.

16 Q Okay, and did you follow up that June 2nd
17 letter with subsequent contacts?

18 A Yes, sir.

19 Q And on what date was that?

20 A June 19th. June 19th, plus several
21 telephone --

22 Q Has --

23 A -- communications.

24 Q Of the partes to be force pooled has
25 anybody committed their interest in writing?

1 A Mobil, well, we're not seeking Mobil. We
2 have not received any response from any of the parties who
3 have approval of the operating agreement other than CNG, who
4 -- CNG have given me verbal and written, but have not ap-
5 proved the operating agreement.

6 Q Was notice of this hearing sent by certi-
7 fied mail to the nonconsenting interest owners?

8 A Yes, sir.

9 Q And is that submitted as Exhibit Number
10 Two?

11 A Yes.

12 MR. BRUCE: Mr. Examiner, if I
13 may make one statement. The certified return receipts do
14 not include -- attached to your Exhibit Number Two, do not
15 include return receipts from three parties, which we have
16 and which I will submit after the hearing. We didn't get
17 copies of them made in time.

18 MR. CATANACH: Okay.

19 Q Would you please refer to Exhibit Number
20 Three and briefly discuss the cost of the proposed well?

21 A Exhibit Number Three is the cost estimate
22 in the drilling of a 15,250 foot Morrow test. It shows the
23 dry hole cost to be \$1,038,745. Cost for a producer to be
24 \$1,297,112.

25

1 Q Is the proposed well cost in line with
2 those normally encountered in drilling wells to this depth
3 in Eddy County?

4 A Yes, sir.

5 Q Do you have a recommendation as to the
6 amount Santa Fe should be paid for supervision and admini-
7 strative expenses?

8 A Yes, I do.

9 Q And what are they, please?

10 A Santa Fe would request that the overhead
11 rate for a drilling well be \$6,160 and for a producing well,
12 \$616 per month.

13 Q Are the amounts that you've just recom-
14 mended in line with amounts normally charged by Santa Fe and
15 other operators for wells of this type in this area?

16 A Yes, sir.

17 Q And what penalty do you recommend against
18 the nonconsenting interest owners?

19 A 200 percent.

20 Q Is this figure commonly used in operating
21 agreements by Santa Fe?

22 A Yes, sir.

23 MR. BRUCE: Mr. Examiner, our
24 geologist will testify more as to risk.

25 Q Mr. Green, were Exhibits Number One

1 through Three prepared by you or compiled from company re-
2 cords?

3 A Yes.

4 Q And in your opinion will the granting of
5 this application be in the interest of conservation and the
6 prevention of waste?

7 A Yes.

8 MR. BRUCE: At this time, Mr.
9 Examiner, I move the admission of Exhibits One through
10 Three?

11 MR. CATANACH: Exhibits One
12 through Three will be admitted into evidence.

13 Mr. Bruce, can we get copies of
14 the June 2nd and the June 19th correspondence?

15 MR. BRUCE: Sure.

16

17 CROSS EXAMINATION

18 BY MR. CATANACH:

19 Q Mr. Green, have you had any response from
20 any of the working interest owners besides Mobil?

21 A Yes, I have.

22 Q And what did that consist of?

23 A I have had notice from all parties invol-
24 ved. I have verbal agreement to participate in the well
25 from Pogo, from CNG, from Texas Gas, from Florida, and I

1 have had Primary Fuels, Heathary has indicated they would
2 not participate in the drilling of the well. I've asked them
3 to consider farmout under the same terms as Mobil has farmed
4 out to us.

5 Q Okay, let's go through this again.

6 You have verbal agreement from who?

7 A From Pogo Producing Company.

8 Q Okay.

9 A CNG Producing Company.

10 Q Okay.

11 A Texas Gas.

12 Q Okay.

13 A Florida Exploration, and Mobil Producing
14 has farmed out, agreed to farm out to the working interest
15 owners, the other parties.

16 Q Do you have the breakdown of the
17 interest percentages for each of these interests?

18 A Yes, sir.

19 Q And will you give us a copy of that?

20 MR. BRUCE: Is it okay if we
21 submit it after this hearing?

22 MR. CATANACH: Sure, that will
23 be fine.

24 Q Do you know about what percentage those
25 three nonconsenting parties have?

1 A If you'll give me just a second I can
2 tell you exactly.

3 Primary Fuels has 6.5 percent.

4 PaineWebber Production Company has 2.08
5 percent.

6 Heathary Resources has .06575 percent.

7 Q Okay, so the parties that you're pooling
8 actually are very small in percentages.

9 A Yes, sir.

10 Q Okay. The -- where did the drilling
11 costs come from? Was that an estimate or is that something
12 comparable to what you've done in the area before?

13 A That's very -- that's comparable. We
14 have drilled two similar wells to the -- to the west in Sec-
15 tion 33, two Morrow Wells. The actual costs, they were both
16 completed as producers, the number one well was -- cost on
17 the number one well was \$1,441,000. The number two well ac-
18 tual cost was \$1,253,000.

19 Q Were those drilled, what, in the past
20 year?

21 A Yes, sir.

22 Q Both of them?

23 A They were drilled in the past year.

24 Q So these costs wouldn't reflect any price
25 changes that have come into effect recently.

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A Not other than the cost -- the only variance would probably be, you know. location and roads, things like that. Drilling costs are somewhat --

Q They're stabilized?

A -- pretty much stabilized. Other than bits and fuel, things like that have increased in price (not clearly understood) to the wells.

Q Where do your overhead rates come from?

A These are rates that come from the wells that were drilled over to the west of there in Section 33. These are rates that were agreed to by the majority of the parties in the drilling of these other two wells which -- they own similar interest in the other section. When we drilled the others we used 40-45 cents a foot basically, kind of a rule of thumb.

Q And this is an amount that operators have previously approved to --

A Yes, sir.

Q -- in the area. Have these rates been agreed to by -- well, you don't have any written confirmation from anybody yet, do you?

A No, sir.

Q But you're going to proposed these rates to --

A Propose these rates; they have been pro-

1 posed and submitted to the -- to all the parties involved.

2 MR. CATANACH: Okay, I don't
3 think we have anything further of the witness at this time.
4 He may be excused.

5
6 CURTIS ANDERSON,
7 being called as a witness and being duly sworn upon his
8 oath, testified as follows, to-wit:

9

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q Mr. Anderson, will you please state your
13 full name and address.

14 A My name is Curtis Anderson. I live at
15 4621 Brookdale, Midland, Texas.

16 Q And who is your employer and what is your
17 occupation?

18 A Okay, I'm a geologist for Santa Fe Energy
19 Company.

20 Q And have you previously testified before
21 the OCD as an expert geologist?

22 A Yes, I have.

23 Q And are you familiar with the geology in
24 Case 9160?

25 A Yes.

1 MR. BRUCE: Mr. Examiner, is
2 the witness qualified?

3 MR. CATANACH: He is qualified.

4 Q Mr. Anderson, would you please refer to
5 Exhibit Number Four and discuss its contents?

6 A Exhibit Number Four is a structure map
7 contoured on the top of the Lower Morrow formation, it's on
8 a scale of one inch equals 4000 feet, showing our proposed
9 location in the west half of Section 34.

10 The two wells there were referred to be-
11 fore that Santa Fe had drilled in the area, located in Sec-
12 tion 33, you can see that the structural attitude for the
13 proposed location is down dip from those wells.

14 Also, just to clarify what the colors are
15 on the map, I have colored the Morrow producing wells in the
16 area red and the Atoka producers in purple.

17 Q Would you please now move on to Exhibits
18 Five and Six, please, and discuss their contents?

19 A Exhibit Five is a net sand -- net clean
20 sand map of what I've termed the Teal Sand in the Morrow
21 formation. This is a marine bar sand that trends northeast-
22 southwest through the proposed location. It is the deepest
23 primary objective at this location. Our wells in Section
24 33, drilled in 1986, the No. 1, which is in the west half of
25 Section 33, was potentialled in the Teal Sand for 7.5-million

1 cubic feet of gqs per day. This -- this particular well,
2 the log is on the left end of the cross section.

3 The next well on the cross section to the
4 right, which is Exhibit Six, the No. 2 well, Sterling Silver
5 33 Federal, has been perforated and is currently producing
6 from the Teal Sand, delivering between 1 and 1.5-million
7 cubic feet of gas per day.

8 Our proposed location in Section 34 has
9 the Teal Sand as a primary objective and we anticipate en-
10 counterering this -- this particular sand. You can see that
11 moving eastward from the two producing wells we get to the
12 Pogo No. 2 Cal-Mon Well in Section 35, in which there is no
13 productive Teal Sand.

14 Therefore I feel that we're -- we're --
15 as we move to the east we're increasing our risk of not en-
16 counterering the productive interval.

17 One other thing I'd like to say about the
18 cross section, at the far right of it a well located in Sec-
19 tion 25 was drilled by Skelly back in 1975. It encountered
20 a high pressure gas situation, blew out and burned the rig
21 down and we did encounter high pressure gas in both of the
22 wells that we drilled in Section 33, and consider it to be a
23 very high risk mechanical drilling procedure for the area.
24 You either have to case off the high pressure gas and/or
25 weight your mud system up, thus increasing the cost of the

1 well and the length of time to drill it.

2 Q Would you please move on to Exhibit Num-
3 ber Seven and discuss that briefly?

4 A Yes, sir. Again this is a scale of one
5 inch equals 4000 feet. It represents the other producing
6 horizons in the area. In this case it shows Atoka, Bone
7 Springs, and Delaware Sand production.

8 Q And Santa Fe does seek to force pool all
9 formations from the surface to the base of the Morrow, is
10 that correct?

11 A Yes, we think this is fairly critical be-
12 cause of the depth of the well and the high cost in
13 drilling. It's -- for a particular objective like the Teal
14 Sand it's very hard to make economics. We consider the
15 secondary objectives, which are exhibited on this map to be
16 a major part of the drilling program.

17 Q And what risk penalty do you think is ap-
18 propriate in this case?

19 A 200 percent.

20 Q Were Exhibits Four through Seven prepared
21 by -- by you?

22 A Yes.

23 Q And will the granting of this application
24 be in the interest of conservation, the prevention of waste,
25 and the protection of correlative rights?

1 A Yes.

2 MR. BRUCE: Mr. Examiner, I
3 move the admission of Exhibits Four through Seven.

4 MR. CATANACH: Exhibits Four
5 through Seven will be admitted into evidence.

6 MR. BRUCE: I have no further
7 questions of the witness at this time.

8

9

CROSS EXAMINATION

10 BY MR. CATANACH:

11 Q Mr. Anderson, your 200 percent risk pen-
12 alty, is that pretty much based on mechanical problems?

13 A A large part of it is. I think we do
14 have some risk in finding the Teal Sand because of its
15 linear nature and we are moving away from the center of de-
16 position that we found in Section 33, but a major part of it
17 is, yes, mechanical risk.

18 Q But you have found that sand to be pre-
19 sent in Section 35.

20 A We found the sand to be present. I did
21 map, well, it would be on this cross section, the Pogo Cal-
22 Mon No. 2, I do have it correlated over there and found
23 three feet of that sand. It's not productive.

24 Q Do you know if it was tested in that
25 well?

1 A It was not tested, no. The porosity in
2 the resistivity curves of the logs would indicate that it
3 wouldn't be productive.

4 Q Okay, now that's your -- that's your
5 producing sand in your two wells in Section 33, is that
6 correct?

7 A That's correct.

8 Q Is that also the sand that have the high
9 pressure gas wells in?

10 A No, sir.

11 Q Where was that?

12 A The high pressure that we encountered was
13 actually in two different places; one that 14-2, 14,200 feet
14 in the No. 2 Sterling Silver Well, and at approximately
15 13,500 feet in the No. 1 Well.

16 Q What -- what pool is this well in?

17 A This is the Sand Dunes West Morrow Field.

18 Q That's what the other two wells in
19 Section 33 are --

20 A Yes.

21 Q Does Santa Fe Energy intend to test all
22 the secondary objectives or --

23 A Yes. Our procedure in drilling this,
24 this particular proposed location would be to drill stem
25 test the zones as we go downhole.

1 MR. CATANACH: I think that's
2 all I have for now.

3 MR. BRUCE: I have no further
4 questions, Mr. Examiner.

5 MR. CATANACH: I have a couple
6 more questions for Mr. Green, if I may.

7

8 GARY GREEN,
9 being recalled and remaining under oath, testified as fol-
10 lows, to-wit:

11

12 RE CROSS EXAMINATION

13 BY MR. CATANACH:

14 Q Mr. Green, are the -- are the interests
15 the same for all the interest owners in all the formations
16 under the tracts?

17 A No, sir, they are not. As to the west
18 half of 34 above 6485 the interests vary as to the west
19 half, and below 6485 the interests vary.

20 Now, also as to the east half, the east
21 half of the section they vary. I have a breakdown if you'd
22 like it. It's a --

23 Q A breakdown of those interests, we'd like
24 a copy of that also.

25 MR. BRUCE: Mr. Examiner, I'll

1 make a copy of this breakdown and give it to you. I think
2 the only interest owners named are all of those that were
3 previously named.

4 Q Mr. Green, the letter I'm looking at,
5 Exhibit Number Two, is that the letter you were previously
6 referring to that you sent out to the interest owners?

7 A What is that date of that letter?

8 Q I'm looking at a letter dated June 2nd.
9 It's advising the interest owners about the hearing.

10 A What was your question again?

11 Q What other letter -- was this the letter
12 that you were referring to that you sent out June 2nd or was
13 there another letter?

14 A There was a letter sent out May 13th
15 proposing the well to the parties.

16 Q Okay. That -- okay, I hadn't heard
17 about that. That letter was telling them about the well and
18 asking them to voluntarily join, and did that have certain
19 pools?

20 A Yes, sir, it was a well proposal giving
21 them the location, the depth, and advising them that -- that
22 Mobil Producing had given us an optional farmout in support
23 of drilling our well, our No. 2 Well in Section 33, setting
24 out their interest. With the letter we sent them a cost
25 estimate and a proposed operating agreement (unclear).

Q That's to all the interest owners.

1 A Yes, sir, it is.

2 Q I need to get a copy of that, also.

3 MR. CATANACH: I think that's
4 all I have for Mr. Green. You may be excused.

5 MR. BRUCE: I have nothing
6 further, Mr. Examiner.

7 MR. CATANACH: Okay. If that's
8 all in Case 9160, it will be taken under advisement.

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10 (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 the foregoing Transcript of Hearing before
the Oil Conservation Division (Commission) 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. 9160
heard by me on July 1 1987

David R. Catarack, Examiner
Oil Conservation Division