

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. 12,466
)
 APPLICATION OF GOTHIC PRODUCTION)
 CORPORATION FOR COMPULSORY POOLING,)
 CHAVES COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

August 10th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner on Thursday, August 10th, 2000, 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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CO AUG 16 11:58 AM
 OIL CONSERVATION DIV.

I N D E X

August 10th, 2000
Examiner Hearing
CASE NO. 12,466

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| APPLICANT'S WITNESSES: | |
| <u>JAMES L. SCHULTZ</u> (Landman) | |
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| <u>GEORGE SCOTT, III</u> (Geologist) | |
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* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
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| Exhibit 1 | 5 | 9 |
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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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* * *

1 WHEREUPON, the following proceedings were had at
2 8:42 a.m.:

3
4 EXAMINER ASHLEY: The Division calls Case 12,466,
5 Application of Gothic Production Corporation for compulsory
6 pooling, Chaves County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses.

10 EXAMINER ASHLEY: Additional appearances?

11 Will the witnesses please rise to be sworn in?

12 (Thereupon, the witnesses were sworn.)

13 JAMES L. SCHULTZ,

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Will you please state your name and city of
19 residence?

20 A. Jim Schultz, Roswell, New Mexico.

21 Q. What is your occupation?

22 A. I'm an independent petroleum landman.

23 Q. What is your relationship to Gothic?

24 A. I've been contracted by them to represent them in
25 this matter.

1 Q. And have you done land work with respect to the
2 acreage involved in this case?

3 A. Yes.

4 Q. Have you previously testified before the Division
5 as a landman?

6 A. Yes, I have.

7 Q. And were your credentials as an expert accepted
8 as a matter of record?

9 A. Yes, they were.

10 MR. BRUCE: Mr. Examiner, I'd tender Mr. Schultz
11 as an expert petroleum landman.

12 EXAMINER ASHLEY: Mr. Schultz is so qualified.

13 Q. (By Mr. Bruce) Mr. Schultz, what does Gothic
14 seek in this case?

15 A. Gothic seeks an order pooling the southeast
16 quarter of Section 28, Township 5 South, 25 East, to the
17 base of the Abo formation for all pools or formations
18 spaced on 160 acres. The proposed well is located 1310
19 feet from the south line and 1650 feet from the east line
20 of Section 28.

21 Q. What is the ownership of the well unit as to the
22 Abo formation? And I refer you to Exhibit 1.

23 A. On Exhibit 1 it will show that the north half of
24 the southeast quarter, 75 percent is owned by Nadel and
25 Gussman Permian, L.L.C., and 25 percent is owned by Gothic

1 Production Corporation.

2 The southwest of the southeast is owned by Jane
3 C. Byers, 87.5 percent, which is unleased again, and Gothic
4 Production Corporation, 12.5.

5 The southeast of the southeast is owned 100
6 percent by Gothic Production Corporation.

7 Q. And who do you seek to pool in this case?

8 A. We seek to pool Jane C. Byers and Nadel and
9 Gussman Permian, L.L.C.

10 Q. Let's discuss Gothic's efforts to obtain the
11 voluntary joinder of these interest owners. What is
12 Exhibit 2?

13 A. Exhibit 2 is a proposal letter which was mailed
14 on June 19th, 2000, to Nadel and Gussman.

15 The letter enclosed had an AFE requesting that
16 they participate in the well, and there was also several
17 telephone conversations between Gothic and Nadel and
18 Gussman.

19 Q. Okay. To the best of your knowledge, Nadel and
20 Gussman has not signed up at this point?

21 A. No.

22 Q. Okay. What about Jane Byers?

23 A. Jane Byers cannot be located.

24 Q. What steps were taken to locate her?

25 A. We did a search of the Chaves County records, we

1 did a search of the Internet. We do know that Jane C.
2 Byers is deceased and that she was an only child and her
3 parents were only children also.

4 We contacted the attorney for Jane C. Byers.
5 There was two of them in Roswell; one was George Hunker,
6 the other was Richard Bean. Neither of them knew of any
7 heirs for Jane C. Byers.

8 We knew that the Byers parents were from Indiana.
9 We contacted the hometowns there; we found nothing of
10 record for any heirs of Jane C. Byers' parents.

11 She also had one son, but the son preceded her in
12 death.

13 So we were just unable to locate any heirs at all
14 for Jane C. Byers.

15 Q. So at this point you've reached a dead end with
16 respect to locating Ms. Byers' heirs?

17 A. Yes.

18 Q. In your opinion has Gothic made a good faith
19 effort to locate Jane C. Byers or her heirs?

20 A. Yes.

21 Q. And in your opinion, has Gothic made a good faith
22 effort to obtain the voluntary joinder of Nadel and Gussman
23 in this well?

24 A. Yes.

25 Q. Could you identify Exhibit 3 for the Examiner?

1 A. Exhibit 3 is the AFE for the proposed well, and
2 it shows a dryhole cost of approximately \$143,000 and a
3 completed well cost of \$273,499.

4 Q. Is this cost in line with the cost of other wells
5 drilled to this depth in this area of New Mexico?

6 A. Yes, it is.

7 Q. Does Gothic request that it be designated
8 operator of the well?

9 A. Yes.

10 Q. Do you have a recommendation for the amounts
11 which Gothic should be paid for supervision and
12 administrative expenses?

13 A. Yes, Gothic is requesting \$3500 a month allowed
14 for the drilling of the well and \$800 a month to be allowed
15 for the producing of the well.

16 Q. Are these amounts equivalent to those normally
17 charged by Gothic and other operators in this area?

18 A. Yes.

19 Q. Was Nadel and Gussman notified of this
20 Application?

21 A. Yes, they were.

22 Q. And is Exhibit 4 my affidavit of notice?

23 A. Yes.

24 Q. Briefly, what is Exhibit 5?

25 A. Exhibit 5 is the advertisement we ran in the

1 Roswell Daily Record notifying the heirs of Jane C. Byers
2 as to this request for a force-pooling order.

3 Q. And that's done because there is no current
4 address for her or her heirs; is that correct?

5 A. Yes.

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

9 A. Yes, they were.

10 Q. And in your opinion, is the granting of Gothic's
11 Application in the interests of conservation and the
12 prevention of waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Gothic Exhibits 1 through 5.

16 EXAMINER ASHLEY: Exhibits 1 through 5 will be
17 admitted as evidence.

18 EXAMINATION

19 BY EXAMINER ASHLEY:

20 Q. Mr. Schultz, is this the initial well to be
21 drilled on this quarter section?

22 A. Yes, it is.

23 EXAMINER ASHLEY: Okay, thank you. I have
24 nothing further.

25 THE WITNESS: Thank you.

1 GEORGE SCOTT, III,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

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

7 A. George Scott.

8 Q. Where do you reside?

9 A. Roswell, New Mexico.

10 Q. What is your occupation?

11 A. I'm a consulting reservoir geologist.

12 Q. And have you been retained by Gothic to testify
13 in this matter?

14 A. Yes, I have.

15 Q. Have you previously testified before the
16 Division?

17 A. Yes, I have.

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

20 A. Yes, they were.

21 Q. And are you familiar with the geology involved in
22 this area?

23 A. Yes, I am.

24 MR. BRUCE: Mr. Examiner, I'd tender Mr. Scott as
25 an expert petroleum geologist.

1 EXAMINER ASHLEY: Mr. Scott is so qualified.

2 Q. (By Mr. Bruce) Mr. Scott, could you identify
3 Exhibit 6 and discuss the Abo geology in this area?

4 A. Okay, yes. Exhibit 6 is referred to as the Abo
5 Sand Map Number 2. It shows the main trend of that
6 particular Abo reservoir lens, and from that you can see
7 it's a fairly lenticular, channel-type sand.

8 Q. Do the Abo sands in this area tend to be
9 heterogeneous?

10 A. Yes, I would describe the Abo sands as being very
11 heterogeneous and lenticular in their distribution.

12 Q. Okay. Now, looking at this map in particular,
13 you've got the well marked with a little arrow there in the
14 southeast quarter, correct?

15 A. Correct.

16 Q. Looking at this, in this particular sand there
17 are several areas surrounding this well that have zero
18 sand; is that correct?

19 A. That's correct. The well to the northwest and
20 the well to the east both had zero sand pay, equivalent to
21 this reservoir. The wells to the west and the closest well
22 to the southwest had nine feet of pay.

23 Q. Okay. So they're hoping to try to get maybe
24 eight or ten feet in this pay, perhaps, in this pay zone?

25 A. Yes, I would say ten would be the maximum that

1 they could expect.

2 Q. Are these maps based on well control, by the way,
3 Mr. Scott?

4 A. Yes.

5 Q. There's been quite a few wells drilled in this
6 area?

7 A. That's correct.

8 Q. What is Exhibit 7?

9 A. Exhibit 7 is the Abo sand map. It's referred to
10 as the Number 3 sand, and that's the second most principal
11 reservoir sand in this area.

12 It also shows a channel configuration. The
13 proposed location is just virtually surrounded by wells
14 with no pay or very little pay. The closest well with pay
15 is to the northwest, and it has four feet of pay.

16 Q. This sand appears to be thinner than the Number 2
17 sand, does it not?

18 A. Yes.

19 Q. Okay. Now, there are also other sands in this
20 area. I mean, there are what? Four or five Abo sands
21 overall?

22 A. You could -- In some areas up to a half dozen
23 sands.

24 Q. But they come and go, they're discontinuous?

25 A. Yes.

1 Q. Based on that, what penalty, in your opinion,
2 should be assessed against any nonconsenting interest
3 owner?

4 A. Typically cost plus 200 percent.

5 Q. The maximum allowed by statute; is that correct?

6 A. Yes.

7 Q. In your opinion, is the granting of this
8 Application in the interests of conservation and the
9 prevention of waste?

10 A. Yes.

11 Q. And were Exhibits 6 and 7 -- These were
12 originally prepared by Gothic, were they not?

13 A. Yes, by their chief geologist, Bob Snead.

14 Q. And have you reviewed the data involved in the
15 preparation of these exhibits?

16 A. Yes.

17 Q. And do you agree with their interpretation?

18 A. Yes, I do.

19 MR. BRUCE: Mr. Examiner, I would move the
20 admission of Gothic Exhibits 6 and 7.

21 EXAMINER ASHLEY: Exhibits 6 and 7 will be
22 admitted as evidence.

23 EXAMINATION

24 BY EXAMINER ASHLEY:

25 Q. Mr. Scott, you listed these two, the Number 2

1 sand and the Number 3 sand, but you said there's up to half
2 a dozen sands that could be producing in this area?

3 A. Yes, kind of in the region, say within a township
4 radius.

5 Q. How come they didn't provide maps on some of
6 those other sands?

7 A. Well, these were the two principal sands. This
8 location is pretty iffy. At one point I talked with Bob
9 Snead about extending the Number 2 sand, mapping it further
10 over to encompass that wellbore, but you would end up
11 having to take a ten-foot contour line between a zero-foot
12 and an eight-foot control point, and you would have to go
13 down to a five-foot contour interval to be able to actually
14 encompass that well location with an isopach line.

15 But those are the principal sands. You tend to
16 find some -- I'll use the word "stray". You can find
17 stray, unexpected sands when you drill anywhere out in this
18 area, and to some degree that's what they anticipate or
19 hope for.

20 Q. How many feet of pay do you need in this area for
21 a well to be productive?

22 A. Well, typically -- A lot of it can depend on a
23 good frac job if you have a thin zone, but typically you'd
24 like to see at least five or ten feet as a minimum. I
25 think this well is getting real close to the edge.

1 But if you have one of these two main zones
2 present and pick up seven or eight feet and pick up some
3 other stray stringers for several more feet of thickness,
4 you'll get over ten feet cumulative.

5 EXAMINER ASHLEY: I have nothing further. Thank
6 you.

7 MR. BRUCE: I have nothing further in this
8 matter, Mr. Examiner.

9 EXAMINER ASHLEY: There being nothing further in
10 this case, Case 12,466 will be taken under advisement.

11 (Thereupon, these proceedings were concluded at
12 8:56 a.m.)

13 * * *

14
15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
the Examiner hearing of Case No. 12466,
heard by me on 8-10-00 19.

19 Harold Ashley, Examiner
20 Of Conservation Division
21
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23
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