

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

25 May 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Foran Oil Company for CASE
compulsory pooling and non-standard 9392
gas proration unit, Lea County, New
Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Charles E. Roybal
 Attorney at Law
 Legal Counsel to the Division
 State Land Office Bldg.
 Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: Let's call next
Case Number 9392.

MR. ROYBAL: Case 9392. Appli-
cation of Foran Oil Company for compulsory pooling and a
nonstandard gas proration unit, Lea County, New Mexico.

MR. STOGNER: At the appli-
cant's request this case will also be continued to the Exa-
miner's hearing scheduled to be heard here in Santa Fe on
June 8th, 1988.

(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 (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. 9392, heard by me on 25 May 1988.
[Signature], Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION COMMISSION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 8 June 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Foran Oil Company for CASE
10 compulsory pooling and non-standard 9392
11 gas proration unit, Lea County, New
12 Mexico.

13 BEFORE: David R. Catanach, Examiner

14 TRANSCRIPT OF HEARING

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

16 For the Division: Robert G. Stovall
17 Attorney at Law
18 Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico

19 For the Applicant: W. Thomas Kellahin
20 Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
21 P.O. Box 2265
Santa Fe, New Mexico 87501

22 For Marsh Operating: James Bruce
23 Attorney at Law
HINKLE, COX, EATON, COFFIELD
24 & HENSLEY
P.O. Box 2068
25 Santa Fe, New Mexico 87504

I N D E X

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RANDY CRENSHAW

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Direct Examination by Mr. Kellahin 4

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Cross Examination by Mr. Catanach 13

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JOE A. YOUNG

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Direct Examination by Mr. Kellahin 14

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Cross Examination by Mr. Catanach 17

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E X H I B I T S

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Foran Exhibit One, Map 5

19

Foran Exhibit Two, Plat 5

20

Foran Exhibit Three, Data 7

21

Foran Exhibit Four, Tabulation 7

22

Foran Exhibit Five, Data 10

23

Foran Exhibit Six through Nine, Letters 10

24

Foran Exhibit Ten. Certificate 11

25

Foran Exhibit Eleven, Notification 11

I N D E X CONT'D

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Foran Exhibit Twelve, AFE	11
Foran Exhibit Thirteen, Structure Map	14

1 MR. CATANACH: All right, at
2 this time we'll all next Case 9392.

3 MR. STOVALL: Application of
4 Foran Oil Company for compulsory pooling and nonstandard
5 gas proration unit, Lea County, New Mexico.

6 MR. CATANACH: Are there
7 appearances in this case?

8 MR. KELLAHIN: Mr. Examiner,
9 I'm Tom Kellahin of Santa Fe, New Mexico, appearing on
10 behalf of Foran Oil Company.

11 I'd like the record to
12 reflect, Mr. Examiner, that both Mr. Randy Crenshaw and Mr.
13 Joe Young have been previously sworn and qualified under
14 oath as expert witnesses.

15 MR. CATANACH: Okay, the re-
16 cord shall reflect that, Mr. Kellahin.

17
18 RANDY CRENSHAW,
19 being previously sworn and qualified and remaining under
20 oath, testified as follows, to-wit:

21
22 DIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q Mr. Crenshaw, would you please turn to
25 what has been marked as -- oh, we've got another appear-

1 ance, I'm sorry.

2 MR. BRUCE: Mr. Examiner, Jim
3 Bruce from the Hinkle Law Firm representing Marsh Oper-
4 ating Company.

5 MR. CATANACH: Okay, do you
6 have any witnesses?

7 MR. BRUCE: I'm just listen-
8 ing.

9 Q Mr. Crenshaw, would you take a moment
10 and direct your attention to Exhibit Number One. Show us
11 the proposed spacing unit for this well.

12 A That would be the south half of Section
13 30, Township 21 South, Range 35 East, Lea County, New
14 Mexico. The acreage is colored in yellow.

15 Q This is anticipated to be a Morrow test
16 but in the event you get shallower gas production above the
17 top of the Wolfcamp, are you in the alternative seeking to
18 pool those parties for those shallower formations?

19 A Yes, that's correct.

20 Q Let's devote our attention to how the
21 ownership is divided, Mr. Crenshaw, and let me direct your
22 attention to Exhibit Number Two.

23 When we look at the south half of
24 Section 30, show us how the interests are proportioned.

25 A Okay. We have three tracts of land.

1 The southwest quarter is -- the
2 leasehold interest is owned by Phillips Petroleum Company.

3 The northwest quarter of the southeast
4 quarter, the minerals are owned by the Merchant Livestock
5 Company, the Bank of Artesia, and Mr. and Mrs. John E.
6 Bosserman.

7 Q When we look at the interest that
8 Merchant Livestock Company has in that 40-acre tract, how
9 does that interest relate to Marsh Operating Company, Mr.
10 Bruce's client?

11 A It is our understanding that on May th
12 2nd a lease was granted to Nichols Oil and Gas, who in turn
13 will convey that interest to Marsh Operating Company.

14 Q So the interest we know and have identi-
15 fied as the Merchant Livestock interest is the one that you
16 believe is going to be acquired by Marsh Operating Company?

17 A That's correct.

18 Q When we look at the Foran Oil Company
19 interest in the southeast quarter, you have 100 percent of
20 the interest in that 120 acres?

21 A That's correct.

22 Q And the well will be located in the
23 southwest of the southeast quarter?

24 A That's correct.

25 Q We find that displayed on Exhibit Num-

1 ber Three as to the proposed well location?

2 A Yes.

3 Q And that will be a standard location for
4 a Morrow well?

5 A Yes.

6 Q All right, let's go to a tabulation of
7 the interests on Exhibit Number Four. This exhibit
8 assumes a 320 south half orientation when the compute the
9 unit interest?

10 A Yes.

11 Q What's the status of your negotiations
12 with Phillips Petroleum Company?

13 A We have agreed verbally to terms to
14 farm-in the Phillips interest and those negotiations need
15 to be formalized by written executed agreements.

16 Q So at this point we need to still leave
17 Phillips on the list because we don't have fully executed
18 written documents about that interest.

19 A That's correct.

20 Q But you are continuing with your nego-
21 tiations with that company.

22 A Correct.

23 Q All right. Foran Oil Company has a
24 38.45 percent interest and obviously you're going to parti-
25 cipate.

1 A That's correct.

2 Q All right, we get down to the Bank of
3 Artesia and that interest now has been acquired by Foran
4 Oil Company?

5 A It has been agreed to be acquired. The
6 deed and check have been transmitted to the Bank of Artesia
7 for their deposit and execution and return to us.

8 Q So that is similar to the arrangement
9 with Phillips in that we're waiting completion of the
10 documentation.

11 A That's correct.

12 Q So at this point we need to leave them
13 on the pooling order?

14 A Yes.

15 Q When we get down to -- let's skip the
16 Merchant Livestock for a moment and let's got to Mr. Bos-
17 serman's interest.

18 Have you been in telephone conversations
19 with Mr. Bosserman?

20 A Yes, I have.

21 Q And what was your latest conversation
22 with him? When did that take place?

23 A The latest conversation was on May the
24 26th.

25 Q Of this year?

1 A Excuse me, it was on May the 31st of
2 this year.

3 Q And what did Mr. Bosserman advise you
4 about his interest?

5 A At that time he maintained that he was
6 not interested in participating in this well and it was
7 clear to me that we could not come to terms on a lease, and
8 pooling seemed a perfectly acceptable alternative to him.

9 Q So we need to leave Mr. and Mrs. Bosser-
10 man on the pooling order?

11 A Yes.

12 Q All right, let's turn now to the
13 Merchant Livestock interest. What is the current status of
14 your efforts to reach voluntary agreement as to that
15 interest?

16 A When we last contacted them to attempt
17 to lease that interest, we discovered that they had already
18 leased the interest to the Nichols Oil and Gas, who was
19 operating on behalf of Marsh.

20 Q And therefore, have you pursued to have
21 discussions about voluntary joinder as to those new inter-
22 est owners?

23 A It is my understanding that Mr. Foran
24 has been in contact with representatives of March Operating
25 Company and we're not sure as to what their intentions are

1 but they did declare that they would not oppose the forced
2 pooling.

3 Q So at this point we need to leave them
4 on the pooling order until you're able to see if they will
5 reach a voluntary agreement with you?

6 A That's correct.

7 Q When we turn to Exhibit Number Five,
8 this represents the status of the interest to be pooled at
9 the date the application was filed?

10 A Yes.

11 Q And you've simply shown the net acreage
12 in the south half and the unit percentage interest.

13 A Correct.

14 Q And those are -- those are the same as
15 the interest you've shown on Exhibit Number Four.

16 A Yes.

17 Q All right.

18 A Excluding the Foran Oil Company interest
19 on Exhibit Five.

20 Q All right, when we look at the corres-
21 pondence that is shown on Exhibits Six through Nine, this
22 represents some of your correspondence showing initial
23 contacts with these various owners?

24 A That's correct.

25 Q And you've already brought us up to date

1 about your contacts since the letters were written.

2 A Yes.

3 MR. KELLAHIN: Go to Exhibit
4 Number Ten, Mr. Examiner, and this represents our certi-
5 ficate showing certified mail return receipt notification
6 to all those parties of the hearing today, and then
7 attached as Exhibit Eleven is a supplemental notice when we
8 became aware that the Merchant Livestock Company had con-
9 veyed their interest, we then notified what we understood
10 were the parties that they had transferred their interest
11 to at that time and those are shown on Exhibit Number
12 Eleven.

13 Q When we turn to Exhibit Number Twelve,
14 Mr. Crenshaw, what is this, sir?

15 A This is the AFE for the proposed well on
16 this location.

17 Q Is this an AFE that you've circulated to
18 all the parties involved in the --

19 A That's correct.

20 Q As working interest owners?

21 A Yes.

22 Q Have you received any objection from any
23 potential working interest owners as to the reasonableness
24 of the AFE?

25 A No.

1 Q What is the process within your company
2 to prepare and verify the reliability of an AFE such as
3 this?

4 A I --

5 Q Mr. Foran does that?

6 A And his engineers.

7 Q To the best of your knowledge, this AFE
8 is true and accurate and represents competitive costs for
9 the drilling of the well?

10 A Yes, it is.

11 Q Do you have an anticipated or a pro-
12 jected commencement date for the drilling of this well, Mr.
13 Crenshaw?

14 A As soon as possible.

15 Q You don't have a lease expiration ques-
16 tion that tells you to drill this well by a particular
17 date?

18 A No, we don't.

19 Q Do you have a recommendation to the
20 Examiner, Mr. Crenshaw, as to what you would propose for
21 overhead charges for the drilling and producing --

22 A I would propose \$5000 as a drilling rate
23 and \$500 as a operating rate.

24 Q But for my certificates of mailing and
25 the package of correspondence, was the displays and

1 exhibits prepared under your direction and supervision?

2 A Yes, it was.

3 Q And the correspondence is correspon-
4 dence generated out of Foran Oil Company that's subject to
5 your control?

6 A That's correct.

7 MR. KELLAHIN: That concludes
8 our examination of Mr. Crenshaw, Mr. Catanach. We would
9 move the introduction of his Exhibits One through Twelve.

10 MR. CATANACH: Exhibits One
11 through Twelve will be admitted as evidence.

12

13

CROSS EXAMINATION

14

BY MR. CATANACH:

15

16

Q Mr. Crenshaw, has Foran drilled a Strawn
well recently or in this area?

17

A They just completed a Morrow well --

18

Q They have a Morrow well.

19

20

A On the west side of Lovington, Section
5.

21

22

Q So they've probably got a pretty good
handle on the costs.

23

A I would think so.

24

25

MR. CATANACH: The witness may
be excused.

1 JOE A. YOUNG,

2 being previously sworn and qualified, and remaining under
3 oath, testified as follows, to-wit:

4
5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q Mr. Young, have you had an opportunity
8 as an engineer to examine the data to determine whether or
9 not you could reach an opinion as to a risk factor penalty
10 to apply in this pooling order?

11 A Yes, sir, we've done so by reviewing the
12 geology and from the engineering standpoint, the production
13 from the Morrow zone in the wells in the area surrounding
14 our proposed location.

15 Q And what is that opinion?

16 A Our -- the penalty, the 200 percent
17 penalty, is applicable to this location.

18 Q Would you use that display which is
19 marked as Exhibit Number Thirteen and first of all take a
20 moment and identify it and then we'll talk about your
21 reasons for your opinion?

22 A Exhibit Number Thirteen is a structure
23 map drawn on the Middle Morrow. There is a dashed line
24 that begins at A in Section 30 and continues down to
25 include four wells and end at A' in Section 32.

1 The acreage colored in yellow in
2 Section 30 is the acreage referenced in the forced pooling
3 case.

4 Q Let's start with the well identified by
5 the letter A and have you identify and describe that well.

6 A The well was a dry hole in the Morrow.
7 It was drilled by Phillips in March of 1982. They tried
8 what is referenced here as the Middle Morrow C Zone. The
9 zone was not productive in commercial quantities.

10 As you move along the line in Section 31
11 there is an Exxon well that was completed in July of '82.
12 Cumulative production from that well at the end of 1987 was
13 about 2.3 BCF; it's still making over 1500 MCF a day.

14 Continuing down the line is another
15 Exxon well. Its cumulative production is 2.46 BCF and it's
16 still making about 1800 MCF a day.

17 As you move over to A', this well was
18 drilled by Phillips, (unclear) now operates. It's cumula-
19 tive production is 3.6 BCF; current rate of about 1200 MCF
20 a day.

21 These three wells that I've just refer-
22 enced all produce from the Morrow.

23 Q What are the specific reasons that you
24 rely upon to support your opinion that a 200 percent risk
25 factor penalty is appropriate?

1 A As can be seen from this exhibit, there
2 is a dry hole that saw all portions of the Morrow within
3 the proration unit being described.

4 There is no Morrow production to the
5 north, nor is there Morrow production to the east. The
6 wells to the south and east we've just discussed.

7 The wells in Section 25 to the west are
8 marginal wells from the Morrow. The risk is associated
9 with the fact that we don't know the extent of the pro-
10 ductive Morrow into Section 30. We have a dry hole within
11 the proration unit.

12 Q In this area are we dealing with the
13 typical high risk Morrow channel sands that we typically
14 encounter in Lea County, New Mexico?

15 A Yes, sir, they are Morrow channel sands.

16 Q When we look at potentially shallower
17 zones in gas formations above the top of the Wolfcamp, do
18 we have any shallow gas production in the immediate area?

19 A There is scattered production from
20 various zones. The production in Section 29, those shallow
21 wells, it's Yates production.

22 Q In your opinion is the likelihood of
23 shallow gas production even more unlikely than that of
24 Morrow production?

25 A Yes, sir.

1 Q Would that also, would the shallow gas
2 production also represent a 200 percent risk factor
3 penalty?

4 A Yes, sir, I believe it would.

5 MR. KELLAHIN: That concludes
6 our examination of Mr. Young, Mr. Catanach.

7 We would move the introduc-
8 tion of Exhibit Number Thirteen.

9 MR. CATANACH: Exhibit Number
10 Thirteen will be admitted as evidence.

11
12 CROSS EXAMINATION

13 BY MR. CATANACH:

14 Q Mr. Young, did you say there wasn't any
15 shallow production at all in this area?

16 A No, sir, there is shallow production
17 in the area. In fact, there is shallow production in
18 Section 29, but it's Yates production.

19 Q Yates. That well in the south half of
20 Section 30, that was drilled to the Morrow and tested non-
21 productive?

22 A Yes, sir. It was deep enough to pene-
23 trate on the production code on Exhibit Thirteen. We've
24 got the Upper, Middle, and Lower Morrow. It penetrated all
25 three zones. They attempted a completion in the C interval

1 of the Middle Morrow, and it was not a commercial pro-
2 ducer.

3 MR. CATANACH: That's all I
4 have of this witness.

5 Is there anything else in this
6 case?

7 If not, Case 9392 will be
8 taken under advisement.

9

10 (Hearing concluded.)

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C E R T I F I C A T E

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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. 9392, heard by me on June 8 1981.

David R. Catant, Examiner
Oil Conservation Division