

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 19, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Robert Bullock	Yates Pet Corp.	Artesia NM
William J. Hill Alan Argueta	Campbell New Mexico Mandacian Oil Inc.	Farmingington
John McKee	Yates Pet	Artesia NM
Perry Pearce	Mandacian Oil Inc.	Santa Fe
John B. Baker	Hick, Lutman Inc.	SF
Michael Baker	Hick, Lutman Inc.	SF
Shane Dough	Marrio Inc.	Midland
Richard Gill	Marrio Inc.	Midland

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. 11,383
)
APPLICATION OF SANTA FE ENERGY)
RESOURCES, INC., FOR A UNIT)
AGREEMENT, LEA COUNTY, NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED
NOV 3 1995

October 19th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, October 19th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

October 19th, 1995
 Examiner Hearing
 CASE NO. 11,383

	PAGE
REPORTER'S CERTIFICATE	5

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 8	3	3

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
 218 Montezuma
 P.O. Box 2068
 Santa Fe, New Mexico 87504-2068
 By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3
4 EXAMINER CATANACH: At this time I'm going to
5 call Case 11,383, which is the Application of Santa Fe
6 Energy Resources, Inc., for a unit agreement, Lea County,
7 New Mexico.

8 This case was originally heard on September 21st
9 and was readvertised to correct, I believe, a mistake in
10 the ad.

11 Is there anything further in this case at this
12 time?

13 MR. BRUCE: Mr. Examiner, at the prior
14 hearing...

15 Mr. Examiner, Jim Bruce representing the
16 Applicant, Santa Fe Energy Resources, Inc.

17 At the prior hearing we had not received the
18 letter of preliminary approval from the Commissioner of
19 Public Lands.

20 We have now received that, and I would just
21 submit that as Santa Fe Exhibit Number 8.

22 EXAMINER CATANACH: Okay, Exhibit Number 8 will
23 be admitted as evidence.

24 And is there anything further, Mr. Bruce?

25 MR. BRUCE: No, sir.

1 EXAMINER CATANACH: There being nothing further,
2 Case 11,383 will be taken under advisement.

3 (Thereupon, these proceedings were concluded at
4 8:21 a.m.)

5 * * *
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

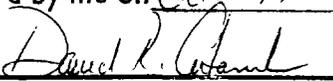
WITNESS MY HAND AND SEAL October 24th, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 113P3, heard by me on October 19, 1995.

 , Examiner
 Oil Conservation Division

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)	
CALLLED BY THE OIL CONSERVATION)	
DIVISION FOR THE PURPOSE OF)	
CONSIDERING:)	CASE NO. 11,383
)	
APPLICATION OF SANTA FE ENERGY)	
RESOURCES, INC.)	
)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 21, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 21st, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

September 21st, 1995
 Examiner Hearing
 CASE NO. 11,383

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DANITA R. WALKER</u> (Landman)	
Direct Examination by Mr. Bruce	5
Examination by Examiner Catanach	8
<u>MIKE DILLI</u> (Geologist)	
Direct Examination by Mr. Bruce	9
Examination by Examiner Catanach	12
REPORTER'S CERTIFICATE	15

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	8
Exhibit 2	7	8
Exhibit 3	7	8
Exhibit 4	7	8
Exhibit 5	10	12
Exhibit 6	10	12
Exhibit 7	11	12
Exhibit 8	11	12

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
 218 Montezuma
 P.O. Box 2068
 Santa Fe, New Mexico 87504-2068
 By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 10:10 a.m.:

3 EXAMINER CATANACH: Call Case 11,383, which is
4 the Application of Santa Fe Energy Resources, Inc., for a
5 unit agreement, Lea County, New Mexico.

6 Are there appearances in this case?

7 MR. BRUCE: Mr. Examiner, Jim Bruce from the
8 Hinkle law firm, representing the Applicant.

9 I have two witnesses to be sworn.

10 EXAMINER CATANACH: Any additional appearances?
11 Will the witnesses please stand to be sworn in?
12 (Thereupon, the witnesses were sworn.)

13 MR. BRUCE: Mr. Examiner, before we begin, the
14 advertisement for this case, as you noticed, omitted the
15 word "Energy" from the Applicant's name.

16 Also, there was a misdescription of the property
17 in the ad. The first piece of property described, it says
18 Section 18, 18 South, 34 East. That should be Section 13.
19 I don't know if that requires readvertisement. If it does,
20 that's fine.

21 And as you will shortly learn, the unit has been
22 contracted. It hasn't been expanded, but it has been
23 contracted from the original acreage.

24 EXAMINER CATANACH: That still has an effect on
25 that Section 18, doesn't it, the contraction?

1 MR. BRUCE: Or Section --

2 EXAMINER CATANACH: Section 13.

3 MR. BRUCE: Section 13, most of that is still in
4 the unit, so...

5 The unit now covers the northeast quarter and
6 south half of Section 13 and the west half of Section 18.

7 EXAMINER CATANACH: Yeah. I think it probably
8 does warrant readvertising. So I guess that would be the
9 soonest, would be the 5th or -- Yeah, October -- No, we
10 wouldn't make the 5th.

11 MR. BRUCE: 19th?

12 EXAMINER CATANACH: Yeah, the 19th of October.

13 MR. BRUCE: If you want, I can send in a new
14 advertisement, so...

15 EXAMINER CATANACH: Yeah, that would be helpful,
16 Jim, just to -- just aware of what we're doing here. Okay.

17 DANITA R. WALKER,

18 the witness herein, after having been first duly sworn upon
19 her oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name for the record?

23 A. Danita Walker.

24 Q. And who do you work for and in what capacity?

25 A. I'm a landman for Santa Fe Energy Resources.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes.

4 Q. And were your credentials as an expert petroleum
5 landman accepted as a matter of record?

6 A. Yes.

7 Q. And are you familiar with the land matters
8 involved in this Application?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I would tender Ms.
11 Walker as an expert petroleum landman.

12 EXAMINER CATANACH: Ms. Walker is so qualified.

13 Q. (By Mr. Bruce) Ms. Walker, what does Santa Fe
14 Energy seek in this case?

15 A. Santa Fe Energy seeks approval for its proposed
16 Kemosabe Unit, an exploratory unit covering 792.64 acres of
17 state land in Lea County.

18 Q. Referring to your Exhibit 1, what lands are
19 proposed to be in the unit at this time?

20 A. Okay, Exhibit 1 is a land plat with an outline of
21 the unit, and the lands to be included are the northeast
22 quarter and south half of Section 13, 18 South, Range 34
23 East, and the west half of Section 18, Township 18 South,
24 Range 35 East.

25 Q. What is Exhibit 2?

1 A. Exhibit 2 is the proposed unit agreement, which
2 is a standard state exploratory unit form approved by the
3 Commissioner of Public Lands.

4 Q. Who are the working interest owners in the unit?

5 A. Santa Fe Energy Resources has a 50-percent
6 interest, Maralo has a 40-percent interest, and Harvey E.
7 Yates Company has a 10-percent interest.

8 Q. Which of these working interest owners have
9 agreed to ratify the unit?

10 A. All of them.

11 Q. Has the Commissioner of Public Lands
12 preliminarily approved the unit?

13 A. I've spoken with Pete Martinez, and he indicated
14 that we should receive preliminary approval next week.

15 MR. BRUCE: Mr. Examiner, we'll submit the letter
16 to you at that time.

17 Q. (By Mr. Bruce) What is Exhibit 3?

18 A. Exhibit 3 is the proposed operating agreement for
19 the unit and is a standard AAPL Form 610-1982, with an
20 accounting procedure and gas-balancing agreement attached,
21 as well as other standard exhibits. Santa Fe Energy will
22 be the operator.

23 Q. Finally, what is Exhibit 4?

24 A. Exhibit 4 is an AFE for the first unit well. The
25 well will be drilled to test the Wolfcamp formation, and

1 the completed well cost is \$690,000.

2 Q. In your opinion, is the granting of this
3 Application in the interests of conservation and the
4 prevention of waste?

5 A. Yes.

6 Q. And were Exhibits 1 through 4 prepared by you,
7 under your direction, or compiled from company business
8 records?

9 A. Yes, they were.

10 MR. BRUCE: Mr. Examiner, I move the admission of
11 Exhibits 1 through 4.

12 EXAMINER CATANACH: Exhibits 1 through 4 will be
13 admitted as evidence.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Ms. Walker, is this all state lands?

17 A. Yes, sir.

18 Q. There are only three working interest owners?

19 A. That's correct.

20 Q. All signed up for the unit?

21 A. Verbally, yes, sir.

22 Q. And this unit covers all formations?

23 A. Yes, sir.

24 EXAMINER CATANACH: Okay, I have nothing further.

25 MR. BRUCE: Call Mr. Dilli to the stand.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MIKE DILLI,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Mike Dilli.

Q. And who is your employer?

A. Santa Fe Energy.

Q. And in what capacity are you employed?

A. Geologist.

Q. Have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the geological matters pertaining to the proposed Kemosabe unit?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I would tender Mr. Dilli as an expert petroleum geologist.

EXAMINER CATANACH: He is so qualified.

Q. (By Mr. Bruce) Mr. Dilli, would you refer to your Exhibit 5 and discuss the main zone of interest in the

1 proposed unit?

2 A. Exhibit 5 is a type log that is near the proposed
3 unit. This type log shows the third Bone Springs
4 carbonate, which is the primary objective in this well, and
5 it shows it highlighted in blue, the area that we've
6 isopached.

7 Q. Okay. And the area that you isopached is
8 reflected on your Exhibit 6?

9 A. Yes, Exhibit 6 is an isopach of the third Bone
10 Springs carbonate. This carbonate was deposited in a
11 detrital situation, being shed off the Abo reef that you
12 see in the north part of the Exhibit 6, and these detrital
13 deposits were shed off and then deposited immediately south
14 of the reef, and production is -- has been established from
15 these deposits.

16 As you see on the exhibit, approximately one mile
17 to the west it is productive from North Airstrip field, and
18 then a few wells are productive approximately one mile to
19 the north and east out of the Avalon field.

20 And our attempt at this is to follow this trend
21 along the front part of the reef and drill a well pretty
22 much in the middle of the proposed unit, in the northwest
23 of the southeast of Section 13, and hopefully we will
24 encounter a thick buildup of this detrital sediment.

25 Q. Does this isopach serve as the basis for forming

1 the unit outline?

2 A. Yes, it does. The 10-foot cutoff is the cutoff
3 that we've used for the unit boundaries.

4 Q. What is Exhibit 7?

5 A. Exhibit 7 is a structure map drawn on top of the
6 marker, the upper Wolfcamp marker. It simply shows dip
7 from the reef to the north, southerly dip down to the
8 south.

9 It also shows a slight widening of the contours
10 that you can see on the Airstrip North field to the west,
11 and that slight widening of the contours, which would be a
12 little flattening area, extends across our unit area, which
13 we think will also help -- be an area of site deposition.

14 Q. Are there any secondary objectives in this unit?

15 A. Yes, there is. The Queen sandstone shallower,
16 and the Wolfcamp is also productive in the area.

17 Q. Will the initial unit well be tested deep enough
18 to test the Wolfcamp?

19 A. Yes.

20 Q. Finally, what is Exhibit 8?

21 A. Exhibit 8 is the geologic write-up that we
22 submitted to the State for unit approval.

23 Q. Were Exhibits 5 through 8 prepared by you?

24 A. Yes, they were.

25 Q. And in your opinion, is the granting of this

1 Application in the interests of conservation and the
2 prevention of waste?

3 A. Yes, it is.

4 MR. BRUCE: Mr. Examiner, I move the admission of
5 Santa Fe's Exhibits 5 through 8.

6 EXAMINER CATANACH: Exhibits 5 through 8 will be
7 admitted as evidence.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. Mr. Dilli, the four wells surrounding your -- or
11 on the outer edges of your proposed unit boundaries, those
12 were all Bone Spring tests?

13 A. Yes, they were.

14 Q. Nonproductive?

15 A. Yes. The one that has "Type Log" highlighted
16 there, they did run a drill stem test of that formation and
17 recovered some oil and some gas. They attempted a
18 completion, and it was too tight to produce.

19 Q. Where's your first well going to be located?

20 A. In the northwest of the southeast of Section 13.

21 Q. The field to the west, you said that was an
22 Airstrip-Bone Spring?

23 A. Yes, Airstrip North-Bone Spring.

24 Q. North Airstrip. Do you know the one to the east?

25 A. That, I believe, is called Avalon, and it

1 produces out of numerous horizons. There's a little
2 structure right there, or nose extending across that.

3 But this third Bone Springs carbonate is present
4 and productive in a few wells over there also.

5 Q. How many feet of pay do you think you need to
6 make a well in this pool?

7 A. Everything in the models that we've seen,
8 everything over about 10 feet seems to be productive. You
9 know, the well that had six feet there was not, but it was,
10 in our opinion, pretty close.

11 Q. Secondary objectives, are they pretty good?

12 A. The Queen -- It's productive on the far west side
13 of Section 14, just off the map you see here -- or
14 actually, I'm sorry, 15 -- and it's going to produce
15 probably 30,000 barrels.

16 The Wolfcamp is really sporadic production out
17 here, but the maximum I've seen is about 60,000. So
18 they're not nearly as good as the primary objective here.

19 EXAMINER CATANACH: I have nothing further, Mr.
20 Bruce, except I'd like to ask Ms. Walker one more question.

21 Ms. Walker, I believe you testified that the unit
22 was 792.62 acres?

23 MS. WALKER: Let's see. Yes.

24 MR. BRUCE: 792.624, Mr. Examiner.

25 EXAMINER CATANACH: .624.

1 MR. BRUCE: 792.64.

2 EXAMINER CATANACH: Yeah, I was going to mention
3 that your exhibit has a different number.

4 MS. WALKER: This was out of our lease records,
5 and --

6 MR. BRUCE: Mr. Examiner, we'll verify that. The
7 792.64 came from the BLM land plats.

8 MS. WALKER: And the amount on the exhibit came
9 from the actual leases in our lease files.

10 EXAMINER CATANACH: Okay, you'll verify which one
11 is correct?

12 MS. WALKER: Yes, sir.

13 EXAMINER CATANACH: Okay. Is there anything
14 further, Mr. Bruce?

15 MR. BRUCE: No, sir.

16 EXAMINER CATANACH: There being nothing further,
17 we shall continue and readvertise this case for the October
18 19th hearing.

19 (Thereupon, these proceedings were concluded at
20 10:24 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
the examination of Case No. 11383
heard by me on 9/21 1998.

24 David R. Catnach, Examiner
25 Oil Conservation Division

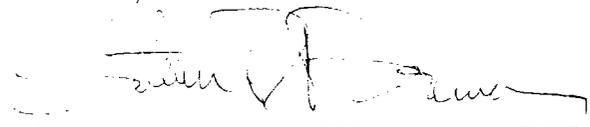
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 25th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998