

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

6 8 August 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Mesa Petroleum Co. CASE
10 for retroactive allowable, San Juan 8298
11 County, New Mexico.

12
13 BEFORE: Richard L. Stamets, Examiner

14
15 TRANSCRIPT OF HEARING

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17 A P P E A R A N C E S

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A P P E A R A N C E S

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3 MR. STAMETS: We'll call next
4 Case 8298.

5 MR. PEARCE: That case is on
6 the application of Mesa Petroleum Company for retroactive
7 allowable, San Juan County, New Mexico.

8 MR. CARR: May it please the
9 Examiner, my name is William F. Carr, with the law firm
10 Campbell and Black, P. A., of Santa Fe, appearing on behalf
11 of Mesa Petroleum Co.

12 I have one witness.

13 MR. PEARCE: Are there other
14 appearances in this matter?

15 MR. KENDRICK: Ned Kendrick
16 from Santa Fe, for El Paso Natural Gas Company.

17 MR. PEARCE: Do you propose any
18 witnesses, Mr. Kendrick?

19 MR. KENDRICK: No, I don't
20 think so.

21 (Witness sworn.)

22 MICHAEL P. HOUSTON,
23 being called as a witness and being duly sworn upon his
24 oath, testified as follows, to-wit:
25

DIRECT EXAMINATION

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3 BY MR. CARR:

4 Q Will you state your full name and place
5 of residence?

6 A Michael P. Houston, Amarillo, Texas.

7 Q Mr. Houston, by whom are you employed and
8 in what capacity?

9 A I'm employed by Mesa Petroleum Company in
10 the capacity of Division Production Engineer.

11 Q Have you previously testified before this
12 Division and had your credentials as a petroleum engineer
13 accepted and made a matter of record?

14 A Yes, I have.

15 Q Do your duties for Mesa include respons-
16 ibility for northwest New Mexico?

17 A We would provide -- I say "we" -- I would
18 provide technical support to operations people in that area,
19 yes.

20 Q Are you familiar with the application
21 filed in this case on behalf of Mesa?

22 A Yes, I am.

23 Q Are you familiar with the subject wells
24 and the subject proration unit?

25 A Yes, sir, I am.

MR. CARR: Are the witness'
qualifications acceptable?

MR. STAMETS: They are.

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Q Mr. Houston, would you briefly state what Mesa seeks with this application?

A We are seeking the assignment of the retroactive allowable to the State AK 35E and 35E Wells in San Juan County, New Mexico.

Q The two wells on this spacing unit?

A Yes, sir.

Q Have you prepared certain exhibits for introduction in this case?

A Yes, sir, I have.

Q Would you please refer to what has been marked for identification as Mesa Exhibit Number One, identify this, and explain what it shows?

A This is a 9-well section map with Section 36 being right in the center, and on the east half of Section 36 is the proration unit that the two wells serve, the Mesa State Com AK 35 and the State Com AK 35E in the southeast quarter.

Q Is this a standard proration unit?

A Yes, sir, it is.

Q When were each of these wells drilled?

A The well in the northeast quarter, the State Com AK 35, was drilled in early 1967 and the well in the southeast quarter, the State Com AK 35E, was drilled in early 1980 as an infill well.

Q And in what well -- in what pool are these wells completed?

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A They are completed in the Basin Dakota.

Q And is this a prorated pool?

A Yes.

Q Has infill drilling been approved in this pool?

A Yes, sir, it has.

Q Would you please refer to what has been marked Mesa Exhibit Number Two and explain to the Examiner what this shows?

A Exhibit Number Two is some production information on the two wells that are discussed in this application.

The top page refers to the AK 35E, with the AK 35 being the second page.

And on each of these we show the production year, the number of days on line during that year, with an average gross Mcf production rate along with a gross for the entire year; cumulatives, and certain deliverability tests.

Q Now what does this exhibit show?

A Referring to the exhibit referencing the AK 35E Well, it indicates to me right off that on deliverability test that we had conducted in 1981, that that deliverability test is just not representative of the true picture, because the gross average daily rate was much higher. It was 709 Mcf per day and you can see that the well was on-stream essentially the entire year.

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Q Had the well produced substantial volumes prior to the taking of that deliverability test?

A Yes, sir, it had. It had produced approximately 300 -- 300+ million, or 300 -- yeah, 300+ million.

Q Would you now refer to what's been marked as Mesa Exhibit Number Three and identify that, please?

A Exhibit Number Three are the official New Mexico Form C-122-A's, representing these various deliverability tests that were run on the State Com AK 35E.

Q Now, Mr. Houston, when you compare these deliverability tests with the production history from the well, what general conclusion can you reach?

A That the deliverability test run in the early life of the AK 35E was probably not representative.

Q What is the current status of this well?

A The State Com AK 35E is presently shut in with occasional and intermittent production. I say intermittent production, we have, if I could go to Exhibit Four?

Q Yes.

A We have in our hand authority from the NMOCD, capabilities of producing up to 500 Mcf per month from the Dakota formation in these two wells, from these two wells.

Q And is this special allowable for the purpose of keeping the lease from expiring?

A Yes, sir, that's one of the purposes.

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Q How many times overproduced is this well?

A The overproduction varies from month to month, depending upon the exact allowable for that month and market demand, but at the present time, and present time I'm referring to July, we're approximately 100 times overproduced.

Q Can you make any estimate as to how long it would take to make up this overproduction?

A Again, that would -- that would vary depending upon the monthly allowables and market demand, but it probably could be measured in years rather than in months.

Q In your opinion would the unit be overproduced if the allowable had been based on realistic deliverability tests?

A I don't think so. I think that we would have been within our tolerance and been able to continue production on this well.

Q When did Mesa first learn of the problem with this well?

A It was in late 1982.

Q And how did you discover this problem?

A I believe Frank Chavez called our Field Foreman, who's located in Farmington, New Mexico, and advised him verbally, and then subsequently followed that up with a gas allowable statement.

Q Were you ordered at that time to shut the

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well in?

A Yes. We were requested to shut it in. We made attempts to visit with Frank to see if we couldn't work out some kind of arrangement where we might be able to work off some of this overproduction but we were essentially not successful.

Q Why has it taken this period of time for Mesa to bring this matter before the Oil Conservation Division?

A I have a couple of reasons, I believe, to explain that.

One, during late 1982 our company went through some reorganization changes in that the operations people were consolidated from the Rocky Mountain Division, who by the way, handled this production, and also the Mid-Continent and the Permian Basin Divisions, and there was some loss in continuity at that particular time.

Also, with curtailment and market demand factors, we didn't really feel like that the magnitude of this problem was that great until just in the recent past.

Q What would be the effect on correlative rights if this application was granted?

A I don't think that it would affect offset operators. I point back to Exhibit Number One. You can see that the diagonal offset in Section 6 has a much larger cumulative production than our well in the southeast quarter of Section 36.

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I feel like that if we were not given some kind of retroactive allowable, that it would also permit further drainage from this particular well.

Q Have you produced gas that you believe you would have been entitled to from this unit had there been accurate tests on the well?

A Yes, sir, I sure do.

Q In your opinion will granting the application prevent waste?

A I feel like that it will. If it were not granted I feel like that we would jeopardize our payout situation and our return on investment, so therefore I think we would.

Q You would have economic waste?

A Yes, sir.

Q And what do you recommend to the Examiner concerning this well?

A That we establish an allowable retroactively based on an accurate deliverability test.

Q Are you prepared to recommend a figure or a deliverability test to be used in retroactively calculating the allowable?

A I would recommend that we use the last deliverability test calculated.

Q And why would you recommend this?

A Just feel like it's more representative. It is not the highest one, it's not the lowest one. We just

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felt like it's more representative.

Q Were Exhibits One through Five compiled under your direction and supervision?

A Yes, sir.

Q Can -- have you reviewed them?

A Yes, I have.

Q Can you testify as to their accuracy?

A Yes, sir.

MR. CARR: At this time, Mr. Stamets, I would offer Mesa Exhibits One through Five.

MR. STAMETS: These exhibits will be admitted.

MR. CARR: That concludes my direct examination of Mr. Houston.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Houston, the 35E Well, looking at Exhibit Number Two, it appears as though that well went on line in late 1980, like maybe in November or --

A The 35E Well?

Q Yes.

A Yes, sir, it went on line on October the 28th of 1980.

Q All right. Now, there -- with the deliverability test I notice a conditioning period and that test is supposed to be filed within ninety days.

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A Sixty or ninety days, I believe.

Q Now, was that test filed?

A No, sir, it was not.

Q And why was that?

A I cannot explain that. I think that we probably had some of this potential confusion in the 1982 reshuffling, and what not, and I think also --

Q Now that's 1982 and this is back --

A Yeah, which is a couple --

Q -- in 1981.

A -- of years -- which is a couple years after, I agree.

But most of these tests are set up, I believe, and run by our El Paso Gas purchaser, and I believe at that particular time there was a scheduling problem.

Q Well now this 280 deliverability, what's the date on that test?

MR. CARR: Exhibit Three.

A Exhibit Three?

Q Received stamp here says it was not submitted till August of '82.

A Look like it was run in May.

Q Uh-huh.

A May of '82.

Q Right. So you were late in taking this test or having the test taken in the first place.

A Yes, sir, we were.

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2 Q And then seems like it took a little
3 while for it to get filed even after the test was run.

4 Now, I would judge, then, that you did
5 have an allowable for these two wells from at least August
6 of 1982, maybe ninety days before that, up until the present
7 time, is that correct?

8 A Yes, sir.

9 Q And so the problem is not that you didn't
10 have an allowable, it's just that you don't feel it was ade-
11 quate.

12 A Yes, sir, that's correct.

13 Q So from -- through 1981 and 1982 this
14 well accumulated overproduction.

15 A Yes, sir, due to us having a low allow-
16 able.

17 Q Okay, and --

18 A Or low deliverability test.

19 Q And you're 100 times overproduced? What
20 happened to the six times overproduced notice?

21 A Well, we had -- it depends on what month.
22 I think back in January of this year we were probably 25
23 times overproduced, or something. It varies a lot depending
24 upon the allowable assignment, and so forth.

25 Q Let's go off the record.

(Thereupon a discussion was had off the record.)

MR. STAMETS: Sally, we'll go
back on the record and recess this case for -- continue this

1 case for a few minutes while they are gathering some data.
2

3 (Thereupon the case was continued until later on
4 the same docket, at which time the following proceedings
5 were had, to-wit:)
6

7 MR. STAMETS: We will go back
8 now and recall Case 8298 and continue that case from the
9 point when we took the recess.
10

11 MICHAEL P. HOUSTON,
12 resuming the witness chair, testified as follows, to-wit:
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14 CROSS EXAMINATION

15 BY MR. STAMETS:

16 Q Mr. Houston, at the time we took a recess
17 in this case I had either asked you or I was preparing to
18 ask you at what time in the life of this well did it become
19 six times overproduced?

20 A According to the records that we have re-
21 searched, we feel like that it was noted as six times over-
22 produced in October of 1982.

23 This was almost at the same time that the
24 well was recognized as an infill well and place on the pro-
25 ration allowable.

Q Okay, and so the proration schedule did
include the six times overproduced flag?

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A Yes.

Q And what did you do with that gas after that time?

A You mean continued production?

Q Yes.

A We continued to produce it.

Q And the pipeline continued to take it.

A That's correct.

Q Okay.

MR. STAMETS: Are there other questions of this witness?

MR. KENDRICK: Yes, sir.

CROSS EXAMINATION

BY MR. KENDRICK:

Q In response to this issue of how much gas was taken after October, 1982, how much did El Paso take on a monthly basis, approximately, beginning in October, 1982?

A I don't have that information here at the table. I think I've got it if I could refer to it.

Q Okay, go ahead.

A That's what, in October --

Q Yeah, beginning October, 1982, and how many days per month was there production sold to El Paso?

A You want the total production or total days or monthly or --

Q Monthly. Is it fair to say that El Paso

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only bought gas produced for a very few days each month beginning in October of '82?

A That would be correct, yeah, according to our records.

Q Just a couple of days a month?

A Certain months as high as 22 days, according to my records.

Q And as low as?

A As low as one -- one day per month.

Q Okay. Now, going to Exhibit One, you compared the cumulative volumes produced from Stat Com AK 35E and the well in the northwest quarter of Section 6. When did the well in Section 6 start producing gas?

A I do not know that information.

Q Is it fair to say that as an original well in that proration unit it began producing much earlier?

A I would think so, yes, sir.

Q Is it also fair to say that the greater production from that well did not -- did not really show anything?

A Say that again, please? I did not understand the question.

Q Does a comparison of total production really mean anything between the two wells if the well in Section 6 was completed much sooner than the well in question?

A You have a good point. You'd need to be

1
2 looking at a time production type curve more than anything
3 else, is what you're suggesting.

4 Q Right.

5 A And that would be true, yes, sir. I
6 think cumulative is an indicator but to look at it in more
7 detail, it ought to be compared in terms of time.

8 Q In the testing order for all wells in
9 this pool, is there a provision for retesting a well when
10 you feel your test is not an accurate test?

11 A I believe there are. I believe it's the
12 option of the operator as to that.

13 Q If you performed this test, retest, when
14 would it become effective?

15 A It's, I think, what, sixty days or
16 something of this particular nature prior to the test at
17 maximum, I believe.

18 Q Okay, so the rules provide for retesting
19 and the effectiveness of a retest fairly quickly?

20 A I believe that's correct, yes, sir.

21 Q But would that retest go back to the --
22 would the applicability of that retest go back to the date
23 of first delivery -- of first production?

24 A Not normally, no.

25 Q So is it not true that when you
discovered your test was not representative for the well,
you should have retested the well and filed the retest to
start receiving a better allowable?

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2 A We should have called it to the attention
3 of the purchaser, yes, and had a retest done at that time.

4 Q Okay.

5 MR. KENDRICK: No further ques-
6 tions.

7 MR. CARR: I have one on redi-
8 rect.

9 REDIRECT EXAMINATION

10 BY MR. CARR:

11 Q Mr. Houston, you testified that after Oc-
12 tober, 1982, that El Paso purchased at varying time periods
13 month by month; some months as much as 22 days, is that cor-
14 rect?

15 A Yes, sir.

16 Q Some months as little as one day per
17 month.

18 A Yes, sir.

19 Q During this subsequent period of time,
20 what did the demand for gas from this area do, do you know?

21 A In generalities it was much weaker than
22 it had been prior to that date.

23 MR. CARR: I have nothing fur-
24 ther.

25 RE-CROSS EXAMINATION

BY MR. STAMETS:

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2 Q Has the overall volume of the oil produc-
3 tion increased since October of '82 or does it just look so
4 horrendous because the monthly allowable has declined?

5 A It has increased just a pretty small
6 amount. I believe Mr. Garcia has given us a calculation of
7 about 265,000. The latest is about 304 for July of '84.

8 Q So your real problem goes back to the
9 core test that you initially got on the 35E Well that does
10 not reflect the well's true capability of producing.

11 A That's correct, sir.

12 Q And you -- tell me again about what kind
13 of turmoil you were going through in 1981 and if you had a
14 change in 1982.

15 A Well, I think that probably some of the
16 problems that we had in '80-'81 resulted in the reorganiza-
17 tion in 1982.

18 There are some people that are no longer
19 with us.

20 Q Was it the reorganization caused the
21 problem or the problem was the result of the reorganiza-
22 tion??

23 A Not this directly, no, sir, but indi-
24 rectly it contributed to it, yes, sir.

25 CROSS EXAMINATION

BY MR. PEARCE:

Q Mr. Houston, if I may. Your Exhibit Four

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2 is a letter from the Oil Conservation Division dated January
3 25th, 1983, authorizing production at a level of 500 -- no
4 more than 500 Mcf per month from this proration unit so long
5 as the well was overproduced.

6 Since that date has this well be produc-
7 ing more than 500 Mcf per month?

8 A It has on occasion, yes, sir.

9 Q Could you give me a rough idea of how
10 many occasions and how much over 500?

11 A I want to say that we're probably looking
12 at maybe a million per month over.

13 Q As I understand you, we've picked up
14 50,000 Mcf of overproduction since October of 1982? Is this
15 what I understand, from 265 to 300+, about 40?

16 A We're comparing my notes, which are more
17 or less recent, say up to July, with Mr. Garcia's, but I
18 would think that would be accurate, yes, sir.

19 MR. PEARCE: Excuse me, off the
20 record for a moment.

21 (Thereupon a discussion was had off the record.)

22 MR. PEARCE: Thank you. I have
23 no further questions.

24 MR. KENDRICK: Are there any
25 more witnesses?

MR. CARR: That's it.

MR. KENDRICK: Okay, closing
statement?

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MR. STAMETS: Well, I'm trying to think if I'm through asking questions.

MR. KENDRICK: Oh.

MR. STAMETS: Are there any further questions?

MR. CARR: No questions.

MR. STAMETS: The witness may be excused.

I would point out for the assembled throng that I intend to sit down with Mr. Garcia and review the -- our records on this well and try and get a better understanding of what's happened in the interim period since October of 1982.

And yes, Mr. Kendrick, if you wish to make a closing statement now is the appropriate time for you to do that.

MR. KENDRICK: El Paso Natural Gas Company as a producer opposes the approval of this application. The rules of the New Mexico Oil Conservation Division for testing requirements for wells, for the assignment of allowables to wells, covered by Orders Nos. R-333, as amended, and R-1670, as amended, are adequate to permit allowables to be assigned to wells at proper times when following the formation rules.

Mesa has not complied with these rules for testing requirements and assignment of allowables. Consequently, there is no proper basis for Mesa

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to be assigned a retroactive allowable.

MR. STAMETS: Mr. Carr?

MR. CARR: May it please the Examiner, I think, as is obvious from the evidence presented in this case, there's substantial problem with the production from this particular Dakota spacing and proration unit.

The seriousness of the problem was discovered by certain employees of Mesa several months ago. We talke with members of the Commission staff in an effort to try and make some sense out of this and bring things into compliance as best we could.

With Commission rules, we decided we had no choice but to bring it before you today. We're frankly surprised at the opposition from El Paso, who has elected today to appear as a producer having not presented testimony which would show how, in fact, they are affected.

We're particularly surprised because they're also the purchaser and the problems that we have, we believe, must of necessity spill over into the way that their operations have also been conducted.

We have a situation here where Mesa drilled a Dakota infill well. A late allowable test was run after there had been substantial production from the well and the test was simply inaccurate.

Due to internal problems, and also problems with the declining demand for gas from the Da-

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2 kota pool, nothing was done about this allowable test and
3 the well appears as of July production to be 100 times over-
4 produced.

5 The evidence, I believe, shows
6 that this production problem results from an inaccurate
7 deliverability test; that had a better test been run Mesa
8 would be in a position where they would not be 100 times
9 overproduced.

10 They're not asking for
11 something, ability to produce gas that this well shouldn't
12 be entitled to produce. They simply believe that the data
13 and the testing that's been filed on this -- this well, is
14 inaccurate and has resulted in this situation.

15 I think the evidence shows that
16 the correlative rights of no one else will be impaired if
17 the allowable is adjusted. The correlative rights of Mesa,
18 we submit, will be substantially impaired if the application
19 is denied, for we believe that they will really in fact be
20 denied an opportunity for years to produce their just and
21 fair share of the gas under this spacing and proration unit.

22 We remain available to assist
23 you in any way we can with data, whatever we can reconstruct
24 to try and unravel this matter, but we are asking your
25 assistance and asking that you grant the application.

MR. STAMETS: The case will be
taken under advisement, and if there is nothing further, the
hearing will be adjourned.

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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. 8295 heard by me on 8-8 19 84.
Richard H. Plam, Examiner
Oil Conservation Division