

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

6 9 November 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of OGS Operating Company, CASE
10 Inc. for compulsory pooling, Eddy 9523
11 County, New Mexico.

12
13 BEFORE: David R. Catanach, Examiner
14
15

16 TRANSCRIPT OF HEARING
17

18 A P P E A R A N C E S
19

20 For the Division: Robert G. Stovall
21 Attorney at Law
22 Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico

23 For the Applicant: W. Thomas Kellahin
24 Attorney at Law
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1 MR. CATANACH: We'll call next
2 Case Number 9523.

3 MR. STOVALL: Application of
4 OGS Operating Company, Inc., for compulsory pooling, Eddy
5 County, New Mexico.

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

8 MR. KELLAHIN: Yes, Mr. Exa-
9 miner. I'm Tom Kellahin of the Santa Fe law firm of
10 Kellahin, Kellahin & Aubrey. I'm appearing on behalf of
11 the applicant and I have two witnesses.

12 MR. CATANACH: Any other ap-
13 pearances?

14 Will the witnesses please
15 stand and be sworn in.

16
17 (Witnesses sworn.)

18
19 MR. KELLAHIN: Mr. Examiner,
20 we have two witnesses. The first witness is Thom O'Brien.
21 He spells his first name T-H-O-M and the last name is shown
22 on the application. He is the O'Brien of the applicant,
23 O'Brien, Goins and Simpson.

24
25

1 THOM O'BRIEN,
2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:
4

5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q Mr. O'Brien, would you for the record
8 please state your name and occupation?

9 A My name is Thom O'Brien. I'm the --
10 primarily a landman with O'Brien, Goins, Simpson Explora-
11 tion and also owner, part owner, of that concern.

12 Q Mr. O'Brien, have you had occasion to
13 testify before the Oil Conservation Division before?

14 A Never.

15 Q Would you summarize for the Examiner
16 what has been your educational and employment background
17 that involved petroleum land matters?

18 A I was graduated from the University of
19 Texas at Austin in 1975 with a degree in accounting.

20 I then went to work for the Midland
21 National Bank in the Trust Department and handled oil and
22 gas properties owned in trust.

23 After that I went to work -- I worked
24 there for about two years. I went to work after that with
25 Texas Oil and Gas Corporation as a landman in west Texas

1 and southeast New Mexico; worked there for about three
2 years.

3 Subsequent to that I went to work for
4 The Superior Oil Company and handled -- as a landman; did
5 work in west Texas and southeast New Mexico.

6 I worked there for about two years and
7 since that time I have been associated with O'Brien, Goins.

8 I'm also a Certified Professional
9 Landman.

10 Q Would you summarize what has been your
11 personal involvement with regards to your attempts to form-
12 ulate on a voluntary basis the spacing unit necessary for
13 the drilling of the well that's the subject of this case?

14 A Since about June or July I've been in
15 contact with Yates Petroleum, Amoco and Santa Fe Energy in
16 various attempts to either secure their agreement to join
17 in the drilling of the well or farmout on some basis.

18 MR. KELLAHIN: At this time,
19 Mr. Examiner, we tender Mr. O'Brien as an expert petroleum
20 landman.

21 MR. CATANACH: He is so quali-
22 fied.

23 Q Mr. O'Brien, let me turn to the package
24 of documents that we have marked as Applicant Exhibit
25 Number One. We have then taken that package and numbered

1 each of the pages consecutively 1 through page 32, page 32
2 being the first page of the Model Form Operating Agreement.

3 Is this a package of exhibits and docu-
4 ments from your files?

5 A Yes.

6 Q And are you fully familiar with the
7 contents of this exhibit?

8 A Yes.

9 Q Let me have you begin, sir, with page 1
10 of the exhibit and summarize for us what has caused you now
11 to seek compulsory pooling against certain of the parties
12 involved in the drilling of this well.

13 A Well, page 1 summarizes the leases that
14 O'Brien, Goins owns and the dates which we acquired them.

15 In mid-August we -- we had been discus-
16 sing trying to get a farmout from Enron Corporation, which
17 owns a lease, a State lease in the south half of the north-
18 west quarter of Section 5, and they at that time agreed to
19 sell us their lease.

20 That lease expires January 1 of 1989.
21 In order to protect that lease or perpetuate it, hopefully,
22 we need to drill it by that date and that's why I need to
23 get answers from Amoco, Santa Fe, and Yates as to whether
24 or not they will participate or farmout or do something
25 with them.

1 Q Despite your efforts as of this date,
2 have you had unanimous voluntary agreement by all the
3 working interest owners for the drilling of this well?

4 A Not unanimous. Santa Fe Energy has
5 indicated verbally they would join.

6 Yates Petroleum has indicated that they
7 will join or farmout.

8 And I have no such indication from
9 Amoco.

10 Q Let me direct your attention now, sir,
11 to page 2 and have you show us the various interests of
12 Amoco, Yates and Santa Fe Energy when you look at the north
13 half of Section 5.

14 A Okay. You see the north half of Section
15 5 is outlined in red and a red dot is our proposed
16 location. A standard spacing unit for the Morrow and the
17 Strawn is 320 acres.

18 The yellow acreage is -- are leases that
19 we own, O'Brien, Goins owns.

20 Yates owns leases on Lots 1 and 2 in the
21 southeast -- southwest quarter of the northeast quarter.

22 Amoco has a lease on Lot 3 and Santa Fe
23 Energy has a lease on Lot 4.

24 Q Where is the proposed location for the
25 well?

1 A It's in Lot 3. It's 990 from the north
2 line and 1980 from the west line in Section 5.

3 Q Let's turn now, sir, to page 3 and have
4 you summarize for us what has been your activities in an
5 effort to get voluntary joinder from Santa Fe Energy.

6 A Well, on August 10th I wrote a letter to
7 Santa Fe Energy requesting an option farmout of their in-
8 terest in the north half of Section 5. We also own a lease
9 on the south half of Section 32. We have re-entered that
10 well, the HNG Moseley Springs Well, and I wanted an option
11 and farmout in support of that test, and Santa Fe subse-
12 quently indicated that they would not farmout; that they
13 were interested in joining and interested in drilling a
14 Morrow test in the north half of Section 5.

15 A Pages 3 through Page Eight contains cor-
16 respondence and notations with regards to your efforts to
17 get voluntary joinder from Santa Fe Energy?

18 A That's correct.

19 Q And as of today's hearing what is the
20 status of your efforts with Santa Fe Energy?

21 A They have verbally indicated that the
22 AFE I sent them was acceptable; that the operating agree-
23 ment, some minor changes may be indicated, having to do
24 with their accounting procedures.

25 Q So as of today we don't have a written

1 commitment from them but you anticipate to have this
2 completed by the time you commence the well?

3 A That's correct.

4 Q Let's turn now, sir, to your efforts to
5 get Yates Petroleum to participate with you in the well,
6 and specifically referring to your notations beginning on
7 page 9.

8 A Okay. Initially we had been talking to
9 Yates about the south half of Section 5 and that was a
10 separate proposal altogether. Then our prospect somewhat
11 expanded to the north and I made essentially the same pro-
12 posal to them I made to Santa Fe on an option farmout, con-
13 tingent upon us re-entering the well in Section 32, and we,
14 Yates had been considering that proposal for quite some
15 time, indicated that they would probably join in the well
16 and has recently, I believe the date of the letter, dated
17 11-4-88, indicated in writing that they will either join or
18 farmout to it, to the well in the north half of Section 5.

19 Q Your documentation concerning your ef-
20 forts to obtain voluntary joinder by Yates Petroleum is
21 pages 9 through 20, is it?

22 A That's correct.

23 Q And page 20, then, is the letter to
24 which you've just referred, is an indication from Yates
25 Petroleum Corporation that they will either join or farm

1 out to you.

2 A Correct.

3 Q Turn now, sir, to page 21, which is your
4 notations with regards to your efforts on Amoco's interest?

5 A That's right.

6 Q Summarize for us what have your efforts
7 been?

8 A I made the same proposal to Amoco that I
9 made to Yates and Santa Fe. They have been considering it.
10 They have agreed to farmout to me in the south half. They
11 did agree to farmout in both north and south halves, and
12 they are currently considering my proposal to drill a well
13 in the north half of Section 5 and I have not received any
14 indication from them what they want to do.

15 Q Do you have a recommendation to the Exa-
16 miner as to overhead charges to be included in the pooling
17 order for the drilling of the well and the producing well
18 rate?

19 A Yes, sir.

20 Q Is that shown on pages 29 and 30 of the
21 exhibit?

22 A Yes, sir, it is.

23 Q What is the source of this information,
24 Mr. O'Brien?

25 A It is based on a survey done by Ernst

1 and Whinney of overhead rates and specifically overhead
2 rates for gas wells in west Texas and eastern New Mexico.

3 Q When we look at page 30 can you show us
4 that point in the tabulation that you're using for your
5 proposed rates?

6 A I believe it's on page 31. Well, for
7 10,000 - 15,000 feet I'm using \$4,500 drilling well and
8 \$450 per month for a producing well rate.

9 Q All right, sir, give me the numbers
10 again.

11 A \$4,500 drilling well rate and \$450 a
12 month producing well rate.

13 Q And is that your recommendation to the
14 Examiner for inclusion of those numbers in the forced
15 pooling order?

16 A Yes.

17 Q Let me turn now to the AFE which my
18 exhibit shows to be 31.

19 A I must have mine out of order, okay.

20 Q Page 31?

21 A Okay.

22 Q I'll give you another set.

23 A Thank you.

24 Q Is this the AFE you propose to utilize
25 for the drilling of the well?

1 A Yes.

2 Q And describe for us how it was prepared,
3 Mr. O'Brien.

4 A Well, it was prepared by my father and a
5 man that works for him. They're petroleum engineering con-
6 sultants and drilling consultants.

7 Q Based upon your information and belief,
8 do you have an opinion as to whether this AFE is current
9 and accurate to the best of your knowledge?

10 A Oh, yes.

11 Q Have you utilized it in your negotia-
12 tions with the various working interest owners for this
13 well?

14 A Yes.

15 Q And do you have agreement by any of
16 these parties that this AFE is to be utilized?

17 A Santa Fe Energy has verbally agreed to
18 it and Yates has agreed to join or farmout, voiced no op-
19 position or objection.

20 Q None of the parties have objected to any
21 of the costs shown on the AFE?

22 A No.

23 Q Have you caused to be circulated a pro-
24 posed operating agreement for the well?

25 A Yes.

1 Q And is that shown commencing on page 32
2 of the Exhibit One?

3 A That's right.

4 Q And is this a document that you caused
5 to be prepared?

6 A Yes, I did.

7 Q At this point do you have signed oper-
8 ating agreements by any of the parties?

9 A No.

10 Q Has any of the parties other than Santa
11 Fe Energy responded to your proposed operating agreement?

12 A No.

13 Q When do you propose to commence the
14 well, Mr. O'Brien?

15 A Before the end of this year.

16 MR. KELLAHIN: Mr. Examiner,
17 that concludes my examination of Mr. O'Brien.

18 We move the introduction of
19 his Exhibit Number One.

20 MR. CATANACH: Exhibit Number
21 One will be admitted as evidence.

22

23 CROSS EXAMINATION

24 BY MR. CATANACH:

25 Q Mr. O'Brien, have you had any response

1 back from Amoco?

2 A Yes. I've talked to him on the phone.
3 The last time I talked to him on the phone was November the
4 1st. I spoke with Tim Custer of that office and he indi-
5 cated that they were still considering my proposal.

6 MR. CATANACH: No further
7 questions. The witness may be excused.

8 MR. KELLAHIN: Mr. Examiner,
9 my next witness is Michael Gates. He spells his last name
10 G-A-T-E-S. Mr. Gates is a geologist.

11

12 MICHAEL W. GATES,
13 being called as a witness and being duly sworn upon his
14 oath, testified as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

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

20 A Mike Gates. I'm a geologist for OGS
21 Exploration, which is O'Brien, Goins and Simpson.

22 Q Mr. Gates, have you previously testified
23 as a petroleum geologist before the Oil Conservation Divi-
24 sion of New Mexico?

25 A I have.

1 Q And have you made a geologic study with
2 regards to this particular prospect that's the subject of
3 this application?

4 A Yes.

5 MR. KELLAHIN: We tender Mr.
6 Gates as expert petroleum geologist.

7 MR. CATANACH: He is so qual-
8 ified.

9 Q Mr. Gates, have you prepared an exhibit
10 for presentation today?

11 A I have.

12 Q Would you unfold that and display it
13 before you?

14 Before we discuss the specific details
15 of the display and your conclusions, Mr. Gates, would you
16 take a moment and simply identify how you've arranged the
17 exhibit?

18 A Basically we've got two objectives in
19 the area and on the top, the top two maps show the Morrow
20 structure on the left and the Morrow isopach on the right,
21 which is our deepest objective.

22 A shallower objective is the Strawn and
23 its two maps directly below, the structure on the left and
24 the isopach, thickness map on the right.

25 Q What is the proposed drilling program to

1 let you test the Morrow and the Strawn formations?

2 A We'd like to drill a location 990 from
3 the north and 1980 from the west in Section 5 to the Morrow
4 and basically the Morrow is a channel sand in this area.
5 If you look at the upper righthand corner at the Lower
6 Morrow isopach you can see that there's one well that has
7 been successful in the -- in testing the Lower Morrow sand.
8 That's the Amoco State 1-1X immediately to the west of our
9 acreage. This well had 17 feet thickness.

10 Based solely on that well and the lack
11 of any Morrow sand in the two wells, the well immediately
12 north of our location and the well immediately south, about
13 the only place you can put a Morrow channel in there is
14 east/west trending through our location.

15 After we test the Morrow we would like
16 to come back up the hole to the Strawn, which is basically
17 reef build-up along the basin margin. You can see the
18 steep dip to the east. We think environmental conditions
19 were favorable for Morrow -- for, excuse me, for Strawn
20 development along this north/south trend here through
21 Section 5 and we would like to -- at that same location we
22 think we'll encounter roughly 15-16 feet of Strawn porosity
23 and be above the gas/water contact.

24 Q Have you determined a gas/water contact
25 in the Strawn formation in one of the wells?

1 A Yes, we have. Based on the Moncrief
2 Jernigan State in Section 8, in the north half of Section
3 8, this has been a successful gas well in the Strawn form-
4 ation. Along with the gas it produces a fair amount of
5 water. It's made approximately 20,000 barrels of water and
6 we feel like if we move any further down dip, we will be
7 below the gas/water contact.

8 Q When we move to the last bottom third of
9 the display, what is shown on the bottom portion of the
10 display?

11 A On the lefthand side we have a produc-
12 tion data map, which just gives the cumulative -- the key
13 for this map is down here on the very bottom -- it displays
14 the cumulative production, the current daily production,
15 the productive interval, and the date of completion for all
16 the wells in the area.

17 Q In mapping the Strawn and the Morrow
18 have you utilized all available wellbore information?

19 A We have.

20 Q And is this your own work?

21 A Yes.

22 Q When we look at the Morrow itself, do
23 you have an opinion as to a risk factor penalty to be as-
24 sessed against any of the nonconsenting working interest
25 owners that are subject to participation in the well?

1 A I consider it to be fairly high risk
2 based on the single well control for the Morrow channel and
3 based on this high degree of risk I would request that we
4 recover our cost plus 200 percent.

5 Q When we look at the Morrow do we have
6 any well control east of your proposed well location?

7 A No, you'd have to go quite a ways. I
8 guess you could conceivably call the well up there in Sec-
9 tion 34 of 23 South, 25 East, a control point, but it's
10 basically too far away to be of real use.

11 Q When we direct your attention to the
12 Strawn formation, do you have a geologic opinion about the
13 risk involved in attempting commercial production out of
14 the Strawn formation at this location?

15 A Yes. This -- the Strawn we've had to
16 trade off between trying to get the maximum thickness in
17 the algal mound versus not getting too far down dip and
18 being wet. Consequently our location at 1980 from the
19 west, it's not at the thickest point in the Strawn but
20 it's as far as we can go and still stay above the gas/water
21 contact.

22 Q Where's your closest producing Strawn?

23 A Section 8, Moncrief Jernigan State.

24 Q And are there any other producing Strawn
25 wells in the immediate area?

1 A It's a single well field. That's the
2 only producer.

3 Q What then is your opinion with regard to
4 the risk factor for drilling and producing commercial pro-
5 duction from the Strawn formation?

6 A I think it has some -- a degree of risk
7 in that we will not be nearly as thick as the Moncrief Well
8 and we don't have a real good handle on how much porosity
9 we will have there, and as I mentioned, we're playing with
10 the oil/water -- gas/water contact, so (not clearly heard).

11 Q The Examiner is allowed by statute to
12 assess a penalty that includes recovery of your cost out of
13 production plus a maximum of 200 percent. Within that
14 range, then, Mr. Gates, what is your opinion about the risk
15 that ought to be assessed against any nonconsenting inter-
16 est owners in the Strawn formation?

17 A Due to the nature of the Morrow and the
18 Strawn I would think that maybe a maximum would be
19 (unclear).

20 Q And is that your recommendation?

21 A Yes, sir.

22 MR. KELLAHIN: That concludes
23 my examination of Mr. Gates.

24 We move the introduction of
25 his Exhibit Number Two.

1 MR. CATANACH: Exhibit Number
2 Two will be admitted as evidence.

3
4 CROSS EXAMINATION

5 BY MR. CATANACH:

6 Q Mr. Gates, which is your closest pro-
7 ducing Morrow well in the -- in the area?

8 A That would be the well in Section 6, the
9 Amoco 1-X in the east half there.

10 Q What is the well in the north half of
11 the southwest quarter of 5? The H -- it says HNG?

12 A That was a Morrow attempt. They didn't
13 have any porosity. Well, they had very little porosity.
14 You can see on the Lower Morrow isopach, they had a total
15 of 2 feet of porosity greater than 5 percent.

16 Q And the well just south of there is also
17 a dry hole?

18 A Yes, it was a dry hole. It had no Mor-
19 row -- well, it had 8 feet of Morrow greater than 5, but
20 very poor reservoir quality and it's a dry hole there; no
21 -- no good Strawn Reef to produce from, either. You can
22 see the Strawn B porosity isopach, it had 6 total feet,
23 which is not sufficient to produce commercial quantities
24 from the Strawn Reef.

25 Q What is the proposed location in the

1 south half of Section 5, is that --

2 A That was our original idea. When we
3 first started picking up acreage out here, we found there
4 to be some open acreage immediately north of the Moncrief
5 well and, as I mapped further, as Tom said, it began to
6 grow, the prospect enlargement. Basically there are three
7 wells we'd like to do in there, and currently we're re-
8 entering the well up in Section 32, and then we'd like to
9 do this well, since our acreage is expiring, the well that
10 we're addressing here, and eventually drill that proposed
11 location to the south, if we're successful.

12 MR. CATANACH: I have no fur-
13 ther questions of the witness.

14 He may be excused.

15 Is there anything further in
16 Case 9523?

17 MR. KELLAHIN; Yes, sir, Mr.
18 Catanach. We have a certificate which I have signed
19 showing that we have sent pursuant to notice rules certi-
20 fied mail return receipt notices to Yates, Santa Fe Energy
21 and Amoco. We've attached the return receipt cards showing
22 that we mailed them a copy of the application under cover
23 letter prior to 20 days to today. We request that that be
24 made a part of the record.

25 MR. CATANACH: That is Exhibit

1 Number Three?

2 MR. KELLAHIN: Yes, sir.

3 MR. CATANACH: Exhibit Number
4 Three will be admitted as evidence in this case.

5 Anything further in this case?

6 MR. KELLAHIN: No, sir.

7 MR. CATANACH: All right, it
8 will be taken under advisement.

9

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 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. 9523,
heard by me on November 9, 1988.

David R. Catanzaro, Examiner
Oil Conservation Division