

OIL CONSERVATION DIV.

STATE OF NEW MEXICO

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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. 12,259

APPLICATION OF SOUTHWESTERN ENERGY)
 PRODUCTION COMPANY FOR COMPULSORY)
 POOLING, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

October 21st, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, October 21st, 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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October 21st, 1999
 Examiner Hearing
 CASE NO. 12,259

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR CHASE OIL CORPORATION
and MACK ENERGY CORPORATION:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:46 a.m.:

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EXAMINER ASHLEY: The Division calls Case 12,259,
Application of Southwestern Energy Production Company for
compulsory pooling, Eddy County, New Mexico.

Call for appearances.

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

MR. CARR: May it please the Examiner, my name is
William F. Carr with the Santa Fe law firm Campbell, Carr,
Berge and Sheridan.

I'm entering my appearance today in association
with Ernest L. Carroll of the Losee, Carson, Haas and
Carroll law firm in Artesia.

We're appearing on behalf of Chase Oil
Corporation and Mack Energy Corporation.

EXAMINER ASHLEY: Chase Oil and Mack Energy?

MR. CARR: Yes, and I do not have a witness.

EXAMINER ASHLEY: Will the witnesses please rise
and be sworn in?

(Thereupon, the witnesses were sworn.)

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SAMUEL G. THOMPSON,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. Samuel Glenn Thompson, Houston, Texas.

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

A. I work for Southwestern Energy Production Company. It's a subsidiary of Southwestern Energy Company. And I'm a petroleum landman.

Q. Have you previously testified before the Division?

A. I have not.

Q. Would you summarize your educational and employment background for the Examiner?

A. I have a bachelor's of business administration from Oklahoma University and a master's of business administration from Oklahoma University. I've got five years of experience with Atlantic Richfield, five years of experience with Santa Fe Energy, and I've been with Southwestern Energy for approximately five years.

Q. As a landman?

A. As a landman.

1 Q. Does your area of responsibility at Southwestern
2 include southeast New Mexico?

3 A. It does.

4 Q. And are you familiar with the land matters
5 involved in this Application?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I'd tender Mr. Thompson
8 as an expert petroleum landman.

9 EXAMINER ASHLEY: Mr. Thompson is so qualified.

10 Q. (By Mr. Bruce) Mr. Thompson, could you identify
11 Exhibit 1 for the Examiner and briefly describe what
12 Southwestern seeks in this case?

13 A. Exhibit 1 is a plat showing the proposed spacing
14 unit for the Morrow formation, which would be the north
15 half of Section 36, Township 17 South, Range 27 East, Eddy
16 County. We're also pooling the northwest quarter of 36 for
17 the Wolfcamp in the event that it's gas. In the event it's
18 oil, it would be spaced on 40 acres, of course.

19 Q. What is the leasehold ownership in the north half
20 of Section 36? And I would refer you to Exhibit 2?

21 A. Exhibit 2, we own the west half of the northwest
22 quarter. We have made agreements, letters of intent, with
23 Atlantic Richfield, which owns 25 percent of the unit. We
24 have made agreements with the -- Fleming and Walsh and
25 Jeffers. We have a tentative agreement with Chase on a

1 farmout basis.

2 The only interest we have not committed is Manix
3 Energy, which has one-eighth of the unit, and we're in
4 negotiations with them right now.

5 Q. Okay. Now, even though you have tentative
6 agreements with everyone, these interest owners have not
7 either signed a farmout or a term assignment or a JOA, have
8 they?

9 A. No, they have not.

10 Q. So at this time you would seek to pool all of
11 these interest owners, but you will notify the Division
12 when they finally sign an agreement?

13 A. Yes, I will.

14 Q. Okay. Now, when you say you have come to terms,
15 tentatively, with Chase Oil Corporation, that would include
16 all of the Chase entities or Chase people listed on this
17 Exhibit 2?

18 A. Yes.

19 Q. Okay. Let's discuss your efforts to obtain the
20 voluntary joinder of the parties and refer to your Exhibit
21 3. Before we get into that, the first letter here to the
22 interest owner is dated August 2nd, 1999. Did you have
23 contacts with the interest owners preceding this letter?

24 A. Yes, I had several contacts by phone with the
25 interested parties to see what kind of deal they might want

1 to make or if, in fact, they'd want to join in the Morrow
2 proposal.

3 Q. When did your contacts first begin with the
4 interest owners?

5 A. On or about May 15th --

6 Q. Okay, so --

7 A. -- 1999.

8 Q. So about two and a half months or so before this
9 letter was sent out?

10 A. Yes.

11 Q. And then no agreements have been fixed, so you
12 sent out this proposal letter to the parties?

13 A. Yes, I did.

14 Q. And the letter enclosed an AFE?

15 A. Yes.

16 Q. Since the date of that letter, could you just
17 briefly summarize for the Examiner your subsequent contacts
18 with the parties?

19 A. Since the date of that letter, again, I made a
20 letter agreement with Atlantic Richfield relative to their
21 25-percent interest. I got a draft of a farmout agreement
22 with Chase. I have a letter for a term assignment with the
23 Jeffers and Walsh group, and I've offered to buy a farmout
24 or take a term assignment from Manix.

25 Q. Okay. And those letters, either the draft

1 farmouts or the letter agreements, are contained in this
2 package of correspondence?

3 A. Yes, they are. In fact, the Manix response to
4 you says that they will either make a trade or participate
5 for their 12 1/2 percent.

6 Q. Okay. But they have not signed a JOA at this
7 point?

8 A. No, they haven't.

9 Q. And until they sign that, they are not firmly
10 committed to the well?

11 A. Exactly.

12 Q. In your opinion, has Southwestern made a good-
13 faith effort to obtain the voluntary joinder of the
14 interest owners in this well?

15 A. We think we have.

16 Q. Referring to Exhibit 4, can you identify or
17 discuss the cost of the proposed well

18 A. That would be the Sepco AFE, which calls for a
19 dryhole cost, going to 10,125 feet, of about \$470,500,
20 completion cost of \$290,000, for a total well cost, if
21 successful, of \$754,500.

22 Q. Are these costs in line with the costs of other
23 wells drilled to this depth in this area of New Mexico?

24 A. Yes, they are.

25 Q. And does Southwestern request that it be

1 designated operator of the well?

2 A. We do.

3 Q. Do you have a recommendation for the amounts
4 which Southwestern should be paid for supervision and
5 administrative expenses?

6 A. Using the COPAS numbers set out of Ernst and
7 Young, we've chosen \$5500 a month for a drilling well and
8 \$550 overhead for a producing well.

9 Q. And these amounts are based on Ernst and Young
10 rates?

11 A. Yes, sir.

12 Q. And are these amounts equivalent to those
13 normally charged by southwestern and other operators in
14 this area for wells of this depth?

15 A. Yes, sir.

16 Q. And does Southwestern request that if necessary
17 these rates be adjusted according to the COPAS accounting
18 procedure?

19 A. We do.

20 Q. Were the interest owners being pooled notified of
21 this hearing?

22 A. Yes, they were.

23 Q. And is Exhibit 5 my affidavit of notice with the
24 notice letter?

25 A. Yes, sir.

1 Q. Were Exhibits 1 through 5 prepared by you or
2 under your supervision or compiled from company business
3 records?

4 A. They were.

5 Q. And in your opinion is the granting of
6 Southwestern's Application in the interests of conservation
7 and the prevention of waste?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I'd move the admission
10 of Southwestern's Exhibits 1 through 5.

11 EXAMINER ASHLEY: Exhibits 1 through 5 will be
12 admitted into evidence at this time.

13 Mr. Bruce, you're also wanting to pool 40 acres
14 for oil?

15 MR. BRUCE: No, not 40 acres, 320 acres for the
16 deep gas zones and then 160 acres, the northwest quarter of
17 the section, for 160-acre gas zones, if there are any.

18 The Application does set forth two pools in this
19 area, the Logan Draw-Wolfcamp Gas Pool, which is spaced on
20 160 acres, and the Empire-Pennsylvanian Gas Pool, which I
21 also believe is spaced on 160 acres. Now, there may also
22 be other Wolfcamp oil pools in this area, but we are not
23 seeking to pool a 40-acre oil zone.

24 EXAMINER ASHLEY: Okay.

25 THE WITNESS: We own the 40 that we're

1 drilling --

2 EXAMINER ASHLEY: Okay.

3 THE WITNESS: -- a hundred percent.

4 EXAMINATION

5 BY EXAMINER ASHLEY:

6 Q. Mr. Thompson, the primary target, then, is the
7 Morrow and the secondary would be the Wolfcamp?

8 A. Yes, sir.

9 Q. And what is the proposed TD of this well? Do you
10 know?

11 A. 10,125 feet.

12 Q. Have there been any other compulsory pooling
13 orders in this area issued for Southwestern?

14 A. No, sir. This particular 320 is the only acreage
15 we have in the 320 and the eight offsets. We have no other
16 acreage.

17 MR. BRUCE: Mr. Examiner, to the north, in the
18 northern part of this township for -- in certain areas
19 around 17-27 and 17-28 there have been numerous pooling
20 orders entered recently.

21 EXAMINER ASHLEY: Say that again. Where was
22 that?

23 MR. BRUCE: In 17-28, 17 South, 28 East, and I
24 believe there have been some in 17-27 also. There have
25 been pooling orders entered, I think, for Yates, Chi Energy

1 and maybe OXY.

2 EXAMINER ASHLEY: You didn't give me a particular
3 section, you just said township and range.

4 MR. BRUCE: I think you could look at 17-28,
5 probably Sections 4, 9, 10, maybe 15, 15 and 16.

6 EXAMINER ASHLEY: Okay.

7 Mr. Carr, do you have anything?

8 MR. CARR: I have no questions.

9 EXAMINER ASHLEY: That's all I have, thank you.

10 THE WITNESS: All right, thank you.

11 CHARLOTTE SULLIVAN,

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

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Would you please state your name and city of
17 residence for the record?

18 A. I'm Charlotte Sullivan. I reside in Houston,
19 Texas.

20 Q. Who do you work for?

21 A. I work for Southwestern Energy Production
22 Company.

23 Q. And what's your job with Southwestern?

24 A. I'm staff geologist. My primary areas of
25 responsibility are New Mexico and West Texas.

1 Q. Have you previously testified before the
2 Division?

3 A. No, I have not.

4 Q. Could you summarize your educational and
5 employment background, please?

6 A. Yes, I have a bachelor's degree in geology from
7 Arkansas Tech, 1969, a master's degree from the University
8 of Arkansas, 1972, and a PhD from the University of
9 Houston, 1989.

10 I worked for Phillips Petroleum out in
11 Odessa/Midland area for almost five years. Then I worked
12 for Pennzoil, worked Permian Basin again, west Texas and
13 New Mexico, for five years. And then I've been with
14 Southwestern for about a year and a half. Oh, and again,
15 primary responsibility is New Mexico and west Texas.

16 Q. And with the other companies it sounds like you
17 worked the Permian Basin also?

18 A. Yes, I did.

19 Q. And are you familiar with the geologic matters
20 involved in this Application?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I'd tender Ms. Sullivan
23 as an expert petroleum geologist.

24 EXAMINER ASHLEY: Ms. Sullivan is so qualified.

25 Q. (By Mr. Bruce) Would you please identify your

1 Exhibit 6 and discuss the primary zones that you're looking
2 for in this area?

3 A. Yes. Exhibit 6 shows the production, the deeper
4 production in the area around the Section 36 in Township 17
5 South, 27 East, and the map is three sections east-west and
6 three sections north-south. And in this area -- and this
7 information is from *Dwight's Production* -- there are three
8 Morrow wells, two Wolfcamp well and one Penn well.

9 The Morrow well in Section 36 produced 1.4 BCF
10 and 7 MBO. The Morrow well in Section 1 of 18 South, 27
11 East, produced .8 BCF and 8 MBO. Then a Morrow well in
12 Section 6 of 18 South, 28 East, produced 1.7 BCF and 12
13 MBO.

14 Two Wolfcamp wells, the one in Section 26 of 17
15 South, 27 East, produced 1.8 BCF and 9 MBO. The Wolfcamp
16 well in Section 35, then, produced .03 BCF and 11 MBO.

17 And a Penn well produced a small amount in
18 Section 30 of 17 South, 28, and that one did .1 BCF.

19 Q. Looking at this map, there's not really much deep
20 production in this immediate area, is there?

21 A. No, there is not.

22 Q. You've got a mark for the well location on here.
23 What is the footage location of the well?

24 A. That footage location is 660 from the north and
25 860 from the west.

1 Q. Okay. Let's move on to your Exhibit 7. Could
2 you identify that for the Examiner?

3 A. Yes, Exhibit 7 is a structure map on an Atoka
4 marker, and it just shows a gentle monoclinal dip to the
5 southeast. Structure is not really a critical issue here,
6 it's a strat trap.

7 Q. Okay. Then let's move on to your Exhibit 8.
8 What is shown on that map?

9 A. Exhibit 8 is a lower Morrow net sand map that's
10 porosity greater than 8 percent density porosity. And in
11 this area the way we've mapped it, we feel that the sand is
12 trending north-south across Section 36. These sands are
13 both channel sands and some marine bar sands.

14 Q. Do you believe that your proposed location
15 affords you a reasonable opportunity to make a well from
16 this prospect?

17 A. Yes, we do. We're offsetting, again, a well in
18 the southern half of Section 36 that made 1.4 BCF.

19 Q. But again, there's no Morrow production to the
20 north -- really, to the north, east or west of your
21 proposed well?

22 A. No, there is not.

23 Q. Finally, let's move on to your Exhibit 9. Could
24 you identify that for the Examiner and maybe highlight the
25 zones that you're hoping to hit in this well?

1 A. Yes. This is a stratigraphic cross-section, a
2 north-south cross-section, and it goes from Section 25 in
3 17-27, down through the proposed location and then south to
4 the productive well in Section 36 and then on down south to
5 the well in Section 1 of 18 South, 27 East.

6 And the stratigraphic cross-section is hung on
7 the top of the Morrow clastics. These are really the
8 middle Morrow clastics. The top of the lower Morrow is
9 located here. I've also marked the top of the Barnett and
10 the top of the Mississippi-Chester.

11 And the zone of interest that we're looking at is
12 right in here, and there are about three sands here. In
13 other wells they may coalesce, but these are -- And again,
14 these are both the blocky look of channel sands and then
15 the bar sands. And the bar sands can have some marine
16 cements and are generally tighter in this area. It's
17 really the channel sands when you're lucky enough to get
18 them, they're the best producers out there.

19 EXAMINER ASHLEY: The lower Morrow that you
20 said --

21 THE WITNESS: That's the lower Morrow.

22 EXAMINER ASHLEY: You said "right here", that's
23 the lower Morrow?

24 THE WITNESS: Yes, uh-huh, this is the top of the
25 lower Morrow here. And then the Barnett, which is the

1 Mississippian, is here.

2 So you've got this interval right here with the
3 sands in the upper part, and that lower part tends to be
4 more shaly.

5 Q. (By Mr. Bruce) And as usual with the Morrow,
6 these sands come and go over a very short area?

7 A. They really do, they do.

8 Q. Based on what you've testified, in your opinion
9 should the maximum cost-plus 200-percent penalty be
10 assessed against any interest owner who goes nonconsent in
11 this well?

12 A. Yes, you've got the risk of the occurrence of the
13 sands, then of the reservoir quality of the sands, and you
14 have some mechanical risk in that the Pennsylvanian shales
15 can slough in this area and even cause you to lose a
16 wellbore.

17 Q. Were Exhibits 6 through 9 prepared by you or
18 under your direction?

19 A. Yes, they were.

20 Q. And in your opinion, is the granting of
21 Southwestern's Application in the interests of conservation
22 and the prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I move the admission of
25 Southwestern's Exhibits 6 through 9.

1 EXAMINER ASHLEY: Exhibits 6 through 9 will be
2 admitted as evidence.

3 EXAMINATION

4 BY EXAMINER ASHLEY:

5 Q. Ms. Sullivan, on Exhibit 6 --

6 A. Yes.

7 Q. -- in Section 1, you have another well location
8 in red. Is that a Morrow well?

9 A. It was a Morrow test, but it did not have any
10 Morrow production.

11 Q. Now is this location mainly based, then, on the
12 isopach and not necessarily the structure?

13 A. Exactly, yes.

14 Q. What does the Wolfcamp look like out there, as
15 far as structure and thickness?

16 A. The structure would be the same, and I really
17 haven't mapped the thickness of the Wolfcamp here.

18 EXAMINER ASHLEY: Okay, I have nothing further.
19 Thank you.

20 MR. BRUCE: Mr. Examiner, a couple of matters. I
21 have been contacted by -- If you look at Exhibit 2 on the
22 land plat, or the land working interest ownership, there
23 are three interest owners, W.E. Jeffers, Mary Fleming Walsh
24 and Bessie Massey Fleming. I've been contacted by either
25 them or their representatives. They own interests in the

1 northeast quarter, and they wanted me to state on the
2 record that as to their interests we are only force pooling
3 deep gas zones, the 320-acre zones, which we're glad to do
4 so just to give them peace of mind.

5 EXAMINER ASHLEY: Okay, I'm not following you on
6 that.

7 MR. BRUCE: They own interest only in the
8 northeast quarter --

9 EXAMINER ASHLEY: Okay.

10 MR. BRUCE: -- not where the well is -- not in
11 the quarter section where the well is located. And so we
12 would only, of course, be pooling them as to 320-acre gas
13 zones.

14 EXAMINER ASHLEY: Okay.

15 MR. BRUCE: The other matter is, Mr. Examiner, I
16 don't know if a readvertisement is necessary. The well
17 location has changed slightly. The advertisement for the
18 cases lists the well as being 660 feet from the north and
19 1350 feet from the west, which is a standard location.

20 The well is now to be located 660 feet from the
21 north and 860 feet from the west, which is also a standard
22 location. The zones we are -- or the formation -- or I
23 should say, the acreage we are seeking to pool remains the
24 same, 160-acre gas zones or 320-acre gas zones. If it
25 needs to be readvertised, that's fine with us.

1 EXAMINER ASHLEY: Yes, we'll need to readvertise
2 that for two weeks, and at that time it can be taken under
3 advisement.

4 MR. BRUCE: Okay.

5 EXAMINER ASHLEY: Are there any kind of deadlines
6 for this well --

7 MR. BRUCE: No.

8 EXAMINER ASHLEY: -- any lease expirations or
9 anything like that?

10 MR. BRUCE: No, no. No real time -- They do want
11 to drill this well in January, but that's the only
12 deadline.

13 EXAMINER ASHLEY: Okay, that's fine. We'll
14 readvertise this for the 4th of November.

15 Thank you.

16 (Thereupon, these proceedings were concluded at
17 11:08 a.m.)

18 * * *

19
20
21 I do hereby certify that the foregoing
22 is a correct record of the proceedings at
the Examiner hearing of Case No. 2259
heard by me on 10-21-79

23 Mark Ashley, Examiner
24 Off Conservation Division
25

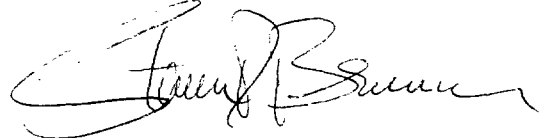
CERTIFICATE OF REPORTER

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 November 1, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002