

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 BASS ENTERPRISES)
PRODUCTION COMPANY)

CASE NO. 11,336

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 13th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 13th, 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.

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 Examiner Hearing
 CASE NO. 11,336

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A P P E A R A N C E S

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FOR THE APPLICANT:

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By: W. THOMAS KELLAHIN

FOR AMOCO PRODUCTION COMPANY and
SANTA FE ENERGY RESOURCES, INC.:

CAMPBELL, CARR & BERGE, P.A.
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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:20 a.m.:

3 EXAMINER STOGNER: Hearing will come to order.
4 Call next case, Number 11,336.

5 MR. CARROLL: Application of Bass Enterprises
6 Production Company for compulsory pooling, Eddy County, New
7 Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 on behalf of the Applicant, and I have two witnesses to be
12 sworn.

13 EXAMINER STOGNER: Any other appearances?

14 MR. CARR: May it please the Examiner, my name is
15 William F. Carr with the Santa Fe law firm Campbell, Carr
16 and Berge.

17 We represent Amoco Production Company and Santa
18 Fe Energy Resources, Inc., in this matter.

19 We do not intend to call a witness.

20 EXAMINER STOGNER: Any other appearances?

21 Mr. Carr, Santa Fe Energy Resources, they're out
22 of --

23 MR. CARR: -- Midland.

24 EXAMINER STOGNER: -- Midland?

25 MR. CARR: Yes, sir.

1 EXAMINER STOGNER: That's not to be confused --

2 MR. CARR: -- with Santa Fe --

3 MR. KELLAHIN: -- Energy --

4 MR. CARR: -- Energy -- or Exploration, out of
5 Roswell.

6 EXAMINER STOGNER: Okay.

7 MR. CARR: That -- We're not here for the Roswell
8 firm.

9 EXAMINER STOGNER: Always get those -- And then
10 there's another Santa Fe too, but they don't have anything
11 here, Santa Fe Minerals.

12 Any other appearances?

13 There being none, will the witnesses please stand
14 to be sworn?

15 (Thereupon, the witnesses were sworn.)

16 WORTH CARLIN,

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

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Sir, would you please state your name and
22 occupation?

23 A. My name is Worth Carlin. I'm a landman with Bass
24 Enterprises Production Company in Fort Worth.

25 Q. Mr. Carlin, on prior occasions have you testified

1 before the Division?

2 A. No, I have not.

3 Q. Summarize for us your education and employment
4 insofar as it deals with petroleum land management matters.

5 A. I graduated from the University of Texas in 1977
6 with a bachelor of business administration degree and went
7 to work in 1978 as a landman for Phillips Petroleum
8 Company, then Oryx, or Sun, Oryx Energy Company, and am
9 currently employed with Bass Enterprises Production
10 Company, fulfilling duties as a landman throughout that
11 tenure.

12 Q. Do your current duties with your employer include
13 trying to consolidate on a voluntary basis working interest
14 ownership for the drilling of this proposed well to test
15 formations, including the Morrow formations, in Eddy
16 County, New Mexico?

17 A. Yes, it does.

18 Q. As part of those duties, have you had
19 correspondence with and knowledge about the working
20 interest ownership within the proposed spacing unit?

21 A. Yes, I do.

22 Q. And has it been your responsibility to make those
23 contacts, to provide this well proposal to those other
24 interest owners and to see if they'll participate?

25 A. Yes, it is.

1 MR. KELLAHIN: We tender Mr. Carlin as an expert
2 petroleum landman.

3 EXAMINER STOGNER: Are there any objections?

4 Mr. Carlin is so qualified.

5 Q. (By Mr. Kellahin) Let me have you turn to what
6 is marked as Exhibit 1. Identify for us the acreage that's
7 the subject of the Application, Mr. Carlin.

8 A. This is a land plat which outlines in the east
9 half of Section 2 of Township 19 South, 28 East, of a
10 standup 320-acre proration unit or spacing unit.

11 Q. Within the 320-spacing unit, it appears as if the
12 section is an oversize section?

13 A. That is correct. So the actual call for this
14 unit would be 321.4 acres.

15 Q. You have some lots in the northeast quarter along
16 the eastern boundary of that quarter section, right?

17 A. Yes, Lot 1 being the northeast of the northeast
18 quarter, and Lot 2 being the northwest of the northeast
19 quarter.

20 Q. All right. It's the north half of the northeast
21 that's the odd size then?

22 A. Yes.

23 Q. Where's the proposed well to be located?

24 A. The proposed well is to be located at an orthodox
25 location in the southeast of the northeast quarter.

1 Q. You're dealing with three different leases here?

2 A. Three different leases, all standard New Mexico
3 leases.

4 Q. The ownership for the spacing unit is divided
5 among Bass and what other companies?

6 A. Amoco Production Company and Santa Fe Energy.

7 Q. Okay. Let's turn to Exhibit 2, then, and have
8 you describe for us the actual percentages as you've
9 calculated them.

10 A. Exhibit 2 is a breakout of the leasehold
11 ownership showing Santa Fe Energy in the southeast quarter
12 with 160 acres and a unit interest of 49.782 percent; Amoco
13 Production Company in Lot 2, being the northwest of the
14 northeast quarter, 40.65 acres, unit interest 12.648
15 percent; and 120.75 acres being Lot 1 in the south half of
16 the northeast quarter, held under the Bass entities, with a
17 37.57-percent unit interest.

18 Q. Was it your responsibility on behalf of Bass to
19 contact Santa Fe and Amoco concerning a proposal by your
20 technical people to drill a well in the northeast quarter
21 of the section?

22 A. Yes, it was.

23 Q. Did the proposed target for this well include all
24 the deep gas pools, everything below the top of the
25 Wolfcamp, to the base of the Morrow?

1 A. Yes, sir.

2 Q. Did you formally propose this well, including the
3 submittal of an itemized AFE, to Santa Fe and to Amoco?

4 A. Yes.

5 Q. And how did you do that?

6 A. I did that by letter dated May 1st of 1995.

7 Q. And is that shown as a copy of that letter to
8 Santa Fe marked as Exhibit Number 3?

9 A. Yes.

10 Q. Did you attach to that letter an itemized AFE
11 that showed Santa Fe exactly how you proposed to drill and
12 complete the well?

13 A. Yes.

14 Q. How was that AFE prepared?

15 A. The AFE was prepared by our engineering group, in
16 conjunction with their normal course of business of
17 preparing AFEs for drilling similar Morrow wells in this
18 area.

19 Q. Did you have any objection from Santa Fe as to
20 any of the items on the AFE?

21 A. No.

22 Q. Let's turn now to the contact, the initial
23 contact with Amoco. Identify and describe Exhibit Number
24 4.

25 A. Exhibit Number 4 is also a letter dated May 1st,

1 1995, identical contents as the letter to Santa Fe, with an
2 AFE, detailed cost estimate attached to it.

3 Q. How did you go about satisfying yourself that you
4 were dealing with the parties that held the rights to drill
5 and participate in drilled wells in the spacing unit?

6 A. Subsequent to the issuance of these letters,
7 telephone contacts were made with representatives in both
8 Amoco's land department and Santa Fe's land department to
9 assure that they were in receipt of the letter and that
10 they have -- and that they acknowledge that they do own the
11 leasehold as depicted.

12 Q. Your title information was that they held this
13 interest, and your contacts with them confirmed that they
14 did?

15 A. That is correct.

16 Q. All right. During the month of May, then, did
17 you have other conversations with either of these
18 companies?

19 A. We had numerous telephone contacts to determine,
20 you know, what their position was going to be. And during
21 the month of May they basically said that, you know, they
22 were still evaluating it.

23 Q. By June 13th, had you received anything in
24 writing from either Amoco or Santa Fe in response to your
25 May 1st letter?

1 A. No, we had not.

2 Q. What did you do on May 13th, then?

3 A. On May --

4 Q. I'm sorry, June 13th.

5 A. On June 13th of 1995, we submitted another letter
6 to both Santa Fe and Amoco, informing them that we had
7 received our drilling permit from the BLM, that we were
8 still very interested in continuing on with the drilling of
9 this well, and asked them to give us an answer as to
10 whether they would like to participate.

11 Q. The June 13th letter to Santa Fe is marked as
12 Exhibit Number 5; is that not true?

13 A. Santa Fe is Exhibit Number 5.

14 Q. And then Mr. Bailey's letter to Amoco is dated
15 June 13th, same letter?

16 A. That is correct.

17 Q. All right. After that, by mid-June, had you
18 received any formal reply from either Santa Fe or Amoco as
19 to their intentions?

20 A. By letter dated June 19th, we received a response
21 -- I'm sorry, June 21st, we received a response, a written
22 response from Amoco, basically informing us that they
23 elected not to participate in the well, but would we
24 consider a term assignment on their interest?

25 Q. Prior to Amoco's June 21st letter, had you

1 already commenced action to file a compulsory-pooling
2 application before the Division?

3 A. Yes, we had.

4 Q. All right. Apart from pursuing with the pooling
5 case, do you intend to continue to have negotiations and
6 discussions with Amoco and Santa Fe in an effort to
7 mutually resolve the differences and attempt to obtain
8 voluntary cooperation?

9 A. Yes, we do.

10 Q. In the event that's unsuccessful, do you desire
11 to have a pooling order issued in this case?

12 A. Yes, we do.

13 Q. Do you have a recommendation to the Examiner as
14 to what the overhead rates would be under a pooling order?

15 A. Yes, we do. Based on current industry standards,
16 under the *Ernst & Whinney* survey, we propose the overhead
17 rates to be \$5200 for drilling, \$520 for producing.

18 MR. KELLAHIN: That completes my examination of
19 Mr. Carlin, Mr. Examiner.

20 We move the introduction of his Exhibits 1
21 through 7.

22 EXAMINER STOGNER: Are there any objections?

23 MR. CARR: No objection.

24 EXAMINER STOGNER: Exhibits 1 through 7 will be
25 admitted into evidence.

1 Thank, Mr. Kellahin.

2 Mr. Carr, your witness.

3 MR. CARR: I have no questions of Mr. Carlin.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Your Exhibits 3 and 4, that was your first
7 initial contact with both Santa Fe and Amoco, or did you
8 have telephone conversations prior to this?

9 A. No, sir, there were no telephone conversations
10 prior to that.

11 Q. Is there a lease deadline out here on this
12 proration unit or --

13 A. No, sir.

14 Q. -- 320 acres?

15 A. No, sir.

16 Q. So that's not a factor?

17 A. No, sir.

18 Q. Other than if you don't get an order in three
19 years or something like that.

20 And all of Section 2 is State acreage; is that
21 correct?

22 A. That is correct.

23 EXAMINER STOGNER: Any other questions of this
24 witness?

25 MR. KELLAHIN: No, sir.

1 EXAMINER STOGNER: You may be excused.

2 THE WITNESS: Thank you.

3 EXAMINER STOGNER: Thank you.

4 Mr. Kellahin?

5 MR. KELLAHIN: Yes, sir.

6 MICHAEL A. CERVANTES,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. All right, sir, would you please state your name
12 and occupation?

13 A. Michael A. Cervantes. I'm a geologist with Bass
14 Enterprises in Fort Worth, Texas.

15 Q. Mr. Cervantes, on prior occasions have you
16 testified before the Division as a petroleum geologist?

17 A. No, I have not.

18 Q. Summarize for us your education.

19 A. I earned a bachelor of science degree in applied
20 earth sciences from Stanford University. Following that, I
21 earned a master of arts degree in geology from the
22 University of Texas at Austin.

23 Q. In what years?

24 A. Stanford in 1984 and UT Austin in 1988.

25 Following graduation from Austin, I went to work

1 for Amoco Production Company in Houston, worked there for
2 about six years in a variety of petroleum geologist
3 projects related to exploration and exploitation in east
4 Texas, Michigan and west Texas.

5 Q. Summarize for us what your current duties are
6 insofar as this particular Application is concerned.

7 A. I currently work for Bass as a petroleum
8 geologist, and my main areas are looking at New Mexico and
9 west Texas.

10 Q. Does the geologic analysis of the risk involved
11 in this particular well represent your work product?

12 A. Yes, sir.

13 Q. Do these conclusions that you're about to express
14 represent your own personal geologic conclusions?

15 A. Yes, sir.

16 Q. Are you aware that the Division Examiner is
17 authorized by law to award a risk-factor penalty in a
18 pooling case which amounts to recovery of costs plus 200
19 percent?

20 A. Yes, sir, I'm aware of that.

21 Q. Within the context of that limit, what is your
22 opinion and recommendation concerning a risk-factor penalty
23 to be applied in this case?

24 A. Due to considerable risk involved with this
25 location, we would move for the maximum penalty allowed.

1 Q. All right. Let's discuss the reasons that got
2 you to that conclusion.

3 A. Okay. Exhibit 8 is my first exhibit. It is a
4 production map in the North Turkey Track area.

5 Q. It's divided into two parts, is it not?

6 A. Yes, sir, it is.

7 Q. The north part of the -- or the top of the
8 display represents what, sir?

9 A. The top half displays non-Morrow production in
10 the area. The symbols and color codes indicate different
11 formations that are productive in the area, all of which
12 are non-Morrow wells, but these represent potential salvage
13 zones or secondary targets in the event that we drill a
14 Morrow test.

15 Q. The Application seeks a pooling order for
16 formations on 320 gas spacing from the top of the Wolfcamp
17 down to the base of the Morrow.

18 Within that context, what is the most likely
19 reservoir to be productive in this area?

20 A. The Morrow formation.

21 Q. Let's look at the bottom half of the exhibit.
22 What have you shown here?

23 A. The bottom half of the production map highlights
24 Morrow production in the area. As you can see, there are
25 numerous producing Morrow wells or wells that have produced

1 from the Morrow formation, and the particular location that
2 we are considering, there are three dryholes surrounding
3 that location.

4 Q. All right. Let's find those so that we can
5 visualize where they are as we move to the other maps. The
6 location is blocked out as the east half of Section 2?

7 A. Two.

8 Q. You've got your location spotted. Where are
9 these dryhole reference points?

10 A. There's a dryhole immediately due west in Section
11 3 on the east half of that section.

12 As you go south to Section 11, there is another
13 dryhole on the west half of that Section 11.

14 And then if you go north to Township 18 South, 28
15 East, there is a dryhole in the southwest corner of Section
16 36.

17 Q. Have you prepared some technical maps, geologic
18 maps, to show structural position and/or sand distribution
19 in the Morrow?

20 A. Yes, sir, I have. Exhibit Number 9 is a
21 structure map on the top of the Lower Morrow formation. As
22 you can see, the location is highlighted on the map. The
23 location sits on the west flank of a northwest-southeast
24 trending structural nose.

25 Q. How is structure of significance to you as a

1 geologist when you try to find a Morrow location?

2 A. As far as Morrow production goes, the higher we
3 can situate a well location, the more inclined we are to
4 enhance permeability in the sands that may have low
5 porosity, is the main reason.

6 The second reason is, if the sands are there,
7 then we want to get as high as we can possibly, to maximize
8 our production of hydrocarbon, as opposed to water.

9 Q. Give us the depositional environment in which the
10 Morrow system is deposited.

11 A. The depositional environment for the Morrow in
12 this area is primarily a fluvial deltaic mixture of
13 sandstones.

14 Q. Do you have a depiction of how you've mapped the
15 Morrow?

16 A. Yes, sir, my Exhibit Number 10 in the area is
17 divided into two sections. The Middle Morrow is on the
18 top, and the Lower Morrow is on the bottom.

19 Both maps are based on a net clean sand map, with
20 a clay percentage of less than 10 percent related -- based
21 on the gamma-ray pick, highlighting clean sand in these
22 areas.

23 Q. When you as a geologist are exploring for Morrow
24 production in this area, are these the two portions of the
25 Morrow that you would look to to see if they are

1 productive?

2 A. Yes, sir, these are the primary targets of
3 interest.

4 Q. Let's deal with the Middle Morrow first, which is
5 the top portion of Exhibit 10, and describe how that sand
6 was distributed.

7 A. There's a series of channels oriented in a
8 roughly north-south direction, and going by the net clean
9 sand isopach map exhibited, we view our location being
10 within a sand trend, a thicker sand trend in that area.

11 Q. So what's the risk?

12 A. Well, the Morrow formation is notorious for its
13 lateral heterogeneity. That is, there are rapid changes
14 that occur over a short distance. So there is considerable
15 risk in that the well location as spotted may not exactly
16 hit the optimum location within the sand channel as I have
17 interpreted.

18 Q. Let's go back to Exhibit 8 and draw a comparison.
19 If you'll take Exhibit 8 and the top half of Exhibit 10,
20 when you look at your middle Morrow sand map in the
21 adjoining section, number 1, there is a well in Section 1
22 that produced a little over a BCF of gas. Do you see that?

23 A. Yes, sir.

24 Q. And within this sand package in the Middle
25 Morrow, it is somewhere around four feet of thickness?

1 A. That's correct.

2 Q. And you follow that contour, the five-foot
3 contour line, up, move it up into Section 36 to the north.

4 A. Yes, sir.

5 Q. Do you see the well in the southwest of the
6 southwest of 36?

7 A. Yes, sir.

8 Q. Again, with about four feet?

9 A. Correct, sir.

10 Q. What kind of productivity was realized in that
11 well?

12 A. That well is nonproductive. There could have
13 been a variety of reasons for that one. In terms of being
14 able to bring a well on production, there are a number of
15 factors that could bar economic production in terms of
16 having more shales deposited in there that would hinder the
17 development of the sand and also hinder the development of
18 permeability to deliver the gas.

19 Q. On a sand map like this, while you can map those
20 two wells as being in potentially the same channel system
21 and perhaps having the same net value, the end result of
22 the drilling effort results in what? One well that's
23 productive, and the other well that's not?

24 A. That's correct, sir.

25 Q. How does that fit into your well-location risk?

1 A. Well, that helps to underscore that there is a
2 high level of risk associated with the well location as we
3 have it.

4 Q. When we look at the productivity map and compare
5 it to the Middle Morrow channel map, you appear to be on
6 the western fringe of that channel system, are you not?

7 A. Yes, sir.

8 Q. Let's turn now to the Lower Morrow, if we'll look
9 at the bottom half of Exhibit 10. Describe for us the sand
10 depositional environment for the Lower Morrow.

11 A. In this particular channel system, there is a
12 series of channels, again also primarily oriented north-
13 south, but as you get to the location you can see that the
14 sands, by the thickness contours, a 20-foot contour, are
15 getting smeared in an east-west location. This is
16 interpreted to be a zone where the fluvial or river
17 depositional area meets a deltaic -- or encounters a wave
18 energy so that the sands that are being brought by the
19 river are then smeared along the beach in an east-west
20 direction.

21 Q. How does that affect the risk for finding a well
22 in your spacing unit?

23 A. Well, there is still some of the risk, in that
24 we're at the boundary between two dominant depositional
25 systems, so that the thicker sands could migrate a bit in

1 terms of being able to give us a well that would have the
2 optimum thickness to produce an economic well.

3 Q. When you fit the two potential Morrow sand
4 systems together, do you still have the level of risk that
5 you've described?

6 A. Yes, sir, I do.

7 Q. Summarize for us your recommendation, then.

8 A. I recommend that we be allowed to pursue this
9 location for a Morrow test, and we also ask that should
10 force-pooling come to pass, we would get the maximum
11 allowable penalty.

12 MR. KELLAHIN: That concludes my examination of
13 Mr. Cervantes.

14 We move the introduction of his Exhibits 8, 9 and
15 10.

16 EXAMINER STOGNER: Exhibits 8, 9 and 10 will be
17 admitted into evidence.

18 Mr. Kellahin.

19 Mr. Carr, your witness.

20 MR. CARR: No questions of Mr. Cervantes.

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. Did you do any evaluation of the Atoka? I notice
24 on Exhibit Number 8 that there are a few Atoka wells, one
25 within a mile, or a mile away up to the north. Is that a

1 current producer, or have you had any geological experience
2 with the Atoka in this area?

3 A. That's a current producer, but I haven't really
4 looked into any detail.

5 Q. Now, there's a few Permian Wolfcamp. Is that gas
6 or oil?

7 A. Those are oil.

8 Q. Those are oil?

9 A. Yes, sir.

10 Q. And how about the Strawn? Is that oil or gas?

11 A. Those are -- There's just that one Strawn in the
12 section -- 19 South, 29 East, in Section 5. That's oil, or
13 was oil. It's abandoned now.

14 Q. I thought there was a couple up there in Section
15 31.

16 A. Oh, you're correct, sir, those are oil as well.

17 Q. Okay. So essentially all, with maybe a chance of
18 Atoka --

19 A. That's correct, sir.

20 Q. -- with this well in the proration unit?

21 What's the proposed depth on this well?

22 A. 11,300. Pardon me, 11,200.

23 Q. 11,200?

24 A. Yes, sir.

25 Q. Will that take you through the Morrow formation,

1 or are you going to be in the lower portion of it?

2 A. That will take us through the Lower Morrow, sir.

3 Q. On top of the Devonian, is that what you'll hit
4 next?

5 A. Yes, sir.

6 EXAMINER STOGNER: Any other questions of the
7 witness?

8 MR. KELLAHIN: No, sir.

9 EXAMINER STOGNER: You may be excused.

10 THE WITNESS: Thank you.

11 EXAMINER STOGNER: Anything further, Mr.
12 Kellahin?

13 MR. KELLAHIN: Yes, sir, a certificate of
14 notification. I've marked it as Bass Exhibit 11, Mr.
15 Examiner.

16 We would move the introduction of Exhibit 11.

17 EXAMINER STOGNER: Exhibit Number 11 will be
18 admitted into evidence.

19 MR. KELLAHIN: That concludes our presentation.

20 EXAMINER STOGNER: If nobody has anything further
21 in Case 11,336, this case will be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 11:45 a.m.)

24 * * *

25

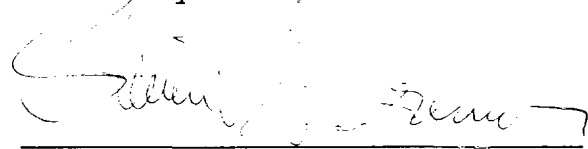
CERTIFICATE OF REPORTER

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

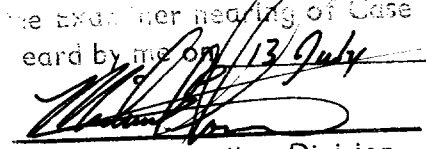
I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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 July 19th, 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 examination hearing of Case No. 11336, heard by me on 13 July 1995.
, Examiner
 Oil Conservation Division