

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 HARVARD PETROLEUM)
CORPORATION FOR COMPULSORY POOLING)
AND AN UNORTHODOX OIL WELL LOCATION,)
ROOSEVELT COUNTY, NEW MEXICO)

CASE NO. 12,104

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

99 MAY 27 AM 5:45
OIL CONSERVATION DIV

May 13th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 13th, 1999, 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 13th, 1999
Examiner Hearing
CASE NO. 12,104

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 Legal Counsel to the Division
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FOR THE APPLICANT:

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 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:26 a.m.:

3 EXAMINER CATANACH: Let's call Case 12,140.

4 MR. CARROLL: Application of Harvard Petroleum
5 Corporation for compulsory pooling and an unorthodox oil
6 well location, Roosevelt County, New Mexico.

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

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr. I'm with the Santa Fe law firm Campbell,
11 Carr, Berge and Sheridan. We represent Harvard Petroleum
12 Corporation in this matter, and I have two witnesses.

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

16 SAM SHACKELFORD,

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. CARR:

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

22 A. Sam Shackelford.

23 Q. Mr. Shackelford, where do you reside?

24 A. Roswell, New Mexico.

25 Q. By whom are you employed?

1 A. Harvard Exploration Company.

2 Q. And what is your role with Harvard Exploration?

3 A. I'm a consulting petroleum landman.

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

6 A. Yes.

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

10 A. Yes.

11 Q. Are you familiar with the Application filed in
12 this case on behalf of Harvard Petroleum Corporation?

13 A. Yes.

14 Q. Are you familiar with the status of the lands
15 which are the subject of this Application?

16 A. Yes.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER CATANACH: They are.

20 Q. (By Mr. Carr) Mr. Shackelford, would you briefly
21 summarize for the Examiner what it is that Harvard
22 Petroleum Corporation seeks in this case?

23 A. The pooling of the following lands in Section 5,
24 Township 8 South, Range 37 East, including the west half,
25 which includes Lot 3 and 4, the southwest quarter of the

1 northwest quarter and the southwest quarter for all
2 formations developed on a 320-acre spacing, the southwest
3 quarter for all formations developed on a 160-acre spacing,
4 the east half of the southwest for all formations developed
5 on an 80-acre spacing, and the southeast of the southwest
6 for all formations developed on a 40-acre spacing, to be
7 dedicated to the Williams Well Number 1, to be drilled in
8 the southwest quarter of Section 5.

9 Q. Mr. Shackelford, the circumstances concerning the
10 location of this well will be reviewed by the next witness,
11 Mr. Jeff Harvard; is that correct?

12 A. Yes.

13 Q. Have you prepared, or had prepared, certain
14 exhibits for presentation in this case?

15 A. Yes, Exhibit 1 is a plat showing the breakdown of
16 the different leases and the west half of Section 5
17 proration unit.

18 Q. And what is the status of this land?

19 A. It's fee land.

20 Q. And the primary objective in the well is what
21 formation?

22 A. San Andres formation, in the Bluit-San Andres
23 Associated Pool.

24 Q. Let's go to Exhibit Number 2. Would you identify
25 and review this for Mr. Catanach?

1 A. This is a breakdown of the ownership for the west
2 half of Section 5.

3 Q. And what percentage of the ownerships has been
4 voluntarily committed to this well?

5 A. 98.43 percent.

6 Q. Now, there are owners who you have been unable to
7 locate; is that correct?

8 A. Correct.

9 Q. Everyone you have been able to locate is
10 voluntarily committed?

11 A. Correct.

12 Q. Who is -- Or identify those owners who are not
13 committed.

14 A. There's only one owner, and it's Mary Ann Gilder,
15 and -- apparently she's deceased. And her heirs.

16 Q. The estate of Mary Ann Gilder has, in fact, been
17 the subject of previous compulsory pooling cases, has it
18 not?

19 A. Correct.

20 Q. Could you explain to the Examiner what you have
21 done to try and just confirm whether or not their
22 whereabouts remains unknown?

23 A. I contacted the previous applicant and discussed
24 with them what they had done and followed up and did
25 additional searches. On top of what they had done, I had

1 done a Social Security check and attempted through the
2 Internet and probate information and also a search of the
3 national telephone directories and so forth, and was unable
4 to locate any heirs for Ms. Gilder.

5 Q. Are these the only interest owners that would be
6 subject to this pooling?

7 A. Yes.

8 Q. In your opinion, have you made a good-faith
9 effort to locate the heirs of Mary Ann Gilder?

10 A. Yes.

11 Q. Were Exhibits 1 and 2 prepared by you, or can you
12 testify as to their accuracy?

13 A. Yes.

14 MR. CARR: At this time, Mr. Catanach, I would
15 move the admission into evidence of Exhibits 1 and 2.

16 EXAMINER CATANACH: Exhibits 1 and 2 will be
17 admitted as evidence.

18 MR. CARR: And Mr. Harvard will review all other
19 parts of this case.

20 Sam, just a minute.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Shackelford, you said something about the
24 previous applicant. What was that in reference to?

25 A. The same situation. It was Case Number 10,389,

1 and they -- Chi Operating Company of Midland, Texas, had
2 attempted to drill a well in this area and went through the
3 same proceedings and tried to locate the same people and
4 were unsuccessful.

5 And I have taken the prospect from them, and once
6 I did the research, I started with them and asked them what
7 they had done to try to locate these people, and as stated
8 in the case, they had done license search throughout the
9 State of Texas and so forth, and were unable to locate any
10 of the heirs for Ms. Gilder, and also reviewed her probate.
11 They found that, and that's how they knew who the heirs
12 were, and they were unable to locate any of them.

13 Q. So they did find some heirs, but they were unable
14 to locate them?

15 A. Locate the heirs, yes. There was only one heir.

16 EXAMINER CATANACH: I have nothing further.

17 MR. CARR: At this time we call Jeff Harvard.

18 JEFF HARVARD,

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your full name for the record?

24 A. Jeff Harvard.

25 Q. Where do you reside?

1 A. I reside in Roswell, New Mexico.

2 Q. By whom are you employed?

3 A. I'm employed by Harvard Petroleum Corporation.

4 Q. Mr. Harvard, have you previously testified before
5 this Division?

6 A. Yes, sir, I have.

7 Q. At the time of that testimony, were your
8 credentials as an expert in petroleum engineering accepted
9 and made a matter of record?

10 A. Yes, sir, they were.

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

13 A. Yes, sir, I am.

14 Q. And are you familiar with the lands that are
15 involved in this matter?

16 A. Yes, sir, I am.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER CATANACH: They are.

20 Q. (By Mr. Carr) Initially, Mr. Harvard, could you
21 review for the Examiner the status of the proposed well
22 location?

23 A. The original status of the proposed location was
24 990 feet from the south line and 1650 feet from the west
25 line, making it an unorthodox location in the Bluitt-San

1 Andres Associated Pool because it crowds the centerline.

2 However, yesterday on May 12th, we were able to
3 obtain Breck Operating's waiver for an unorthodox location
4 going 660 from the south line and --

5 Q. What would be the new location for this well?

6 A. The new location would be 660 from the south line
7 and 1650 feet from the west line of Section 5.

8 Q. Now, that would be an unorthodox location?

9 A. That would as well, yes, sir.

10 Q. Is Breck the only affected party by this proposed
11 unorthodox location?

12 A. Yes, sir, they are.

13 Q. And will Harvard immediately be filing an
14 application for administrative approval of this location?

15 A. Yes, sir, they will.

16 Q. And so what you're here seeking today is simply
17 an order pooling the unknown heirs of Mary Ann Gilder, and
18 then you will get the location approved through an
19 administrative procedure; is that right?

20 A. That's correct, sir.

21 Q. Let's go to what has been marked for
22 identification as Exhibit Number 3. Would you identify and
23 review that for Mr. Catanach?

24 A. Yes, sir, Exhibit Number 3 is a AFE for the
25 proposed Williams Number 1 well.

1 Q. And what are the totals as set forth on this
2 exhibit?

3 A. Yes, sir, we have a total drilling cost to casing
4 point of \$117,277 and a completed well cost of 210,231.

5 Q. Are these costs in line with what is charged by
6 other operators for similar wells in this area?

7 A. Yes, sir, they are.

8 Q. Let's go to Exhibit Number 4, and I'd ask you,
9 really, just to identify 4 for us.

10 A. Yes, sir, Exhibit Number 4 is a structure map
11 based on the base of the Pi marker in the Bluit-San Andres
12 area.

13 Q. A wellspot on this exhibit indicates the original
14 proposed location for the well?

15 A. That is correct, it's not --

16 Q. It's no longer accurate?

17 A. That is correct.

18 Q. Okay, let's go to -- I'd ask you to identify
19 Exhibit Number 5.

20 A. Yes, sir, Exhibit Number 5 is an isopach map on
21 the porosity of the P1 and P2 San Andres zones.

22 Q. Mr. Harvard, if you'd now refer to Exhibits 4 and
23 5 and review for Mr. Catanach, one, the reason that you're
24 trying to move to an unorthodox location and also the risk
25 associated with a well on the proposed spacing unit.

1 A. Yes, sir. Mr. Examiner, there are three wells
2 that are in proximity to our proposed location, two of them
3 located in Section 5 and one of them in Section 8.

4 There is a well -- if you -- Looking at the
5 isopach map, there is a well located to the north of our
6 location in the northwest quarter of Section 5. That well
7 was drilled and completed and produced only 37 million
8 cubic feet of gas out of the San Andres formation. It
9 apparently was too close to the facies change within the P1
10 and P2 zones, and also appears to be outside of the
11 commercial porosity thickness necessary or apparently
12 necessary to recover significant quantities of
13 hydrocarbons.

14 Also, looking at the well located to the west of
15 our proposed location in the southeast of Section 5, that
16 well is also situated very near the facies change within
17 the San Andres formation and has also encountered less than
18 assumed commercial thicknesses -- limits of thickness
19 within the P1 and P2 zones, and consequently recovered only
20 146 million cubic feet of gas.

21 Both of these wells were both plugged and
22 abandoned many years ago.

23 Conversely, looking in the northeast of the
24 northeast of Section 8, we have the Breck well, which has a
25 much better position structurally, as well as

1 thicknesswise, and encountered a much better thickness of
2 porosity zones within the San Andres and has conversely
3 recovered over 2 BCF of gas to date.

4 It is our intention and hope and assumption that
5 by moving closer to the south line of the west half of
6 Section 5, that we stand a better chance of being in a
7 structurally favorable position, as well as a favorable
8 position related to porosity thickness within the San
9 Andres.

10 However, due to -- As you can see on the map,
11 there is limited well control to the west and to the south.
12 This -- Because of this lack of control, there is, I
13 believe, significant risk associated with the location that
14 we are drilling, the risk mainly being not being
15 structurally favorable, falling off the structure to the
16 west and also being too near to the facies change and not
17 encountering significant thicknesses of porosity within the
18 San Andres zone.

19 Q. What risk penalty do you recommend be assessed
20 against the nonparticipating interest owners?

21 A. I recommend the maximum 200-percent risk penalty.

22 Q. Do you believe there is a chance you could drill
23 a well at this location that would not be a commercial
24 success?

25 A. Yes, sir.

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

4 A. Yes, we have. We have put \$3000 for a drilling
5 well rate per month and a \$308-per-month administrative
6 overhead rate.

7 Q. And how do these compare to the Ernst and Young
8 survey figures?

9 A. These are based upon the 1997-98 Ernst and Young
10 survey figures.

11 Q. These are the mean figures in that survey?

12 A. That is correct, sir.

13 Q. And the 1999 figures actually are higher; is that
14 correct?

15 A. That is correct, yes, sir.

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

18 A. Yes, sir, I do.

19 Q. Does Harvard Petroleum Corporation seek to be
20 designated operator of the well?

21 A. Yes, sir.

22 Q. In your opinion, will approval of this
23 Application and the drilling of this well be in the best
24 interest of conservation, the prevention of waste, and the
25 protection of correlative rights?

1 A. Yes, sir.

2 Q. How soon does Harvard plan to spud this well?

3 A. We plan to spud as soon as the -- or shortly
4 after the prairie chicken booming season, which would be
5 after June 15th.

6 Q. Were Exhibits 4 through 6 [sic] prepared by you?

7 A. Yes, sir.

8 MR. CARR: At this time, Mr. Catanach, we would
9 move the admission into evidence of Harvard Petroleum
10 Corporation Exhibits 4 through 6.

11 EXAMINER CATANACH: Exhibits 4 through 6 will be
12 admitted as evidence.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Harvard.

15 EXAMINATION

16 BY MR. CARROLL:

17 Q. Mr. Harvard, what's a booming season?

18 A. Well, let's see, I believe that's when the
19 prairie chickens are performing their mating rituals.

20 Q. All right, thanks.

21 A. Did I have to say that? No.

22 (Laughter)

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Harvard, do you anticipate this well as being

1 a gas well in this pool?

2 A. Yes, sir, we do.

3 Q. And how did you determine that the -- is it 25
4 feet -- You've got a line there that says "commercial
5 limit". Is that 25 feet of pay?

6 A. Twenty-five feet of porosity within the P1 and P2
7 zones in the San Andres, yes, sir. And that is based upon
8 the wells that have got too near to the facies change and
9 have lost the porosity in the San Andres zones necessary to
10 hold and deliver the economic amounts, or successful -- a
11 successful volume of gas out of this formation.

12 EXAMINER CATANACH: I have nothing further of
13 this witness.

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

16 EXAMINER CATANACH: Okay, so Mr. Carr, we want
17 the unorthodox portion of this case dismissed?

18 MR. CARR: Yes, we do.

19 EXAMINER CATANACH: Okay. All right, there being
20 nothing further, Case 12,104 will be taken under
21 advisement.

22 (Thereupon, these proceedings were concluded at
23 8:45 a.m.)

24 * * * I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12104
heard by me on 12/13/97

25

David H. Hatten
Examiner
Oil Conservation Division

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 May 14th, 1999.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002