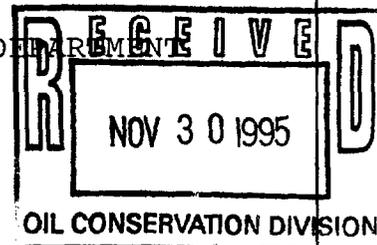


STATE OF NEW MEXICO

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 ARLEN DICKSON FOR)
 COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)
 _____)

CASE NO. 11,425

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 16th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 16th, 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

November 16th, 1995
 Examiner Hearing
 CASE NO. 11,425

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>ARLEN E. DICKSON</u> (President, Dickson Petroleum Incorporated; Landman)	
Direct Examination by Mr. Owen	4
Examination by Examiner Catanach	10
<u>THOMAS R. SMITH</u> (Geologist)	
Direct Examination by Mr. Owen	14
Examination by Examiner Catanach	21
REPORTER'S CERTIFICATE	22

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	10
Exhibit 2	7	10
Exhibit 3	7	10
Exhibit 4	9	10
Exhibit 5	9	10
Exhibit 6	15	21
Exhibit 7	16	21
Exhibit 8	16	21
Exhibit 9	17	21

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 11:54 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case 11,425, the Application of Arlen Dickson for
5 compulsory pooling, Eddy County, New Mexico.

6 Are there appearances in this case?

7 MR. OWEN: Yes, may it please the Examiner, my
8 name is Paul R. Owen. I'm with the law firm of Campbell,
9 Carr and Berge in Santa Fe, New Mexico.

10 I'm making an appearance on behalf of Arlen
11 Dickson, and I have two witnesses in this matter.

12 EXAMINER CATANACH: Any additional appearances?

13 Swear the witnesses in.

14 (Thereupon, the witnesses were sworn.)

15 ARLEN E. DICKSON,

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

18 DIRECT EXAMINATION

19 BY MR. OWEN:

20 Q. Please state your full name and place of
21 residence.

22 A. Arlen Earl Dickson, Midland, Texas. A-r-l-e-n.

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

24 A. I'm self-employed, president of Dickson
25 Petroleum, Incorporated.

1 Q. Have you previously testified before this
2 Division?

3 A. No, I have not.

4 Q. Please summarize your educational background and
5 work experience.

6 A. I received a bachelor of science degree from
7 Angelo State University in 1968. I attended graduate
8 school at Texas A&M, 1968-1969; was employed by the Midland
9 Independent School District from 1969 to 1976.

10 Then a career change. I was subsequently trained
11 by Walt Hogan as a landman doing independent contract work,
12 attending seminars, college courses.

13 In 1980 I was employed by Saxon Oil Company as a
14 landman in Midland, Texas, and in 1983 I formed Dickson
15 Petroleum, Incorporated and am currently in that capacity.

16 Q. Are you familiar with the Application filed in
17 this case?

18 A. Yes.

19 Q. Are you familiar with the subject area?

20 A. Yes.

21 MR. OWEN: At this time, Mr. Examiner, I would
22 tender the witness as an expert in petroleum land matters.

23 EXAMINER CATANACH: Mr. Dickson is so qualified.

24 Q. (By Mr. Owen) Would you briefly state what you
25 seek with this Application?

1 A. I seek an order pooling all mineral interests in
2 the Atoka and Strawn formations underlying the west half of
3 Section 20, Township 22 South, Range 27 East, forming a
4 standard 320-acre gas spacing and proration unit for both
5 zones.

6 This unit is to be dedicated to a well being
7 re-entered at a standard location 2198 feet from the north
8 line and 1650 feet from the west line of Section 20.

9 Q. Have you prepared, directed or supervised the
10 preparation of certain exhibits for introduction in this
11 case?

12 A. Yes, I have.

13 Q. Why don't we go to Arlen Dickson Exhibit Number
14 1? Would you please describe and briefly detail the
15 contents of that exhibit?

16 A. Exhibit 1 is the west half of Section 20, which
17 indicates the 320-acre spacing proration unit that we are
18 requesting. The location of the well is indicated in the
19 north half of the west half of that section by a black
20 large dot. There are two wells adjacent to each other, but
21 the large black dot. And the ownership in the area -- My
22 name is on most of that currently.

23 Q. What is the primary objective of the proposed
24 well?

25 A. To test the Strawn and Atoka formations.

1 Q. Let's go to Exhibit 2, Arlen Dickson Exhibit
2 Number 2. Would you please briefly describe the contents
3 of that exhibit?

4 A. This is a breakdown of ownership showing the
5 various mineral interests and the unleased acreage that we
6 request be force-pooled.

7 Q. What percentage of the acreage is voluntarily
8 committed to this well?

9 A. Eighty-five, almost 86 percent.

10 Q. All right. Let's go to Exhibit Number 3, Arlen
11 Dickson. Would you please briefly describe that exhibit
12 and its contents?

13 A. Exhibit 3 is the AFE prepared at my request by
14 Bryan Engineering, Midland, Texas, who has considerable
15 experience and expertise in this area.

16 The AFE is broken down into three parts due to
17 the fact that we want to test the Upper Strawn zone first,
18 and we are not aware at this time whether or not that would
19 have been -- has been squeezed off. We don't think it has.
20 If it is unsuccessful, then we will attempt a completion in
21 the Atoka formation, and this is the numbers that you see
22 at the bottom of the page. And the tangible would be the
23 cost associated with the production of product in either
24 formation. We would have to have the tangibles.

25 Q. What is the total for a completed well?

1 A. Approximately \$198,000. If everything goes
2 according to plan and no SNAFUs, this is what we think it
3 will be.

4 Q. Are these costs in line with what has been
5 charged by other operators in the area for similar wells?

6 A. Yes.

7 Q. Please summarize the efforts made to obtain the
8 voluntary joinder of all working interest and mineral
9 interest owners in the proposed spacing units.

10 A. We checked the chain of title at Caprock Title
11 and Abstract Company, checked the records of Eddy County as
12 to deed records, miscellaneous records, oil and gas lease
13 records, reverse and direct indexes, the probate, mortgage
14 liens, tax liens, we've checked the district court records,
15 we checked the city directory from 1972 to 1993, which was
16 the latest that we had, and we ran a national phone search,
17 which our CD discs that are now available, which has
18 supposedly everyone's name in the United States, their
19 phone number and address on it, and physically went out to
20 some addresses that we didn't have any telephone numbers
21 and just knocked on some doors.

22 Q. In your opinion, have you made a good-faith
23 effort to locate all individuals and obtain their voluntary
24 joinder?

25 A. Yes.

1 Q. Have you drilled other Atoka/Strawn wells in the
2 immediate area?

3 A. No, I have not.

4 Q. Let's go to Exhibit Number 4 of Arlen Dickson.
5 Would you please briefly describe that exhibit and its
6 contents?

7 A. These were letters sent to the various mineral
8 owners, oil and gas leases, and cover letters, explaining
9 what we were doing and requesting an oil and gas lease from
10 those individuals.

11 Q. Let's go to Exhibit Number 5 of Arlen Dickson.
12 Would you please briefly describe that exhibit and its
13 contents

14 A. These are letters sent out by your office giving
15 notice of the force-pooling hearing.

16 Q. Have you made an estimate of overhead and
17 administrative costs while drilling this well and also
18 while producing this well, if it is a successful well?

19 A. Yes.

20 Q. What are those estimates?

21 A. \$3000 a month overhead during the drilling
22 portion and \$300 per month administrative overhead during
23 the operation.

24 Q. Are these costs in line with what is being
25 charged by the operators in the area?

1 A. Yes.

2 Q. Do you recommend that these figures be
3 incorporated into any order that results from this hearing?

4 A. Yes.

5 Q. Do you seek to be the designated operator of this
6 well?

7 A. Yes.

8 Q. Were Exhibits 1 through 5 prepared by you or
9 compiled under your direction and supervision?

10 A. Yes, they were.

11 MR. OWEN: At this time, Mr. Examiner, I move for
12 the admission of Exhibits Number 1 through 5 in this case.

13 EXAMINER CATANACH: Exhibits 1 through 5 will be
14 admitted as evidence.

15 MR. OWEN: That concludes my direct examination
16 of this witness, Mr. Examiner.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Dickson, can you indicate to me which
20 interest owners have not voluntarily joined in this unit?

21 A. Yes, sir. Frank Uriquidez has about a half-acre
22 mineral interest. I visited Mr. Uriquidez on two occasions
23 and hand-delivered a lease --

24 MR. OWEN: -- which is on the second page about
25 halfway down through the column, Mr. Examiner.

1 EXAMINER CATANACH: Okay.

2 THE WITNESS: This was an inheritance that he was
3 wanting to deed to his sister, Violetta Teague, and he did
4 not wish to enter any agreement. I'm not sure that he
5 really understood, and he really didn't want to have
6 anything to do with it until his sister took possession of
7 the property.

8 EXAMINER CATANACH: Okay.

9 THE WITNESS: Gary Smith.

10 Q. (By Examiner Catanach) Let me just --

11 A. I'm sorry.

12 Q. Let me interrupt you there. You've got these
13 listed. I did not see that to begin with. You do have all
14 these interest owners listed?

15 A. Yes, sir.

16 Q. This list represents these parties that you're
17 force-pooling. I really don't want to go into each of
18 these.

19 Some of these were not locatable; is that
20 correct?

21 A. Yes, sir, that is correct. All of those were not
22 locatable, with the exception of four individuals, and the
23 four individuals there I was able to locate -- and I'll be
24 glad to tell you their circumstances if you would like.

25 Q. Why don't you tell me which four you did locate,

1 not necessarily the circumstances.

2 A. Which four. Okay, Frank Uriquidez was one.

3 Q. Okay.

4 A. Gary Smith, Mary Drake, and Scott Coe -- Excuse
5 me, Coe Scott.

6 Q. Okay.

7 A. I think those represent about one and a half
8 acres total.

9 Q. The rest of those interests were not located?

10 A. No, sir, they were not.

11 Q. Okay.

12 A. With one exception, Nancy Province, who has a
13 little over 13 acres. She is in a comatose state in a
14 nursing home in McCamey, Texas. I did visit with her
15 daughter, and her daughter was certainly willing to enter
16 into an agreement, but she did not have guardianship or
17 power of attorney. And in fact, I met with her and my
18 attorney in Midland, Texas, to see if there was something
19 that could be arranged, and legally, the expense of having
20 -- of going through that process was not worth it, and she
21 indicated that in fact, that she would do so upon her
22 mother's death. But she does not have that authority now.

23 Q. Okay. In regards to the well costs, Exhibit
24 Number 3 --

25 A. Yes, sir.

1 Q. -- the \$70,690 represent the completion costs to
2 the Strawn?

3 A. Yes, sir.

4 Q. If that completion is successful, you also have
5 the tangible costs of \$91,900?

6 A. Yes, sir.

7 Q. So that \$162,590 represents a completed Strawn
8 well?

9 A. Yes, sir.

10 Q. Okay. The additional \$35,000 represents the
11 additional cost to test the Atoka?

12 A. Yes, sir, if the Strawn is unsuccessful we'll
13 need to squeeze it and go to the Atoka, that's correct.

14 Q. Is the tangible cost for the Atoka included in
15 the Strawn costs?

16 A. Yes, sir.

17 Q. Okay. So -- Do you anticipate a Strawn
18 completion?

19 A. The previous operator, Belco, attempted a
20 completion in the Strawn when they drilled the well in
21 1975. There was a show of gas. It looks like it should be
22 better than what they showed in their test. They chose to
23 go down to the Morrow.

24 But I think it's worth looking as we go through
25 it and would like to attempt a completion there and see

1 what happens.

2 Q. Is the better zone the Atoka?

3 A. Yes, sir, I think probably it is.

4 Q. Okay.

5 A. Primarily by the mere fact that it's been a
6 failure once before, but we won't look at it again.

7 EXAMINER CATANACH: Okay, I have nothing further.

8 MR. OWEN: At this time, Mr. Examiner, I call Mr.
9 Thomas Smith.

10 THOMAS R. SMITH,

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. OWEN:

15 Q. Please state your full name and place of
16 residence.

17 A. Thomas R. Smith, Midland, Texas.

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

19 A. I'm an independent geologist.

20 Q. Have you previously testified before this
21 Division?

22 A. Yes, I have.

23 Q. Are you familiar with the Application filed in
24 this case?

25 A. Yes, I'm familiar with it.

1 Q. Are you familiar with the subject area?

2 A. Yes, I am.

3 MR. OWEN: Are the witness's qualifications
4 acceptable?

5 EXAMINER CATANACH: Yes, they are.

6 Q. (By Mr. Owen) Have you prepared or directed or
7 supervised the preparation of certain exhibits in this
8 case?

9 A. Yes, I have.

10 Q. Let's go to Arlen Dickson Exhibit Number 6.
11 Would you please briefly describe that exhibit and its
12 contents?

13 A. This is a production map of the area in question.
14 The particular unit is outlined, being the west half of
15 Section 20, with the Belco Martin Well so identified by the
16 number 19 on the plat.

17 This shows all of the production and is color-
18 coded by the little legend down at the bottom, with the
19 dominant production in here being Morrow gas, that being
20 the orange-colored wells. The purple-colored wells are the
21 Strawn wells.

22 And then of key importance are the two Atoka
23 wells that have been completed in the area. There's one in
24 the west half of Section 18, which is numbered Number 12.
25 That's a Cities well. It's the Cities Number 1 A Colonia.

1 And then there's another completion up in Section 9, the
2 Number 7. That's a Union of California well. And those
3 are the two wells that really have some relevance as far as
4 the Atoka is concerned.

5 Q. And what's the primary objective of this?

6 A. I consider the Atoka the primary objective.

7 Q. And the secondary?

8 A. The Strawn.

9 Q. Okay, let's go to Arlen Dickson Exhibit Number 7.
10 Please briefly describe that exhibit and its contents.

11 A. This is a structure map on top of the Atoka,
12 which is approximately 10 to 15 feet above the sand that
13 we're looking at in this particular re-entry. As you can
14 see, we're some 30 feet low to the well that Cities
15 recompleted up in Section 18.

16 We were off on the east flank of a closure, and
17 structure actually plays no role in trapping in this
18 particular zone at all. It has played a very significant
19 role in the Morrow, in some of the deeper zones, but not as
20 far as the Atoka goes.

21 The significant point here is that we are 30 feet
22 low to the Cities well to the northwest of us.

23 Q. Okay. Let's go to Arlen Dickson Exhibit Number
24 8. Please briefly describe that exhibit and its contents.

25 A. This is the gross sand isopach of the Atoka "A-1"

1 sand, which is the primary objective for the re-entry in
2 Section 20.

3 You can see that the interpretation here is one
4 of offshore bar configuration, with the trend running
5 basically northeast-southwest.

6 You can see that the Cities well in Section 18
7 has 15 feet of sand and is in the heart of one of these
8 little bar features. The well up in Section 9 has six feet
9 of sand, not very well developed; it's in a separate
10 feature altogether. And of course, the way we have the
11 isopach configured in here, we are separate from either of
12 those wells.

13 Q. Let's go to Arlen Dickson Exhibit Number 9.
14 Would you please briefly describe that exhibit and its
15 contents?

16 A. This is the cross-section which is shown on the
17 two previous maps, which starts with the Cities well, which
18 is the recent plugback, which is completed in the Atoka
19 "A-1" sand at around 10,700 feet.

20 You can see the zone on the cross-section, and
21 the potential for that particular zone was a little over 4
22 million a day, calculated open flow.

23 The cross-section then goes over to the other
24 well in the east half of Section 18, and you can see the
25 Atoka sand is completely gone.

1 By the way, the Strawn -- the third Strawn, which
2 is the main producing Strawn zone in the area, is
3 nondeveloped. That's in terms of porosity and permeability
4 in both of these wells.

5 Then we go over to Section 17, north half of 17,
6 and this is a Strawn producer. It has the third Strawn
7 zone open, as well as what I call the first Strawn zone.
8 Together, those two zones have cum'd a little less than a
9 billion feet of gas.

10 Then we come down to the well in the south half
11 of Section 17, and we start to pick up some significant
12 development of the "A-1" sand in the Atoka.

13 There was a drill stem test of the Strawn zone in
14 this particular well, and on that test they did flow some
15 gas to the tune of about 119,000 cubic feet, recovered some
16 condensate, 10 feet of condensate, and had very significant
17 pressures in terms of their initial and final shut-in.
18 Initial shut-in was 4995, final shut-in was 5075. Those
19 are extremely good pressures for this zone. However, they
20 chose not to produce this particular zone in this well.

21 Then we move over to the key well, the proposed
22 well, and you can see the Strawn zone that was originally
23 tested by Belco in 1975.

24 There are the treatments for that particular
25 zone. It was treated with 7500 gallons of acid, with some

1 nitrogen, and this thing was actually flowing back after it
2 was shut in for 45 hours and built up to 3000 pounds. It
3 was actually flowing at rates as high as 300 MCF a day.

4 However, apparently from what we have, from the
5 sketchy information we have, this well did blow down fairly
6 quick to some very low pressures, and at the time Belco
7 chose not to complete from this zone and went down to the
8 Morrow.

9 The Atoka zone at 10,700, you can see the Atoka
10 "A-1" sand that we're looking at. There's nine feet of
11 sand here, with some high porosity getting out towards 15
12 percent, which is completely untested in this wellbore.
13 Again, we consider this the primary objective, with the
14 Strawn being the secondary objective. And again, the
15 cross-section shows the separation that we have from the
16 Cities well in Section 18.

17 And then we go over to the other well in Section
18 20, which basically again shows no sand development in
19 either the -- in the Strawn or any good carbonate
20 development in the -- no sand development in the Atoka and
21 no good carbonate development up in the Strawn.

22 Q. Are you prepared to make a recommendation to the
23 Examiner as to the risk penalty that should be assessed
24 against the nonconsenting interest owners?

25 A. Yes, I am.

1 Q. What is that recommendation?

2 A. Cost plus 200 percent.

3 Q. Upon what do you base this 200-percent
4 recommendation?

5 A. There is substantial risk involved in this
6 particular re-entry. There is some mechanical risk with
7 any re-entry, and then the geologic risks that I've gone
8 over here, in that we are dealing with a completely new
9 reservoir.

10 We're also looking at a zone here that was deemed
11 noncommercial by Belco at one time in 1975. So it's based
12 on substantial risk involved in this re-entry.

13 Q. Do you believe that there's a chance that you
14 could drill a well at the proposed location that would not
15 be a commercial success?

16 A. Yes.

17 Q. In your opinion, would granting this Application
18 be in the best interests of conservation, the prevention of
19 waste and protection of correlative rights?

20 A. Yes.

21 Q. Were Exhibits 6 through 9 prepared by you or
22 compiled under your direction and supervision?

23 A. Yes, they were.

24 MR. OWEN: Mr. Examiner, I offer Exhibits 6
25 through 9 into evidence in this case.

1 EXAMINER CATANACH: Exhibits 6 through 9 will be
2 admitted as evidence.

3 MR. OWEN: That concludes my direct examination
4 in this case.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Smith, is there any water production in these
8 reservoirs?

9 A. There's been no water production from either of
10 those two zones that have been completed in this area, no.
11 However, we do have a lower resistivity than the Cities
12 well in our wellbore, but we still calculate water
13 saturations of the high 20s to mid-30s.

14 EXAMINER CATANACH: I have nothing further.

15 MR. OWEN: That's all I have, Mr. Examiner.

16 EXAMINER CATANACH: Okay, there being nothing
17 further in this case, Case 11,425 will be taken under
18 advisement.

19 THE WITNESS: Thank you.

20 (Thereupon, these proceedings were concluded at
21 12:18 p.m.)

22 * * *

**I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11425
heard by me on November 16 1998.**

David R. Catanch, Examiner
Off Conservation Division

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