

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

11 May 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of Highland Production CASE
Co. for compulsory pooling, Lea County, 7862
New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

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MR. STOGNER: We'll call next Case
Number 7862.

MR. MILLS: Application of Highland
Production Company for compulsory pooling, Lea County, New
Mexico.

MR. KELLAHIN: If the Examiner please,
I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf
of the applicant, and I have two witnesses to be sworn.

(Witnesses sworn.)

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Hogan, would you please state your
name and occupation?

A. Timothy J. Hogan, independent landman.

Q. Mr. Hogan, have you testified before the
Oil Conservation Division as a landman?

A. Not before.

Q. All right, would you tell the Examiner

1. about your experience and employment as a petroleum landman?

2. A. For approximately the past year and a half
3. I've been on a retained basis for Tom Schneider and Carey (sic)
4. Oil and Gas in Midland.
5.

6. Q. Are you doing consulting work for the ap-
7. plicant with regards to the land title matters surrounding
8. this application?

9. A. Yes, sir.

10. Q. And pursuant to that employment have you
11. in fact made such a study?

12. A. Yes, sir.

13. MR. KELLAHIN: We tender Mr. Hogan
14. as an expert petroleum landman.

15. MR. STOGNER: The witness is quali-
16. fied as a practical landman.

17. Q. Mr. Hogan, let me direct your attention to
18. a letter dated January 27th, 1983, and have you identify that
19. for me. What is that letter?

20. A. That was the first letter I sent the co-
21. administrators of the Estate of Robertha Geyer, deceased,
22. just explaining to them our lease offer. This is the same
23. letter we sent all the mineral owners, about thirty mineral
24. owners, under this particular tract.

25. Q. All right, would you describe for us what

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the proration unit is? Where is it located?

A. The proration unit is southeast quarter southwest quarter of Section 26.

Q. The 40-acre proration unit, Mr. Hogan, is for purposes of drilling what type of well?

A. Seven Rivers and Yates test well.

Q. That will be for the Jalmat Pool, is it not?

A. Yes, sir.

Q. All right, sir, and pursuant to forming a voluntary proration unit consisting of those forty acres in Section 26, have you obtained the voluntary cooperation of all other working interest owners?

A. Yes, sir.

Q. All right, so the only outstanding interest is the one you're describing now?

A. Yes, sir.

Q. And what is that total interest within the forty acres?

A. 1.05 net acres.

Q. All right, sir, and what, if any, response did you receive from those individuals to your January letter?

A. Well, from this letter we didn't receive any response; had to make several calls to see if they got the letter and be sure they did, and what their thinking was, and

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2 they -- they said they got the letter, were taking it under
3 advisement. Said they would like \$100 an acre and for a six
4 months lease .

5 Q All right, sir. On March 16th of '83 did
6 you write these individuals again?

7 A Yes, sir.

8 Q All right. I'll show you what is marked as
9 Exhibit Number Two, Mr. Hogan, and ask you to identify that
10 letter.

11 A Okay. This is the letter I sent them after
12 they said they wanted \$100 an acre plus attorneys' fees to
13 handle the cost of their attorney applying to the Courts for
14 approval of the oil and gas lease.

15 Q This interest is part of an estate, is it?

16 A Right.

17 Q All right, and the estate interest has to
18 be approved by the Court involved as you understand?

19 A Probate Court of Dallas County.

20 Q All right, sir, and what, if any, response
21 did you get to this letter?

22 A This letter was -- we offered to give them
23 \$500 to cover all the fees and bonus monies for a 5-year
24 lease. We were reluctant to give them \$100 an acre for a
25 6-months lease like they wanted, so we came back with a 5 -

1
2 year lease and their response was -- they didn't like five
3 years, they still wanted 6-months.

4 Q All right. Subsequent to that letter did
5 you have occasion to write them again on April 15th of 1983?

6 A Yes, sir.

7 Q All right, sir, I show you Exhibit Number
8 Three and ask you to identify that.

9 A Okay. After I talked to them again and we
10 were at the point where we'd leased all other mineral owners,
11 we had to drill soon or our leases were going to expire, so
12 we settled on a 1-year lease date. We'll increase the terms
13 from 6-months to 1-year; therefor, we gave them everything
14 they wanted.

15 Q Have you received the executed lease back
16 from these individuals at this point?

17 A I haven't, no.

18 Q And you, I assume, are at the point where
19 you've commenced drilling rather than waiting for the lease?

20 A Yes, sir.

21 Q All right, sir. Let me direct your atten-
22 tion, Mr. Hogan, to Exhibit Number Four, which is COPAS in-
23 struction to an operating agreement and have you identify
24 that for me, please.

25 A Okay, this is the operating -- the COPAS

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2 to the operating agreement that we prepared and sent to all
3 our partners, and basically provides for \$300 a month for a
4 producing well, \$3000 for a drilling well rate.

5 Q Are those the rates that you would request
6 the Examiner include in any Commission compulsory pooling
7 order?

8 A Yes, sir.

9 Q And are those rates customarily used within
10 the area for Jalmat wells?

11 A Yes, sir.

12 Q And those are the rates agreed to by the
13 other working interest owners for this well?

14 A Yes, sir.

15 Q All right. Let me direct your attention,
16 Mr. Hogan, to Exhibit Number Five, the AFE.

17 A Right. I don't have a copy of that one.

18 Q Here we go. All right, would you identify
19 Exhibit Number Five for us, Mr. Hogan?

20 A Yes, sir. This is the exhibit on the AFE
21 that Marvin Smith, the operator for Highland Production, and
22 Tom Schneider, in conjunction with Lewis Burleson, who is a
23 partner in this well, who also has drilled several wells up
24 there, and this AFE is very similar to the wells that he's
25 drilled.

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2 Q Is this an AFE that's generally been approved
3 by the other working interest --

4 A Yes, sir.

5 Q -- owners for this project? And it's
6 typical of the costs involved in a Jalmat well to this depth?

7 A Yes, sir.

8 Q All right, sir.

9 MR. KELLAHIN: If the Examiner please,
10 our next witness is Mr. Tom Schneider, a geologist. This con-
11 cludes my examination of Mr. Hogan.

12
13 TOM SCHNEIDER,
14 being called as a witness and being duly sworn upon his oath,
15 testified as follows, to-wit:

16
17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q All right, sir, would you please state
20 your name, sir?

21 A My name is Tom Schneider.

22 Q Mr. Schneider, how are you employed and in
23 what capacity?

24 A I'm a working interest partner in this
25 well.

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Q All right, sir.

A And I'm -- my profession is I'm a consulting petroleum geologist.

Q Have you testified before the Oil Conservation Division?

A No, sir, never have.

Q For the Examiner, would you explain when and where you obtained your degree in geology?

A I obtained a BS degree from the University of Texas at Austin, MA degree, 1951, University of Texas at Austin.

Q And subsequent to graduation where have you worked? In a brief fashion describe for us your employment as a geologist.

A I worked for Lowry Oil and Gas Company from 1951 to 1953; for Texas Pacific Oil Company from '53 to '56. Since then I've been an independent consultant geologist.

Q Do you do consulting geologic work in Lea County, New Mexico?

A Yes, sir.

Q And you did the consulting geology for this project we have here?

A Yes, sir, I did.

MR. KELLAHIN: We tender Mr. Schneider

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2 as an expert petroleum geologist.

3 MR. STOGNER: Mr. Schneider is
4 qualified.

5 Q Mr. Schneider, let me direct your attention
6 to what we've marked as Exhibit Number Six.

7 Would you identify for us what Exhibit Num-
8 ber Six is?

9 A Exhibit Number Six is a geologic structure
10 map on the top of the Yates formation in the Jalmat Field
11 area, but more specifically covering the prospect section,
12 26, 24 South, 35 East.

13 Q All right, what is the primary formation
14 within the Jalmat Pool that you're looking to test, Mr.
15 Schneider?

16 A Well, we -- the formations that we plan to
17 test are the -- primarily the Seven Rivers, and then at a
18 later date, when the gas situation improves, possibly coming
19 back to the Yates formation.

20 Q All right. Those formations have a proration
21 unit consisting of 40 acres, do they not?

22 A Yes, sir.

23 Q All right. Would you identify for us on
24 your structure map the location of the 40-acre proration
25 unit?

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2 A. It's in the southeast quarter of the south-
3 west quarter of Section 26, 24 South, 36 East.

4 Q. It's identified on your map by the green
5 shading?

6 A. Yes, sir.

7 Q. All right, sir. I note that there is --
8 well, what is the location of the well itself?

9 A. The location that we've proposed to drill
10 is 2310 from the west line and 990 from the south line of
11 Section 26.

12 Q. All right, that's the double circle within
13 the 40-acre --

14 A. Yes, sir.

15 Q. -- proration unit? And that's a standard
16 location for a 40-acre proration unit, is it not?

17 A. Yes, sir.

18 Q. I see a well in the center of this 40-acre
19 tract. What is that?

20 A. The well in the center of the tract is a
21 well that was drilled years ago to -- down into the Seven
22 Rivers Reef, but was abandoned in the late forties --

23 Q. And by --

24 A. 1940's.

25 Q. The diagonal slash through the blue dot in-

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2 dicates it's an abandoned well.

3 A. Yes, sir.

4 Q. All right. I notice that immediately south
5 in the proration -- in the adjoining section to the south
6 there is also a well. What is the --

7 A. Yes, sir, that's --

8 Q. -- status of that well?

9 A. That is -- that was abandoned in the late
10 forties, also.

11 Q. Okay, and then going to the west of this
12 proration unit, in the Conoco Gates 40 acres, there is also
13 a well symbol. What is that one?

14 A. Well, that well is also abandoned. It pro-
15 duced from the Reef. There's a well north of it that is pro-
16 ducing, presently producing, from the Reef.

17 The Reef wells in here make a very high
18 water cut and very low oil cut.

19 Q. Immediately north there is a yellow well
20 symbol. What is that well?

21 A. That is an abandoned -- that -- that ori-
22 ginally was a Reef well plugged back the late -- Yates and
23 later abandoned.

24 Q. Mr. Schneider, you've identified for us
25 four abandoned wells that have tested this formation. In

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2 your opinion is -- what is the risk involved in drilling this
3 well to this depth?

4 A. Well, we -- we -- our plans are to drill
5 to the top of the Reef but just take about two or three feet
6 of porosity in the top of the Reef, with the hope that we
7 could cut down the percentage. We expect to make water, but
8 cut down the percentage of water and have a high enough oil
9 cut where it would be a commercial well.

10 Q. The Commission sets a maximum percentage by
11 statute in pooling cases, Mr. Schneider, of a 200 percent
12 risk factor.

13 A. Uh-huh.

14 Q. In relation to that statutory maximum,
15 where would you place the risk involved in drilling and com-
16 pleting a commercial well as you propose here?

17 A. We think the risk in the Seven Rivers Reef
18 is -- is high because of the percent of water that you're
19 liable to encounter.

20 A. Can you place a percentage number upon that
21 risk?

22 A. I'd say 200 percent would be -- at least
23 200 percent risk.

24 Q. All right, sir.

25 Was Exhibit Number Six prepared by you, sir?

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2 A. Yes, sir.

3 Q. All right, and in your opinion, Mr. Schneider,
4 will approval of this application be in the best interest of
5 conservation, the prevention of waste, and the protection of
6 correlative rights?

7 A. Yes, sir, I think so. I think so.

8 MR. KELLAHIN: That concludes our
9 examination of Mr. Schneider.

10 We move the introduction of Exhibits
11 One through Six.

12 MR. STOGNER: Exhibits One through
13 Six will be admitted into evidence.

14
15 CROSS EXAMINATION

16 BY MR. STOGNER:

17 Q. Mr. Schneider, is the Capitan Reef part of
18 the Jalmat Pool?

19 A. Yes, sir, I thought it was.

20 Q. Okay.

21 A. I mean I call Capitan Seven Rivers in age,
22 and I believe the Jalmat includes Yates and Seven Rivers.

23 Q. Okay. I just wanted that in the record.

24 MR. STOGNER: I have no further
25 questions of Mr. Schneider.

Does anybody have any questions of the witness? If not, they may be excused.

A. Thank you, sir.

MR. STOGNER: Anything further in Case Number 7862?

MR. KELLAHIN: No, sir.

MR. STOGNER: If not, this case will be taken under advisement.

(Hearing concluded.)

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. 7862, heard by me on May 11 1983,
Michael F. Stogner, Examiner
Oil Conservation Division

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