

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. 11,858  
)  
APPLICATION OF LOUIS DREYFUS NATURAL GAS )  
CORPORATION FOR COMPULSORY POOLING AND )  
UNORTHODOX WELL LOCATION, EDDY COUNTY, ) ORIGINAL  
NEW MEXICO )  
\_\_\_\_\_ )

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. 11,858

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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  
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 Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:36 a.m.:

3           EXAMINER CATANACH: At this time we will call  
4   Case Number 11,858.

5           MR. CARROLL: Application of Louis Dreyfus  
6   Natural Gas Corporation for compulsory pooling and an  
7   unorthodox well location , Eddy County, New 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. I have two witnesses. They  
12   are the same witnesses as in the previous case, and if the  
13   record could reflect that they were previously sworn and  
14   qualified as experts.

15          EXAMINER CATANACH: The record shall so reflect.

16          Any additional appearances in this case?

17          Okay, you may proceed, Mr. Bruce.

18                               WILLIAM BERGMAN,

19   the witness herein, having been previously duly sworn upon  
20   his oath, was examined and testified as follows:

21                               DIRECT EXAMINATION

22   BY MR. BRUCE:

23           Q. Mr. Bergman, you work for Chi and this  
24   Application has been filed by Louis Dreyfus Natural Gas  
25   Corporation. What is the relationship between Chi and

1 Louis Dreyfus in this case?

2 A. We both participate in an ongoing exploration  
3 agreement, jointly explore a good bit of New Mexico, and we  
4 handle most of the land work on new exploration deals.

5 Q. Okay. But in this case Louis Dreyfus will be the  
6 operator?

7 A. Louis Dreyfus will operate.

8 Q. And once again, you are seeking to pool the south  
9 half of Section 22, 22 South, 26 East, and you are seeking  
10 40-, 160- and 320-acre pooling; is that correct?

11 A. Yes, sir, we are.

12 Q. Let's start off. What is Exhibit 1?

13 A. Exhibit 1 is a land plat showing the location and  
14 the acreage we wish to pool.

15 Q. And the location appears to be unorthodox. Was  
16 that previously approved by the --

17 A. That was already approved by the Commission.

18 Q. And that Order is NSL-3869, I believe?

19 A. Yes, it is.

20 Q. Okay. Now, let's go on to Exhibit 2. Is Exhibit  
21 2 a list of the interest owners in the well?

22 A. Yes, Exhibit 2 is a list of the ownership, list  
23 of the owners.

24 Q. What is peculiar about the title, at least in  
25 part of the property in this --

1           A.    We have attached a letter from Read and Stevens,  
2           since several of their owners are contractual only, were  
3           not of record, showing their breakdown, what they believe  
4           to be the contractual ownership of a 20-plus-or-minus-  
5           percent interest of Read and Stevens.

6           Q.    So of record, Read and Stevens, Inc., owns this  
7           particular interest?

8           A.    Yes, sir.

9           Q.    And it's broken out as set forth on page 2 of  
10          Exhibit 2?

11          A.    Yes.

12          Q.    Who are the only two parties you seek to pool at  
13          this time?

14          A.    We're seeking to pool Texaco and Union Pacific,  
15          who are very small interests in here.

16          Q.    Now, let's move on to Exhibit 3 and discuss  
17          efforts to obtain the voluntary joinder of interest owners  
18          in this well. Let's start off, August 13. Could you  
19          identify that first letter, please?

20          A.    The first letter is a well proposal to Read and  
21          Stevens, out of which the contractual interest came that  
22          we're seeking to pool, proposing the well in August, 1987.

23          Q.    Okay. Now, the second page is a letter from Read  
24          and Stevens to those record owners; is that --

25          A.    Proposing the well to all their contractual

1 partners.

2 Q. Okay. What is the fourth letter, September 4th?

3 A. Just a letter -- I'm sorry, the fourth letter  
4 from Read and Stevens?

5 Q. Yeah, right --

6 A. The fourth letter from Read and Stevens --

7 Q. -- September 4th letter, I should say, excuse me.

8 A. Okay. The majority of the people desire to  
9 participate, and they've furnished AFEs to the other  
10 partners.

11 Q. Okay. And so as of that letter you only had  
12 Union Pacific --

13 A. -- and Texaco.

14 Q. -- and Texaco to deal with?

15 A. Yes.

16 Q. What has been the result of any further  
17 discussions with those parties?

18 A. Texaco has indicated to Bob Watson of Read and  
19 Stevens that they're not comfortable with their title  
20 position under the contractual interest and they, in the  
21 past, have gone nonconsent on similar acreage, same  
22 ownership breakdown and desire to go nonconsent here.

23 Q. And has Chi contacted Union Pacific by phone?

24 A. We have attempted to contact Union Pacific, with  
25 no response.

1 Q. In your opinion, has Louis Dreyfus and/or Chi  
2 made a good-faith effort to obtain the voluntary joinder of  
3 interest owners in this --

4 A. Yes, we have.

5 Q. What is Exhibit 4?

6 A. Exhibit 4 is an AFE --

7 Q. And what are the --

8 A. -- for the cost of the well.

9 Q. What are those proposed costs?

10 A. \$655,850 dry, a total of \$915,850 completed.

11 Q. And what is the depth of this well?

12 A. 11,800 to the Morrow.

13 Q. And are these well costs reasonable for wells of  
14 this depth?

15 A. Yes, they are.

16 Q. I believe the overhead rates you are proposing  
17 are \$5610 per month for a drilling well and \$663 per month  
18 for a producing well?

19 A. Yes, sir.

20 Q. And are those amounts equivalent to those  
21 normally charged by Louis Dreyfus, Chi Energy, and other  
22 operators --

23 A. Yes, and --

24 Q. -- in this area?

25 A. Yes.

1 Q. And were all interest owners in the well notified  
2 of this hearing?

3 A. Yes.

4 Q. And is Exhibit 5 my affidavit of notice?

5 A. Yes, it is.

6 Q. In your opinion, is the granting of this  
7 Application in the interests of conservation and the  
8 prevention of waste?

9 A. Yes, sir.

10 Q. And were Exhibits 1 through 5 prepared by you,  
11 under your direction, or compiled from company business  
12 records?

13 A. Yes, they were.

14 MR. BRUCE: Mr. Examiner, I'd move the admission  
15 of Exhibits 1 through 5.

16 EXAMINER CATANACH: Exhibits 1 through 5 will be  
17 admitted as evidence.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. I'm sorry, I didn't get your overhead rates.  
21 Could you repeat those?

22 A. \$5610 and \$600 a month.

23 MR. BRUCE: \$663 for a producing well.

24 Q. (By Examiner Catanach) \$663 and \$5610?

25 A. Yes, sir.

1 Q. And have some of these interest owners that  
2 you've already got tied up, have they agreed to those  
3 rates?

4 A. Yes, sir, they have.

5 Q. Has Chi been dealing directly with the parties  
6 that Read and Stevens identified?

7 A. Yes, we have. Well, the majority participated,  
8 as we said.

9 Union Pacific and Texaco, yes, we've contacted  
10 directly, and also Bob Watson at Read and Stevens was  
11 contacted directly, and gotten the response in writing that  
12 you have in front of you.

13 Q. So the only two outstanding are Texaco and Union  
14 Pacific?

15 A. Yes.

16 EXAMINER CATANACH: And were they notified of the  
17 hearing, Mr. Bruce?

18 MR. BRUCE: Yes.

19 THE WITNESS: Yes, they were.

20 EXAMINER CATANACH: In fact, all the parties  
21 were --

22 MR. BRUCE: The last --

23 THE WITNESS: All parties were notified,  
24 including the --

25 MR. BRUCE: The last page of Exhibit 5 are the

1 certified return receipts from Texaco and --

2 MR. CARROLL: Who are the record title owners?

3 THE WITNESS: Louis Dreyfus, Chi Energy.

4 MR. CARROLL: And Read and Stevens?

5 THE WITNESS: Read and Ste- -- Well, yes, Read  
6 and Stevens for that group is record title.

7 MR. CARROLL: Read and Stevens is the record  
8 title owner --

9 THE WITNESS: For the contractual interest group,  
10 yes.

11 And we were not aware of any of the other owners  
12 until we sent a proposal to Read and Stevens.

13 Q. (By Examiner Catanach) So the only two parties  
14 you've dealt with are Union Pacific and Texaco? The others  
15 agreed?

16 A. Have all participated. Out of the contractual  
17 group, have all participated.

18 Q. Read and Stevens contacted them and --

19 A. Yes.

20 Q. -- told them what was going on?

21 A. And passed along the AFEs.

22 EXAMINER CATANACH: Okay.

23 MR. CARROLL: They executed the AFE and sent them  
24 back?

25 THE WITNESS: Yes, sir.

## EXAMINATION

1  
2 BY MR. CARROLL:

3 Q. Okay, I'm a little confused. On the first page  
4 of Exhibit 2, Charles Read is listed, Norman Stevens is  
5 listed, but Read and Stevens isn't listed.

6 A. No.

7 Q. And why is that?

8 A. Just from general knowledge of the company, I  
9 believe they divested all their properties to the  
10 individual owners about 10, 15 years ago, and Read and  
11 Stevens was still record title, but it was owned  
12 individually.

13 Does that clarify it at all?

14 MR. BRUCE: Mr. Carroll, Read and Stevens does  
15 not own an interest in the well because of the --

16 THE WITNESS: Correct.

17 MR. BRUCE: -- contractual arrangements, although  
18 in the county records it owns an interest, apparently.

## FURTHER EXAMINATION

19  
20 BY EXAMINER CATANACH:

21 Q. On Exhibit Number 2 where you have the unit  
22 working interest owners, that's to the 320?

23 A. Yes, sir. Not just the contractual owners.

24 Q. Okay. So roughly you've got maybe four percent  
25 outstanding?

1 A. Exactly, just right at four percent, yes.

2 Q. And the other 96 percent is already  
3 voluntarily --

4 A. Yes.

5 Q. -- committed? Okay.

6 FURTHER EXAMINATION

7 BY MR. CARROLL:

8 Q. Is it your normal business practice, when you  
9 receive a letter back saying, Well, through contractual  
10 arrangements these are the actual owners, that you ask for  
11 the contract?

12 A. Yes, we did, and we would have liked to have seen  
13 more. I'm not going to lay it off on any other company,  
14 but their records were pretty spotty also on who owned  
15 what, and I've got a feeling that is probably why Texaco is  
16 going to decline to participate. That's what they've  
17 indicated, they don't feel comfortable with their title  
18 there.

19 Our title opinion, as you have there, shows Read  
20 and Stevens to own the interest.

21 Q. Is that -- This Hackberry Hills Unit Agreement  
22 that's referred to in the Read and Stevens letter, did you  
23 receive a copy of that?

24 A. Yes, sir.

25 Q. And under that --

1 A. And it is terminated except --

2 Q. -- it states the ownership?

3 A. -- as to all acreage other than the 320, not this  
4 one, it is terminated.

5 Q. Will you repeat that, please?

6 A. The Hackberry Hills Unit Agreement is terminated,  
7 except as to a 320 in the area, but not this one. So it  
8 does not affect this acreage. So it does not affect this  
9 acreage.

10 EXAMINER CATANACH: I have no further questions  
11 of this witness.

12 JOHN QUALLS,

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

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Qualls, will you identify Exhibit 6 for the  
18 Examiner and discuss its contents?

19 A. Yes, sir. Again, Exhibit 6 is a structure map on  
20 a scale of 1 to 2000. The contour interval is 100 feet.  
21 Again, it's mapped on the top of the lower Morrow. You can  
22 see on the type log, which is Exhibit 7, shaded in gray, or  
23 brown.

24 Our acreage is stippled. The south half of  
25 Section 22 is where we're drilling the well. Again, the

1 red is the Morrow producers in the area, and the yellow is  
2 the industry locations.

3 Q. These locations, are they mainly deep wells or  
4 shallow wells?

5 A. Deep wells, mainly.

6 Q. And does this map also contain production data on  
7 the Morrow wells in the area?

8 A. Yes, sir. Right next to the producers in red  
9 you'll see a top number and then a number below that.  
10 That's gas in BCF and oil in thousand barrels.

11 Q. The immediately offsetting wells are  
12 noncommercial or maybe marginal at best?

13 A. Yes, sir.

14 Q. In the Morrow?

15 A. Yes, sir.

16 Q. Why don't you refer to Exhibit 7, identify that  
17 for the Examiner, and discuss the main zone of interest in  
18 this well.

19 A. Exhibit 7 is a type log, which is in Section 28,  
20 southwest of where we're drilling our well.

21 You can see it starts with the Morrow clastics at  
22 the top. Again, we map it on -- The structure map is down  
23 on the lower Morrow, which is shaded in brown.

24 The main zone that we're looking for is Zone C.

25 Q. Okay. Why don't you move on to your Exhibit 8

1 and discuss that zone in a little more detail?

2 A. Exhibit 8 is an isopach map. Again, it's drawn  
3 on the net clean sand off the gamma ray. The type log  
4 again you can see, Section 28. Ours is there in Section  
5 22. We want to try and stay inside the yellow, around 20  
6 feet, the net sand, to make a well.

7 Q. Now, this unorthodox location that was approved  
8 by the Division, was that based on geology or other  
9 factors?

10 A. It's based on topographic mainly. There were  
11 some problems out there. There was a few little hills.  
12 It's hard to get the rig in there. You have to kind of cut  
13 into the side of the hill. The BLM wanted to move it.

14 Q. Okay, so the BLM required that the well be moved  
15 from an orthodox location?

16 A. Right.

17 Q. Is it fair to say, based on this map, that  
18 production from the Morrow is erratic in this area?

19 A. Very erratic.

20 Q. Based on that erratic nature of the Morrow and  
21 the poor results in some offsetting wells, do you believe  
22 the maximum penalty is justified in this case if any party  
23 goes nonconsent?

24 A. Yes, sir.

25 Q. Cost plus 200 percent?

1 A. Yes, sir.

2 Q. One thing on Exhibit 6, Mr. Qualls, I think I  
3 misled you there. These yellow industry locations, are  
4 those primarily Delaware wells that you're looking at?

5 A. Yes, sir.

6 Q. Okay. And these maps were prepared by Curt  
7 Anderson, a geologist for Chi; is that correct?

8 A. Right.

9 Q. And have you reviewed the data that pointed to  
10 these maps and do you agree with their interpretations?

11 A. Yes.

12 Q. In your opinion, is the granting of Louis  
13 Dreyfus' Application in the interests of conservation and  
14 the prevention of waste?

15 A. Yes, sir.

16 MR. BRUCE: Mr. Examiner, I would move the  
17 admission of Exhibits 6 through 8.

18 EXAMINER CATANACH: Exhibits 6 through 8 will be  
19 admitted as evidence.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Qualls, the target zone is the C zone?

23 A. Yes, sir.

24 Q. Okay. That's identified on Exhibit Number 7 as  
25 the lower zone, colored in a peach color?

1           A.    Yes, sir, that's it.

2           Q.    Okay.  It looks like -- Is there any potential  
3 for the upper part, for the upper or middle -- Is that  
4 middle Morrow?

5           A.    Yeah, there is some potential for it.  It doesn't  
6 produce in the area that much that I know of, but there is  
7 potential.  We could hit something, get something there.

8           Q.    This particular well, the type log, is producing  
9 from that middle interval?

10          A.    No, it's producing from the lower.

11          Q.    Okay.  So most of these wells in this area, are  
12 they producing from that C zone?

13          A.    Yes, sir.  That's 90 percent of the production in  
14 the area, is from the C zone.

15          Q.    Okay.  You stated that the offset wells are  
16 pretty marginal.  Are these fairly old wells, or what's the  
17 vintage on these wells?

18          A.    Most of them are old.  I don't have the exact  
19 dates on them, but they've been drilled in the last ten or  
20 fifteen years, to my knowledge.

21          Q.    Some of these wells that you have mapped in the  
22 red circles, they're not included in this particular pay  
23 sand that you're looking at?  Like in Section 17, those  
24 wells aren't in this particular sandbody?

25          A.    Yeah, they produced out of this particular sand,

1 the Morrow, lower Morrow.

2 Q. Did you state that you thought you needed at  
3 least -- what? Twenty feet of pay?

4 A. That's what we're thinking, the way the thing  
5 maps out, around 20 feet to produce, 20 feet of good sand.

6 Q. Did you give a risk recommendation on this?

7 A. This is high risk, maximum risk.

8 Q. I see some dry holes to the east of your  
9 location. Were any of those Morrow penetrations?

10 A. The one there in Section 23 was drilled. It's a  
11 Cisco/Canyon well. It drilled into the Strawn around  
12 10,200 feet. It's producing in the Cisco/Canyon at this  
13 time. I think they've plugged it by now, though. It did  
14 not go to the Morrow.

15 Q. Okay. Section 14 or 26, those didn't go to the  
16 Morrow?

17 A. No, sir.

18 Q. Okay.

19 A. Section 14 was a dry hole.

20 Q. Why do you think that this is maximum risk?  
21 Because of the offset production or --

22 A. Yeah, it's very erratic in there. You have to  
23 find a good, clean sand in order to make a good producer,  
24 and -- taking a shot at it.

25 Q. Is there any uphole potential at this location?

1           A.   Possibly.  We're looking at the Delaware.  There  
2 could be some Delaware production in there.  Hopefully  
3 we'll get some shows in it.

4           Q.   Is that about it?

5           A.   Yes, sir.

6           EXAMINER CATANACH:  I have nothing further of  
7 this witness, Mr. Bruce.

8           MR. BRUCE:  I have nothing further.

9           EXAMINER CATANACH:  Okay, there being nothing  
10 further in this case, Case 11,858 will be taken under  
11 advisement.

12                   (Thereupon, these proceedings were concluded at  
13 8:56 a.m.)

14                                   \* \* \*

15  
16  
17                   I do hereby certify that the foregoing is  
18 a complete record of the proceedings in  
the Examiner hearing of Case No. 1038,  
19 heard by me on October 9, 1987.

20                   David R. Catnach, Examiner  
Oil Conservation Division

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 October 10th, 1997.

  
 STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998