

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date MAY 15, 1997 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Paul Thompson	RICHARDSON OPERATING CO	FARMINGTON
William Stam Harry Squires Mimi Dilli	Campbell, Supt. Snyder Snyder Ranch SANTA FE Energy	Santa Fe Nobles Midland
Joe Hammond	" "	"
Frank Wilson	Cobra O & G	Wichita Falls
Charles L Houx	Cobra O & G	Midland
DAVE BONEAU	YATES PETROLEUM	ARTESIA
James Bruce Michael Shu	WEST OIL	SF SANTA FE
Paul Owen	Campbell, Carr, Supt. & Supt.	Santa Fe
Patrick Tower	ECONOM	MIDLAND
Randy Cate	"	"
MARY TISDALE	PHILLIPS PETROLEUM CO	ODESSA, TX
ALFRED KENT	PHILLIPS PETROLEUM CO	ODESSA, TX
Robert C. Leibrock	Amerind Oil Co.	Midland TX

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NAME	REPRESENTING	LOCATION
John Thoma	PENWELL ENERGY, INC.	MIDLAND, TX
MARK WHEELER	"	"
JIM ROGERS	HANLEY PETROLEUM INC	MIDLAND, TX
John Savage	Williamson Pet. Cons.	Houston, TX
Neth Narden	Hanley Petroleum	MIDLAND
Greg Wilkes	Hanley Petroleum	Midland, TX
Paul Conner	UnitSource	Denver, CO
DAVID SCOLMAN	ENSERCH	DALLAS, TX
BESSIE BALES	ENSERCH	DALLAS, TX
SCOTT HALL	MILLER LAW FIRM	SF
HARRY WHITSELL	ENSERCH EXPLORATION, INC	DALLAS, TX
Ralph Nelson	" "	" "
Michael Sher	WEST OIL	SANTA FE
Mark Miodenka	Gillispie-Crow Inc.	Midland TX
JOHN Mc DENNETT	"	" "

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 SANTA FE ENERGY)
 RESOURCES, INC., FOR COMPULSORY)
 POOLING, EDDY COUNTY, NEW MEXICO)
)

CASE NO. 11,743

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 15th, 1997

Santa Fe, New Mexico

1997
 MAY 15 1997
 1

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 15th, 1997, 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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May 15th, 1997
Examiner Hearing
CASE NO. 11,743

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* * *

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:

JAMES G. BRUCE, Attorney at Law
 612 Old Santa Fe Trail, Suite B
 Santa Fe, New Mexico 87501
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,743.

5 MR. CARROLL: Application of Santa Fe Energy
6 Resources, Inc., for compulsory pooling, Eddy County, New
7 Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant, and I have two witnesses to be
12 sworn.

13 EXAMINER CATANACH: Any additional appearances?
14 Will the witnesses please stand to be sworn in?
15 (Thereupon, the witnesses were sworn.)

16 JOE W. HAMMOND,
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. BRUCE:

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

22 A. Joe W. Hammond, H-a-m-m-o-n-d.

23 Q. And where do you reside?

24 A. Midland, Texas.

25 Q. Who do you work for and in what capacity?

1 A. Santa Fe Energy Resources, Inc., as a senior
2 landman.

3 Q. Have you previously testified before the
4 Division?

5 A. Yes, I have.

6 Q. And were your credentials as an expert petroleum
7 landman accepted as a matter of record?

8 A. Yes.

9 Q. And are you familiar with the land matters
10 involved in this case?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender Mr. Hammond as
13 an expert petroleum landman.

14 EXAMINER CATANACH: Mr. Hammond is so qualified.

15 Q. (By Mr. Bruce) Mr. Hammond, what is it that
16 Santa Fe seeks in this case?

17 A. Santa Fe Energy seeks an order pooling the north
18 half of Section 17, 22 South, 28 East, Eddy County, New
19 Mexico, pooled from the surface to the base of the Morrow
20 formation, and for all pools or formations spaced on 320-
21 acre spacing, and the northeast quarter of Section 17 for
22 all pools or formations spaced on 160-acre spacing.

23 Q. What is Exhibit 1?

24 A. Exhibit 1 is a land plat that outlines the north
25 half of Section 17 as our unit.

1 Q. Okay. What is the leasehold ownership of the
2 north half of Section 17? And I'd refer you to your
3 Exhibit 2?

4 A. Yes, Exhibit 2 is a leasehold ownership
5 breakdown. The north half, north half of Section 17 is
6 owned by the -- what I would call the Bass entities, Perry
7 R. Bass, Inc.; Sid R. Bass, Inc.; Thru Line, Inc.;
8 Keystone, Inc.; Lee M. Bass, Inc.

9 And then the south half of the north half is
10 owned by Santa Fe Energy and Nearburg Exploration.

11 Q. Okay. Let's discuss your efforts to get those
12 parties to join in the well. What is Exhibit 3?

13 A. Exhibit 3 are copies of all correspondence that
14 have transpired from the initial proposal of our well in
15 this section.

16 Q. And when was that first proposal letter sent?

17 A. The first proposal was sent January 21st, and
18 then it was re-sent on February 3rd. And if you look, the
19 first letter was addressed to Bass Enterprises Production,
20 Inc., and I decided to go ahead and re-send it in early
21 February to properly address the ownership of that north
22 half, north half, but it all went to the same address, and
23 it's all handled by Bass Enterprises.

24 Q. Your contacts have been with the landman Bass for
25 Enterprises --

1 A. Yes.

2 Q. -- have they not?

3 A. Yes, they have.

4 Q. Now, besides this correspondence, have you had
5 discussions or meetings with Bass?

6 A. Yes, there has been almost weekly or bi-weekly
7 discussions between Santa Fe and Bass on proceeding with
8 getting this well drilled. We've gone back and forth with
9 different letters. We've had phone conversations and
10 personal conversations with each other on this particular
11 well.

12 Q. And part of that effort, Bass wanted to negotiate
13 items of the AFE; is that correct?

14 A. That is correct, yes.

15 Q. And you agreed to those items --

16 A. Yes.

17 Q. -- that Bass requested?

18 A. Yes.

19 Q. One thing, you mentioned Nearburg. Nearburg has
20 joined in the well, have they not?

21 A. Yes, Nearburg has already signed the AFE and
22 operating agreement.

23 Q. And so you're not seeking to pool Nearburg?

24 A. No, we're not.

25 Q. In your opinion, has Santa Fe Energy made a good-

1 faith effort to obtain the voluntary joinder of Perry R.
2 Bass and the other companies involved in this well?

3 A. Yes, we have.

4 Q. Could you identify Exhibit 4 for the Examiner?

5 A. Exhibit 4 is Santa Fe's AFE for the well, and it
6 has an estimated dryhole cost of \$491,340 and an estimated
7 completed well cost of \$838,240.

8 Q. And are these costs in line with the costs of
9 other wells drilled to this depth in this area of the
10 state?

11 A. Yes, they are.

12 Q. And does Santa Fe request that it be designated
13 operator of the well?

14 A. Yes.

15 Q. Do you have a recommendation for the overhead
16 charges which Santa Fe should be paid?

17 A. Yes, \$5550 per month for a drilling well and \$550
18 per month for a producing well.

19 Q. And are these amounts equivalent to those
20 normally charged by Santa Fe Energy and other operators in
21 this area of the state for wells of this depth?

22 A. Yes.

23 Q. Were the Bass interests notified of this hearing?

24 A. Yes, they were.

25 Q. And is Exhibit 5 the affidavit of notice

1 regarding the notice letter to these parties?

2 A. Yes, it is.

3 Q. Were Exhibits 1 through 5 prepared by you or
4 under your supervision or compiled from company records?

5 A. Yes, they were.

6 Q. And in your opinion, is the granting of Santa Fe
7 Energy's Application in the interests of conservation and
8 the prevention of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, at this time we move
11 the admission of Santa Fe Energy's Exhibits 5 through 7 --
12 I mean, excuse me, 1 through 5.

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

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Hammond, I notice that the correspondence
18 you've been getting back is from Bass Enterprises
19 Production Company. Do -- Is it your understanding that
20 they represent all of the Bass interests?

21 A. Yes, they do, yeah, and it -- Yes --

22 Q. Okay, now --

23 A. -- that was kind of the reason for my first
24 letter, after I realized that -- I mean, there is only one
25 Bass Company, and Bass Enterprises Production Company

1 represents all the different Bass entities, out of -- all
2 of them out of Fort Worth.

3 Q. And they have the authority to sign an agreement
4 on behalf of all those entities?

5 A. Yes, they do. When it comes down like to signing
6 an AFE and signing a JOA, now, each entity will sign for
7 their own interest.

8 But the negotiating of the different agreements
9 and AFEs and JOAs is handled by Bass Enterprises Production
10 Company on behalf of the Bass entities.

11 Q. Okay. Do you anticipate them joining in the
12 well?

13 A. Well, yes, I do. They have indicated that they
14 will probably join. They've indicated that from almost day
15 one. We -- Again, they had some questions on our AFE,
16 which we changed on the -- for their behalf. I think it
17 had to do with intermediate casing.

18 And they are also in the process of wanting to
19 sell down their interest, which may also have slowed them
20 down somewhat. But they have indicated, yes, they will
21 probably participate in this well.

22 Q. Within the Exhibit Number 3, there's a
23 generalized well cost estimate which you apparently sent to
24 these interest owners. I notice that the well costs are
25 considerably higher on this generalized well cost. Did you

1 make some adjustments, or how did the adjustments --

2 A. Yes, again, when we initially sent the AFE to
3 Bass, they came back to us and indicated that in their
4 opinion, they're -- you know, they have a different opinion
5 on running intermediate pipe. And if I can spot them here,
6 I'll try to point out the differences. I've got to get the
7 right one first.

8 The first AFE that was sent, about the fifth line
9 down, there is a \$110,000 charge for intermediate casing --

10 Q. Uh-huh.

11 A. -- and as you can see, that is not on the newer
12 AFE.

13 Q. I see.

14 A. Also further down the page, the day work charge
15 under intangible well costs is \$320,000 on the first AFE
16 and is \$226,000 on the newer AFE. Again, that's another
17 \$100,000 less cost that we've adjusted that AFE on.

18 And then there are just various other smaller
19 charges that brings the AFE down to what it is today.

20 Q. So you think that Santa Fe can drill the well for
21 approximately \$838,000?

22 A. Yes.

23 Q. Has Santa Fe drilled Morrow wells recently in
24 this area?

25 A. Yes, we have. If you look on the Exhibit 1, the

1 section to the south is the Santa Fe Foal Fed 20 Number 1
2 in the north half of Section 20. That was just completed
3 last year, and that is the most recent well in this general
4 area to the Morrow.

5 Q. You've got an outline on Exhibit Number 1 that
6 shows what looks like an old unit. Is that unit still in
7 effect?

8 A. Yes, but that outline is wrong. Again, this is a
9 copy of a commercial map, and the outline of the -- Are you
10 talking about the old Indian Draw unit?

11 Q. Yes, sir.

12 A. The outline of the old Indian Draw unit no longer
13 covers any -- or parts of Section 17. It has been
14 contracted pursuant to the unit agreement.

15 Q. Okay.

16 A. It also doesn't cover parts of -- like Section
17 19, if you see it down there, and it also doesn't cover all
18 of the parts or -- of Section 7. So that outline that they
19 have on the map -- and that's probably been on there for 20
20 years -- is, in effect, in error.

21 Q. Have you staked that well location?

22 A. Yes, we have, and it -- The APD was
23 administratively approved -- I believe it was on April 3rd
24 of 1997.

25 Q. So as far as you know, the well is going to be

1 drilled 1980 north and 1980 east?

2 A. Yes.

3 Q. Okay, and that's been approved?

4 A. Yes.

5 EXAMINER CATANACH: I have nothing further of
6 this witness.

7 MR. BRUCE: Call Mr. Dilli to the stand.

8 MIKE DILLI,

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

11 DIRECT EXAMINATION

12 BY MR. BRUCE:

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

14 A. Mike Dilli.

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

16 A. Santa Fe Energy as a senior geologist.

17 Q. Have you previously testified before the Division
18 as a petroleum geologist?

19 A. Yes, I have.

20 Q. And were your credentials as an expert petroleum
21 geologist accepted as a matter of record?

22 A. Yes, they were.

23 Q. Are you familiar with the geologic matters
24 pertaining to this Application?

25 A. Yes, I am.

1 MR. BRUCE: Mr. Examiner, I would tender Mr.
2 Dilli as an expert petroleum geologist.

3 EXAMINER CATANACH: He is so qualified.

4 Q. (By Mr. Bruce) Mr. Dilli, let me see. First of
5 all, let's move to Exhibit 6. Would you identify that for
6 the Examiner and discuss the primary zone you're looking at
7 and maybe some of the secondary zones you're looking at?

8 A. Exhibit 6 is a production map of just the general
9 area around where we want to drill the Foal 17 well.
10 Primarily the zone of interest is going to be the Morrow
11 sands, there are several Morrow sands, and you can see on
12 the map there are several Morrow producers in the area.
13 Additional potential exists in the Delaware, which is also
14 indicated by the Indian Draw unit. Other zones of interest
15 in the area will be the Bone Springs and Strawn.

16 Q. Okay. Let's refer to your next three exhibits
17 together, 7, 8 and 9. Would you briefly identify Exhibit
18 7, 8 and 9 and then maybe discuss the Morrow and what else
19 you're looking for in this zone.

20 A. Exhibit 7 is cross-section A-A', which is shown
21 on all the maps drawn. The cross-section is a
22 stratigraphic cross-section, showing the Morrow clastics
23 interval, and the Morrow being one of the primary
24 objectives of this well. You can see there are numerous
25 sands within the Morrow section that we think will be

1 prospective at our location.

2 Exhibit 8 is an isopach of what we have named the
3 Foal Lobe sand within the middle Morrow section. That is
4 the sand that we believe is the -- be the most productive
5 sand that we have in our recently drilled Foal 20 Federal
6 well in Section 20, just south of our propose location.
7 That Foal Lobe sand is the sand that has been isopached in
8 a gross sand isopach on Exhibit 8. We anticipate
9 potentially getting a thicker sand than we encountered in
10 our first well at this location.

11 Additionally, if you look at Exhibit 9, it is a
12 structure map drawn upon top of the lower Morrow, which is
13 also indicated up on the cross-section. We think we can
14 get up to 90 feet high at the Foal 17 location from where
15 we were at the Foal 20 location. By gaining that
16 structural advantage, some of these other Morrow sands that
17 you see indicated on the cross-section could be productive.

18 I'll point out the lower Morrow sand we tested in
19 our Foal well, that it had gas and water, and we think that
20 that sand might also be productive up on top of the nose
21 that you see on Exhibit 9.

22 Q. How many feet of sand do you need, do you think,
23 for a productive well in this zone?

24 A. For an economic well, we think we need in the --
25 12 feet of this Foal Lobe sand. Our well in Section 20

1 is -- Right now we'd deem it as probably noneconomic. It's
2 probably going to make about .4 of a BCF.

3 Q. In your opinion, what penalty should be assessed
4 against any interest owner who goes nonconsent in this
5 well?

6 A. Cost plus 200 percent.

7 Q. And does the geologic risk in this area justify
8 that penalty?

9 A. Yes, the risk in the Morrow section is always
10 there. Additionally, you have some mechanical risk in
11 drilling out here.

12 Q. Were Exhibits 6, 7, 8 and 9 prepared by you or
13 under your direction?

14 A. Yes, they were.

15 Q. And in your opinion, is the granting of this
16 Application in the interests of conservation and the
17 prevention of waste?

18 A. Yes, it is.

19 MR. BRUCE: Mr. Examiner, I would move the
20 admission of Santa Fe's Exhibits 6 through 9.

21 EXAMINER CATANACH: Exhibits 6 through 9 will be
22 admitted as evidence.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Dilli, the well in the north half of Section

1 20 is going to be noneconomic, you say?

2 A. In the current zone that it's producing in, yes,
3 in the Morrow we feel like it is.

4 Q. In that --

5 A. -- Foal Lobe sand.

6 Q. And that's middle Morrow?

7 A. Right, the middle Morrow section.

8 There's other potential pays in the well that
9 down the life of the well may make up for some of that, but
10 within the Morrow sequence itself, yes.

11 Q. Is that well just completed in that middle Morrow
12 section at the current time?

13 A. It's currently open. If you look on the -- I
14 have that on the cross-section. The perforation
15 indications are in the Foal Lobe. You can see which perms
16 are open and which perms have been -- we've abandoned, by
17 the slash through the perf indicators in the cross-section.

18 But we feel like that Foal Lobe sand is the one
19 that's giving us the most production.

20 Q. The gain in structure and gain in sand thickness
21 should help you at the --

22 A. Yes.

23 Q. -- next location?

24 A. Yes.

25 Q. Was that well in Section 18, was that an economic

1 well?

2 A. The Section 18 well was completed in the
3 Delaware. They never even attempted a completion in the
4 Morrow.

5 Q. How about the wells in Sections 9 and 16? Were
6 those good wells or --

7 A. The one in Section 9 -- You can look on the
8 production maps: over 2 BCF and still producing. So yes,
9 that was -- That well was perforated in numerous middle
10 Morrow sands. And I've indicated it has also perforated in
11 this Foal Lobe sand, in addition to other sands out there.
12 The well in 16. Neither one of those will be commercial
13 within the Morrow.

14 EXAMINER CATANACH: I have nothing further of
15 this witness.

16 MR. BRUCE: I have nothing further in this
17 matter, Mr. Examiner.

18 EXAMINER CATANACH: Okay, there being nothing
19 further, Case 11,743 will be taken under advisement.

20 (Thereupon, these proceedings were concluded at
21 8:36 a.m.)

22 I do hereby certify that the foregoing is
23 * a complete record of the proceedings in
24 the Examiner hearing of Case No. 11743
25 heard by me on May 15 1997.
David J. Catanch, Examiner
Oil Conservation Division

