

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIV.
 APR 15 AM 6:31

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:)

CASE NO. 12,144

APPLICATION OF KCS MEDALLION RESOURCES,)
 INC., FOR SIMULTANEOUS DEDICATION AND)
 AN UNORTHODOX GAS WELL LOCATION,)
 EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 1st, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 1st, 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.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

April 1st, 1999
Examiner Hearing
CASE NO. 12,144

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 11:55 a.m.:

3 EXAMINER ASHLEY: At this time the Division calls
4 Case 12,144.

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

8 EXAMINER ASHLEY: Call for appearances.

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

12 EXAMINER ASHLEY: Any additional appearances?

13 (Thereupon, the witnesses were sworn.)

14 WILLIAM A. SIRUTA,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. William Siruta.

21 Q. Where do you reside?

22 A. Midland, Texas.

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

24 A. KCS Medallion, I'm a geologist.

25 Q. Have you previously testified before the Division

1 as a geologist?

2 A. Yes, I have.

3 Q. And were your credentials as an expert geologist
4 accepted as a matter of record?

5 A. Yes.

6 Q. And are you familiar with the geology involved in
7 this Application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender Mr. Siruta as
10 an expert petroleum geologist.

11 EXAMINER ASHLEY: Mr. Siruta is so qualified.

12 Q. (By Mr. Bruce) Mr. Siruta, could you identify
13 Exhibit 1 for the Examiner and tell him about the well's
14 location and the other wells in this area?

15 A. Exhibit 1 is a production map. It has the
16 proposed location indicated on the map by the Greenwood
17 Federal 27-1 as a circle colored in red. The yellow
18 outline is the unit outline. The wells that are shaded in
19 green are Morrow producers, the wells shaded in red are
20 Atoka producers.

21 MR. BRUCE: Okay. Mr. Examiner, before we go any
22 further, for your reference, this well, the proposed well,
23 is being drilled to the Shugart-Morrow Pool. And under
24 Order Number R-5621 certain acreage, not all but certain
25 acreage in this pool, is spaced on 160 acres. That acreage

1 is the south half of Section 26, the east half of Section
2 27 and the northeast quarter of Section 34. The remaining
3 acreage in the pool is just spaced on statewide rules.

4 Q. (By Mr. Bruce) Mr. Siruta, on this map, perhaps
5 you said it and I spaced out here, but what was the well's
6 footage location?

7 A. It's 1202 feet from the north and 660 from the
8 west.

9 Q. Okay. And the unit will be dedicated to the
10 Greenwood Federal and to the existing Altura well, you
11 note, in the southwest quarter of this section?

12 A. That's correct.

13 Q. Okay. Do you have anything else on this map, Mr.
14 Siruta?

15 A. No.

16 Q. Okay, let's discuss the Morrow geology. Could
17 you identify -- maybe go through Exhibits 2 and 3 together,
18 Mr. Siruta, and discuss the Morrow geology in the main
19 zones of interest in this area?

20 A. These two maps are a net isopach of the Morrow
21 "A" sand and the Morrow "B". These are really the primary
22 producers in this area. I have -- This is my own
23 designation of "A" and "B".

24 The "A" sand produces -- On the map that I have
25 you can see which wells produce from that sand; they're

1 shaded green. You can see that the well in 22 produces
2 from that sand, the well in 28 produces from that sand.
3 This is sort of an east-west-trending sand in this
4 immediate area.

5 The "B" sand, again, it's the green-shaded wells
6 that produce from that sand. The Ocean well in 28, the
7 1-28, produces from the "B", and also the Altura Greenwood
8 Unit produces from the "B" sand. And again, this is an
9 east-west-trending sand.

10 Q. What is Exhibit 4?

11 A. A cross-section. This is a cross-section that's
12 marked A-A', and it's indicated by a red line connecting
13 the wells on the map. And what this cross-section
14 illustrates are the sands that I have designated as the "A"
15 sand and the sand that I have designated as the "B" sand.
16 This clearly shows what the sands look like in the adjacent
17 wells, what we anticipate finding in our well.

18 Q. Okay. Now, looking at Exhibits 2, 3 and 4
19 together, Mr. Siruta, is an unorthodox location really
20 necessary geologically?

21 A. No, it's not.

22 Q. This is a good location, but moving a few hundred
23 feet south would also be a good location?

24 A. That's correct.

25 Q. What else influenced the well location for this

1 well?

2 A. Topographic features, pipelines, powerlines,
3 roads.

4 Q. Could you identify -- I think it's Exhibit 5
5 and -- yeah, Exhibit 5, the topographic map, and tell about
6 the problems involved in just even getting a well location
7 in this area.

8 A. If you look at this map, the line running on the
9 left side is the west line of Section 27. The line running
10 on the north side is the north line of Section 27. We've
11 blown this section up. There are several wells out here.
12 These are shallow San Andres-Grayburg wells. The legal
13 location here would be 1650 from the north, 660 from the
14 west. RSE Partners has an existing well there that is
15 pumping. There is a pumpjack on it. They also have --
16 There's two wells off to the east, the SDX Resources, and
17 then there's an old potash test. But the Resources well
18 does produce.

19 What I've done in here is, I've taken and
20 sketched with a dashed line what a 400-by-400 drilling pad
21 would look like if we drilled at a legal location. And as
22 you can see, we cannot drill at that location. We would
23 have to move north at least 200 feet to get away from the
24 pumpjack and the facilities. And if we did that, we would
25 be almost right at the intersection of all of these gas

1 lines.

2 Q. At the location you propose, is certain remedial
3 work going to be required to drill the well?

4 A. Yes, we're going to need to move this three-wire
5 electric line that runs to the pumpjacks out here, and also
6 we're going to have to move this Caliche Road.

7 Q. Okay. Now, you could move further south,
8 perhaps, but do you want to do that with the existing well
9 there?

10 A. No, geologically we really don't want to do that,
11 and we feel like we'll suffer some significant drainage,
12 possibly, from that well.

13 Q. Also, geologically, would you prefer, because of
14 the existing wells in this area, to stay on the west side
15 of the proration unit?

16 A. Yes.

17 Q. Okay. Identify Exhibit 6 for the Examiner and
18 tell him who the offset operators are to this well.

19 A. This is a land plat illustrating the operators.
20 We've tried to outline the units around in a slashed tape
21 here. The east half of 21 shows several partners, but
22 Ocean Energy has those people under an operating agreement.
23 So they are the operators, we've contacted them. Ocean
24 Energy has the south half of 22, Ocean Energy also has the
25 east half of 28. Marathon Oil has the east half of 33, and

1 RSE Partners-1 Limited, has the north half of 34 and all of
2 Section 27

3 Q. Okay. Now, regarding the east half of Section
4 27, under the pool rules RSE Partners -- well, there are --
5 there had been two Morrow wells drilled on that east half?

6 A. That's correct.

7 Q. And they had that right under the existing pool
8 rules at that time --

9 A. That's correct.

10 Q. -- under 160-acre spacing?

11 In the Marathon acreage in the east half of
12 Section 33, that -- Marathon had drilled a Morrow test well
13 also, had it not?

14 A. That's correct.

15 Q. So they ha also exercised their right to test
16 that reservoir?

17 A. Yes.

18 Q. Were all of these interest owners or operators
19 notified of this Application?

20 A. Yes.

21 Q. And is the affidavit of notice submitted as
22 Exhibit 7?

23 A. Yes.

24 Q. Were Exhibits 1 through 7 prepared by you, under
25 your direction, or compiled from company business records?

1 A. Yes.

2 Q. And in your opinion is the granting of this
3 Application in the interests of conservation and the
4 prevention of waste?

5 A. Yes, it is.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of KCS Exhibits 1 through 7.

8 EXAMINER ASHLEY: Exhibits 1 through 7 will be
9 admitted as evidence.

10 EXAMINATION

11 BY EXAMINER ASHLEY:

12 Q. Mr. Siruta, I'm looking at Exhibit Number 5, the
13 topographic map.

14 A. Uh-huh.

15 Q. And I'm also looking at the land plat, Exhibit 6,
16 just trying to get my bearings here.

17 A. Okay.

18 Q. South of your proposed location there's RSE
19 Partners Number 1 PJ?

20 A. Yes, that's a shallow well.

21 Q. Okay. Okay, that's -- And then this land map
22 under Exhibit 6 is just for --

23 A. Just deep testes.

24 Q. Okay, great.

25 A. There are a kazillion little shallow wells in

1 here --

2 Q. Okay.

3 A. -- so we just plotted the deep tests on that.

4 EXAMINER ASHLEY: Okay. I have nothing further.

5 Thank you, Mr. Siruta.

6 WES VAN NATTA,

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

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

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

12 A. Wes Van Natta.

13 Q. Spell your last name for the Examiner.

14 A. It's V, as in Victor, a-n A-t-t-a.

15 Q. Okay. Where do you reside?

16 A. Tulsa, Oklahoma.

17 Q. Who do you work for?

18 A. KCS Medallion Resources.

19 Q. What's your job with KCS?

20 A. I'm currently the director of reservoir
21 engineering for the mid-continent division. That area
22 includes the Permian Basin.

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

25 A. No, I have not.

1 Q. Could you outline your education and employment
2 history for the Examiner, please?

3 A. Yes. I received a bachelor of science in
4 petroleum engineering from Louisiana Tech University in
5 1981. I was then employed by Exxon mid-1981 as a reservoir
6 engineer. I worked for Exxon for 13 years. Then I worked
7 for two years as a reservoir engineering consultant, was
8 employed by KCS Medallion in early 1996 as a reservoir
9 engineer, and currently I am the director of reservoir
10 engineering for our division.

11 Q. Are you familiar with engineering matters related
12 to this Application?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I'd tender Mr. Van
15 Natta as an expert petroleum engineer.

16 EXAMINER ASHLEY: Mr. Van Natta is so qualified.

17 Q. (By Mr. Bruce) Mr. Van Natta, maybe it will help
18 to keep the Exhibit 1, the production plat, in front of us
19 while you're going through your exhibits and discussing
20 some of this.

21 Would you identify your Exhibit 8 and tell the
22 Examiner why KCS desires to drill this infill location.

23 A. Exhibit 8 is a summary of reserves and drainage
24 areas of the existing wells in the area. We have focused
25 on the reserves potential in the west half of Section 27.

1 On this Exhibit 8 you'll see that our original
2 gas in place has the potential of being about 8.49 BCF in
3 the 320 acres in concern. I'll go through the details on
4 the next page of the volumetrics, but assuming an 87-
5 percent recovery factor, which would be somewhat consistent
6 with the pressure-depletion situation we're dealing with,
7 we estimate as much as 7.39 BCF of gas could be recoverable
8 in this 320.

9 The existing well has cum'd 1.67 BCF, which
10 leaves about 5.7 BCF that potentially could be recovered.
11 We have broken the 320 into two 160s, and we estimate
12 approximately 3.7 BCF could be recovered if a second well
13 is drilled in the northeast quarter of Section 27.

14 Q. If the proposed Greenwood 27-1 well is not
15 drilled, will these reserves be recovered by the existing
16 well?

17 A. We feel that they perhaps will not. And in
18 fact -- I'm kind of getting ahead of myself, but on Exhibit
19 10 we show the production history of the existing well, and
20 you'll note that there has been little to no production
21 reported since 1992.

22 Q. Okay. On this exhibit you also put the -- some
23 calculations regarding the offset wells?

24 A. Correct.

25 Q. For the most part, are these wells draining 320

1 acres?

2 A. The Shugart 22 Federal Number 1 did not. It
3 looked like it was draining a much smaller area, for
4 whatever reason. It looked like that's a limited reservoir
5 that they've gotten into. It does appear that the Shugart
6 28 Federal Number 1 will be draining approximately 160
7 acres.

8 Q. Okay, but it will not be draining 320?

9 A. It does not appear that it will.

10 Q. Okay. What is Exhibit 9?

11 A. Exhibit 9 is the volumetric detail that supports
12 Exhibit 8.

13 Just briefly going through, we've got a porosity
14 of roughly 12 percent, water saturation of 30 percent, and
15 initial bottomhole pressure in the area of about 4900
16 pounds. And again, we're assuming a recovery factor of
17 about 87 percent.

18 The front page of that goes through and then
19 estimates the recovery of approximately 7.39 BCF for the
20 320. It also shows the existing well, 1.67 BCF that's been
21 recovered, with a remaining of possibly 5.72.

22 And then the second page is simply the same
23 calculations, but using 160-acre drainage area, instead of
24 the 320.

25 Q. Then why don't you move on to the exhibit you

1 mentioned, Exhibit 10, and discuss the existing well in the
2 west half of Section 27?

3 A. The existing well, I don't really have much to
4 discuss other than this is the production history. And as
5 you'll note, there was a little bit of work that was done
6 in the early Nineties. But since 1992 there's been little
7 to no production reported.

8 Q. So with your new well you hope to capture
9 additional reserves that may not be recovered by the
10 existing well?

11 A. That is our intent.

12 Q. And because of the limited drainage in the
13 offsets, there should be little or not effect on the
14 correlative rights on the offsetting units?

15 A. That is our interpretation.

16 Q. Were Exhibits 8, 9 and 10 prepared by you?

17 A. Under my direction.

18 Q. Under your direction.

19 And in your opinion, is the granting of this
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of KCS Exhibits 8, 9 and 10.

25 EXAMINER ASHLEY: 8, 9 and 10 will be admitted as

1 evidence at this time.

2 EXAMINATION

3 BY EXAMINER ASHLEY:

4 Q. Mr. Van Natta, if I see this right, then, the
5 well in the southwest quarter of Section 27 is not
6 producing right now, or it is?

7 A. We do not operate that well, but according to the
8 *Dwight's* information that we have, there has been no
9 production reported since 1992.

10 Q. But that's the well that you want to
11 simultaneously dedicate to your well?

12 A. That is correct.

13 Q. Okay. Can you tell me again about the well in
14 the southeast quarter of Section 22, the Ocean Energy well?

15 A. The limited data that we have on that well
16 indicated that it came on fairly well. Pressure looked
17 fairly good, but it appears that it was in a limited-size
18 reservoir. And I don't know if that was from a perm
19 barrier or what, but it does appear that we do have a
20 fairly limited-size reservoir in that particular well.

21 Conversely, in the well in Section 28, it does
22 appear that it has a fairly significant areal extent.

23 Q. But not 320?

24 A. It does not appear that it will recover 320
25 acres' worth of reserves.

1 Q. What about the wells in the east half, or the
2 northeast quarter of Section 27? Do you have any
3 information on drainage for that well?

4 A. I do not. However, with the 2.4 BCF that it has
5 recovered, and as you can see -- if you'll go back, I
6 believe it was the Exhibit 1 that Bill had given -- that
7 well was currently making about 125 MCF a day, so I would
8 tend to believe that that one's on the lower end of its
9 reserve potential.

10 So the 2.4 would fall in line with approximately
11 160, or a little bit less, of drainage area.

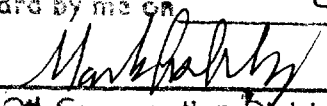
12 EXAMINER ASHLEY: Okay. I have no further
13 questions. Thank you, Mr. Van Natta.

14 MR. BRUCE: I have nothing further in this case.

15 EXAMINER ASHLEY: There being nothing further in
16 this case, Case 12,144 will be taken under advisement.

17 (Thereupon, these proceedings were concluded at
18 12:15 p.m.)

19 * * *

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 12144,
24 heard by me on 4/1 1999.
25  , Examiner
Off 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 April 5th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002