

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 MEDALLION PRODUCTION)
COMPANY FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)
)
)

CASE NO. 11,411

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER Hearing Examiner

November 2nd, 1995

Roswell, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 2nd, 1995, at the Roswell City Hall, 425 North Richardson Street, Roswell, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 11,411

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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

* * *

1 WHEREUPON, the following proceedings were had at

2 8:25 a.m.:

3 EXAMINER STOGNER: I will now call Case Number
4 11,411.

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

7 EXAMINER STOGNER: At this time I'll call for
8 appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr
11 and Berge. We represent Medallion Production Company in
12 this case, and I have two witnesses.

13 EXAMINER STOGNER: Any other appearances?

14 Will the two witnesses please stand to be sworn
15 in at this time?

16 (Thereupon, the witnesses were sworn.)

17 DAVID RICHARD DEFFENBAUGH,

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. CARR:

22 Q. Would you state your name for the record, please?

23 A. My name is David Richard Deffenbaugh. That's
24 D-e-f-f-e-n-b-a-u-g-h.

25 Q. Mr. Deffenbaugh, where do you reside?

1 A. Tulsa, Oklahoma.

2 Q. By whom are you employed?

3 A. Medallion Production Company.

4 Q. And what is your current position with Medallion?

5 A. I'm a landman.

6 Q. Have you previously testified before this

7 Division?

8 A. I have not.

9 Q. Could you briefly summarize for the Examiner your
10 educational background and then review your work
11 experience?

12 A. Yes, I have a bachelor of science degree from
13 Oklahoma State University, and then from about 1981 forward
14 have been continuously employed in the oil and gas business
15 in Oklahoma, Texas, Louisiana and New Mexico.

16 Q. Has all that employment been as a petroleum
17 landman?

18 A. Yes, it has.

19 Q. Are you familiar with the Application filed in
20 this case on behalf of Medallion Production Company?

21 A. Yes, I am.

22 Q. And are you familiar with the subject area?

23 A. Yes, I am.

24 MR. CARR: Mr. Stogner, at this time we would
25 tender Mr. Deffenbaugh as an expert witness in petroleum

1 land matters.

2 EXAMINER STOGNER: Mr. Deffenbaugh is so
3 qualified.

4 Q. (By Mr. Carr) Mr. Deffenbaugh, could you briefly
5 summarize what Medallion seeks with this Application?

6 A. Yes, Medallion seeks an order pooling all mineral
7 interests from the surface to the base of the Morrow
8 formation, under the south half of Section 9, Township 20
9 South, Range 25 East, for a well to be drilled at an
10 orthodox location to a depth sufficient to test the Morrow
11 formation, Undesignated Cemetery-Morrow Gas Pool.

12 Q. Is the Morrow formation the primary objective in
13 this well?

14 A. Yes, sir.

15 Q. Is it possible that you might encounter
16 commercial production in some other shallower zone?

17 A. Yes, sir.

18 Q. If in fact you're able to do that and you are in
19 a zone that is spaced on something less than 320 acres,
20 what spacing units should be pooled in those shallower
21 horizons?

22 A. For a 160-acre unit we'd want to see the
23 southeast quarter. For an 80-acre unit we would want to
24 see the north half of the southeast quarter. And for a 40-
25 acre unit we would want to see the northwest quarter of the

1 southeast quarter.

2 Q. Have you prepared certain exhibits for
3 presentation here today?

4 A. Yes, I have.

5 Q. Would you refer to what has been marked for
6 identification as Medallion Production Company Exhibit
7 Number 1, identify that and review it for Mr. Stogner?

8 A. Yes, sir, this is a land map, a plat showing
9 essentially Section 9, showing that the 320-acre proration
10 unit there to the south consists of two tracts of land, one
11 being 280 acres, one being 40 acres. Medallion Production
12 Company has 50 percent of the 280-acre tract and 100
13 percent of the 40-acre tract, which comprises a 56.25-
14 percent unit interest.

15 One other owner, Kaiser-Francis Oil Company, has
16 43.75 percent, being 50 percent of the 280 acres.

17 Q. And at this time Kaiser-Francis is the only party
18 who would be subject to a compulsory pooling order?

19 A. That's correct.

20 Q. Let's go to Exhibit Number 2. Could you identify
21 that?

22 A. Yes, sir, that's a -- It's an ownership
23 breakdown, just showing the unit, again, and just showing
24 the ownership as being --

25 Q. That in fact is shown on Exhibit Number 1, is it

1 not?

2 A. It's actually on Exhibit Number 1, yes, sir.

3 Q. Okay, let's go to the AFE that's marked Exhibit
4 Number 2.

5 A. Okay.

6 Q. Could you refer to that and could you review for
7 the Examiner the total for a completed well?

8 A. Yes, sir, through all of our research and our
9 past experience in the area, we're showing \$535,000 for the
10 drilling and completion of the well to this nature, to 9550
11 feet.

12 Q. And these costs are in fact, and these figures,
13 based on what has been charged by Medallion for other wells
14 in the county and other operators in this area?

15 A. That's correct.

16 Q. Could you summarize for the Examiner the efforts
17 made by Medallion to obtain the voluntary joinder of
18 Kaiser-Francis in the proposed well?

19 A. Yes, we originally proposed this well to be
20 drilled to Kaiser in July of this year, have made numerous
21 contacts, personal visits with their land and engineering
22 department, and to this date have received essentially no
23 response to our offer, other than that we have reached an
24 agreement, essentially, that we will continue to negotiate
25 through the election period that is granted under this

1 order, contingent upon them not protesting or appealing any
2 decision of this court.

3 Q. So basically where you stand with Kaiser-Francis
4 is, you have an agreement that they will not object to this
5 proceeding going forward and their being force-pooled?

6 A. That's correct.

7 Q. And in exchange for that, you have also agreed to
8 continue to negotiate with them during the 30-day election
9 period that will result following the entry of an order?

10 A. That is correct.

11 Q. If, in fact, you are able to reach an agreement
12 with Kaiser-Francis, thereby making a pooling order
13 unnecessary, will you immediately advise the Division?

14 A. Absolutely.

15 Q. Is Exhibit Number 3 a copy of letters dated
16 October 18 and 19 between Medallion and Kaiser-Francis,
17 which are the memorialized disagreement between the two
18 companies?

19 A. Yes, sir.

20 Q. Has Medallion drilled other Morrow wells in the
21 area of the proposed well?

22 A. Yes, we have.

23 Q. These wells have been located in Eddy County, New
24 Mexico?

25 A. Yes, sir.

1 MR. CARR: Let's go now to Exhibit Number 5. Mr.
2 Stogner, there is no Exhibit Number 4 in the exhibit
3 package.

4 Q. (By Mr. Carr) Is Exhibit Number 5 an affidavit
5 with attached letters and return receipts, confirming that
6 in fact notice of today's hearing has been provided to
7 Kaiser-Francis?

8 A. Yes, sir.

9 Q. Have you made an estimate of the overhead and
10 administrative costs that will be incurred while drilling
11 the well and also while producing it, if in fact it is a
12 successful well?

13 A. Yes, sir.

14 Q. And what are those?

15 A. \$4000 a month on a drilling rate and \$400 a month
16 on a producing rate. And this is based on the 1994 COPAS
17 fixed overhead rate survey.

18 Q. Are these costs in line with what other operators
19 in the area charge?

20 A. Yes, sir.

21 Q. And do you recommend that these figures be
22 included in any order which results from today's hearing?

23 A. Yes, I do.

24 Q. Medallion is seeking to be designated operator of
25 the proposed well?

1 A. Yes, sir.

2 Q. Were Exhibits 1, 2, 3 and 5 either prepared by
3 you or compiled under your direction?

4 A. Yes.

5 MR. CARR: At this time, Mr. Stogner, we would
6 move the admission into evidence of Medallion Exhibits 1,
7 2, 3 and 5.

8 EXAMINER STOGNER: Exhibits 1, 2, 3 and 5 will be
9 admitted into evidence at this time.

10 MR. CARR: And that concludes my direct
11 examination of Mr. Deffenbaugh.

12 EXAMINATION

13 BY EXAMINER STOGNER:

14 Q. Mr. Deffenbaugh, in referring to Exhibit Number
15 1, Kaiser-Francis having essentially a half -- and I
16 believe that's undivided of -- What is that? The 280
17 acres?

18 A. Yes, sir.

19 Q. With the exception of the northeast quarter of
20 the southeast quarter?

21 A. Yes, sir.

22 Q. And Medallion has 100 percent of that?

23 A. Yes, sir, that's correct.

24 Q. So for the 320-acre proration unit, that would be
25 43 and a --

1 A. -- three-quarter.

2 Q. -- three-quarter percent. But in all the
3 others -- Well, I take that back. For the southeast
4 quarter designation for the 160 -- Well, that would just be
5 broken down accordingly, right?

6 A. Yes, sir. Yes, sir, that would be an undivided
7 50-50 on the 120 and 100 percent on the 40. I'm not sure
8 what the percentages are there.

9 Q. And the 80 would be half and half, and then that
10 would essentially be a three-quarter and a one-quarter
11 split?

12 A. Yes, sir, that's correct.

13 Q. And for the -- That would be a 50-50 split for
14 the 40-acre proration unit?

15 A. Yes, sir, that's correct.

16 Q. And did I hear you right before, the rates was
17 \$4000 and \$400?

18 A. Yes, sir.

19 Q. Okay. And I believe you said you were in contact
20 originally in July with Kaiser-Francis?

21 A. Yes, sir.

22 Q. Was that in the form of a written correspondence
23 or --

24 A. Yes, sir. I've actually been in contact with
25 them several times in writing. We've traded letters back

1 and forth, and I have a copy of the July 20th letter, if
2 you would like to see that.

3 EXAMINER STOGNER: Mr. Carr, I would like to have
4 that put in the record, the original.

5 MR. CARR: Mr. Stogner, we could in fact clear up
6 my error in numbering these exhibits, and we could mark the
7 original proposal from Medallion as Exhibit Number 4, and
8 then I would move its admission.

9 EXAMINER STOGNER: Okay, let's do that.

10 MR. CARR: I might ask Mr. Deffenbaugh a
11 question.

12 Mr. Deffenbaugh, is what has been marked as
13 Medallion Exhibit Number 4 a copy of the July 20, 1995
14 letter by which this well was originally proposed to
15 Kaiser-Francis Oil Company?

16 THE WITNESS: Yes, sir.

17 MR. CARR: At this time, Mr. Stogner, I move the
18 admission of Medallion Exhibit 4.

19 EXAMINER STOGNER: Exhibit Number 4 will be
20 admitted into evidence at this time.

21 Q. (By Examiner Stogner) Included in the exhibit,
22 on Exhibit Number 4, you have an authorization for
23 expenditures, but I don't see any differences between the
24 two that -- This one was prepared in July of 1995, and
25 Exhibit Number 2 was -- I show an October 31st date; is

1 that correct?

2 A. Yes, sir, that's correct. We just went through
3 and updated our AFE and verified that all the numbers that
4 were originally proposed were the same.

5 EXAMINER STOGNER: Okay. Any other questions of
6 this witness? You may be excused.

7 Mr. Carr?

8 MR. CARR: At this time, we would call Mr.
9 Siruta.

10 WILLIAM A. SIRUTA,

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

15 Q. Would you state your name for the record, please?

16 A. William Alexander Siruta.

17 Q. And where do you reside?

18 A. Midland, Texas.

19 Q. By whom are you employed and in what capacity?

20 A. Medallion Production Company as a geologist.

21 Q. Mr. Siruta, have you previously testified before
22 this Division and had your credentials as an expert witness
23 in petroleum geology accepted and made a matter of record?

24 A. Yes.

25 Q. Are you familiar with the Application filed in

1 this case on behalf of Medallion Production Company?

2 A. Yes.

3 Q. And are you familiar with the subject area and
4 proposed well?

5 A. Yes.

6 MR. CARR: Are the witness's qualifications
7 acceptable?

8 EXAMINER STOGNER: They are.

9 Q. (By Mr. Carr) Mr. Siruta, let's go to what has
10 been marked Medallion Exhibit 6. Would you identify this
11 exhibit for Mr. Stogner and then review it, please?

12 A. This is a production map of the -- surrounding
13 the area that we're discussing. It shows Morrow producing
14 wells, which are highlighted in green here.

15 It also shows -- The top number on the tag
16 associated with each well shows the cumulative production
17 of gas, cumulative production of oil, and present status of
18 the well, whether it's producing or plugged and abandoned.

19 Also shows a cross-section A to B, indicated with
20 a solid line, and a proposed location with a solid red dot
21 and a proposed unit outlined in yellow.

22 Q. Let's move to Medallion Exhibit Number 6 [sic],
23 the structure map. Will you review that, please?

24 A. The structure map again shows the same Morrow
25 wells and proposed location, and it shows structural

1 contours at 50-foot intervals on the top of the Morrow
2 massive shale.

3 Q. Was this developed from well-control information,
4 or was seismic also utilized?

5 A. Just well-control information.

6 Q. And what is the significance of the structure as
7 to the viability of the proposed well location?

8 A. As you go eastward, the -- and downdip, the sands
9 become wet and nonproductive.

10 Q. Can you estimate whereabouts that might occur?
11 Would it be on the subject spacing unit?

12 A. No.

13 Q. Let's go to the first of the two net isopach maps
14 and look at the Morrow A sand, Exhibit Number 8.

15 A. This map illustrates the general trend of the
16 Morrow A sand in this area, and the wells highlighted in
17 green here produce from that sand. The associated numbers
18 with the wells are the thicknesses of the sands present.

19 Q. The next exhibit is an isopach on the Morrow B
20 sand; is that correct?

21 A. Yes.

22 Q. Is the Morrow A or B sand, either one of those, a
23 primary objective, or are both of them considered
24 productive in the area?

25 A. Both of them will be primary objectives of this

1 test.

2 Q. All right. let's go to Exhibit Number 9, the
3 isopach on the B sand, and I would ask you to review that.

4 A. There again, this shows the trend of the Morrow B
5 sand. The wells highlighted in green are wells that
6 produce from that sand. The numbers associated next to the
7 wells are the thicknesses of the sand.

8 Q. And this again has the trace for the cross-
9 section on it?

10 A. Yes, sir, it does.

11 Q. Let's go to the cross-section now, Exhibit Number
12 10, and I'd ask you to review the information on each of
13 the wells shown on the cross-section.

14 A. This again is the cross-section that's indicated
15 on the other maps. I've illustrated here the massive shale
16 top that I used to do the structure map, the line
17 separating the Morrow A sand and the Morrow B sand.

18 I think the main thing that this cross-section
19 illustrates is that the sand interval is present out here
20 in most of the wells, but the porosity is very erratic and
21 very unpredictable.

22 Q. Are you prepared to make a recommendation to the
23 Examiner concerning the risk penalty that should be
24 assessed against Kaiser-Francis if a voluntary agreement
25 for the development of this tract is not reached?

1 A. Yes, sir.

2 Q. And what is that recommended penalty?

3 A. 200 percent.

4 Q. And basically what is the reason for that
5 penalty?

6 A. I believe the risk that we're going to take with
7 the porosity developing in the sands here --

8 Q. -- is sufficient to warrant that penalty?

9 A. Yes.

10 Q. Do you believe there's a chance you could, in
11 fact, drill a well at the proposed location that would not
12 be a commercial success?

13 A. Yes.

14 Q. In your opinion, will approval of this
15 Application and the drilling of the proposed well be in the
16 best interest of conservation, the prevention of waste and
17 the protection of correlative rights?

18 A. Yes.

19 Q. Were Exhibits 5 through 10 either prepared by you
20 or compiled under your direction?

21 A. Yes.

22 MR. CARR: At this time, Mr. Stogner, I would
23 move the admission into evidence of Medallion Production
24 Company Exhibits 5 through 10.

25 EXAMINER STOGNER: Medallion Exhibits 5 through

1 10 --

2 MR. CARR: Yes, sir.

3 EXAMINER STOGNER: -- will be admitted into
4 evidence at this time.

5 MR. CARR: That concludes my direct examination
6 of Mr. Siruta.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Mr. Siruta, in looking at Section 9, there are
10 two wells, two P-and-A'd wells. Did either one of those
11 produce from the Morrow formation?

12 A. No, they did not.

13 Q. They just tested?

14 A. Yes.

15 Q. Did they produce from any other formation up
16 above the Morrow?

17 A. No, they were drilled and plugged and abandoned.

18 Q. Drilled and plugged and abandoned.

19 How about the well to the south in the north half
20 of Section 16? That's another P-and-A'd well. Do you know
21 the background on that one?

22 A. Yes, that well did not produce from any horizons.
23 It was drilled and abandoned.

24 Q. So you're offset by three P-and-A'd wells, huh?

25 A. That's correct.

1 Q. Are there any other shallow production not shown
2 on these maps?

3 A. No, this is all the wells that produce in this
4 immediate area. There is no shallow production here.

5 Q. Do you know if there's any formations that have
6 been tested?

7 A. Yes, there have been some shallow drill stem
8 tests, but I don't believe there's any other production in
9 here. If there is, I believe it's Atoka sands, which is
10 above the Morrow.

11 Q. And has that usually been tested for gas or oil?

12 A. Gas.

13 Q. On your boundary between the A and B sand, what
14 did you utilize? What's the cutoff between those two?

15 A. I tried to use a shale marker that seems to be
16 fairly consistent in here, indicating different
17 depositions.

18 I think it's very clear on the cross-section on
19 the A side, the left-hand side. You can see the shale
20 marker that I have right above the Morrow A sand is very
21 pronounced in that well.

22 In the other wells, it's a little more subtle,
23 but it's still present.

24 Q. Are those usually perforated together and
25 produced together or --

1 A. Not necessarily. As you can see in the well on
2 the far right-hand side of the cross-section, the Chama
3 well, both zones were perforated.

4 In the Nearburg well, only the lower zone was
5 perforated. The upper zone really didn't have much
6 porosity. In some cases they are shot together, in some
7 cases they're not.

8 EXAMINER STOGNER: Okay. I don't have anything
9 further of this witness.

10 MR. CARR: That concludes our presentation in
11 this case.

12 EXAMINER STOGNER: You may be excused.

13 Does anybody else have anything further in Case
14 Number 11,411?

15 MR. KELLAHIN: Yes, Mr. Examiner. For the
16 record, I'm Tom Kellahin of the Santa Fe law firm of
17 Kellahin and Kellahin, appearing on behalf of Kaiser-
18 Francis Oil Company.

19 The case file will show my written entry of
20 appearance on a prior date. I have no witnesses or
21 statements. I'd like the record to reflect, though, our
22 appearance.

23 EXAMINER STOGNER: Thank you, Mr. Kellahin. Do
24 you have anything further?

25 MR. KELLAHIN: No, sir.

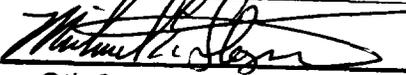
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EXAMINER STOGNER: Okay. Does anybody else have anything further in this matter?

Then case Number 11,411 will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:44 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11411, heard by me on 2 November 1995.
 , Examiner
Oil Conservation Division

