

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: )  
APPLICATION OF PECOS PRODUCTION COMPANY )  
FOR AN EXCEPTION TO DIVISION RULE )  
104.C.(2).(b), EDDY COUNTY, NEW MEXICO )

CASE NO. 13,432

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

March 3rd, 2005

Santa Fe, New Mexico

2005 MAR 17 AM 8:18

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, March 3rd, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

March 3rd, 2005  
Examiner Hearing  
CASE NO. 13,432

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APPLICANT'S WITNESS:	
<u>AARON DOVER</u> (Engineer)	
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## E X H I B I T S

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\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

JAMES G. BRUCE  
 Attorney at Law  
 P.O. Box 1056  
 Santa Fe, New Mexico 87504

## FOR V-F PETROLEUM, INC.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
 110 N. Guadalupe, Suite 1  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: OCEAN MUNDS-DRY

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 9:49 a.m.:

3           EXAMINER EZEANYIM: At this time I call Case  
4 Number 13,432. This is the Application of Pecos Production  
5 Company for an exception to Division Rule 104.C.(2).(b),  
6 Eddy County, New Mexico. Call for appearances.

7           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
8 representing the Applicant. I have one witness.

9           EXAMINER EZEANYIM: Any other appearances?

10          MS. MUNDS-DRY: Mr. Hearing Examiner, Ocean  
11 Munds-Dry with Holland and Hart, appearing on behalf of V-F  
12 Petroleum, Incorporated. We simply appear in support of  
13 the Application, and I have no witnesses.

14          EXAMINER EZEANYIM: Any other appearances?

15                    May the witness stand to be sworn.

16                    (Thereupon, the witness was sworn.)

17                               AARON DOVER,

18 the witness herein, after having been first duly sworn upon  
19 his 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.    Aaron Dover.

24           Q.    Where do you reside?

25           A.    In Midland, Texas.

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

2 A. I'm a reservoir engineer for Pecos Production  
3 Company.

4 Q. Have you previously testified before the  
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials as an expert engineer  
8 accepted as a matter of record?

9 A. Yes, they were.

10 Q. And are you familiar with the engineering matters  
11 related to this Application?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I'd tender Mr. Dover as  
14 an expert reservoir engineer.

15 EXAMINER EZEANYIM: Mr. Dover is so qualified.

16 Q. (By Mr. Bruce) Mr. Dover, could you identify  
17 Exhibit 1 for the Examiner and just briefly discuss what it  
18 is Pecos seeks in this Application?

19 A. Yes, Exhibit 1 is a structure map on the pay  
20 sand, the Morrow channel, in this area, including our west-  
21 half, Section 4. The large circles indicate wells that  
22 produce from the Morrow. Those wells shaded -- Actually,  
23 the large circles indicate wells that penetrated the  
24 Morrow, and those that have been shaded dark indicated the  
25 wells that have actually produced from the Morrow.

1           A designation by the wellbore of NP indicates  
2 that this particular channel sand is not present in that  
3 location.

4           The highlighted yellow acreage is the proration  
5 unit in which we operate and are asking to produce both  
6 wells simultaneously from the Morrow.

7           Q.    Okay, so the two wells we're talking about are  
8 the Anadarko Federal Number 1 in the northeast quarter,  
9 southwest quarter --

10          A.    That's correct.

11          Q.    -- and the Anadarko Federal Number 2 in the  
12 southwest quarter, southwest quarter?

13          A.    Yes.

14          Q.    Okay. Also on this map, are the offset operators  
15 highlighted in green?

16          A.    Yes, I overlooked that. The operators are  
17 highlighted in green so that you can see who operates the  
18 surrounding acreage.

19          Q.    What is the status of the Number 1 and the Number  
20 2 wells at this time?

21          A.    The Number 1 is shut in, and the Number 2 well is  
22 currently producing from the Morrow.

23          Q.    And you would like permission to produce both  
24 wells concurrently?

25          A.    Yes.

1 Q. Before we move on to the cross-section and we  
2 discuss the wells in a little more detail, there's an open  
3 circle in the northwest quarter of Section 4 which shows  
4 that it penetrated the Morrow. Did that well ever produce  
5 from the Morrow?

6 A. No, it did not. It did penetrate the Morrow. It  
7 was an attempt by Harvey E. Yates Company in the mid-1980s  
8 to test the Morrow in that location, but there is no record  
9 of production from the Morrow in that location.

10 Q. Okay. Let's move on to your Exhibit 2. Could  
11 you identify that and --

12 A. Yes.

13 Q. -- discuss the zone of interest here, and maybe  
14 also give a little history on the two wells, the Anadarko  
15 Federal Numbers 1 and 2?

16 A. Exhibit 2 is a cross-section which is indicated  
17 on the map on Exhibit 1, running from the Harvey E. Yates  
18 Can-Ken 4 Fed Number 1 on the east end of the line, which  
19 also penetrated the Morrow and never produced from the  
20 Morrow. The zone tops marked on there are the top of the  
21 Morrow carbonate and then the top of the Morrow clastics.  
22 And then below that is the main producing channel sand in  
23 which is productive in our acreage, in our wellbores.

24 The left two wells are the Anadarko Federal  
25 Number 1, the far left well is the Anadarko Federal Number

1 2, produced by Pecos Production Company. Currently it's  
2 making a little over 600 MCF a day from the Morrow. It's  
3 made just a quarter -- about 25 million cubic feet so far;  
4 it's very new. We drilled the well last year to attempt to  
5 make a completion in the Strawn, and that did not work out.  
6 It was originally intended to be a Strawn well. And so we  
7 went ahead and drilled it to the Morrow to see if there was  
8 a way to make it a productive well.

9 Q. Okay. So the Number 1 well was drilled first as  
10 a Morrow test?

11 A. Yes, the Number 1 well was actually drilled in  
12 2001 by Anadarko, and it produced from the Morrow until  
13 October of last year when we drilled the Number 2, and then  
14 we shut the Number 1 in --

15 Q. Okay.

16 A. -- and we began producing the Number 2.

17 Q. Okay. Now with respect to -- and looking back at  
18 you Exhibit 1, Mr. Dover, your particular well unit only  
19 has about 300 million total produced from the Morrow today?

20 A. Yes, that's correct. The numbers in parentheses  
21 indicate the cumulative gas production from each wellbore,  
22 and as you can see, the Number 1 has produced 280 million  
23 cubic feet, and the Number 2 has only produced 28 million  
24 cubic feet, on the map.

25 Q. And there is, it seems like, better production

1 from offsets; is that correct?

2 A. Yes, to the north you have 4 BCF, you have a  
3 1.8-BCF well there to the west, and then to the south of us  
4 we have another about 3 1/2 BCF production. So production  
5 in the area has been significantly higher than it has been  
6 in our particular proration unit.

7 Q. Now, with respect to looking at your well unit  
8 again, the well that's in the southeast quarter of the  
9 northwest quarter, that well was drilled to test the  
10 Morrow, but Heyco never produced it from the Morrow; is  
11 that correct? ✓ JJA

12 A. That is correct, we don't have any record of any  
13 production from the Morrow.

14 Q. Do you know if the well tested wet or --

15 A. I don't know. There are some four-point tests  
16 listed on the cross-section here at the bottom of the well  
17 log, indicating that they did have some gas tested there.  
18 But as you can see on the structure map, it is low, and I  
19 suspect it may have produced water very quickly.

20 Q. What is the current status of that well?

21 A. It is currently a Bone Spring well, I believe.

22 Q. Is it operated by Pecos or by Heyco?

23 A. No, by Heyco.

24 Q. Okay, so at this point that well cannot be used  
25 to test the Morrow?

1 A. No.

2 Q. Okay. And at this point does Pecos have any  
3 plans to drill a Morrow well in the northwest quarter --

4 A. No.

5 Q. -- of Section 4?

6 A. No, it appears to be too low on structure to  
7 attempt a Morrow completion in that area.

8 Q. Okay. So this request by Pecos would allow it to  
9 produce both its best well and the Number 1 well, with the  
10 Number 2 well, and also the Number 1 well, which is not  
11 very prolific at this point?

12 A. No, it was only making about 130 MCF a day when  
13 we shut it in. So the Number 2 is a better producer.

14 Q. In your opinion, would allowing both wells to  
15 produce at the same time allow you to recover the reserves  
16 that are under your tract?

17 A. Yes.

18 Q. And in your opinion, is the granting of this  
19 Application in the interests of conservation and the  
20 prevention of waste?

21 A. Yes.

22 Q. Were the offsets notified of this Application?

23 A. Yes, they were. ✓

24 Q. And is that submitted as Exhibit 3?

25 A. Yes, the offsets were notified, and we've

1 received waivers.

2 Q. And is Exhibit 4 a set of waivers from certain of  
3 the operators?

4 A. That's true.

5 Q. From Mewbourne Oil, Heyco and Gruy Petroleum  
6 management?

7 A. Yes.

8 Q. And the only other operator is V-F --

9 A. V-F to the north.

10 Q. -- which appeared here today?

11 A. Yes.

12 Q. Okay. Were Exhibits 1 through 4 prepared by you  
13 or under your supervision or compiled from company business  
14 records?

15 A. Yes, they were.

16 MR. BRUCE: Mr. Examiner, I'd move the admission  
17 of Pecos Exhibits 1 through 4.

18 EXAMINER EZEANYIM: Exhibits 1 through 4 will be  
19 admitted into evidence.

20 EXAMINATION

21 BY EXAMINER EZEANYIM:

22 Q. I had a couple of questions for you. I'm looking  
23 at your map here on this exhibit -- Is that Number 2? Yeah  
24 -- and you know, 104.C.(2).(b) says you have to drill the  
25 infill in the other quarter section not containing the

1 original well. And what you're telling me is that the  
2 structure in the northwest quarter is narrow and you can't  
3 possibly drill the well in that northwest quarter?

4 A. That's correct, yes, it would be low on  
5 structure, and we don't feel that we would want to drill a  
6 well there.

7 Q. Okay. Now, which one is the original well  
8 drilled there?

9 A. The original well was the Number 1, which is in  
10 the northeast of the southwest, in Location K.

11 Q. And that was drilled some time ago?

12 A. In 2001, by Anadarko.

13 Q. And then the second well was drilled last year?

14 A. Yes, yes.

15 Q. Okay. Before you drilled that well -- is that  
16 federal or state?

17 A. Federal.

18 Q. Federal. And the BLM gave you the APD to drill  
19 the second well?

20 A. Yes.

21 Q. Did you ever produce that well after you drilled  
22 it? Because I know it's shut in now. Which one is shut  
23 in, the 1 or 2?

24 A. The 1 is shut in.

25 Q. The first one?

1 A. Yes, the first one.

2 Q. Okay. When did you shut that first one in?

3 A. As soon as we began to produce the second one, ✓

4 the Number 2.

5 Q. Because -- You know the requirements of

6 104.C.(2) - --

7 A. Yes.

8 Q. Okay, that's what I --

9 A. Yes, in October is actually when it occurred --

10 Q. Okay.

11 A. -- of last year.

12 Q. Okay. So you never produced them simultaneously?

13 A. No.

14 Q. Okay. And you did all the notice to the other  
15 interest owners in accordance with 1207.A.2? You did all  
16 the notice; is that your testimony? Everybody in the unit?

17 A. Yes.

18 Q. Yeah.

19 A. Yes, we...

20 EXAMINER EZEANYIM: I have nothing further for  
21 this witness.

22 MR. BRUCE: I have nothing further in this  
23 matter, Mr. Examiner.

24 EXAMINER EZEANYIM: Ms. Ocean?

25 MS. MUNDS-DRY: Nothing further, Mr. Hearing

1 Examiner.

2 EXAMINER EZEANYIM: Please?

3 MS. MUNDS-DRY: Nothing further.

4 EXAMINER EZEANYIM: Nothing further. Okay, you  
5 may be excused.

6 THE WITNESS: Thank you.

7 EXAMINER EZEANYIM: With nothing further, Case  
8 Number 13,432 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at  
10 9:05 a.m.)

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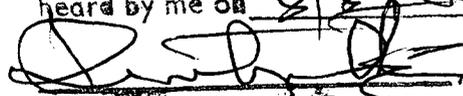
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 13432  
heard by me on 2/21/05

  
Examiner  
Oil Conservation Division

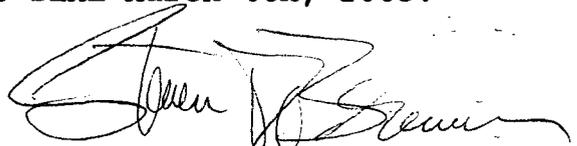
## CERTIFICATE OF REPORTER

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 March 4th, 2005.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006