

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:) CASE NO. 11,372
)
 APPLICATION OF ANSON GAS)
 CORPORATION)
 _____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

SEP 7 1995

August 24th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 24th, 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.

* * *

I N D E X

August 24th, 1995
 Examiner Hearing
 CASE NO. 11,372

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>AL SWANSON</u> (Landman)	
Direct Examination by Mr. Carr	6
Examination by Examiner Catanach	14
<u>HAL E. HAWTHORNE</u> (Geologist)	
Direct Examination by Mr. Carr	16
Examination by Examiner Catanach	21
REPORTER'S CERTIFICATE	24

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	9	13
Exhibit 2	10	13
Exhibit 3	12	13
Exhibit 4	13	13
Exhibit 5	9	13
Exhibit 6	16	20
Exhibit 7	19	20

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR & BERGE, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:16 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,372.

5 MR. CARROLL: Application of AnSon Gas
6 Corporation for compulsory pooling, a high-angle/horizontal
7 directional drilling project, a nonstandard oil proration
8 unit, an unorthodox bottomhole oil well location or
9 "producing area", special operating rules therefor, and a
10 special project allowable, Lea County, New Mexico.

11 EXAMINER CATANACH: Are there appearances in this
12 case?

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

16 We represent AnSon Gas Corporation in this case,
17 and I have two witnesses.

18 I would request that the record reflect that the
19 witnesses are the same witnesses who testified in the prior
20 case, that they remain under oath and that their
21 credentials as experts in petroleum land matters and
22 petroleum geology are accepted on the record.

23 EXAMINER CATANACH: The record shall so reflect,
24 Mr. Carr.

25 MR. CARR: Mr. Catanach, as we have discussed,

1 this is one of those cases where we are coming before you
2 basically after the fact.

3 The Mary 33 Number 1 well was drilled a vertical
4 well to the Strawn on a tract that we obtained a pooling
5 order for earlier this year. It was unsuccessful.

6 While the well was on location, we contacted the
7 District Office and were given authority to go ahead and
8 attempt to sidetrack the well and take it to the Devonian,
9 and that's what we did, and it took two attempts to get to
10 the Devonian.

11 Now, the approval was given contingent upon our
12 coming to the Division and getting an order approving what
13 we were doing, and so that's why we're here.

14 Initially, we filed the case for a high-angle/
15 horizontal directional drilling pilot project. We've
16 looked at the well, and the well does not qualify as a
17 horizontal wellbore.

18 We consequently are now requesting permission to
19 amend the Application. We will file an amended
20 Application, and we would ask permission to present the
21 case today, have the case as amended scheduled or on the
22 docket for the September 21st hearing, and at that time
23 would ask that the case be taken under advisement, based on
24 the record made before you here today.

25 The case as it comes before you is a case for

1 compulsory pooling. Several very small interests are
2 outstanding. They're the same interests that were pooled
3 in the original 40-acre tract.

4 We're asking for approval of the directional
5 drilling, and we're seeking authority or authorization to
6 bottom the well at an unorthodox location. And as our
7 evidence will show, it is encroaching only on property that
8 is owned and operated 100 percent by AnSon.

9 So with your permission, we would like to present
10 the case today and readvertise it based on an amended
11 Application.

12 EXAMINER CATANACH: Okay, you're going to submit
13 an amended Application?

14 MR. CARR: Yes, sir, I will.

15 EXAMINER CATANACH: Okay, let's proceed.

16 AL SWANSON,

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. CARR:

21 Q. Will you state your name for the record, please?

22 A. My name is Al Swanson.

23 Q. Mr. Swanson, are you familiar with the
24 Application filed in this particular case?

25 A. Yes, I am.

1 Q. And are you familiar with the status of the
2 subject well?

3 A. Yes, I am.

4 Q. Could you briefly state for Mr. Catanach what
5 AnSon now seeks with this well?

6 A. AnSon now seeks under revision a compulsory
7 pooling for the northeast quarter of the northwest quarter,
8 Section 33, Township 16 South, Range 38 East, Lea County,
9 New Mexico.

10 Also, we seek approval for directional drilling,
11 and we also seek authority to have a bottomhole location at
12 an unorthodox footage.

13 Q. What is the surface location for the Mary 33
14 Number 1 well?

15 A. The surface location is 2040 feet from the north
16 line, 2310 feet from the west line.

17 Q. And you're seeking an unorthodox bottomhole
18 location?

19 A. Yes, sir, we are.

20 Q. And what is that?

21 A. That location would be 1294 feet from the north
22 line and 2537 feet from the west line.

23 Q. Could you review for Mr. Catanach the status of
24 this well?

25 A. The status of the well is, it has been drilled

1 and it has been completed.

2 Q. And while drilling, approval was obtained from
3 the Hobbs District Office to go ahead and attempt to
4 sidetrack the well?

5 A. Yes, sir, it was. We had sent a revised form
6 which Mr. Sexton in the Hobbs area office approved and
7 allowed us to continue and sidetrack the well.

8 Q. And when you filed that, that was the C-102?

9 A. Yes, sir, that is correct.

10 Q. That C-102 was submitted prior to the actual
11 sidetracking; is that not correct?

12 A. That is correct.

13 Q. And it was approved at that time?

14 A. Yes, it was.

15 Q. And it reflected what you were going to attempt
16 to achieve with a directionally drilled well?

17 A. That is correct.

18 Q. Since that time, have you had further
19 communication with the Division concerning the exact
20 surface and bottomhole location of the well?

21 A. Yes, we have. Mr. LeMay of the OCD advised AnSon
22 that they would like for them to revise and submit an
23 actual form, giving all the exact footages and locations of
24 the well.

25 We responded to that and forwarded that to Mr.

1 LeMay by letter dated August the 10th of this year.

2 Q. And attached to that was a C-102 showing actual
3 surveyed locations for the surface and bottomhole of the
4 well?

5 A. That is correct.

6 Q. And are all three of the documents, the original
7 APD, the preliminary C-102 and the final C-102, included in
8 what has been marked AnSon Exhibit Number 5?

9 A. That is correct.

10 Q. All right. Let's go to Exhibit Number 1.

11 A. All right.

12 Q. Could you identify this, please, and review it
13 for Mr. Catanach?

14 A. Yes, Exhibit Number 1 is a land plat showing in
15 the blue shaded area the acreage that we are seeking to
16 pool. It shows on this as well where our surface location
17 and bottomhole are in correspondence to this tract, and it
18 also shows AnSon's percentage of this unit.

19 Q. Okay. And so this well will be dedicated to just
20 the northeast of the northwest of this section?

21 A. That is correct.

22 Q. Are there offset operators who will be adversely
23 affected by this Application?

24 A. No, there are not. Either by leasing or by force
25 pooling AnSon owns 100 percent of all the offsets.

1 Q. Let's go to Exhibit Number 2. Can you identify
2 this, please?

3 A. Yes, sir, Exhibit Number 2 is a mineral ownership
4 breakdown showing at the top the first group, all those
5 parties that are leased to AnSon at this time.

6 Group number two in the middle is a lease that
7 was taken by a third party who under operating agreement
8 has participated in the well.

9 And the bottom group are those three parties that
10 we had to pool, with two of those being address unknown,
11 and one other party.

12 Q. So the only party who you've not been able to
13 lease or voluntarily bring into the well, who you can find,
14 is who? Lila Snow?

15 A. Yes, sir, E. Lila Snow is the only party that's
16 locateable that we have notified.

17 Q. And what is her percentage interest in this
18 40-acre tract?

19 A. Her percentage is .15 percent.

20 Q. What efforts have you made to locate the Imperial
21 Trusts Company of Canada and Paul Balbaud?

22 A. Balbaud. These companies have owned this mineral
23 interests in these tracts since the 1930s. We reviewed all
24 documents in the courthouse to find an address for them.
25 We did find a location in Paris, France, through a phone

1 book, computer systems and various things like that, Social
2 Security Numbers, whatever. We were unable to track them
3 down. And to our knowledge, they have been pooled in
4 several other units, of which they were never located in
5 those as well.

6 Q. Are the owners in the 40-acre unit that will be
7 dedicated to this well, if this Application is granted --
8 are those owners identical to the owners in the original
9 40-acre tract pool for the well?

10 A. Yes, sir, they are.

11 Q. Has notice of this hearing been, in fact,
12 provided to Ms. Snow?

13 A. Yes, it has.

14 Q. And have you had communications with her?

15 A. Yes, we have. We had communicated with her all
16 along, even from the initial pooling, until now. Our last
17 communication with her was that she was not responding to
18 anything. We wanted to know why. She just told us that
19 she was not interested in leasing or doing anything at the
20 time, and no other acknowledgement has been made.

21 Q. What percentage of the interests in the 40-acre
22 tract are now voluntarily committed to the well?

23 A. 98.9334 percent.

24 Q. Could you identify what has been marked as AnSon
25 Exhibit Number 3?

1 A. Yes, sir, Number 3 is an AFE representing the
2 sidetracking of the well to the top of the Devonian.

3 The cost on this was to -- for a dryhole purpose,
4 was an additional \$290,300, to complete this in the
5 Devonian an extra \$33,000, for a total AFE cost of
6 \$323,300.

7 Q. Now, Mr. Swanson, there are three AFEs on this
8 well, are there not?

9 A. Yes, sir, there are.

10 Q. The first one is for the vertical hole?

11 A. That is correct.

12 Q. The second one is for an unsuccessful attempt to
13 sidetrack the well?

14 A. Into the Strawn, that is correct.

15 Q. And then this is the third attempt to complete
16 the well as a producing well in this area?

17 A. That is correct.

18 Q. And the only AFE that you're submitting for
19 consideration as the basis of this penalty is this third
20 AFE, the attempt to sidetrack to the Devonian?

21 A. That is correct.

22 Q. Have you made an estimate of the overhead and
23 administrative costs to be incurred while drilling the well
24 and also while producing it?

25 A. Yes, we have, and based on other orders in the

1 area, we are asking for, while drilling, \$6000 a month, and
2 while producing \$600 per month.

3 Q. And do you recommend that these figures be
4 incorporated into the order which results from this
5 hearing?

6 A. Yes, I do.

7 Q. Is Exhibit Number 4 an affidavit confirming that
8 notice of this hearing has been provided to Ms. Snow in
9 accordance with the rules of the Oil Conservation Division?

10 A. Yes, it is.

11 Q. And attached to that is the letter and a return
12 receipt signed by Ms. Snow; is that right?

13 A. That is correct.

14 Q. Will Anson also call an engineering witness to
15 review the technical portion of this case?

16 A. Yes, we will.

17 Q. Were Exhibits 1 through 5 either prepared by you
18 or compiled under your direction?

19 A. Yes, they were.

20 MR. CARR: At this time, Mr. Catanach, we move
21 the admission into evidence of Anson Exhibits 1 through 5.

22 EXAMINER CATANACH: Exhibits 1 through 5 will be
23 admitted as evidence.

24 MR. CARR: And that concludes my direct
25 examination of Mr. Swanson.

EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY EXAMINER CATANACH:

Q. Mr. Swanson, has the well been completed as a producing well?

A. Yes, it has.

Q. Did you say the interests of the -- the Gill interests had been --

A. Yes, sir.

Q. -- consolidated?

A. Yes, sir, it has. Smith-Clement Exploration took a lease from Mr. Gill, and they have joined in the signing of an operating agreement and have participated all the way along in the well.

Q. Okay. What well costs is Ms. Snow subject to under your proposed pooling?

A. Under this, they would be -- I would assume, would be -- the third AFE, which has to do with the directional well, the original pooling order, we filed the AFE for the first vertical hole. I would assume that she would be responsible, probably, for the vertical hole as well as this third sidetrack to the top of the Devonian.

Q. Do you have an AFE that shows the vertical costs?

A. The AFE for the vertical costs was submitted under the other order. I don't think I have it right here in front of me.

1 MR. CARR: It was in the original pooling case,
2 and I can provide that to you later today, Mr. Catanach, if
3 you desire.

4 THE WITNESS: I have it right here in front of
5 me. Do you need to know the figures off of it?

6 EXAMINER CATANACH: Yeah.

7 MR. CARR: The original one, it was to complete
8 11-8 Strawn well, vertical hole, dryhole cost was \$436,900.
9 To complete the well was \$317,400. And a total AFE cost of
10 \$754,300.

11 Q. (By Examiner Catanach) Have you determined what
12 the total well costs are, including the directional drill
13 costs, at this point?

14 A. I do not have that information available to me.
15 There has been a joint interest billing done for the well,
16 and it would be available if somebody needed it, but I do
17 not have that information in front of me.

18 Q. But it's your opinion that Ms. Snow should be
19 subject to the vertical costs, as well as the sidetrack?

20 A. I believe she should, yes. We had to drill the
21 vertical well to get to the sidetrack, and I believe she
22 ought to be responsible for that if she did.

23 Q. Is Ms. Snow going to be afforded an additional
24 election period in which to join in the well?

25 A. I think that would only be likely, yes. I think

1 we should give her that opportunity.

2 EXAMINER CATANACH: I have nothing further, Mr.
3 Carr.

4 MR. CARR: At this time, Mr. Catanach, we would
5 call Mr. Hawthorne to the stand.

6 HAL E. HAWTHORNE,
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. CARR:

11 Q. Would you state your name, please?

12 A. Hal Hawthorne.

13 Q. You're familiar with the Application filed in
14 this case on behalf of AnSon, are you not?

15 A. Yes, I am.

16 Q. And are you familiar with the subject well?

17 A. I am.

18 Q. Mr. Hawthorne, could you generally describe the
19 characteristics of the Devonian formation in this area?

20 A. In this area, the Devonian is a dolomitic
21 limestone which produces -- or has been productive for the
22 last 45 years out here, from fault-bounded large structural
23 features.

24 Q. Let's go to AnSon Exhibit Number 6. I would ask
25 you first to identify this exhibit and then, using this

1 exhibit, review for Mr. Catanach the reason the well was
2 intentionally deviated to the current bottomhole location.

3 A. Okay, this is a one-section plat, highlighting
4 Section 33 of 16-38. I've subdivided the section into
5 quarters and then broken it down into subsequent 40 acres,
6 and put the New Mexico zone number in each block.

7 I've also drawn the structural contours from the
8 Woodford shale on here, contoured in a 20-foot interval,
9 which shows the structural closure from the Devonian that
10 we had sitting in Section 33 here.

11 I also have two open-circle dots, our original
12 two bottomhole locations, with our third bottomhole
13 location being the black oil dot in zone C there, which
14 shows that we made an attempt to deviate our well to the
15 structurally high spot on this little closed feature from
16 the Devonian.

17 Q. And what information did you use to construct
18 this structure map?

19 A. This is from three-dimensional seismic as well.

20 Q. And how far apart were the points on your seismic
21 grid?

22 A. We had a trace every 110 feet.

23 Q. If I look at this exhibit -- You have surveyed
24 the well, have you not?

25 A. Yes, we have.

1 Q. And did the well penetrate the Devonian, and is
2 all Devonian formation open only in Unit C?

3 A. That's correct.

4 Q. So there is no Devonian formation open whatsoever
5 in Unit F?

6 A. Right, that's correct.

7 Q. What is the reservoir drive mechanism here?

8 A. This is a water drive reservoir.

9 Q. Is it a bottom water drive?

10 A. Yes, sir.

11 Q. So it's important to get structurally as high as
12 possible so you don't leave attic oil in the feature?

13 A. That's correct.

14 Q. Are you prepared to make a recommendation to the
15 Examiner concerning any risks associated with this well?

16 A. Yes, I am.

17 Q. And what is that recommendation?

18 A. It is the maximum 200-percent penalty.

19 Q. Would you explain the basis for that
20 recommendation, using this exhibit, please?

21 A. Yes, sir. This -- As I mentioned earlier, the
22 Devonian is productive from very large fault-bounded
23 structures in this area.

24 On either side of this, one section away to the
25 west and east, are both productive Devonian features, which

1 are productive from about 12,800 and have 300 foot of throw
2 structures involved in their production.

3 What my three-dimensional seismic showed me here
4 was, basically 80 feet of closure on an unfaulted little
5 closure bump on the Devonian, and it's very unique from the
6 standpoint of Devonian production in this area. And
7 although we have hit a well and we have some encouragement
8 at this point, you know, we're down at 13,100 feet with a
9 very low-GOR oil zone, and we're having to put artificial
10 lift to help the well flow to surface.

11 So therefore it's a very unusual feature, and we
12 feel like the verdict is still out on the true
13 commerciality of this feature.

14 Q. So even though you have drilled the well, you are
15 -- Is it now producing?

16 A. We've been on production about three days.

17 Q. In your opinion, is it possible that you will not
18 have a commercial well at this location?

19 A. That's correct.

20 Q. And that's the basis for your risk-penalty
21 recommendation?

22 A. Yes, sir.

23 Q. Let's go to Exhibit Number 7. Can you identify
24 and review that for Mr. Catanach, please?

25 A. Yes, that's a vertical display of our wellbore

1 path. It kind of complements what we had in the map view,
2 and it shows original vertical hole, being the 1-33. We
3 sidetracked the well south in our 1-33A for Strawn.

4 And when that was unsuccessful we decided that we
5 would try to attempt to deviate the well to test this
6 Devonian feature while we were already out performing
7 operations.

8 Q. Have you run a directional survey on the
9 wellbore?

10 A. Yes, we have.

11 Q. And will you provide a copy of that survey to the
12 Oil Conservation Division?

13 A. I believe we already have, yes.

14 Q. In your opinion, will approval of this
15 Application and the production of the Devonian formation
16 through this wellbore be in the best interests of
17 conservation, the prevention of waste and the protection of
18 correlative rights?

19 A. Yes.

20 Q. Were Exhibits 6 and 7 prepared by you?

21 A. Yes, they were.

22 MR. CARR: Mr. Catanach, at this time I move the
23 admission of AnSon Exhibits 6 and 7.

24 EXAMINER CATANACH: Exhibits 6 and 7 will be
25 admitted as evidence.

1 MR. CARR: And that concludes my direct
2 examination of Mr. Hawthorne.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Hawthorne, what's the rate this well is
6 producing at?

7 A. Like I said, we produced three days. The last
8 day we have, the well made 130 barrels, and my pumper went
9 out and found the well dead.

10 We had to deviate -- Part of the reasons we're
11 deviating our wells out here is the circular irrigation,
12 and we're having to work with a lady that -- once we
13 discovered that we had a -- we felt like we had a zone to
14 run pipe on, we had to install an artificial lift system,
15 an unconventional artificial lift system, and we have a lot
16 of bugs in that system at this point. And so...

17 But we did have two days of over 400-barrel-a-day
18 production and, you know, we were pleased with that.

19 However, this pump, I think, is going to take a
20 lot of engineering to get it to run properly. You know,
21 we're very deep here, and we have very little gas to help
22 us here. And, you know, a conventional pumping unit would
23 have helped us here, but we didn't have that opportunity.

24 And we are having to move some water. Our water
25 cut has come up too, and that's a concern on this feature

1 as well.

2 Q. Do you guys have authorization to produce the
3 well from the District Office?

4 A. I guess I can't answer that. I'm assuming we do,
5 but I don't know as a geologist if we do or not.

6 Q. Mr. Hawthorne, given the fact that the well is
7 already drilled and producing, do you think you guys are
8 justified in seeking a 200-percent risk penalty?

9 A. Yes, sir, I do, and I think the fact that we've
10 pulled a thousand barrels out of this thing, we've seen our
11 water cut jump pretty significantly on us. We're yet to
12 prove that the method that we're using to pump this well is
13 even going to work.

14 And the fact that -- As being the generating
15 geologist of this area out here, you know, it's a very
16 unusual look from Devonian. And although I am encouraged,
17 I'm pretty apprehensive as to the significance of this
18 structure. And I think there's a lot to be, you know,
19 determined about really what we have here.

20 And I do know that, you know, a great Devonian
21 well would probably flow on its own constantly, and this
22 well out here will probably flow about half a day unaided.

23 And so I think, you know, being 500 foot deeper
24 than any other Devonian production within probably eight,
25 nine miles, and being an unfaulted structure, it does have

1 me concerned as to the significance of our discovery here.

2 EXAMINER CATANACH: Nothing further, Mr. Carr.

3 MR. CARR: That concludes our direct presentation
4 in this matter.

5 EXAMINER CATANACH: Okay.

6 MR. CARR: We'd request that the case be
7 continued, and we'll provide an amended Application and ad
8 so that it can be included in the docket for the 21st of
9 September.

10 EXAMINER CATANACH: Okay. Without any further
11 testimony, this case will be continued to the September
12 21st hearing.

13 Also, can I get a rough order, Mr. Carr, on this?

14 MR. CARR: Yes, sir.

15 (Thereupon, these proceedings were concluded at
16 1:40 p.m.)

17 * * *

18

19

20

21

22

23

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 August 31st, 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 Examiner hearing of Case No. 1372 heard by me on 8/24 1995 :

David T. Cabant, Examiner
 Oil Conservation Division