

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 ENRON OIL AND GAS COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 12,005

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 9th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 9th, 1998, 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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OIL CONSERVATION DIV.

I N D E X

July 8th, 1998
Examiner Hearing
CASE NO. 12,005

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>PATRICK J. TOWER</u> (Landman)	
Direct Examination by Mr. Carr	4
Examination by Examiner Stogner	12
<u>BARRY L. ZINZ</u> (Geologist)	
Direct Examination by Mr. Carr	17
Examination by Examiner Stogner	22
REPORTER'S CERTIFICATE	23

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	11
Exhibit 2	8	11
Exhibit 3	8	11
Exhibit 4	9	11
Exhibit 5	10	11
Exhibit 6	18	21
Exhibit 7	18	21
Exhibit 8	19	21
Exhibit 9	19	21
Exhibit 10	20	21

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

ALSO PRESENT:

MARK W. ASHLEY
 NMOCDC Environmental Geologist
 2040 South Pacheco
 Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 11:22 a.m.:

3 EXAMINER STOGNER: Call Case Number 12,005, which
4 is the Application of Enron Oil and Gas Company for
5 compulsory pooling, Eddy County, New Mexico.

6 At this time I'll call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe law firm Campbell, Carr,
9 Berge and Sheridan. We represent Enron Oil and Gas
10 Company, and I have two witnesses.

11 EXAMINER STOGNER: Any other appearances in this
12 matter?

13 Will both witnesses please stand to be sworn at
14 this time?

15 (Thereupon, the witnesses were sworn.)

16 EXAMINER STOGNER: Mr. Carr?

17 PATRICK J. TOWER,
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. CARR:

22 Q. Would you state your name and place of residence?

23 A. Patrick J. Tower, Midland, Texas.

24 Q. Mr. Tower, by whom are you employed?

25 A. Enron Oil and Gas Company.

1 Q. And what is your position with Enron?

2 A. Project landman.

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

5 A. Yes, I have.

6 Q. At the time of that testimony were your
7 credentials as an expert witness in petroleum land matters
8 accepted and made a matter of record?

9 A. Yes.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes, I am.

13 Q. Are you familiar with the subject area?

14 A. Yes.

15 MR. CARR: Are the witness's qualifications
16 acceptable.

17 EXAMINER STOGNER: Your appearance looks a little
18 different, Mr. Tower. What's going on?

19 THE WITNESS: I seem to have misplaced my razor,
20 but as soon as my wife finds it I'm sure it will change
21 back.

22 EXAMINER STOGNER: Okay. Mr. Tower is so
23 qualified.

24 MR. CARR: Mr. Stogner, initially I would like to
25 point out that the case has been advertised to pool a

1 number of spacing units within the west half of Section 2,
2 Township 18 South, Range 29 East.

3 As to 40-acre spacing, all of the interests are
4 owned by Enron. That portion may be dismissed.

5 As to 160-acre spacing and 80-acre spacing, there
6 are at this time no pools within a mile developed on either
7 160- or 80-acre spacing units, so those portions of the
8 case will also have to be dismissed.

9 So the presentation today will focus on only
10 pooling a west-half unit.

11 I also might note that when Enron originally
12 filed the case, we filed the well as if we were in the
13 Grayburg-Morrow Gas Pool. The OCD has recently changed the
14 form and indicated it's the Sand Tank-Morrow. Both are in
15 the immediate area. But in any event, the spacing for
16 either is 320 acres.

17 EXAMINER STOGNER: Okay, Carr -- Mr. Carr, on
18 that let's -- Okay.

19 MR. CARR: Yes, sir.

20 EXAMINER STOGNER: Forty acres is all owned by
21 Enron --

22 MR. CARR: Yes, sir.

23 EXAMINER STOGNER: -- so that can be dismissed.
24 And there's no pools within a mile that's spaced on 80?

25 MR. CARR: Correct.

1 EXAMINER STOGNER: Okay. Now, the 160, even
2 though there's not any pools or formations --

3 MR. CARR: Correct.

4 EXAMINER STOGNER: -- that are spaced on 160 --

5 MR. CARR: There are.

6 EXAMINER STOGNER: -- and so are you sure you
7 want to dismiss the matter?

8 MR. CARR: I'm sure we do not.

9 EXAMINER STOGNER: Okay. And the 320, that
10 Grayburg-Morrow is just more of a reference in there, and
11 as long as there's no difference between the pool rules
12 that you know of, then we can --

13 MR. CARR: There are no pool-rule differences
14 that would affect the Application.

15 EXAMINER STOGNER: Okay, so at this time we're
16 going to dismiss the 40 because Enron owns it all, and 80
17 because there's no 80-acre pools within a mile of this
18 well.

19 MR. CARR: Correct.

20 EXAMINER STOGNER: Okay. You may proceed.

21 Q. (By Mr. Carr) Mr. Tower, would you refer to
22 what's been marked for identification as Enron Exhibit
23 Number 1 and review it for Mr. Stogner?

24 A. Yes, Exhibit Number 1 is a land plat depicting in
25 red outline the spacing unit which is the subject of the

1 pooling, being the west half of Section 2, Township 18
2 South, Range 29 East, in Eddy County, New Mexico.

3 The red dot represents the standard location,
4 which is to be located for this well 1650 feet from the
5 north and from the west line of this Section 2.

6 Q. What is the primary objective in this well?

7 A. The Morrow formation.

8 Q. Let's go to what has been marked Exhibit Number
9 2. Would you identify and review this?

10 A. Exhibit Number 2 is a listing of the parties
11 being compulsory pooled to date. You'll note Jay E. Floyd
12 and his wife Sharon L. Floyd with 2.25-percent work
13 interest in the 320 spacing unit and Joe R. Miller and his
14 wife Shirley B. Miller with a like interest in the 320-acre
15 spacing unit, for a collective 4.5-percent interest.

16 Enron controls the balance.

17 Q. Let's go to the AFE, which is Exhibit Number 3.
18 Would you review the totals for the Examiner?

19 A. Exhibit Number 3 is a drilling cost estimate
20 Enron's prepared for this well for the 11,700-foot Morrow
21 test into the top of the Chester.

22 Dryhole cost is estimated to be \$558,600, with
23 the total completed well cost estimated to be \$936,100.

24 Q. Are these costs in line with what is charged by
25 other operators for similar wells in the area?

1 A. Yes, they are.

2 Q. Mr. Tower, could you summarize for the Examiner
3 the efforts made to obtain the voluntary joinder in this
4 well of all the interest owners?

5 A. Yes, I can. If you'll refer -- I'll skip ahead a
6 little bit to Exhibit 4. I'll refer to that as well as
7 verbal conversations. They're intertwined.

8 Exhibit 4 is just some documentation evidencing
9 the various communications between Enron and the Miller and
10 Floyd group, as I call them, the parties being force-
11 pooled.

12 Enron initially sent its well proposal to Miller
13 and Floyd on April -- They received it on April 29th.
14 Subsequent to that there were conversation with them. The
15 other partner of interest is Costilla, and Costilla has
16 entered into a voluntary arrangement with Enron. However,
17 Miller and Floyd, it advised they're waiting for Costilla's
18 lead to see what type of election they would make before
19 they really negotiated with Enron.

20 In -- Several negotiations took place, a deal was
21 cut in early June with Costilla, however Miller and Floyd
22 did not agree with the terms.

23 There were subsequent conversations and
24 correspondence June 8th, June 9th, June 16th, June 18th,
25 June 19th, June 30th, and the last one on July 1st, trying

1 to negotiate an acceptable deal. They were offered the
2 same deal that Costilla agreed to on a farmout.

3 In essence, they wanted twice that amount, and
4 various and sundry. And the sum of it, we could not reach
5 an agreement, and they agreed that they would more than
6 likely go nonconsent under a pooling order, and so we're
7 here today.

8 The correspondence just shows some of the
9 communications between the parties during the process.

10 Q. Mr. Tower, in your opinion have you made a good-
11 faith effort to locate and obtain the voluntary
12 participation of the Miller and Floyd interests in the
13 proposed well?

14 A. Yes, I have.

15 Q. Is Exhibit Number 5 an affidavit confirming that
16 notice of this Application is provided to Miller and Floyd
17 in accordance with Oil Conservation Division Rules?

18 A. Yes, it is.

19 Q. Have you made an estimate of the overhead and
20 administrative costs to be incurred while drilling the well
21 and also while producing it if it is successful?

22 A. Yes, we're recommending that -- a drilling rate
23 of \$5800 and a producing well rate of \$580.

24 Q. And what is the source of these figures?

25 A. These are currently the exact same rates being

1 employed by Enron in some operating agreements, in two
2 different operating agreements in immediate-area wells that
3 Enron has drilled. Also, one was the subject of a previous
4 order, but primarily the operating agreements in place with
5 various companies in this area.

6 Q. And these costs are in line with what is charged
7 by other operators for similar wells?

8 A. Yes.

9 Q. Do you recommend that these figures be
10 incorporated into the order that results from today's
11 hearing?

12 A. Yes, I do.

13 Q. Will Enron also call a technical witness to
14 review the risk associated with this proposed well?

15 A. Yes.

16 Q. Were Exhibits 1 through 5 prepared by you or
17 compiled under your direction?

18 A. Yes, they were.

19 MR. CARR: At this time, Mr. Stogner, we would
20 move the admission into evidence of Enron Oil and Gas
21 Company Exhibits 1 through 5.

22 EXAMINER STOGNER: Exhibits 1 through 5 will be
23 admitted.

24 MR. CARR: And that concludes my direct
25 examination of Mr. Tower.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Tower, in looking at Exhibit Number 2, now, you show the breakout of the Floyd Miller interest --

A. Yes, sir.

Q. -- for 320-acre spacing.

A. Yes, sir.

Q. Would that be also the same for 160?

A. Yes, it will, for the northwest quarter it will be identical.

Q. Okay. Now, I'm going to refer to that April 27th letter. That's what? Part of Exhibit Number 4 --

A. Okay.

Q. -- I believe?

A. Yes, sir.

Q. About four pages back.

A. Okay.

Q. This goes to the working interest owners. The second paragraph, second sentence in that second paragraph, "According to our records you own 100 percent of the operating rights in the northwest quarter northwest quarter, southwest quarter northwest quarter, and east half of the southwest quarter."

Now, I guess I'm a little bit confused. When you were stating that, were you stating that to the Costilla,

1 the Miller and the Floyd interests?

2 A. Yes.

3 Q. They all -- All of them together would own 100
4 percent?

5 A. Yes, sir, that's correct, and that's -- I'm glad
6 you pointed that out. If you'll note the attached
7 ~~addressee list, we set out the parties' interest but this~~
8 ~~was addressed~~ at the time to Costilla, who we did not have
9 a voluntary agreement with, so collectively Costilla and
10 Miller and Floyd owned 100 percent of these two 80-acre
11 tracts that we mention.

12 Subsequent to that we have again worked out an
13 arrangement with Costilla, with Miller and Floyd owning the
14 remaining undivided interest of that 100 percent that I
15 refer to in the April 27th letter.

16 I will -- Another point of clarification. I
17 meant to -- If I may backtrack?

18 Q. Sure.

19 A. The -- I meant to bring up in the beginning of
20 the Application another point that we do want to clarify
21 for the record. The Application did -- was filed as
22 surface down, however there is an exclusion that we'd like
23 to note.

24 Currently there are some shallow wells, you'll
25 notice on the plat. Those are all in one particular

1 unitized sand formation, and it is the Loco Hills Grayburg
2 Number 4 sand formation, which is the unitized interval of
3 Yates Petroleum's West Loco Hills-Grayburg Unit through
4 here. So we want to clarify that it's not our intent --
5 There's a producing zone there. We are excluding that also
6 from this Application, just as a point of clarification.
7 It's a shallow little sand through that area.

8 And if you had other -- Hopefully, I answered
9 your first question. I don't know if that was -- If not,
10 I'll address it.

11 Q. Well, that brings up that Loco Hills Grayburg
12 Number 4 sand that you referred to that Yates has unitized
13 in there. That's on 40-acre spacing?

14 A. That is correct, that is correct.

15 Q. Okay. So that's automatically going to be --

16 A. Yes.

17 Q. -- taken out anyway with the --

18 A. Right.

19 Q. -- previous stipulation that Mr. Carr --

20 A. That's correct.

21 Q. What if you hadn't been successful getting Miller
22 or Floyd party to sign at this point? Do you think
23 subsequent to this hearing that there would be an agreement
24 reached?

25 A. No, I do not at this point. I think generally

1 their positions have such a small interest, and that's why
2 the negotiations -- there wasn't enough interest to make it
3 worth their while, and it was not reasonable if you looked
4 at it on an overall economic scale, and I think their
5 position, if you did arrive at a successful Morrow well,
6 they'd be just as well with a small interest to come back
7 into the full interest if it paid out three times, you
8 know, our actual plus 200.

9 And so the problem was just a small interest.
10 They wanted something large enough to have something when
11 they're done or just figured a nonconsent would be
12 equitable.

13 And so unless they were able to possibly turn it
14 to a third party -- which they indicated they may try and
15 do, but they have not at this point -- I do not anticipate
16 a voluntary agreement with Enron.

17 Q. Now, all the west half -- Is all the west half a
18 State royalty?

19 A. Yes. I believe -- let me -- Hold on a minute,
20 let me make sure. I believe they --

21 Q. You've got some tract numbers in there, and I'm
22 not sure. Is that -- okay, I --

23 A. Those are referring to the shallow unit.

24 Q. Okay, Exhibit Number 1, there are tract numbers
25 indicated, so that would just be reference numbers to the

1 unit agreement --

2 A. That is correct --

3 Q. -- that shallow --

4 A. -- to that shallow one-sand unit.

5 All of the leases involved in the west half are
6 State of New Mexico leases. And there are no lots involved
7 here. Those are strictly references to those unit tracts
8 in the shallow.

9 Q. According to your well name and the map, there
10 are several state leases. Is there one or two state
11 leases?

12 A. There are six, I believe -- Let's see, I believe
13 three separate leases.

14 However, they've been -- The subs on the
15 assignment have carved them into six separate tracts for
16 the Land Office purposes. But the base lease, there
17 appears to be three separate state leases.

18 Q. So it will be necessary to get a communitization
19 agreement with the Land Office?

20 A. That is correct --

21 Q. Okay.

22 A. -- and that will be done.

23 EXAMINER STOGNER: Any other questions?

24 You may be excused. Thank you, Mr. Tower.

25 MR. CARR: Mr. Examiner, at this time we call

1 Barry Zinz.

2 EXAMINER STOGNER: Mr. Carr?

3 BARRY L. ZINZ,

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

6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q. Would you please state your name and place of
9 residence?

10 A. Barry Lynn Zinz, and I reside in Midland, Texas.

11 Q. By whom are you employed?

12 A. Enron Oil and Gas Company.

13 Q. And what is your position with Enron?

14 A. Division geological specialist.

15 Q. Mr. Zinz, have you previously testified before
16 this Division and had your --

17 A. Yes, I have.

18 Q. And at that time were your credentials as an
19 expert in petroleum geology accepted and made a matter of
20 record?

21 A. Yes, they were.

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

24 A. I am.

25 Q. Have you made a geological study of the subject

1 area?

2 A. Yes, sir, I have.

3 Q. Are you prepared to share the results of that
4 study with Mr. Stogner?

5 A. I am.

6 Q. Let's go to what has been marked Enron Exhibit
7 Number 6. Would you identify and review that, please?

8 A. Exhibit Number 6 is a cum production map, cum
9 production through 6-98 of this year.

10 If you notice, all that is on this map are deep
11 penetrations, ones that have penetrated the Morrow
12 formation, which was previously stated to be our primary
13 objective.

14 On the map I think there are a couple of oil
15 wells. One's a Wolfcamp up to the north up in Section 35,
16 one's a Bone Spring well over to the southeast in Section
17 12. Those are on 40s. The rest are gas wells, all on 320
18 proration units. And those gas wells are out of the Morrow
19 formation.

20 Q. Let's now go to the type log, Exhibit Number 7.

21 A. The type log identified on the production map, as
22 well as all the other maps that we will talk about, it's an
23 Enron-operated well, our Sand Tank 1 Fed Com Number 1,
24 located due east of the location.

25 You can see that -- The reason I chose this well

1 to represent the section that we're going for, we were
2 fortunate enough to encounter both the middle Morrow and
3 the Lower Morrow, and they are both producing in this well.
4 We are again after the Morrow formation, both the middle
5 and the lower.

6 Q. Let's look at the lower Morrow structure, Exhibit
7 Number 8. Would you review that exhibit for the Examiner?

8 A. The lower Morrow structure map, if you'll refer
9 again to the type log, is constructed on the lower Morrow
10 marker, identified on the type log.

11 You can see that the way I've mapped this
12 particular area right here, it appears that this well may
13 be on a nose. The structural part of the lower Morrow more
14 or less dips to the south southeast regionally, and you can
15 see that many of the Morrow producers are downdip from this
16 location.

17 Q. Let's go now to the middle Morrow isopach.
18 That's Exhibit Number 9.

19 A. Exhibit Number 9, again, the middle Morrow
20 isopach, this is a net isopach map.

21 I have interpreted these middle Morrow sands to
22 represent nearshore marine bars that trend northeast to
23 southwest through the immediate area, and I have
24 interpreted one of these trends based on well control in
25 the area coming through our location.

1 Q. Okay, now your last exhibit, Exhibit 10, the
2 lower Morrow gross isopach map, would you review that?

3 A. This isopach map represents the gross thickness
4 of the lower Morrow. Again, if you'd refer to the type
5 log, it's the isopached interval from the lower Morrow pick
6 to the Mississippi Barnett, which is an unconformity.

7 When you map this particular isopach interval,
8 where you have your thicks mapped is the area most likely
9 for these lower Morrow fluvial channel sands to be
10 deposited.

11 And as you can see, it's not -- the location in
12 Section 2 there is not exactly in the thickest part. If
13 you refer back to the middle Morrow isopach, you can see
14 it's not exactly in the thickest part of that trend. This
15 is kind of a compromised location which, there again, adds
16 to the risk.

17 Q. Are you prepared to make a recommendation to Mr.
18 Stogner concerning the risk penalty that should be assessed
19 against interests which are not voluntarily committed to
20 the well?

21 A. Yes, I am.

22 Q. And what is that?

23 A. That's 300 percent.

24 Q. 200 percent, plus 100 percent actual?

25 A. That's correct.

1 Q. Do you believe there's a chance if you drill a
2 well at this location it would not be a commercial success?

3 A. I definitely do. If you refer to the wells on
4 the maps down in Section 10 and 11, both those dry holes,
5 we drilled them.

6 Q. And you might do that again?

7 A. That's correct.

8 Q. Does Enron seek to be designated operator of the
9 proposed well?

10 A. Yes, we do.

11 Q. In your opinion, will the granting of this
12 Application and the development of the acreage as Enron is
13 proposing be in the best interest of conservation, the
14 prevention of waste and the protection of correlative
15 rights?

16 A. Yes, sir, it will.

17 Q. Were Enron Exhibits 6 through 10 prepared by you?

18 A. Yes, sir.

19 MR. CARR: At this time, Mr. Stogner, we would
20 move the admission into evidence of Enron Exhibits 6
21 through 10.

22 EXAMINER STOGNER: Exhibits 6 through 10 will be
23 admitted into evidence at this time.

24 MR. CARR: And that concludes my direct
25 examination of Mr. Zinz.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Zinz, you stated that -- What do you mean, "compromised location"?

A. Well, it's a location that is kind of hedging our bet. Hopefully we will encounter both of the sands. Like I said, the location is not exactly in the thickest part of the gross Morrow isopach, and it's not exactly in the interpreted thickest trend of the middle Morrow.

Q. Are you trying to stay further away from those two dry holes? Is that part of the compromise?

A. Well, we were -- We chose the location because it is the best -- the closest legal location we can get to.

EXAMINER STOGNER: Any other questions?

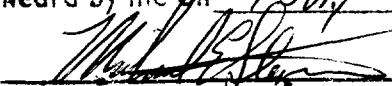
Thank you, Mr. Zinz, you may be excused.

MR. CARR: That concludes our presentation in this case.

EXAMINER STOGNER: Does anybody else have anything further in Case 12,005?

Then this matter will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:45 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
* the Examiner hearing of Case No. 12005,
heard by me on 9 July 1998.
, Examiner
Of Conservation Division

CERTIFICATE OF REPORTER

[illegible]

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 July 13th, 1998.

Blind & Sons

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998