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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. 10939
and
CASE NO. 10940

APPLICATION OF MEWBOURNE OIL COMPANY

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: Jim Morrow, Hearing Examiner
March 17, 1994
Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on March 17, 1994, at Morgan Hall,
State Land Office Building, 310 Old Santa Fe Trail,
Santa Fe, New Mexico, before Diana S. Abeyta, RPR, Certified
Court Reporter No. 168, for the State of New Mexico.

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March 17, 1994
Examiner Hearing
CASE NO. 10939 and
CASE NO. 10940

PAGE

APPEARANCES

3

MEWBOURNE OIL COMPANY'S WITNESSES:

D. PAUL HADEN

Examination by Mr. Bruce
Examination by Examiner Morrow

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DAVID SHATZER

Examination by Mr. Bruce
Examination by Examiner Morrow

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15

REPORTER'S CERTIFICATE

17

E X H I B I T S

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Exhibit 1
Exhibit 2
Exhibit 3
Exhibit 4
Exhibit 5
Exhibit 6
Exhibit 7
Exhibit 8
Exhibit 9

A P P E A R A N C E S

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FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT:

HINKLE, COX, EATON
COFFIELD & HENSLEY
Post Office Box 2068
Santa Fe, New Mexico 87504-2068
BY: JAMES G. BRUCE

1 EXAMINER MORROW: Call cases 10939 and 10940.

2 MR. STOVALL: And each of those is the
3 application of Mewbourne Oil Company for an unorthodox gas
4 well location in Eddy County, New Mexico.

5 EXAMINER MORROW: Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce, from the
7 Hinkle law firm in Santa Fe, representing the applicant. I
8 have two witnesses to be sworn.

9 EXAMINER MORROW: Witnesses please stand and be
10 sworn.

11 (Witnesses sworn.)

12 D. PAUL HADEN
13 the witness herein, after having been first duly sworn
14 upon his oath, was examined and testified as follows:

15 EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name for the record.

18 A. My name is Paul Haden.

19 Q. Who do you work for and in what capacity?

20 A. I work for Mewbourne Oil Company in the capacity
21 of petroleum landman.

22 Q. Have you previously testified before the
23 division?

24 A. Yes, I have.

25 Q. Were your credentials as an expert landman

1 accepted as a matter of record?

2 A. Yes, they were.

3 Q. Are you familiar with the land matters involved
4 in this these two cases?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, I tender Mr. Haden as
7 an expert landman.

8 EXAMINER MORROW: We accept Mr. Haden.

9 Q. (BY MR. BRUCE) Mr. Haden, what is Exhibit 1?

10 A. Exhibit No. 1 is a land plat. It shows our
11 proposed locations, both which are indicated by red dots.
12 The first case would be Case No. 10939. This is in regard
13 to our proposed Vandagriff 23 Federal No. 1 well. The
14 proposed proration unit is the southwest quarter of Section
15 23 of Township 16 South, Range 28 east. This well is
16 located at 2,210 from the west line and 330 feet from the
17 south line of said Section 23. We're seeking approval for
18 an orthodox gas well location for that well.

19 Also, regarding Case No. 10940, our well location
20 is 2,140 from the north line -- excuse me -- 2,140 from the
21 west line, and 1,667 feet from the north line of Section 26,
22 also located in Township 16 South, Range 28 East, of which
23 the proration unit is the northwest quarter.

24 Q. And the target zone is the Vandagriff Keys Gas
25 Pool?

1 A. Right; that's correct, at approximately 2,300
2 feet.

3 Q. Who are the offset operators?

4 A. Mewbourne Oil Company is the offset operator for
5 all of these. In Section 23, Mewbourne Oil Company owns
6 approximately 60 percent of the working interest, of which
7 Mewbourne Oil Company is the operator of all of Section 23.
8 The section to the immediate west, being Section 22,
9 Mewbourne Oil Company, again, is the operator and owns
10 approximately 60 percent of the working interest. Section
11 26, Mewbourne Oil Company owns all Section 26 outright.
12 Also, in Section 27, Mewbourne Oil Company owns the oil and
13 gas lease covering that land also.

14 Q. As a result of Mewbourne Oil Company being the
15 only offset operator, no notice was given to any other
16 party; is that correct?

17 A. That's correct.

18 Q. What does Exhibit 2 constitute?

19 A. Exhibit No. 2 is our Application for Permit to
20 Drill for each of these wells, both of which have been
21 approved by the Bureau of Land Management subject to
22 approval by the Oil Conservation Division.

23 Q. In your opinion, is granting of both applications
24 in the interest of conservation and the prevention of waste?

25 A. Yes, that's right.

1 Q. And were Exhibits 1 and 2 prepared by you or
2 compiled from company records?

3 A. Yes, they were.

4 MR. BRUCE: Mr. Examiner, I move the admission of
5 Mewbourne's Exhibits 1 and 2.

6 EXAMINER MORROW: Exhibits 1 and 2 are admitted
7 into the record.

8 MR. BRUCE: I have nothing further.

9 EXAMINATION

10 BY EXAMINER MORROW:

11 Q. What depth did you say the wells would be?

12 A. Approximately 2,300 feet is their proposed total
13 depth for both of these wells.

14 Q. Is this production around, is it at that depth,
15 what's shown on your Exhibit 1, is some of that at least
16 produced from that shallow depth?

17 A. Some of that, and our geologist will go into that
18 in more detail.

19 MR. STOVALL: Just one question, Mr. Haden. I'll
20 just ask you for a yes or no answer on it. These locations
21 are unorthodox for -- I'm assuming, since you've got
22 archaeological and topographical exhibits, for those reasons;
23 is that correct?

24 A. That is correct.

25 Q. And are there --

1 A. Essentially, for Section 26, especially. And
2 Section 23, is also geologic.

3 MR. STOVALL: Answers my question.

4 EXAMINER MORROW: Thank you, sir.

5 DAVID SHATZER,
6 the witness herein, after having been first duly sworn
7 upon his oath, was examined and testified as follows:

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you please state your name and city of
11 residence.

12 A. My name is David Shatzer. I live in Midland,
13 Texas.

14 Q. Who do you work for and in what capacity?

15 A. I'm a petroleum geologist for Mewbourne Oil
16 Company.

17 Q. Have you previously testified before the
18 division, as a geologist, and had your credentials accepted
19 as a matter of record?

20 A. Yes, I have.

21 Q. And are you familiar with the geological matters
22 involving these two case?

23 A. Yes, I am.

24 Q. Are you also familiar with the topographic and/or
25 archeological matters involved in these applications?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, is the witness
3 acceptable?

4 EXAMINER MORROW: Yes, sir.

5 Q. (BY MR. BRUCE) Mr. Shatzer, looking at the
6 Exhibit 3, let's discuss these proposed well locations, and
7 why don't you start with the well in the southwest quarter
8 of Section 23?

9 A. All right. Exhibit 3 is a combination
10 archaeological-topographic map on a 1 to 1,000 scale. And
11 therefore, the dashed outlines in Section 23, and also in
12 the northwest of Section 26, represent 160-acre gas
13 proration unit outlines. And the proposed location for the
14 Section 23 well is located within the open circle in the
15 southeast portion of that, southeast portion of that box.

16 Q. What does the X to the northwest represent?

17 A. The X represents where the nearest -- we will
18 show geological reasons why we don't want to drill very far
19 to the northwest in Section 23, but that X is the nearest
20 location that would be a legal location for 160-acre
21 spacing, and it is unacceptable, as you can see, because it
22 is located in a ravine or draw that make topographic
23 considerations impossible to put a well site there.

24 Q. And the BLM would not want you to drill there; is
25 that correct?

1 A. That is correct.

2 Q. Why don't you move on to Section 26.

3 A. Section 26, the proposed location is located in
4 the east half of the southeast quarter of that quarter
5 section, and it is also in a low spot or ravine coming off
6 of this Pavo Mesa. However, it is wide enough, and we did
7 obtain approval from the BLM to be able to put a well
8 located in that east-facing ravine. I would point out that
9 most of the areas in the west half of Section 26 are largely
10 unacceptable because the topography is too rough because of
11 this ravine.

12 And then outlined in green, we have the first of
13 our two archaeological sites that were designated by the
14 archeologist, and Site 102,922 is located on the top of this
15 mesa, so that flat area becomes condemned for archaeological
16 reasons. The sides are condemned because of topographic,
17 and then on top of the mesa, there in the northwest quarter
18 of 26, that became condemned archeologically.

19 Q. Is Exhibit 4 a copy of the archaeological report
20 for Site LA 102,922?

21 A. Yes, is it is.

22 Q. Now you've also marked on the map a separate
23 site. Has that affected -- and it's outlined in red on your
24 Exhibit 3 -- has that affected, to a certain extent, your
25 drilling in this area?

1 A. Yes, it has. I will show in subsequent maps that
2 the nearest production in the area from the Penrose, and
3 most of the production in the area is Penrose production, to
4 answer -- clarify an earlier question, most of it is
5 Penrose. The nearest wells are in the southwest corner of
6 27 -- the southeast corner of 27, and in the southwest
7 corner of 26. Those are the nearest wells that produced
8 from this. They are shown as gas symbols. And those are
9 the nearest wells. And our initial location that we would
10 have preferred to drill would have been an offset, a direct
11 offset from those wells.

12 And proposed locations that were approved by the
13 BLM concerning topography are shown in open circles just
14 north of each of those wells, in open circles in 27 and 26.
15 Those locations are inside the red outline, which is
16 archaeological site LA 102,411. And these sites were
17 acceptable from a topographic standpoint, but became
18 condemned by being in the outline of the archaeological
19 site.

20 And even a third location slightly north in
21 Section 27 was also condemned for the same reasons. And the
22 dashed outline shows that it was not checked in great
23 detail, but that this site seems to continue north on the
24 west face of the lower slope of this mesa.

25 Q. And the second archeological report is submitted

1 as Exhibit 5?

2 A. Yes, it is.

3 Q. Why don't you move on to your Exhibit 6, then,
4 Mr. Shatzer, and discuss the production in this area and so
5 forth.

6 A. Exhibit No. 6 is a production study of the
7 Vandagriff area. And to answer an earlier question, most of
8 the production is in the Penrose, some wells being labeled
9 as gas wells, and the wells to the east, that trend is
10 mostly designated as oil wells, but it's all out of the
11 Penrose sands.

12 On this map, this is a 1 to 2,000 scale, and the
13 outline of our two proration units are in yellow in 26, and
14 Section 23. This map shows the cumulative production for
15 oil and gas and, also, a daily rate for those wells that are
16 still producing. Most of the wells closest to our proposed
17 location are plugged and abandoned.

18 Q. What is Exhibit 7?

19 A. Exhibit 7 is a structure map on top of the
20 Penrose, and it has a contour interval of 50 feet. And the
21 contouring generally shows an even dip rate with dip to the
22 east, southeast. And the proposed locations are roughly on
23 strike to the northeast of the nearest producers that I have
24 pointed out previously in the corners of Sections 27 and 26.

25 Q. Could you move on to Exhibit 8 and discuss the

1 geological need for the well location you proposed in the
2 southwest quarter of Section 23.

3 A. Exhibit 8 is a Penrose Net Sand Isopach, and the
4 data points are the total porosity from the Penrose sands
5 greater than or equal to 9 percent from all the Penrose
6 sands. The porosity trends are northeast southwest, and
7 nearly parallel each other.

8 The porosity trend that we are attempting to
9 extend is roughly parallel to the one to the east of it, and
10 we're attempting to go to the northeast of the last
11 producers in this trend. The porosity does, however, thin
12 going to the northwest. The last well on cross section G-G'
13 has only 16 feet of porosity, and it was a dry hole, and
14 this is located in Section 23. And that is the reason that
15 Section 23, we don't want to drill any farther to the
16 northwest than we have to.

17 So that we would like to drill in 26; it should
18 be in the heart of the porosity trend. And it's location
19 was merely limited by topography and archeology, but in
20 Section 23, we are limited somewhat by topography, but also
21 desire to stay in what we contour as the thickest portion of
22 the porosity isopach.

23 Q. Why don't you then move on to your cross section
24 marked Exhibit 9, and discuss that briefly.

25 A. Cross section G-G' runs southwest to northeast

1 across the prospect area, and it just confirms and shows the
2 type of porosity that we were picking in the area. The
3 Penrose Sand is shown colored in blue, again. And the
4 porosity that was pertinent to our data points is colored in
5 red. And it shows the intervals that have been perforated
6 in some of the other wells, and that our proposed location
7 is located to the northeast of one of the better wells,
8 closest to the prospect, the Gross Southern Union Federal
9 No. 2, and the kind of porosity that it had, and that
10 porosity diminishes, especially in the upper Penrose package
11 as you go to the northwest in that last well, the Tomsco
12 Promitory B in Section 23. And therefore, again, the reason
13 for our wanting to stay in the southeast quarter of that
14 quarter section of Section 23.

15 Q. In your opinion, is the granting of both of these
16 applications in the interest of conservation and the
17 prevention of waste?

18 A. Yes, it is.

19 Q. And were Exhibits 3 through 9 prepared by you or
20 compiled from company records?

21 A. Yes, they were.

22 MR. BRUCE: Mr. Examiner, I move the admission of
23 Mewbourne Exhibits 3 through 9.

24 EXAMINER MORROW: Exhibits 3 through 9 are
25 admitted.

1 MR. BRUCE: I have nothing further of the
2 witness.

3 EXAMINATION

4 BY EXAMINER MORROW:

5 Q. What well did you expect to make when you
6 calculated the economics; what did you predict would be the
7 initial producing rate and recovery?

8 A. These are, obviously, shallow wells that should
9 be cheap to drill and they also are going to have -- the
10 type of average cumulative reserves that we ran the prospect
11 on are in the neighborhood of the 300- to 330 million at the
12 closest two wells to us. The initial rates might be in the
13 order of 300 to 500 mcf a day, half a million a day. I mean
14 this is a low area, and this really would point out another
15 reason that we're -- we're already taking some more risk
16 going farther to the northeast than what we wanted to, but
17 those archaeological sites, the BLM requires an
18 archeological mitigation before they can be drilled on, and
19 that adds extra expense to already wells that have economics
20 that can't stand too much increased cost to them. So those
21 are the kind of rates that we expect and why we're asking to
22 drill where we are.

23 Q. Would a standard location be 660; is that
24 correct?

25 A. Yes, 660 out of each of the boundaries.

1 EXAMINER MORROW: Bob, have you got something?
2 MR. STOVALL: No, I don't have any questions.
3 EXAMINER MORROW: Anything else, Mr. Bruce?
4 MR. BRUCE: No, sir.
5 EXAMINER MORROW: Cases 10939 and 40 will be
6 taken under advisement.
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