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MR. CATANACH: Call next Case Number 8894.

MR. TAYLOR: Application of HCW Exploration, Incorporated, for the amendment of Division Order No. R-8071, Lea County, New Mexico.

MR. CATANACH: Are there appearances in this case?

MR. KELLAHIN: Yes, Mr. Examiner, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of HCW Exploration, Inc., and I have one witness to be sworn.

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

MR. HALL: Scott Hall from the law firm of Campbell & Black, P. A., of Santa Fe, on behalf of Doyle Hartman.

MR. CATANACH: Mr. Hall, do you have any witnesses?

MR. HALL: No.

MR. CATANACH: Will the witness please stand and be sworn in at this time?

(Witness sworn.)

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MR. KELLAHIN: Mr. Examiner, the Division has entered Case -- an Order R-8071 in Case 8604. We've shown that as Exhibit Number One.

This is an application that was granted to my client based upon a hearing back in October 17th, of '85. Mr. David Sites was my expert witness at that hearing and he is my witness today.

We seek to have the acreage dedicated to the well reduced from 160-acre spacing unit down to a 40-acre tract. The facts which we will prove with Mr. Sites' testimony are that after the order was entered the appropriate AFE and notice were sent to Mr. Hartman by certified mail and after receipt of certified mail notice Mr. Hartman failed to prepay his share of the cost of this well to be drilled into the Jalmat Gas Pool.

Thereafter HCW undertook the drilling and in fact did complete this well in the Jalmat Gas Pool; that at the time the well was completed, there was some question about its gas/oil ratio to determine whether or not the well would maintain itself as a gas well or become an oil well. Mr. Sites has produced the well now to the point where at least now he is comfortable, if not confident, that this will be an oil well completed in the gas pool.

1 In order to have the appro-
2 priate amount of acreage dedicated now to this oil well, we
3 propose that there be a simple change made in the order,
4 taking the acreage from 160 acres in the southeast quarter
5 and reducing that to the acreage around the George Etz Well
6 No. 6, in Unit P, which I believe is the southwest of the
7 southeast -- Unit P, no, it would be --

8 MR. SITES: No, it's the south-
9 east of the southeast.

10 MR. KELLAHIN: -- the southeast
11 of the southeast of the section.

12 MR. SITES: That's right.

13 MR. KELLAHIN: We have provided
14 you with drilling reports, completion reports. We have a
15 copy of the log to show the well was completed pursuant to
16 the pooling order, and that is the change that we seek to
17 accomplish.

18
19 DAVID T. SITES,
20 being called as a witness and being duly sworn upon his
21 oath, testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q Mr. Sites, for the record, would you

1 please state your name and occupation?

2 A My name is David Sites. I'm a production
3 geologist.

4 Q Mr. Sites, did you in fact testify before
5 the Division back on October 17th, 1985, in the original
6 case that resulted in the compulsory pooling order, R-8071?

7 A I did.

8 Q And are you familiar with the facts sur-
9 rounding that case?

10 A I am.

11 Q Subsequent to the entry of that order did
12 HCW Exploration, Inc., drill the well that was authorized
13 under that pooling order, namely the George Etz No. 6 Well?

14 A I did. We -- we drilled that well.

15 Q All right.

16 MR. KELLAHIN: We tender Mr.
17 Sites as an expert geologist.

18 MR. CATANACH: He is considered
19 qualified.

20 Q Mr. Sites, let me direct your attention
21 to Exhibit Number One, which is the forced pooling order.

22 Did you read and understand and become
23 familiar with the terms and conditions of that pooling or-
24 der?

25 A Yes.

1 Q Did you understand at the time that you
2 were preparing to drill the subject well that Mr. Hartman's
3 interest in the Jalmat Gas Pool, for whatever interests they
4 may be, were those hydrocarbons pooled, to the best of your
5 knowledge?

6 A Yes, they were.

7 Q What interest did Mr. Hartman have in the
8 southeast quarter of Section 27 that you had pooled at that
9 hearing?

10 A Approximately 8 percent.

11 Q Was that an 8 percent working interest?

12 A Yes.

13 Q And is that an 8 percent interest that's
14 undivided for the entire 160 acres?

15 A That's correct.

16 Q His 8 percent interest would not change
17 whether or not it was 160 acres or 40 acres dedicated.

18 A No. His interest would remain the same.

19 Q What was your proposed plan with regards
20 to the pooling order in terms of the well to be drilled?

21 A We -- I'm not sure I understand, but we
22 -- our plan was to abide by this order and drill the well to
23 the -- to test the Jalmat.

24 Q What was the well to be drilled pursuant
25 to the order? What was the name of the well?

1 A The George Etz 6.

2 Q Had HCW Exploration, Inc., drilled other
3 Jalmat wells in the area or operated --

4 A Yes.

5 Q -- other Jalmat wells?

6 A Yes, we operate a number of Jalmat wells
7 and we recently, approximately three years ago, we drilled
8 the R. W. Cowden C-9 as a Jalmat well and we operate quite a
9 number of Jalmat wells in southeast New Mexico.

10 Q Prior to drilling the well, Mr. Sites,
11 were you able to predict or satisfy yourself with any degree
12 of accuracy that you would have a gas well or an oil well?

13 Did you know?

14 A We assumed we would have a gas well with
15 the available data we had. There was no assurance that we
16 would, would have an oil -- would have a gas well. The
17 field rules state that it's 100,000-to-1 GOR. Above that is
18 a gas well and below that is an oil well, and using the
19 George Etz No. 4, which is located northwest of the George
20 Etz 6, we -- we felt like it would be a Jalmat gas well. We
21 would not have pooled 160 acres had we not thought it would
22 be a gas well.

23 Q Was it your intent and desire at that
24 time to pool Mr. Hartman's interest for the George Etz No. 6
25 Well in the hydrocarbons within the Jalmat Gas Pool, regard-

1 less fo whether they were oil or gas?

2 A That's correct. The George Etz No. 4
3 produced some 11,000 barrels of oil. We knew there was as-
4 sociated oil with the gas and we felt like that there would
5 be oil in there. We didn't know whether we would be above
6 or below the critical \$100,000-to-1. We felt like we'd be
7 above it and making a gas well, but it was our intention to
8 -- we felt like this, the order pooled all hydrocarbons
9 whether gas or oil.

10 Q Let me direct your attention to Exhibit
11 Number Two and the attachments within that exhibit and ask
12 you, after receiving the pooling order what effort did you
13 make or cause to be made to have Mr. Hartman's interest
14 pooled pursuant to the pooling order in term of notifying
15 him of his election period pursuant to that order?

16 A Well, on the second page, if you'll turn
17 to the second page of Exhibit Two you'll see a letter dated
18 December the 2nd, 1985, that I personally wrote Mr. Hartman,
19 and informed him -- I enclosed a copy of the force pooled
20 order, a copy of our AFE, and sent it to him. The AFE is
21 attached on the back, as well, and sent it to him certified
22 with a return receipt requested, giving him the opportunity
23 to join in the well.

24 On the back page you can see a copy of
25 this certification signed by his representative, Debbie Rob-

1 ertson, on December the 3rd, he received that, this letter
2 that I wrote December the 2nd, giving him the opportunity to
3 join in drilling the well.

4 Q Within the 30 day election period follow-
5 ing December 3rd, 1985, did Mr. Hartman prepay his share of
6 the costs of the estimated George Etz No. 6 Well?

7 A Mr. Hartman has not attempted to pay his
8 proportionate share of the well costs to date.

9 Q At any time.

10 A At any time.

11 Q Within the 30 day election period did Mr.
12 Hartman communicate to you anything with regards to his par-
13 ticipation in the well?

14 A Mr. Hartman did not until January 3rd we
15 heard nothing of Mr. Hartman. We did hear January the 2nd,
16 we received a letter that he sent Mr. Stamets saying he
17 didn't want to be force pooled. He sent a carbon copy to us
18 but we haven't heard from Mr. Hartman's representatives con-
19 cerning his joining in the well.

20 Q Is HCW currently carrying, and has it at
21 all times carried Mr. Hartman's 8 percent working interest
22 as a nonconsenting pooled interest under the pooling order?

23 A That's correct.

24 Q Let's turn to Exhibit Number Three, Mr.
25 Sites, and have you identify that exhibit for us.

1 A That's a breakdown of the daily drilling
2 report, drilling and completion report, that we receive in
3 our office on a daily basis as a well is being drilled.

4 Q Before we go into the details of Exhibit
5 Three, let me direct your attention now to Exhibit Four.

6 MR. KELLAHIN: I have only two
7 copies of the total log, Mr. Examiner. I've given the exa-
8 miner one and I think Mr. Sites has one to testify from.
9 We'll be happy to share it with Mr. Hall and provide him an
10 extra copy as such time as we have one.

11 Q Let me direct your attention to Exhibit
12 Number Four.

13 A Okay.

14 Q And would you go to the actual log itself
15 rather than the photocopy?

16 A Uh-huh.

17 Q Turn the log to the interval in the Jal-
18 mat Gas Pool and define for us, first of all, the vertical
19 limits for the pool.

20 A The vertical limits are from the Tansil,
21 the top of the Tansil, to 100 feet below -- 100 feet to the
22 base of the Jalmat, being all zones from the top of the Tan-
23 sil including everything except the 100 feet of the basal
24 Seven Rivers formation. The Langlie Mattix is the top of
25 the basal 100 feet of the Seven Rivers and all of the Queen

1 formation, which, that immediately lies below the Jalmat.

2 Q Referring to the log of the subject well
3 for which the pooling order applied, did you perforate this
4 well within the Jalmat Gas Pool interval?

5 A Yes, we did.

6 Q Would you show us how the perforations
7 are depicted on the log?

8 A The perforations are depicted by the
9 black -- in the case of photocopy it would be the black ar-
10 rows, and on my copy it's green arrows.

11 Q Is the perforated interval being con-
12 tained within the Jalmat Gas Pool also confirmed by informa-
13 tion shown on the drilling reports?

14 A Say that again.

15 Q Yeah. Can we look at Exhibit Three --

16 A Uh-huh.

17 Q -- to show in addition to the log, infor-
18 mation by which you can conclude that the interval perfor-
19 ated and producing in the well corresponds to the vertical
20 limits of the Jalmat Gas Pool?

21 A In this well it shows exactly, in the
22 drilling report it shows where the well was perforated on a
23 foot by foot basis and what stimulation that was done. And
24 going back to a log it's evident that those perforations
25 were obtained within the Jalmat interval themselves.

1 Q No doubt in your mind as a geologist --

2 A No, sir.

3 Q -- that we've got this well completed

4 within the pool limits of the Jalmat Gas Pool.

5 A That is correct. The George Etz 4 was

6 classified as a Jalmat Gas Well. This well has been per-

7 forated in roughly the same interval that the George Etz No.

8 4 was perforated in.

9 Q Let's turn now to Exhibit Number Five,

10 which I have to be Form C-105.

11 A Okay.

12 Q Are you familiar with the content of this

13 form?

14 A Yes, I am. It's a completion report.

15 Q Is this the completion report filed by

16 your company for the subject well?

17 A Right.

18 Q Show us what information you have that

19 causes you to believe that this well is going to be an oil

20 well as opposed to a gas well.

21 A On the C-105 it shows our production for

22 test period, the date of the test was March the 4th, '86.

23 Hours tested was 24. The choke size was 22/64ths, and our

24 recovery during that period was 52 barrels of oil, 192 MCF

25 of gas, zero water, with a gas/oil ratio of 3692, which is

1 well below the required 100,000-to-1 gas cutoff.

2 Q Let's turn to Exhibit Number Six, now,
3 Mr. Sites, and you identify that for us.

4 A That's an authorization, a request for an
5 allowable that we filed requesting that we be able to tran-
6 sport and sell the oil that we had received on the test.

7 Q With regards to the notation up in the
8 middle portion of the form that says "Is gas actually con-
9 nected?" No. It says, "When? As soon as gas contract can
10 be obtained." Would you describe the circumstances that
11 caused that entry to be made like that?

12 A All right. After -- after we tested the
13 well we shut it in because there was no pipeline to -- to
14 the George Etz 6, and we had no -- no contract, gas con-
15 tract, on the gas in this well, the casinghead gas, with any
16 gas processor.

17 So the well was shut in and was not
18 hooked up until we were able to obtain a gas contract. That
19 we have done now and they are in the process, as I under-
20 stand it, of laying a pipeline to the well where we'll be
21 able to produce the well as well as the gas.

22 Q Let's turn to Exhibit Number Seven and
23 have you identify and describe that exhibit.

24 A That's our -- that's a total cost to
25 drill and complete the well.

1 Q Are there any additional costs other than
2 the actual costs shown on Exhibit Number Seven, which you
3 anticipate may be required for this well?

4 A The only -- the only well -- the only
5 costs that I can think of that would possibly be added to
6 this would be a pumping unit. It's a flowing well now.

7 The bottom hole pressure is on the order
8 of 20 psi flowing tubing pressure and -- I'm sorry, I didn't
9 mean bottom hole pressure, I meant flowing tubing pressure
10 is 20 psi and if the well dies, then we will have to put a
11 pumping unit on it and that will be an additional, approxi-
12 mately \$15,000.

13 MR. KELLAHIN: Mr. Examiner,
14 Exhibits Eight, Nine, Ten, are the notifications to Mr.
15 Hartman. Exhibit Ten is the return receipt with regards to
16 the subject hearing.

17 Q In your opinion, Mr. Sites, do you be-
18 lieve that Mr. Hartman should be afforded any new elections
19 simply because this well is now in your opinion an oil well
20 as opposed to a gas well?

21 A I do not.

22 Q If Mr. Hartman is allowed an opportunity
23 to participate in this well after it's drilled, completed,
24 and capable of production, what adverse affect is that upon
25 your company?

1 A Our company assumed Doyle's interest. We
2 -- we took on the risk of drilling this well. We were as-
3 signed a 200 percent penalty for his nonparticipation be-
4 cause of the risk involved in getting a -- in getting a pro-
5 ducing well, and to allow Mr. Hartman to come into the well
6 after he has been supplied with a copy of our completion re-
7 port, that's not good business practices and our company,
8 who has laid its money out up front, would be adversely af-
9 fected.

10 Q What are you seeking to accomplish with
11 the application before the Division today?

12 A All we're seeking to do is change the or-
13 der from a gas well to an oil well; change it from 160-acre
14 proration unit to a 40-acre.

15 We feel like we've -- our company has
16 followed the order, the forced pool order, and we have car-
17 ried this on in a businesslike manner, and all we're trying
18 to do is -- is the well came in as an oil well that we
19 didn't expect, and we felt like we would have some oil and
20 that that oil would be force pooled along with the gas. We
21 didn't feel like it would be 100,000-to-1, but what we're
22 trying to do, what we feel like is all we're wanting to do
23 is change the order from 160 to 40.

24 Q In terms of the actual costs of complet-
25 ing the well as an oil well versus the estimated costs for

1 drilling the well, is there a difference between the two?

2 A Yes, sir, there's quite a significant
3 difference between the two.

4 The well was AFE'ed for \$283,000 and we
5 drilled the well for \$168,000.

6 Q So there's approximately \$115,000 savings
7 to you and to Mr. Hartman with regards to the well?

8 A Correct.

9 MR. KELLAHIN: That concludes
10 my examination of Mr. Sites.

11 We move the introduction of Ex-
12 hibits One through Ten.

13 MR. CATANACH: Exhibits One
14 through Ten will be admitted into evidence.

15 Mr. Hall, do you have any ques-
16 tions?

17 MR. HALL: Briefly, Mr. Exam-
18 iner.

19

20 CROSS EXAMINATION

21 BY MR. HALL:

22 Q Mr. Sites, if you would, I'd like you to
23 refer to Exhibit Two again.

24 A Okay. Yes.

25 Q Page 2 of that exhibit is a letter dated

1 December 2, 1985, is that correct?

2 A Correct.

3 Q In that letter you reference the
4 submission of an AFE to Mr. Hartman, is that correct?

5 A Correct.

6 Q And that AFE was transitted ot Mr.
7 Hartman after the time the OCD forced pooling order was
8 entered, is that correct?

9 A That's correct.

10 MR. HALL: I have no further
11 questions.

12

13

CROSS EXAMINATION

14 BY MR. CATANACH:

15 Q Mr. Sites, how will changing the
16 proration unit affect Mr. Hartman's interest?

17 A It won't affect his interest. His inter-
18 est will remain the same in a 40-acre proration unit as it
19 was in 160. He had an undivided 8 percent interest in that
20 southeast quarter.

21 In fact there -- anyone, that whole 160
22 is undivided. There won't be anyone in the 40 that will
23 have a lower interest, any working interest owner. They
24 will have the same interest.

25 Q Mr. Sites, isn't it true that wells pro-

1 ducing from the Jall19t Pool have a tendency to change clas
2 sifications?

3 A They, that is a possibility. They can
4 change classifications from a gas well to an oil well.
5 That's a possibility. That's why we initially requested
6 time to have this well stabilize and produced the well for
7 some time.

8 We, we feel like the oil there right now
9 is too high. We're producing 23 barrels a day of oil, ap-
10 proximately. When we were testing the well, 20 to 23, and
11 that would -- you'd have to make a lot more gas than what
12 this well will make.

13 Q Has your gas/oil ratio gone up since the
14 initial approval?

15 A No, sir, it hasn't. It seems to have
16 stabilized at that rate.

17 We feel like the gas/oil ratio, once the
18 well dies, and I think it will die because we're in basical-
19 ly a very low pressure field now, once a pumping unit is put
20 on it to keep the fluid off of it, I think you can see the
21 gas/oil ratio increase slightly, but I don't think it will
22 increase to -- it might be it won't increase to the point
23 where this will ever be classified as a gas well.

24 MR. CATANACH: I have no fur-
25 ther questions of Mr. Sites.

1 Are there any other questions
2 of the witness?

3 MR. KELLAHIN: No, sir.

4 MR. CATANACH: He may be ex-
5 cused.

6 Would either party like to make
7 a closing statement at this time?

8 MR. HALL: Briefly, Mr. Exam-
9 iner.

10 The evidence shows that in this
11 case Mr. Hartman was not afforded an opportunity to examine
12 the costs in this well until some time after the application
13 and even the issuance of the order pooling the interests
14 originally.

15 It's our view that the statutes
16 and regulations of the Division governing the pooling of in-
17 terests contemplate that a bona fide, good faith effort to
18 secure voluntary joinder be undertaken before pooling may be
19 pursued.

20 That was not done in this case.
21 Accordingly, there is no basis, there is an improper basis
22 for the issuance of the original order and there is no basis
23 for an amendment to the order.

24 We oppose the application.

25 MR. CATANACH: Mr. Kellahin?

1 MR. KELLAHIN: This original
2 case was heard back on October 17th of '85, and was part of
3 a compromise settlement between Mr. Hartman and HCW.

4 Mr. Hartman, through Mr. Carr
5 and myself spent considerable time and effort arriving at
6 the current order. We believe Mr. Hall's statements about
7 the underlying substance of that first hearing are irrele-
8 vant and its a collateral attack on the basic order.

9 That is a subject that I don't
10 think it's appropriate to address at this point.

11 The question before you is how
12 to accomplish the appropriate spacing under the pooling or-
13 der for a well drilled and completed in the pooled pool when
14 it has a potential from shifting from a gas to an oil well,
15 back and forth. It's impossible for the operator or the
16 Division to guess as to whether or not a well is going to in
17 fact be a gas well or an oil well. We've certainly given
18 you our best opinion back then as well as now.

19 It is the original belief that
20 this would be a gas well and we pooled sufficient acreage to
21 cover the maximum possible spacing in the Jalmat Pool.

22 We seek now simply to reduce
23 that acreage to a 40-acre tract.

24 It's my opinion we could have
25 done this administratively by simply filing another plat,

1 but we wanted to bring this case before the Division so that
2 there's a full opportunity to hear any objections anyone may
3 have.

4 We believe that Mr. Hartman's
5 concerns are unfounded. He has been properly and adequately
6 pooled, and that you simply need to change the spacing so
7 that we have 40 acres dedicated to a 40-acre oil well.

8 MR. CATANACH: Is there any-
9 thing further in Case 8894?

10 If not, it will be taken under
11 advisement.

12

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(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. 8894 heard by me on May 14, 1986.

David L. Catonak, Examiner
Oil Conservation Division

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICOHearing Date MAY 14, 1986 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Jarris Nelson	Zia Energy, Inc.	Hobbs
Don Bratton	Zia Energy, Inc.	Hobbs
MARK COSTELLO	CHEVRON USA INC	HOUSTON
RANDY S. HAGOOD	CHEVRON USA INC.	DENVER
Karen Gutney	Kellahan + Kellahan	Santa Fe
W J Kellahan	Kellahan + Kellahan	Santa Fe
George D. Neal	the Eastland oil Co	Midland, TX
H. H. Bobb Kendrick	El Paso Natural Gas	El Paso
Kathy Michael	Mesa Grande Resources	Silva
Jim Bruce	Ankle Law Firm.	Santa Fe
R. Hahn	Byrum	Santa Fe
A. Lynn Boroyan	Kirby Expl. Co. of Texas	Houston TX
Harold Grier	o c c	SF
Scott Hall	Campbell + Black	SF
Michael Thomas	NMOCL	Santa Fe
J McHugh Jr	McHugh	DEN
David Selt	HCW EXP.	Midland

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MAY 14, 1986 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
SANTANA Gonzalez	Chesson	Santa Fe
David M. Blandford	Mesa Grande	Farmington
DAVID L. DLOWHY	GARY- WILLIAMS	DENVER