

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. 11,857
)
APPLICATION OF CHI ENERGY, INC.,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 9th, 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, October 9th, 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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 Examiner Hearing
 CASE NO. 11,857

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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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* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER CATANACH: At this time we will call
4 Case Number 11,857.

5 MR. CARROLL: Application of Chi Energy, Inc.,
6 for compulsory pooling, Eddy County, New Mexico.

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

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

12 EXAMINER CATANACH: Call for additional
13 appearances.

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

16 (Thereupon, the witnesses were sworn.)

17 WILLIAM BERGMAN,
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. BRUCE:

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

23 A. William Bergman.

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

25 A. I work with Chi Energy, Inc., in Midland, Texas,

1 as a landman.

2 Q. Have you previously testified before the Division
3 as a landman?

4 A. Yes, I have.

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

7 A. Yes, sir.

8 Q. And are you familiar with the land matters
9 applying to this particular case?

10 A. Yes, I am.

11 MR. BRUCE: Mr. Examiner, I would tender Mr.
12 Bergman as an expert petroleum landman.

13 EXAMINER CATANACH: He is so qualified.

14 Q. (By Mr. Bruce) Briefly, Mr. Bergman, what does
15 Chi Energy seek in this case?

16 A. We seek to pool the south half of 4, 17-27, to
17 drill a Morrow test.

18 Q. And you are seeking to pool not only 320 acres,
19 but any wells spaced on 160 and also on 40 acres?

20 A. Yes, sir.

21 Q. What is Exhibit 1?

22 A. Exhibit 1 is a land map showing the south half of
23 4 we desire to pool, along with the location of the well.

24 Q. And what is the leasehold ownership of the south
25 half of Section 4?

1 A. As shown on the following page, it is 50 percent
2 Chi Energy through trade with Conoco and Fina, Yates
3 Petroleum, Enron, Burlington and Santa Fe.

4 Q. Who are the parties that you seek to pool in this
5 case?

6 A. Enron and Burlington, and also Santa Fe, under
7 mutual agreement that we'll make a trade later.

8 Q. Okay. You're also seeking at this point to
9 pool --

10 A. And Yates.

11 Q. -- Yates --

12 A. Yes, sir.

13 Q. -- are you not?

14 A. Yates.

15 Q. But you have a preliminary agreement with --

16 A. We have a preliminary agreement with Yates.

17 Q. And if you reach final agreement, you'll notify
18 the Division?

19 A. Yes.

20 Q. Let's discuss your efforts to obtain the
21 voluntary joinder of the interest owners in the well. What
22 is Exhibit 3?

23 A. It's a well proposal to Enron, Burlington, Yates.

24 Q. Now, first off, this letter was sent out August
25 22. What is the reason for the rush in getting this case

1 going?

2 A. Santa Fe had expiring leases in the 320, two 40s,
3 which would be the southwest southeast and the northwest
4 southwest.

5 Q. What was the expiration date?

6 A. The expiration date is October 1.

7 Q. Have you commenced well operations?

8 A. Under approval of the BLM we set conductor, and
9 upon rig availability we'll move in and commence drilling.

10 Q. Other than these letters, did you have follow-up
11 telephone calls with any of these parties?

12 A. Yes, with all parties.

13 Q. Okay. And you hope to get them to join?

14 A. Yes.

15 Q. In your opinion, has Chi Energy made a good-faith
16 effort to obtain the voluntary joinder of all interest
17 owners?

18 A. Yes, sir.

19 Q. Would you identify Exhibit 4 and discuss the cost
20 of the proposed well?

21 A. To-casing-point costs or dryhole costs would be
22 \$388,150. And completed would be a total cost of \$637,150.

23 Q. Are these costs in line with the costs of other
24 wells drilled to this depth --

25 A. Yes.

1 Q. -- in this area of the county?

2 A. Yes, they are.

3 Q. Does Chi Energy request that it be designated
4 operator of the well?

5 A. Yes, we do.

6 Q. And what are your recommendations for the amounts
7 which should be paid for supervision and administrative
8 expenses?

9 A. Excuse me, I don't have the numbers here.

10 Q. Are they \$5000 a month --

11 A. Yes.

12 Q. -- for drilling and \$500 --

13 A. \$5000 and \$500, which are in line with industry
14 standards.

15 Q. Finally, Mr. Bergman, were all interest owners
16 notified of this hearing?

17 A. Yes, they were.

18 Q. And is Exhibit 5 my affidavit of notice with the
19 notice letter attached? Is Exhibit 5 my affidavit --

20 A. Yes, it is.

21 Q. -- of notice?

22 In your opinion, is the granting of Chi's
23 Application in the interests of conservation and the
24 prevention of waste?

25 A. Yes, it is.

1 MR. BRUCE: Mr. Examiner, I would move the
2 admission of Chi's Exhibits 1 through 5.

3 EXAMINER CATANACH: Exhibits 1 through 5 will be
4 admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Bergman, where does Chi derive its interest
8 in this south half?

9 A. We own the interest of Conoco and Fina both in
10 the south half of Section 4.

11 Q. Is that by farmout or --

12 A. Through trade, term assignment and farmout.

13 Q. So what percentage of the spacing unit does that
14 give you? Is that --

15 A. Fifty percent.

16 Q. Of a south-half --

17 A. Yes, sir.

18 Q. -- spacing unit? Okay.

19 And you've not yet reached agreement with any of
20 the other parties?

21 A. No, we have not, except for Yates, we have a
22 proposal on the table which we've mutually agreed that we
23 will agree after a compulsory pooling, along with Santa Fe,
24 is in the same boat.

25 Q. And what about Burlington and Enron? Were you --

1 A. Burlington and Enron's response was basically
2 that it's a very small interest, and they really don't have
3 the time to deal with it.

4 Q. I don't show a proposal letter to Santa Fe. Is
5 that not -- Did you not have one?

6 MR. BRUCE: We have one, Mr. Examiner. I think
7 we omitted to attach it. We'll provide that after the
8 hearing.

9 EXAMINER CATANACH: Okay. I have nothing further
10 of this witness.

11 MR. BRUCE: Call Mr. Qualls to the stand.

12 JOHN QUALLS,

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

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Will you please state your name and city of
18 residence?

19 A. John Qualls, Midland, Texas.

20 Q. And who do you work for and in what capacity?

21 A. Chi Energy, geologist.

22 Q. Have you previously testified before the
23 Division?

24 A. Yes, sir.

25 Q. And were your credentials as an expert petroleum

1 geologist accepted as a matter of record?

2 A. Yes, sir.

3 Q. And are you familiar with the geologic matters
4 pertaining to this Application?

5 A. Yes, sir.

6 Q. Mr. Qualls, could you identify Exhibit 6 for the
7 Examiner and tell him what that exhibit contains.

8 A. Exhibit 6 is a structure map, scale of 1 to 2000.
9 Our acres is in yellow. The south half of Section 4 is
10 where we want to drill the well.

11 Q. Does that exhibit also contain production data
12 from wells in the area?

13 A. Yes, sir. If you'll look down to Section 17
14 you'll see there's a Morrow well that's drilled there; that
15 produced a tenth of a BCF.

16 In Section 20 right below it is a Morrow producer
17 that's made 5.5 BCF.

18 Q. And does that map also identify a well from which
19 you will show a type log?

20 A. Yes, sir, the type log is in Section 20, which is
21 Exhibit 7.

22 Q. Would you discuss Exhibit 7, please?

23 A. Pardon me?

24 Q. Would you please discuss Exhibit 7 and discuss
25 the main pay zone in the Morrow?

1 A. Okay, Exhibit 7 is a type log of the well in
2 Section 20. You'll see the Atoka/Morrow at the top. The
3 map is drawn on the lower Morrow, which is the Morrow
4 clastics. The producing zone is the "B" sand. We have two
5 zones that we want to produce in there.

6 Q. And what is Exhibit 8?

7 A. Exhibit 8 is an isopach. It shows the sand,
8 thickness of the sand, on a north-south trend. Scale is
9 also 1 to 2000. Our acres is in yellow. The Morrow
10 producers are marked in red.

11 Q. What thickness of sand do you prefer to have in a
12 well like this?

13 A. You need around 15 feet for a decent well.

14 Q. I notice that exhibit also contains some wells
15 marked yellow. What are those wells?

16 A. Those are two locations that OXY is going to
17 drill.

18 Q. To the Morrow?

19 A. Yes, sir, Section 15, Section 21.

20 Q. I notice from this exhibit you're about a three-
21 mile stepout from partial production; is that correct?

22 A. Yes, sir.

23 Q. Based on that, do you recommend the maximum
24 penalty, cost plus 200 percent, for parties who do not
25 voluntarily join in the well?

1 A. Yes, sir.

2 Q. Mr. Qualls, in your opinion is the granting of
3 Chi's Application in the interests of conservation and the
4 prevention of waste?

5 A. Yes, sir.

6 Q. And I notice Exhibits 6 through 8 were prepared
7 by Curtis Anderson. Have you reviewed the data that goes
8 into those exhibits and do you agree with their
9 interpretation?

10 A. Yes, I do.

11 MR. BRUCE: Mr. Examiner, I'd move the admission
12 of Chi's Exhibits 6, 7 and 8.

13 EXAMINER CATANACH: Exhibits 6, 7 and 8 will be
14 admitted as evidence.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Anderson is an employee of Chi as well?

18 A. Yes, sir, he's a geologist there.

19 Q. The main target is the "B" sand in the Morrow?

20 A. Yes, sir, around 9000 feet, 9100.

21 Q. That's the one that's producing in that well in
22 Section 20?

23 A. Yes, sir.

24 Q. Is that being produced in that well in Section
25 17, or just --

1 A. Yes, sir, that's the same zone in Section 17.
2 It's made a tenth of a BCF.

3 Q. Do you just attribute that to the difference in
4 the pay thickness between --

5 A. I think it's tight, the one in 17 is tight.

6 Q. Is that the closest Morrow production to your
7 well?

8 A. It's the closest -- Yes, sir, I believe so. We
9 drilled a well up in Section 32, up to the northwest of
10 where our location is. We couldn't find any production
11 completed in this well. The Morrow zone never produced, as
12 far as we know. It was a ten-year-old well drilled by TXO.

13 Q. Was it tested?

14 A. I don't believe so.

15 Q. What type of uphole potential do you have in this
16 proposed well?

17 A. There's possibly some Delaware up in there,
18 Grayburg, San Andres, maybe some Yates.

19 Q. You've used just well data to map this reservoir
20 here?

21 A. Yes, sir. It's mapped -- You see that shaded
22 brown right below the "A" zone there? That's what it's
23 mapped on, is that marker. Structure map. The isopach is
24 done on a net clean gamma ray.

25 Q. What's the closest Morrow penetration to this

1 well?

2 A. The one in 17, I believe.

3 Q. Okay, none of the wells in Section 8, 9 or 10
4 were drilled down to the Morrow?

5 A. I believe they took a couple of them down through
6 the -- into the Cisco/Canyon, which is what they were
7 drilling for. I don't believe they got to the Morrow.

8 Q. Do you guys have any upper Penn potential in this
9 well?

10 A. I don't think we do. It doesn't look like it.
11 We're basically going for that "B" sand in the lower Morrow
12 there.

13 EXAMINER CATANACH: Okay. I have nothing further
14 of this witness, Mr. Bruce. He may be excused.

15 MR. BRUCE: I have nothing further in this case,
16 Mr. Examiner.

17 EXAMINER CATANACH: All right. There being
18 nothing further in this case, Case 11,857 will be taken
19 under advisement.

20 (Thereupon, these proceedings were concluded at
21 8:35 a.m.)

22 I do hereby certify that the foregoing is
23 * * * complete record of the proceedings in
the Examiner hearing of Case No. 11857
heard by me on April 9 1987
24 David R. Catanach, Examiner
25 Off Conservation Division

