

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. 12,387
)
IN THE MATTER OF CASE 12,387 BEING)
REOPENED PURSUANT TO THE PROVISIONS)
OF DIVISION ORDER NUMBER R-11,374-A,)
WHICH ORDER EXTENDED FOR ONE YEAR THE)
TEMPORARY SPECIAL POOL RULES FOR THE)
SOUTHEAST ARENA BLANCA-ENTRADA POOL IN)
SANDOVAL COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

AUG 1 2002

August 1st, 2002

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 1st, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

August 1st, 2002
Examiner Hearing
CASE NO. 12,387

PAGE

REPORTER'S CERTIFICATE

7

* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR PENWELL ENERGY:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:41 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call
4 Case Number 12,387, which is in the matter of 12,387 being
5 reopened pursuant to the provisions of Division Order
6 Number R-11,374-A, which order extended for one year the
7 temporary special pool rules for the southeast Arena
8 Blanca-Entrada Pool in Sandoval County, New Mexico.

9 Call for appearances in this case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe office of Holland and
12 Hart, L.L.P. We represent Penwell Energy in this matter,
13 and I have a statement.

14 EXAMINER CATANACH: Okay, any additional
15 appearances?

16 Okay, there being none, Mr. Carr, you may
17 proceed.

18 MR. CARR: May it please the Examiner, Penwell
19 Energy, Inc., was the original Applicant in this matter,
20 and by Order Number R-11,374, entered on May 17th, 2000,
21 special pool rules were promulgated on a temporary basis
22 for the Southeast Arena Blanca-Entrada Pool. They provide
23 for 160-acre spacing, with wells to be located 660 feet
24 from the outer boundary of the quarter section.

25 Mr. Examiner, the pool involved is a one-well

1 pool. The well in the pool is the Eagle Springs 8 Federal
2 Well Number 1. It's at an unorthodox well location. It's
3 located 263 feet from the north line and 2548 feet from the
4 east line. That's in Unit B, Section 8, Township 19 North,
5 Range 4 West. The well is in Sandoval County in an
6 extremely remote location.

7 A nonstandard unit was also created for the well,
8 the west half of the northeast and the east half of the
9 northwest. So it sits in the center of the north half of
10 Section 8.

11 What has been drilled to and completed in is an
12 isolated sand dune structure. And the property involved,
13 not only the property in Section 8, but the affected
14 acreage in offsetting Section 5 is one single federal
15 lease. So all affected parties -- the affected parties are
16 the same. Penwell has 100 percent of the working interest,
17 and all royalties are identical.

18 The Eagle Springs well was drilled back in 2000.
19 Initially, it produced at a rate of 135 barrels a day.
20 When we asked for an additional extension of the rules a
21 year ago, the well was down to 35 barrels a day, and now
22 it's down producing close to 20 barrels a day and has
23 continued to decline.

24 What Penwell is attempting to do is put a
25 submersible pump on the well. And their experience

1 indicates in these small algal or sand dune structures that
2 when they do that they experience an increase of 600 to 700
3 percent in the producing rate for the well. To do that,
4 they need electrical power.

5 For a year and a half they've been trying to work
6 with the Jemez Mountain Electrical Co-op for an extension
7 of the power line, and until they do that and can get the
8 submersible pump on the well and see if, in fact, they can
9 achieve this increase in production rate, there simply is
10 no data to come to you with in support of a permanent rule.

11 This is very much like Case 12,540, which we
12 presented to you in this fashion several months ago, in
13 which you entered Order R-11,526-A. That order was entered
14 June 17th of this year. And the effect of that order was
15 to continue the temporary rules in effect until further
16 order of the Division.

17 But that was conditioned on the fact that Penwell
18 would advise the Division here in this case when they were
19 able to get the power line to this well, and at that time
20 they would contact the Division and request at that time
21 that we determine when and how the case should be reopened
22 so they can put on whatever evidence is necessary in
23 support of the rules.

24 That's where we stand today, and we're in the
25 exact same position we were in April when we were before

1 you in the last similar situation. We've had two pools
 2 that we drilled wells that looked quite hopeful at the
 3 beginning. We need to get an electrical power line to the
 4 wells, and in both those cases we've been unable to get the
 5 Jemez Mountain Electrical Co-op to extend the line. The
 6 line to this well is slightly in excess of six miles, it
 7 would have to be extended, just to service this one well.

8 So that's where we stand, and we would request
 9 that this case be handled in a fashion similar to our
 10 request in Case 12,540.

11 EXAMINER CATANACH: Okay. Is there anything
 12 else, Mr. Carr?

13 MR. CARR: Nothing further.

14 EXAMINER CATANACH: Okay, there being nothing
 15 further in this case, Case 12,387, reopened case, will be
 16 taken under advisement.

17 (Thereupon, these proceedings were concluded at
 18 9:45 a.m.)

19 * * *

20
 21
 22 I do hereby certify that the foregoing is a complete and correct copy of the proceedings heard by me on August 1, 1987.
 23
 24 David R. Catnach
 25 Oil 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 August 2nd, 2002.

Steve Rosen

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

SW/4 of Section 10, Township 17 South, Range 37 East, for all formations and/or pools developed on 80-acre spacing which includes but is not necessarily limited to the Undesignated Humble City-Strawn Pool and the Undesignated Shipp-Strawn Pool. Said unit is to be dedicated to its Voyager (Shipp) #1-4 Well, a re-entry of the Hanley Shipp #1 Well, at a surface location 990 feet from the South line and 330 feet from the West line and directionally drilled to an unorthodox bottomhole location 860 feet from the South line and 1400 feet from the West line of said Section 10 to a depth sufficient to test all formations from the surface to the base of the Strawn formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of Nearburg Producing Company as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 7 miles Southeast of Lovington, New Mexico.

CASE 12901: **Application of Nearburg Exploration Company, L.L.C. for compulsory pooling, Lea County, New Mexico.** Applicant seeks an order pooling all mineral interests in all formations from the surface to the base of the Morrow formation in the following described spacing and proration units located in Section 7, Township 21 South, Range 35 East: The E/2 for all formations and/or pools developed on 320-acre spacing, which includes but is not necessarily limited to the Undesignated Osudo-Morrow Gas Pool, Undesignated Wilson-Atoka Gas Pool and the Undesignated Wilson-Morrow Gas Pool; the NE/4 for all formations and/or pools developed on 160-acre spacing which includes but is not necessarily limited to the Wilson Yates-Seven Rivers Associated Pool and the Undesignated Wilson-Strawn Pool; the E/2 NE/4 for all formations and/or pools developed on 80-acre spacing; and the SE/4 NE/4 for all formations and/or pools developed on 40-acre spacing. Said units are to be dedicated to its Packer "7" State Com Well No. 1 to be drilled at a standard location 1980 feet from the North line and 660 feet from the East line of said Section 7 to a depth sufficient to test all formations from the surface to the base of the Morrow formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of Nearburg Producing Company as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 20 miles southwest of Hobbs, New Mexico.

CASE 12387: **Reopened – Continued from June 27, 2002, Examiner Hearing.**

In the matter of Case 12387 being reopened pursuant to the provisions of Division Order No. R-11374-A, which order extended for one year the temporary special pool rules for the Southeast Arena Blanca-Entrada Pool in Sandoval County, New Mexico. Operators in the Southeast Arena Blanca-Entrada Pool should appear and show cause why the temporary special pool rules should not be rescinded and the pool developed on standard 40-acre oil spacing.

CASE 12873: **Continued from July 11, 2002, Examiner Hearing.**

Application of Gruy Petroleum Management Co. and Wadi Petroleum, Inc. to amend the Special Rules and Regulations for the White City-Pennsylvanian Gas Pool, or, in the alternative, for approval of four unorthodox infill gas well locations, two unorthodox gas well locations, and one infill gas well location, Eddy County, New Mexico. Applicants seek an order amending the Special Rules and Regulations for the White City-Pennsylvanian Gas Pool to provide for the option to drill one well on each quarter section within a standard 640 gas spacing unit and for the setback requirement for wells to be relaxed such that wells can be located no closer than 660 feet to a quarter section line nor closer than 10 feet to a quarter-quarter section line or subdivision inner boundary. The pool covers all of Sections 8, 9, 15-17, 19-22, and 26-35, Township 24 South, Range 26 East, Sections 1-4 and 10-14, Township 25 South, Range 26 East, and Section 7, Township 25 South, Range 27 East. In the alternative, applicants seek approval of four unorthodox infill gas well locations, two unorthodox gas well locations, and one infill gas well location for wells to be located in Sections 9, 15, 16, and 22, Township 24 South,

DOCKET: EXAMINER HEARING - THURSDAY - AUGUST 1, 2002

8:15 A.M. - 1220 South St. Francis

Santa Fe, New Mexico

Docket Nos. 24-02 and 25-02 are tentatively set for August 22, 2002 and September 5, 2002. Applications for hearing must be filed at least 23 days in advance of hearing date. The following cases will be heard by an Examiner:

CASE 12890: Continued from July 11, 2002, Examiner Hearing.

Application of Permian Resources, Inc. for compulsory pooling and unorthodox well location, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests in the Strawn formation, Northeast Shoe Bar-Strawn Pool, underlying the W/2 SE/4 of Section 7, Township 16 South, Range 36 East, to form a standard 80-acre spacing and proration unit to be dedicated to Applicant's Chambers Well No. 2. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Applicant further seeks approval to drill its well at an unorthodox surface location 990 feet from the South line and 1100 feet from the East line to an unorthodox bottomhole location 1350 feet from the South line and 1500 feet from the East line in the NW/4 SE/4 (Unit J) of said Section 7. The proposed well location is approximately 4 miles East of Lovington, New Mexico.

CASE 12898: Application of Williams Production Company for a non-standard gas proration unit and an unorthodox subsurface gas well location, San Juan County, New Mexico. Applicant seeks to establish a non-standard 303.88-acre gas spacing and proration unit within the Basin-Dakota Pool comprising all of irregular Section 1, Township 31 North, Range 6 West, which is located approximately 5.5 miles south of the New Mexico/Colorado state line at mile corner marker No. 240. This unit is to be dedicated to Williams Production Company's proposed Rosa Unit Well No. 164-B to be directionally drilled from a surface location 1475 feet from the South line and 1235 feet from the East line (Unit J) of irregular Section 1 to an unorthodox bottomhole location within the Basin-Dakota Pool approximately 330 feet from the South line and 1650 feet from the West line (Unit N) of irregular Section 1. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT."**

CASE 12899: Application of Manzano Oil Corporation for compulsory pooling and approval of non-standard spacing and proration units, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests in the following described spacing and proration units in the W/2 of Irregular Section 30, Township 18 South, Range 30 East, as follows: the W/2 forming a non-standard 313.4-acre spacing and proration unit for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated North Turkey Track-Morrow Gas Pool and the Undesignated Sand Dune-Upper Pennsylvanian Pool; the NW/4 forming a non-standard 156.65-acre spacing and proration unit for all formations and/or pools developed on 160-acre spacing; the N/2 NW/4 forming a non-standard 78.31-acre spacing and proration unit for all formations and/or pools developed on 80-acre spacing, and the NW/4 NW/4 forming a non-standard 38.31-acre spacing and proration unit for all formations and/or pools developed on 40-acre spacing. Said units are to be dedicated to its Green Flash Federal Com Well No. 1 to be drilled at a standard location 660 feet from the North and West lines of said Section 30 to a depth sufficient to test all formations from the base of the Bone Spring formation to the base of the Morrow formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 6.5 miles south of Loco Hills, New Mexico.

CASE 12900: Application of Nearburg Exploration Company, L.L.C. for compulsory pooling, directional drilling and an unorthodox well location, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests in all formations from the surface to the base of the Strawn formation in the S/2