

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

26 October 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of OXY USA, Inc. for CASE
compulsory pooling, Lea County, New 9514
Mexico, and

Application of OXY USA, Inc. for 9515
compulsory pooling, Lea County, New
Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For OXY USA, Inc.: Scott Hall
 Attorney at Law
 CAMPBELL and BLACK
 P. O. Box 2208
 Santa Fe, New Mexico 87501

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I N D E X

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1 MR. STOGNER: We call next
2 Case Number 9514.

3 MR. STOVALL: Application of
4 OXY USA, Inc., for compulsory pooling, Lea County, New
5 Mexico.

6 MR. HALL: Mr. Examiner, Scott
7 Hall, from the Campbell & Black law firm on behalf of the
8 Applicant.

9 We would also request that
10 this matter be consolidated with Case 9515.

11 MR. STOGNER: We will also
12 call next Case Number 9515.

13 MR. STOVALL: Application of
14 OXY USA, Inc., for compulsory pooling, Lea County, New
15 Mexico.

16 MR. STOGNER: And, Mr. Hall,
17 you're appearing in this matter, is that correct?

18 MR. HALL: Yes, sir.

19 MR. STOGNER: Are there any
20 other appearances in either case?

21 There being none will the
22 witnesses please stand and be sworn?

23

24

(Witnesses sworn.)

25

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BILL SELTZER,

being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. HALL:

Q For the record please state your name.

A Bill Seltzer from Midland, Texas.

Q Mr. Seltzer, by whom are you employed
and in what capacity?

A I'm employed by as a land consultant for
OXY USA, Inc.

Q And you've previously testified before
the Division and had your credentials accepted as a matter
of record?

A Yes, I have.

MR. HALL: Mr. Examiner, are
the witness' credentials still acceptable today?

MR. STOGNER: Mr. Seltzer is
so qualified.

Q Are you familiar with the application in
this case?

A Yes, I am.

Q And the subject area?

A Yes.

1 Q Would you briefly state what it is that
2 OXY is seeking by the two applications?

3 A OXY seeks an order pooling all of the
4 interest in the Bone Spring and the Wolfcamp formations in
5 the two cases under here as 9414 and 15, which contains the
6 southeast southeast and the northeast of the southeast of
7 Section 29, Township 19 South, Range 36 East, Lea County,
8 New Mexico.

9 Q All right, let's look at Exhibit One, if
10 you would, please, sir, and would you identify that for the
11 record and explain what's it's intended to show?

12 A Exhibit One is a land plat showing the
13 two proration units along with the well locations for each
14 well proposed by OXY USA.

15 Q And as I understand it, both wells are
16 intended to test the Bone Spring and Wolfcamp.

17 A That's correct.

18 Q Does Exhibit Two, if you have that in
19 front of you, does Exhibit Two reflect the ownership
20 breakout for the proration units?

21 A Exhibit Two represents the unleased
22 mineral ownership on part of it and then the ownership on
23 the second part is a breakdown of the ownership of the
24 southeast southeast and the northeast of the southeast
25 wherein it shows that the total of approximately 97 per-

1 cent of the acreage is committed to each proration unit.

2 Q All right. Let's look at Exhibit Three,
3 if you would, please, sir. What is that?

4 A Exhibit Three-A is the AFE for the
5 drilling of the Bone Spring-Wolfcamp Well in the southeast
6 of the southeast of Section 29.

7 Q Does Exhibit Three reflect the dry hole
8 and completion costs for the wells?

9 A Yes, it does.

10 Q And what are those?

11 A The dry hole is \$339,200 for a dry hole
12 and \$335,900 for a completion cost, for a total completed
13 well of \$675,100.

14 Q And are these charges in line with
15 what's being charged by other operators in the area for
16 like wells?

17 A They are.

18 Q If you would, please, summarize for the
19 Examiner the efforts you've undertaken to secure the volun-
20 tary joinder of all the mineral interest owners and working
21 interest owners.

22 A We have attempted to contact each one of
23 these parties listed over there in Exhibit Three, is that
24 what it is, Two by phone and by mail and then followed with
25 certified letters dated March the 28th, 1988, to each of

1 the unleased mineral owners offering them to purchase their
2 mineral interest or sign an oil and gas lease.

3 Q And were you able to reach an agreement
4 with all of those?

5 A No, we were not. We also asked them to
6 either, if they didn't want to join, to execute an AFE and
7 join in drilling the well.

8 Q And your response to that was?

9 A We have -- some people have responded.
10 We're in the process of securing some oil and gas leases
11 but at this time have not secured all of the oil and gas
12 leases.

13 Q All right, let's -- is Exhibit Four the
14 compilation of your letters seeking the voluntary joinder
15 of all those interest owners?

16 A Yes.

17 Q All right.

18 A Along with the certified copies to each
19 one of the parties and a breakdown of each group of mineral
20 owners and their respective unleased mineral interest.

21 Q In your opinion have you made a good
22 faith effort to locate all the individuals owing mineral
23 interest and secure their --

24 A Yes, I have.

25 Q Is Exhibit Five a compilation of letters

1 giving notice to those unleased or unparticipating mineral
2 interest owners of this hearing, as you directed your
3 counsel to send out?

4 A Yes.

5 Q Mr. Seltzer, have you made an estimate
6 of the overhead and administrative costs while drilling the
7 well and also while producing the well if it's a successful
8 attempt?

9 A Yes, we have.

10 Q And what are those costs?

11 A We estimate for a drilling well the
12 monthly cost should be \$5660. For a producing well, \$566
13 per month.

14 Q All right, and are these costs also in
15 line?

16 A Yes. These costs are in line and agreed
17 to by a joint interest owner who is going to participate in
18 the well, that being Hanley Petroleum Company.

19 Q And again these costs are attributable
20 both wells, for both applications?

21 A Correct.

22 Q Do you recommend that these cost figures
23 be incorporated into any order that results from this
24 hearing?

25 A Yes, we do.

1 Q And does OXY seek to be designated
2 operator of the proposed wells?

3 A Yes, we do.

4 Q Has OXY previously drilled Bone Spring
5 and Wolfcamp wells in the area?

6 A I believe they have.

7 Q All right. Let me ask you, were Exhi-
8 bits One through Five prepared by you or at your direction?

9 A Yes.

10 MR. HALL: We'd move the ex-
11 hibits of -- admission of Exhibits One through Five and
12 that concludes our direct of this witness.

13 MR. STOGNER: Exhibits One
14 through Five will be admitted into evidence.

15

16 CROSS EXAMINATION

17 BY MR. STOGNER:

18 Q Mr. Seltzer, in going through your Exhi-
19 bit Number Four there appears to be some of your letters of
20 September -- of September 27th, 1988, that came back and
21 with the check mark on wishing to sell.

22 A That was -- yes.

23 Q Which ones were these? Are they taken
24 off the list?

25 A Yes. We have, if you'll look on that

1 Exhibit Two, purchased the minerals from the apparent heirs
2 on that first page you see Mervin Harrell?

3 Q Yes.

4 A W. M. Harrell has agreed to lease. I
5 have forwarded a lease to him. He has not returned it.

6 The c part, O. U. Harrell Estate has not
7 responded.

8 Vera Chism, I've purchased her minerals.
9 Michele Alverson, purchased her miner-
10 als.

11 Margie Pounders, purchased the minerals.

12 Enola Pounders, purchased her minerals.

13 And then you'll see number 6 down here
14 is John C. Jackson, he refused to accept our certified
15 letter and it was so returned to us.

16 On the next page you will notice Joseph
17 T. Jackson, I have purchased an oil and gas lease from
18 them.

19 Number 8 is H. T. Stanford. I have
20 purchased an oil and gas lease from them.

21 The other parties have not responded.

22 Q So the .94437 figure is --

23 A Will be reduced.

24 Q Will be reduced.

25 A Yes.

1 Q And some of these which have responded
2 to your questionnaire but yet have not fulfilled their
3 obligation in signing a --

4 A Lease. The lease is out but it hasn't
5 come back, which I have forwarded to them.

6 Q Let's talk about the well itself, and
7 what depth is this well proposed, or wells, I should say.

8 MR. HALL: We have another
9 witness that could address those, Mr. Examiner.

10 MR. STOGNER: Well, you talk
11 about the overhead charges. Now, your witness testified on
12 Exhibit Three-A and Three-B, we're need to cover this be-
13 cause your overhead charges, we need to cover those.\

14 A About 10,500.

15 Q Okay, now are these charges, are they
16 realistic and fair for a well this depth?

17 A I think they are for a wildcat well at
18 this depth, and this is a wildcat well.

19 Q When you say "wildcat", a wildcat in
20 which particular formation?

21 A To both formations.

22 Q Which both formations?

23 A Bone Spring and Wolfcamp.

24 Q Will you wish to pool all mineral inter-
25 est from the surface to the base of the Wolfcamp, is that

1 correct?

2 A I think that this application was for
3 the Bone Spring and the Wolfcamp formations.

4 Q According to the application, the writ-
5 ten application, which we received October 4th, you wish to
6 pool all mineral interest in the Wolfcamp and Bone Spring
7 formation and in any and all formations developed on 40-
8 acre spacing.

9 A I stand corrected, Mr. Stogner.

10 Q Okay. But the primary interest is the
11 Wolfcamp.

12 A Correct.

13 Q And the Bone Spring.

14 A Yes.

15 Q There are a couple of other formations
16 that may not necessarily be wildcat in this particular area
17 but, regardless, that is the total depth. Do these figures
18 that you give me, do they correspond with Ernst and Whinney
19 figures of overhead charges?

20 A These were the figures that OXY had in-
21 formed me to insert in this hearing as they had to -- had
22 from Ernst and Whinney.

23 MR. STOGNER: I have not other
24 questions of this witness at this time.

25 Are there any other questions

1 of Mr. Seltzer?

2 MR. HALL: No, sir.

3 MR. STOGNER: He may be ex-
4 cused.

5 Mr. Hall.

6

7

JANE BARTON,

8 being called as a witness and being duly sworn upon her
9 oath, testified as follows, to-wit:

10

11

DIRECT EXAMINATION

12

BY MR. HALL:

13

Q For the record please state your name.

14

A Jane Barton.

15

Q Ms. Barton, by whom are you employed and

16

in what capacity?

17

A OXY USA, Inc., and I'm a geologist.

18

Q Have you previously testified before the

19

Division and one of its examiners and had your credentials

20

accepted as a matter of record?

21

A Yes, I have.

22

Q And are you familiar with the applica-

23

tion and the subject lands in this case?

24

A Yes, I am.

25

MR. HALL: Mr. Examiner, are

1 the witness' credentials still acceptable?

2 MR. STOGNER: Ms. Barton is so
3 qualified.

4 Q Ms. Barton, if you would explain to the
5 Examiner, what is the basis of your familiarity with this
6 -- these prospects?

7 A Our prospect area, which you'll note on
8 the exhibit that we will submit is referred to as our
9 (unclear) prospect. As a geologist I developed this pros-
10 pect from subsurface data, as well as helped to incorporate
11 the seismic data that we acquired in the area, and I have
12 worked the Bone Spring formation since 1982.

13 Q All right, Ms. Barton, are you prepared
14 to make a recommendation today as to the appropriate risk
15 penalty that you believe should be assessed --

16 A Yes, I am.

17 Q -- for all participating interest in
18 this well?

19 A Yes, I am.

20 Q Let's refer to Exhibit Six, if that
21 would help you explain your recommendation.

22 A Certainly. Exhibit Six is a production
23 map which is color coded and you will note the color code
24 legend on the lefthand side lower corner.

25 We'll just go from top to bottom. The

1 Queen is indicated by the purple color. Bone Spring is
2 indicated by green. Wolfcamp is blue. Atoka, pink, and
3 Morrow is orange.

4 Our basic play concept in the area is to
5 identify a slope environment where at the (unclear) slope
6 you will encounter dolomitized debris. It is strictly a
7 stratigraphic play and due to its nature, it is extremely
8 risky.

9 Shelf edge is basically identified by
10 this purple color and you have the Eunice-Monument-Queen
11 production, which is located to the east on the Central
12 Basin Platform.

13 You also have Queen production further
14 out into the basin at Pearl (sic) Field, located on the
15 lefthand side of the map.

16 Production in regard to the Bone Spring
17 specifically, if you'll look at Section 8 of Township -- or
18 excuse me, Section 8 of Township 20 South, 36 East, you'll
19 note there is a producing well which was plugged, I be-
20 lieve, a year and a half ago. It produced a total of
21 95,000 barrels of oil. It was subsequently offset immed-
22 iately to the east and was a dry hole; hence, your produc-
23 tion wells are also relatively high risk.

24 In regard to Wolfcamp, there are two
25 wells located to the west of our proposed location. They

1 produce from basinal discontinuous carbonates. In our
2 particular area we believe that they would be of a debris
3 nature also.

4 Q How important is structure? How -- does
5 structure play a part in formulating your opinion as to the
6 risk involved in drilling this well?

7 A The Bone Spring is not a structural
8 play. Once a discovery is made, structure is important in
9 identifying your oil/water contact but identification of a
10 prospective area is done with integration of seismic
11 stratigraphy.

12 Q Do you believe approval of these appli-
13 cations will be in the best interest of the protection of
14 correlative rights and the prevention of waste?

15 A Yes, I do.

16 Q And was Exhibit Six prepared by you or
17 at your direction?

18 A Yes, it was.

19 MR. HALL: We move the admis-
20 sion of Exhibit Six and we have nothing further of this
21 witness.

22 MR. STOGNER: Exhibit Number
23 Six will be admitted into evidence.

24 I have no questions of Ms.
25 Barton.

1 Are there any questions of
2 this witness?

3 She may be excused.

4 Mr. Hall?

5 MR. HALL: That concludes our
6 case.

7 MR. STOGNER: Does anybody
8 else have anything further in either Case 9514 or 9515?

9 If not, these cases will be
10 taken under advisement.

11

12 (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 Nos. 9514 and 9515 heard by me, on 26 October 1988.

Michael E. Stephens, Examiner
Oil Conservation Division