

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. 11,749
)
APPLICATION OF KCS MEDALLION RESOURCES,)
INC., FOR COMPULSORY POOLING AND AN) ORIGINAL
UNORTHODOX WELL LOCATION, EDDY COUNTY,)
NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH Hearing Examiner

April 17th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 17th, 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.

* * *

I N D E X

April 17th, 1997
Examiner Hearing
CASE NO. 11,749

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DAVID C. SHATZER</u> (Geologist)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Catanach	10
REPORTER'S CERTIFICATE	16

* * *

E X H I B I T S

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

* * *

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 9:51 a.m.:

3 EXAMINER CATANACH: Okay, at this time we'll call
4 Case 11,749.

5 MR. CARROLL: Application of KCS Medallion
6 Resources, Inc., for compulsory pooling and an unorthodox
7 well location, Eddy County, New Mexico.

8 EXAMINER CATANACH: Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
10 Fe, representing the Applicant.

11 I have one witness to be sworn.

12 EXAMINER CATANACH: Additional appearances?

13 There being none, swear in the witness, please.

14 (Thereupon, the witness was sworn.)

15 DAVID C. SHATZER,

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. BRUCE:

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

21 A. My name is David Shatzer.

22 Q. And where do you reside?

23 A. Midland, Texas.

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

25 A. KCS Medallion Resources as a geologist.

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

3 A. Yes, I have.

4 Q. And were your credentials accepted as a matter of
5 record?

6 A. Yes, they were.

7 MR. BRUCE: Mr. Examiner, I'd tender Mr. Shatzer
8 as an expert petroleum geologist.

9 EXAMINER CATANACH: He is so qualified.

10 MR. BRUCE: Mr. Examiner, KCS Medallion
11 originally sought an order pooling the east half of Section
12 14, Township 17 South, Range 28 East, from the surface to
13 the base of the Morrow formation and approving an
14 unorthodox well location 660 feet from the south line and
15 1330 feet from the east line.

16 The parties being pooled have come to terms, and
17 so we are not seeking pooling any longer. We are here
18 today only for the unorthodox location. And this could
19 probably be processed administratively, but it would
20 require massive re-notice and delay in the drilling plans,
21 and that's why we're going forward today.

22 Q. (By Mr. Bruce) Mr. Shatzer, would you refer to
23 your Exhibit 1, identify it for the Examiner, and discuss
24 the primary zone of interest of the well?

25 A. Exhibit 1 shows the -- is a production map of the

1 area, showing the -- only the wells that penetrated the
2 Morrow formation, and the Morrow wells are color-coded in
3 green, and the production cumulative and daily below the
4 lines are shown.

5 And you can see that the closest well at B on the
6 cross-section is a rather poor producer, that the better
7 two producers are over a mile to the south and southeast of
8 the proposed location, and that there's very little control
9 moving to the north and northwest.

10 So this location is a northwest stepout of some
11 existing Morrow production, and therefore that is the
12 reason that we are asking for this unorthodox location.

13 Q. Okay. Would you refer next to your Exhibit
14 Number 2 and discuss a little bit more of the Morrow
15 geology and the basis of your proposed location?

16 A. Okay. Exhibit 2 is a Morrow sand isopach on net
17 pay thickness in this area, and the general trends on the
18 area are based on the well control that we have to the east
19 and southeast, and we're -- they trend northwest-southeast,
20 and that generally to make a good well in this zone, you
21 need at least ten feet of net-pay sand, and that the wells
22 in Section 13 and the northeast-northeast of Section 24
23 don't meet that criteria with only two feet, and zero feet
24 in several instances, and that the one good well in this
25 zone in the southwest of 24 meets that pay criterion of 12

1 feet of net pay sand, and shows that we want to drill in
2 the extreme southern portion of Section 14 to step out from
3 this production at a location with some amount of risk, due
4 to the fact that it is moving away from control.

5 Q. Okay. What is Exhibit 3?

6 A. Exhibit 3 is the Morrow structure map, structure
7 on top of the lower Morrow shale -- the base of the lower
8 Morrow shale, excuse me, base of the lower Morrow shale,
9 top of the lower Morrow, and that it shows the general
10 trend of dip to the east southeast.

11 And basically, the dip and structure in this area
12 is rather inconsequential to the stratigraphic production.

13 Q. Okay, why don't you refer to your Exhibit 4, the
14 cross-section, and maybe discuss in a little bit more
15 detail the Morrow wells in the immediate area of your
16 proposed --

17 A. All right, the Morrow wells in the immediate area
18 on B-B', you have that -- or A-B, the well at A is the one
19 with the net pay of 12 feet, and it only had a cased hole
20 log on it, but that's where it's pay coming out of this
21 middle Morrow, and that we don't see it in the other two --
22 In the next two sands, the middle two sands, this
23 particular zone is extremely thin and noncommercial, and
24 those were dry holes.

25 And then we're trying to extend this trend to the

1 north and moving into our proposed location in 14.

2 And then the final well in Section 13 at B shows
3 two feet of net sand, and at least there's a little bit
4 more sand developing up there that we feel like identifies
5 the trend that we're trying to drill for in Section 14.

6 Q. Okay. What is Exhibit 5, Mr. Shatzer?

7 A. Exhibit 5 is the land plat showing offset
8 ownership.

9 Q. Okay. And is Exhibit my affidavit of notice
10 giving evidence of the written notice to all of these
11 parties of the Application?

12 A. Yes, it is.

13 MR. BRUCE: Okay. Mr. Examiner, if you'll look
14 at Exhibit 6, I'm not sure all of the proper notice has
15 been given. If you'll turn to page 1, it's kind of
16 suspect.

17 MR. CARR: Only the signature.

18 MR. BRUCE: Now, for your information, they found
19 there are -- If you'll go through this, there are three or
20 four notice letters, because additional parties were found,
21 and I think we've gotten everyone pretty much well notified
22 over the course of several weeks.

23 Q. (By Mr. Bruce) Now, Mr. Shatzer, did KCS
24 Medallion request waivers from the offset lessees or
25 operators?

1 A. Yes, they did.

2 Q. And does Exhibit 7 contain copies of signed
3 waiver letters from various lessees or operators?

4 A. Yes, Exhibit 7 is many of the people we contacted
5 for waivers and their signed agreement to that waiver.

6 Q. And does Exhibit 8 contain copies of unsigned
7 waiver letters that were sent to the remaining offsets?

8 A. Yes, it does.

9 Q. But at this time you haven't heard any objection;
10 they just haven't signed the waiver letters?

11 A. Right, they haven't voiced any objection, just
12 haven't done anything.

13 Q. In your opinion, is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes, it is.

17 Q. And regarding Exhibits 1 through 4, these were
18 originally prepared by Mr. Siruta, a geologist in your
19 office; is that correct?

20 A. Yes.

21 Q. And have you reviewed the data, and do you agree
22 with their geological interpretation?

23 A. Yes, I have; I've worked the area and agree with
24 the interpretation of the data.

25 Q. And were Exhibits 5 through 8 prepared by you or

1 compiled from company business records?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd move the admission
4 of KCS Medallion Exhibits 1 through 8.

5 EXAMINER CATANACH: Exhibits 1 through 8 will be
6 admitted as evidence.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Shatzer, is there a minimum amount of sand
10 you need in this well to make -- that you feel would make a
11 good completion, commercial completion?

12 A. Well, porosity is generally the determining
13 factor. But usually if you don't have close to ten feet of
14 net sand, the associated porosity/permeability is not great
15 enough to make an economic well.

16 And even the well that had 12 feet, I feel like,
17 must be close to even greater reservoir thickness to have
18 that production, because it's a pretty good well at 2.8 BCF
19 -- 2.6 BCF.

20 Q. Is this -- What pool is this in, do you know?

21 A. I believe it would be in the Empire, Empire
22 North, I would think.

23 Production forms -- But I've worked the area,
24 that I know the wells in 13 and 24 would be in Empire. I
25 know that the wells, the cluster of three just due east are

1 in Empire North. I know that, I've worked those. And I
2 believe that well in the southwest of 24 is also Empire
3 North Morrow.

4 Q. Okay. The well in the east half of Section 23,
5 that was a well that was completed and then produced in the
6 Morrow for a time?

7 A. Yeah, there is a well on the cross-section at --
8 the well that will look like it would be in -- it would
9 about in the J location, J unit, that was perf'd in the
10 lower Morrow, and also some perms in the middle Morrow, and
11 it was swabbed dry, never completed as a flowing well. But
12 it was perforated.

13 Q. Okay, the interval that you're targeting is the
14 middle Morrow?

15 A. Yes.

16 Q. Okay. Well, I show -- You show some cumulative
17 production out of that well, 268 million, so it didn't
18 produce very long, probably.

19 A. Yeah, I would -- The pay doesn't look very good
20 in the middle Morrow. I would think that what pay came out
21 of that well came out of the lower Morrow, just as far as
22 contribution.

23 Q. Do you have any potential in your -- at your
24 proposed location for lower Morrow production?

25 A. Yes, there's -- yeah -- Yes, there's definitely

1 potential for the lower Morrow. I think that it's
2 definitely the secondary target behind the middle Morrow,
3 but I'm sure there could be some lower Morrow sands as
4 well.

5 Q. You just didn't map any of those lower Morrow
6 sands?

7 A. No.

8 Q. Does that have any effect, your unorthodox
9 location, have any effect on the lower interval, or is this
10 simply --

11 A. No, not really. I mean, obviously the wells over
12 in 13 have nearly no net.

13 Over to -- The wells to the due east, obviously
14 those are lower Morrow completions, and so their sand trend
15 is kind of just off of the middle Morrow trend, and I think
16 that the location was placed and positioned nearly --
17 solely for the middle Morrow, rather than lower Morrow.

18 Q. Is there any additional potential in the
19 Pennsylvanian?

20 A. The Atoka has got some mobility in this area, but
21 that's just very erratic and very scattered.

22 I don't believe it was seen in any of the nearby
23 wells, but -- and it could be -- an Atoka sand could come
24 up in the proposed location, at the proposed location.

25 But that's about it. I don't -- The Penn and

1 Cisco, I don't believe, are prospective.

2 Q. How about up from that? Anything else uphole?

3 A. I don't believe -- the other were out of the Abo
4 trend and were -- the shallow -- this area has been tried
5 for some shallow oil wells, and there are some to the
6 north.

7 But right at this location I think that it's not
8 something we're -- that we think we'll encounter.

9 Q. So really the unorthodox location probably just
10 applies to the Pennsylvanian?

11 A. Yes, sir.

12 Q. Currently there's no producing wells in Section
13 23? Those two wells are both P-and-A'd?

14 A. Yes. And since he did not put shallow production
15 on here, I couldn't say that there isn't any shallow oil
16 producers to the south half it.

17 I know in the north half of 23, there's not much
18 shallow production.

19 Now, the south half I'm not sure, because this
20 map just shows Morrow penetrations and leaves off any
21 Permian oil wells.

22 But I know in the north half there's really not
23 much production, north half of 23, much of 15 and 14 in the
24 Queen Grayburg zones that produce farther to the west.

25 Q. You had no objections from any offset interest

1 owners and operators?

2 A. No, none to date.

3 Q. The only -- Exhibit Number 8 are the interest
4 owners who have not signed a waiver; is that correct?

5 A. Yes.

6 Q. All the others have?

7 A. Yes.

8 EXAMINER CATANACH: Okay.

9 MR. BRUCE: Mr. Examiner, for your information, I
10 think on some of those -- Let me double-check. On Exhibit
11 8, Conoco has either assigned or has some interest in the
12 well being drilled, as does Fina.

13 EXAMINER CATANACH: Okay.

14 MR. BRUCE: And the other three companies or
15 individuals are offsets.

16 Q. (By Examiner Catanach) Who operates the wells in
17 Section 13, do you know?

18 A. No, I don't.

19 EXAMINER CATANACH: The interest owners that were
20 notified were simply in Sections 23 and 24, Mr. Bruce; is
21 that correct?

22 MR. BRUCE: From what I'm looking at, yes.

23 EXAMINER CATANACH: Okay.

24 MR. BRUCE: I think the well in Section --
25 southwest quarter of Section 13 is operated by Yates, Mr.

1 Examiner.

2 EXAMINER CATANACH: Okay. I have nothing
3 further.

4 Anything further, Mr. Bruce?

5 MR. BRUCE: Not in this case.

6 EXAMINER CATANACH: Okay. There being nothing
7 further, Case 11,749 will be taken under advisement.

8 (Thereupon, these proceedings were concluded at
9 9:10 a.m.)

10 * * *

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

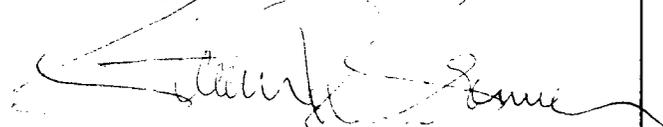
CERTIFICATE OF REPORTER

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.

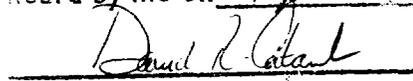
WITNESS MY HAND AND SEAL ~~April 21st~~, 1997,



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. 11769, heard by me on April 17, 1997.

, Examiner
 Oil Conservation Division