

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
12 OCTOBER 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Exploration      CASE  
Company for compulsory pooling, Lea      7973  
County, New Mexico.

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Ernest L. Padilla, Esq.  
P. O. Box 2523  
Santa Fe, New Mexico 87501

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

For Marathon Oil:

William F. Carr, Esq.  
CAMPBELL, BYRD, & BLACK P.A.  
Jefferson Place  
Santa Fe, New Mexico 87501

## I N D E X

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2  
3 MR. STAMETS: We'll move on  
4 then to Case 7973.

5 MR. PEARCE: That case is on  
6 the application of Santa Fe Exploration for compulsory  
7 pooling, Lea County, New Mexico.

8 MR. PADILLA: Mr. Examiner,  
9 Ernest L. Padilla, on behalf of the applicant in this case.

10 I have two witnesses to be  
11 sworn.

12 MR. PEARCE: Are there other  
13 appearances?

14 MR. CARR: May it please the  
15 Examiner, my name is William F. Carr, Campbell, Byrd, and  
16 Black, P. A., of Santa Fe, appearing on behalf of Marathon  
17 Oil Company.

18 MR. PEARCE: Do you have any  
19 witnesses, Mr. Carr?

20 MR. CARR: No, I don't.

21 (Witnesses sworn.)

22 WILLIAM A. McALPINE,  
23 being called as a witness and being duly sworn upon his  
24 oath, testified as follows, to-wit:  
25

## DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. McAlpine, for the record would you please state your name and by whom you are employed?

A William A. McAlpine, Junior, Santa Fe Exploration Company.

Q And what is your position with Santa Fe Exploration Company?

A I'm the president.

Q You are the applicant in this case?

A Yes, sir.

Q Have you previously testified before the Oil Conservation Division?

A No, sir.

MR. PADILLA: Mr. Examiner, we request that Mr. McAlpine, being president of Santa Fe Exploration, be allowed to testify on behalf of his company in this case.

MR. STAMETS: Well, we certainly allow that, and I'm astonished, I was certain Mr. McAlpine testified in an earlier case before me.

MR. PADILLA: Mr. Examiner, initially let me make a statement here.

We've asked for a compulsory pooling from the surface to the base of the Morrow formation.

Marathon, apparently, has been

1  
2 confused by our application. We don't intend to force pool  
3 any proration unit where only -- by virtue of the spacing,  
4 if we have 320 acres, obviously our testimony will show, for  
5 example, that below the Wolfcamp we would obviously be force  
6 pooling 320 acres.

7 Marathon's concern, apparently, is that  
8 if we had, for example, 80-acre spacing and our exhibits and  
9 testimony will show that they own an 80-acre tract. We  
10 don't intend to force pool that unless it's by virtue of  
11 spacing --

12 MR. STAMETS: Are we talking  
13 about an amended application, then, to include only the  
14 Wolfcamp Pennsylvanian formations?

15 MR. PADILLA: I believe that  
16 would essentially be the case, because the Bone Springs or  
17 any other potential producing horizons would obviously take  
18 less smaller spacing.

19 MR. STAMETS: Okay, I think  
20 that's an appropriate amendment. If you hadn't done it, we  
21 would have had to have done it.

22 MR. PADILLA: Also, I would  
23 like to at this time, this came up this morning, Santa Fe  
24 Exploration may decide when they're drilling their well, to  
25 go to the Devonian. In the event that a Devonian test would  
show -- turn out to be a gas well, we would also like for  
that to be included as 320-acre spacing.

So in that regard we would

1  
2 amend our application to include the Devonian as well. We  
3 realize we have to readvertise the case for that purpose,  
4 but we would put on testimony sufficient to show compulsory  
5 pooling in the Devonian.

6 MR. STAMETS: And so you're not  
7 in a big enough hurry that you couldn't wait for a month.

8 MR. PADILLA: We are with res-  
9 spect to the Morrow zone, and so if I could ask that the ap-  
10 plication be severed, or to include the Morrow only at this  
11 point.

12 MR. STAMETS: Let's stay off  
13 the record for a moment, Sally.

14 (There followed a discussion off  
15 the record.)

16 Q Mr. McAlpine, can you tell us generally  
17 what the purpose of the application is today?

18 A Yes, sir. This is a forced pooling of  
19 the east half of Section 18, a standard location well site,  
20 660 from the east line and 1980 from the north line, east  
21 half of Section 18, 18, 34, Lea County, New Mexico.

22 Q Let me show you what we have marked as  
23 Exhibit Number One and ask you to tell us what that is.

24 A It is outlined the east half of Section  
25 18 that is the proration unit and it denotes the 80 acres  
that Marathon has in that 320.

Q And that would be the 80 acres depicted  
in yellow, is that Marathon's acreage?

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A Yes, sir.

Q Let me show you what we have marked as Exhibit Number Two and tell us what it is.

A This is a revised permit. Our original permit on this well was Bone Springs test and it has been approved for a 14,000 foot Morrow in this location.

Q And that indicates a location of the well in accordance with your testimony.

A Yes, sir, it does.

Q And that is at a standard location?

A Yes, sir.

Q And Santa Fe Exploration is shown as the operator of -- under the C-101 and desires to be the operator under a compulsory pooling order.

A Yes, sir.

Q Let me show you what we have marked as Exhibit Number Three, and it's a -- and tell us what those are.

A These are copies of our correspondence with Marathon Oil.

Our first contact with Marathon on this particular question arose on March the 30th, 1983, and since that time we've had continuous letters back and forth, letters written to Marathon and from Marathon to us, as well as we've had at least five meetings with personnel of Marathon and enumerable telephone calls, and the last correspondence in regard to this question is dated from Marathon September

1  
2 28th.

3 Q What is the nature of that  
4 correspondence?

5 A That last correspondence is a letter from  
6 John Duddleston, a District Landman for Marathon, proposing  
7 a 250 percent payout or 150 percent risk penalty on the pro-  
8 ration unit.

9 Q In short, they've invited you to force  
10 pool them, is that correct?

11 A Yes, sir.

12 Q And you have caused that and that's why  
13 we're here today.

14 A That's correct.

15 Q Has there been any other communication  
16 between yourselves or any partners with regard to trying to  
17 get Marathon to voluntarily join in this prospect?

18 A Yes, sir, there has been. Union Texas  
19 Petroleum is -- will have a working interest in this well  
20 and after we came to an impasse between Marathon and Santa  
21 Fe Exploration, certain numbers of personnel from Union  
22 Texas met with Marathon.

23 Q Let me show you what we have marked as  
24 Exhibit Number Four today and have you identify that for us.

25 A It's an AFE of a Morrow well at this lo-  
cation and it indicates a dry hole cost of \$945,000 and a  
completed cost of \$1,448,000.

Q Mr. McAlpine, does that --



1  
2 MR. STAMETS: Ernie, we didn't  
3 get any of those.

4 MR. PADILLA: I'm sorry.

5 Q Do those, do the well costs reflected in  
6 that AFE, are they reasonable and in your opinion are they  
7 characteristic of costs for drilling wells in the same  
8 general area to the same horizon?

9 A Yes, sir, particularly in view of the the  
10 farmout stipulations from Amoco and Superior in this  
11 acreage, the testing of formations prior to encountering the  
12 Morrow, I do think they are reasonable.

13 Q Assuming that you go to the Devonian for-  
14 mation, that would obviously increase the costs for drilling  
15 this. That would --

16 A That's correct.

17 Q -- amend the AFE and that would increase  
18 the costs?

19 A Yes, sir.

20 Q By what percentage would you estimate  
21 that the costs would be increased?

22 A Probably around 20 to 25 percent.

23 Q For both the dry cost -- the dry hole  
24 costs and the completed costs?

25 A Yes, sir.

Q Can you give us a suggestion as to what  
the producing rates are for wells drilled in -- or overhead  
charges for wells that are producing, and a drilling rate?

1  
2 A I have in hand a current memorandum from  
3 Union Texas Petroleum and I believe it would be appropriate  
4 for this particular well in that area.

5 Their charges to 12,000 feet, the  
6 drilling rate is \$4,945 a day and their producing rate is  
7 \$495.

8 Below 12,000 feet they have \$5,495 and a  
9 producing rate of \$550 per month.

10 Q Would that -- does that cover a Devonian  
11 test, as well?

12 A Yes, sir, it would.

13 Q Below 12,000-foot rate?

14 A Yes, sir.

15 Q Are those costs characteristic for wells  
16 drilled to that depth in that vicinity in Lea County?

17 A I believe they are.

18 MR. PADILLA: Mr. Examiner, I  
19 believe that's all the questions that I have for this wit-  
20 ness and I pass the witness at this time.

21 MR. STAMETS: Are there  
22 questions of the witness?

#### 23 CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. McAlpine, have you ever mentioned to  
Marathon that you might drill this well to the Devonian?

A I'm not positive that we have, and the

1  
2 only reason that we would drill it to the Devonian is if  
3 we're running high at the Morrow and dry in the Morrow.

4 Q I would think before you made an applica-  
5 tion to include the Devonian you'd need to make them --

6 A We'd be happy to do so.

7 Q -- that offer.

8 Now, are there -- I would gather from  
9 looking at Exhibit Three that there are other interest  
10 owners who have voluntarily agreed to join in the drilling  
11 of this well, Stumhoffer and Superior.

12 A There are farmouts involved, Stumhoffer  
13 and Carr, independents, Amoco and Superior, will have  
14 ultimate working interest after payout.

15 Q So you're at this stage the only active  
16 working interest owner.

17 A Santa Fe Exploration and Union of Texas  
18 Petroleum will be the only active working interest.

19 Q Do you have a communitization -- not com-  
20 munitization -- a working interest agreement with them?

21 A We have one in preparation that is being  
22 formalized.

23 Q And what are the charges for overhead  
24 going to be in that agreement?

25 A As set forth in this memorandum from  
Union Texas Petroleum that I've previously testified to.

It's included in this packet that they

1  
2 have in their hands, I believe, Mr. Padilla.

3 MR. PADILLA: Okay.

4 Q Okay, and these are the rates that you  
5 would like to have, then, \$4945 below 12,000 --

6 A Yes, sir.

7 Q -- and so on.

8 MR. PADILLA: I believe it's in  
9 that exhibit that you have.

10 MR. STAMETS: Yeah, it is.

11 Q Mr. McAlpine, do three 60-foot cores cost  
12 \$50,000?

13 A The engineer that did this estimate felt  
14 like they did. We did not, Santa Fe Exploration did not  
15 make that estimate. It was a request of Superior Oil  
16 Company that cores be made in there and that estimate was  
17 given to us by Union of Texas.

18 MR. STAMETS: Any other ques-  
19 tions of the witness? He may be excused.

20 A Thank you.

21 RICK BELL,  
22 being called as a witness and being duly sworn upon his  
23 oath, testified as follows, to-wit:

24 DIRECT EXAMINATION

25 BY MR. PADILLA:

Q Mr. Bell, would you please state your

1  
2 name for the record and tell us where you're employed?

3 A Rick Bell, Union Texas Petroleum, Mid-  
4 land, Texas.

5 Q What is your connection with the appli-  
6 cant in this case?

7 A Union Texas proposes to be a working in-  
8 terest partner in this exploratory well.

9 Q Can you tell us what your educational  
10 background is and your work experience?

11 A I have a BS in geology from Eastern New  
12 Mexico University and an MS in geology from the University  
13 of Texas at El Paso.

14 I've been employed in the petroleum busi-  
15 ness for six and a half years, previously with Gulf Oil Cor-  
16 poration, and Jake L. Hamon, independent operator out of  
17 Dallas, and am currently, of course, employed with Union  
18 Texas as Geologic Manager for West Texas and Southeastern  
19 New Mexico.

20 Q You're familiar with the area of the ap-  
21 plication and the geology as to the Morrow formations and  
22 for the formations that are sought to be force pooled today?

23 A Yes, sir.

24 Q How about the Devonian formation?

25 A Yes, sir.

MR. PADILLA: Mr. Examiner, we  
tender Mr. Bell as an expert geologist.

1  
2 MR. STAMETS: He is considered  
3 qualified.

4 Q Mr. Bell, referring to what we have  
5 marked as Exhibit Number Five, can you tell us what it is  
6 and what it contains?

7 A We're looking at a geologic montage in  
8 the prospect area. This was prepared by -- not by Union  
9 Texas, but by a geologist under the employment of Santa Fe  
10 Exploration, Thomas R. Smith, but of which Union Texas is in  
11 agreement with the basic exploration concept as portrayed.

12 Q You've reviewed this work before and are  
13 familiar with -- with the geology as depicted by that  
14 exhibit?

15 A Yes, sir.

16 Q All right, and you're prepared to testify  
17 from it?

18 A Yes, sir.

19 Q Can you proceed now and tell us about the  
20 Isopach that's depicted at the bottom of the chart?

21 A Basically what the prospect proposes, to  
22 extend the Lower Morrow producing Pipeline Sand, as depicted  
23 in yellow on the Isopach map, which is the center map at the  
24 bottom, which produces from the Eureka Field, approximately  
25 four miles to the south of the prospect area.

We propose in the prospect area that we  
will encounter approximately 50 feet of this Lower Pipeline  
Sand.

1  
2 The orientation of the channels, as de-  
3 picted by the map, is basically north/south, which is con-  
4 sistent with these point bar channel deposition coming off  
5 the regional dip in the area on the Morrow; basically being  
6 from the north to south into the Delaware Basin.

7 For hydrocarbon entrapment we feel that,  
8 referring to the structure map on top of the Morrow struc-  
9 ture, it is very critical that we encounter critical dip  
10 back to the north which will entrap the hydrocarbon. We  
11 feel this will be a large portion of the high risk nature of  
12 the prospect is the critical dip back to the north.

13 And that is representing, again, we feel  
14 that we will get a small structural closure at about, approx-  
15 imately -8900 foot datum in the prospect area.

16 Q Mr. Bell, what's the closest producing  
17 Morrow well in the vicinity of the proposed location?

18 A Approximately four miles to the south in  
19 the Eureka Morrow Field.

20 Q What does your cross section depict, Mr.  
21 Bell?

22 A The cross section A-A' is basically a  
23 north/south cross section, starting to the north in Section  
24 9, which would indicate an area where the Amoco State Well  
25 drilled in Section 9 recovered no lower sands in what we  
call the Pipeline zone of the Morrow, coming across into the  
prospect area where we hypothesize again that we will  
encounter approximately 50 feet of net sand coming down on

1 to the south and tying to the Eureka Field.

2 It shows the relationships of the various  
3 producing sands in the area.

4 Q Mr. Bell, does this exhibit indicate any  
5 Devonian production?

6 A No, sir, it does not.

7 Q Are you aware of any Devonian production  
8 in the vicinity of the prospect?

9 A There's no established production within  
10 the immediate vicinity of the prospect.

11 Q So the Devonian would be considered a  
12 wildcat, as well as the Morrow?

13 A Yes, very high risk.

14 Q Okay.

15 A Possibility.

16 Q Which is the producing well in the area?

17 A The nearest Morrow producer?

18 Q Yes.

19 A It would be in Section 4, and that would  
20 be 19 South, 34 East.

21 Q Do you know what the production charact-  
22 istics are for that well?

23 A I know that the average production for  
24 the Morrow for the entire area is approximately 4 Bcf per  
25 well and about 70,000 barrels of condensate.

There are some wells in Eureka that have  
produced as high as 25 Bcf and 3-or-400 barrels of conden-  
sate.



1  
2 Q Based upon your testimony and the presen-  
3 tation you've given here today, would you -- what would you  
4 consider the risk factor penalty to be for a Morrow pros-  
5 pect?

6 A Well, we consider it to be a very high  
7 risk prospect.

8 Q How about a Devonian test?

9 A Also very high risk.

10 Q What kind of a penalty would you recom-  
11 mend?

12 A We would recommend the maximum penalty of  
13 complete recovery of our well cost plus the 200 percent.

14 Q Mr. Bell, do you have anything further to  
15 add to your testimony?

16 A No, sir.

17 MR. PADILLA: Nothing further,  
18 Mr. Examiner.

19 We tender Exhibit Number Five.

20 MR. STAMETS: Exhibit Number  
21 Five will be admitted.

22 Are there any questions of the  
23 witness? He may be excused.

24 Anything further in this case?

25 MR. PADILLA: Also tender Exhi-  
bits One through Four.

MR. STAMETS: All the exhibits  
are admitted, and the case is taken under advisement.

## 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. 1973  
heard by me on 10/12/83 1983.

Richard H. [Signature] Examiner  
Oil Conservation Division