

## NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date FEBRUARY 22, 2001 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Kellchin	Kellchin + Kellchin	Santa Fe
Bill Baker	Azeigton oil	MIDLAND TX
Paul Douglas	" "	"
Scott Hall	MILLER LAW FIRM	SF
DAVE BONEAU	YATES PETROLEUM	ARTESIA
Raye Miller	Mar bob Energy	Artesia
Batt Ma	" "	"
Mike Feldewert	Holland & Hart and Campbell & Carr	Santa Fe
William J. Day	Holland & Hart	Santa Fe
ROBERT A. HENRI IV	CHESAPEAKE	OKC, OK
Donna MICHAEL	CHESAPEAKE	MIDLAND, TX
Sydney Townsend	CHK Energy	OKla. City, OK
James Brey	<del>CHK</del>	SF
Mike Gryn	Cowcho Resources Inc.	Midland TX
James Turbyfill	"	"

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. 12,500

APPLICATION OF SOUTHWESTERN ENERGY )  
PRODUCTION COMPANY FOR COMPULSORY )  
POOLING AND TWO NONSTANDARD GAS SPACING )  
AND PRORATION UNITS, EDDY COUNTY, )  
NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, 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.

\* \* \*

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

OIL CONSERVATION DIV.  
01 MAR - 8 AM 9:10

## I N D E X

February 22nd, 2001  
Examiner Hearing  
CASE NO. 12,500

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\* \* \*

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\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law  
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 Santa Fe, New Mexico 87501  
 P.O. Box 1056  
 Santa Fe, New Mexico 87504

FOR SACRAMENTO PARTNERS and  
 YATES PETROLEUM CORPORATION:

HOLLAND & HART, LLP, 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                   8:20 a.m.:

3                   EXAMINER CATANACH: Call the hearing to order  
4                   this morning for Docket Number 6-01. Let me call the  
5                   continuances and dismissals first.

6                   (Off the record)

7                   And at this time we'll call Case 12,500, which is  
8                   the Application of Southwestern Energy Production Company  
9                   for compulsory pooling and two nonstandard gas spacing and  
10                  proration units, Eddy County, New Mexico.

11                  Call for appearances in this case.

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

14                  EXAMINER CATANACH: Any additional appearances?

15                  MR. CARR: May it please the Examiner, my name is  
16                  William F. Carr with the Santa Fe law firm Holland and  
17                  Hart.

18                  We represent Sacramento Partners, a limited  
19                  partnership, and Yates Petroleum Corporation in this  
20                  matter. We do not have a witness.

21                  EXAMINER CATANACH: I'm sorry, Mr. Carr,  
22                  Sacramento?

23                  MR. CARR: Sacramento.

24                  EXAMINER CATANACH: Will the two witnesses please  
25                  stand to be sworn in?

1 (Thereupon, the witnesses were sworn.)

2 SAMUEL GLENN THOMPSON,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. Samuel Glenn Thompson

9 Q. Where do you reside?

10 A. Katy, Texas.

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

12 A. Staff landman for Southwestern Energy Company.

13 Q. And have you previously testified before the  
14 Division?

15 A. Yes, I have.

16 Q. And were your credentials as an expert petroleum  
17 landman accepted as a matter of record?

18 A. They were.

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

21 A. Yes, sir.

22 MR. BRUCE: Mr. Examiner, I tender Mr. Thompson  
23 as an expert petroleum landman.

24 EXAMINER CATANACH: Mr. Thompson is so qualified.

25 MR. BRUCE: Mr. Examiner, in this case

1 Southwestern filed for compulsory pooling of 320, 160 and  
2 40-acre units. At this time it would amend the Application  
3 only to seek for force pooling below the base of the  
4 Wolfcamp for 320-acre units.

5 EXAMINER CATANACH: Okay.

6 Q. (By Mr. Bruce) Mr. Thompson, briefly what does  
7 Exhibit 1 show?

8 A. Is that the land map?

9 Q. Yes.

10 A. The north half of 36 is a --

11 Q. Thirty-one?

12 A. -- 31, is 320 acres that we own an interest in.

13 Q. And what, there are about six or seven state  
14 leases involved in this particular well unit?

15 A. There are.

16 Q. Okay. And are all of the working interest owners  
17 within the north half of Section 31 listed on Exhibit 2?

18 A. They are.

19 Q. Now, we'll get to the negotiations in a minute,  
20 but does Exhibit 2 also list the current status of these  
21 working interest owners, whether or not they have joined in  
22 the well?

23 A. Yes.

24 Q. On Bellwether Exploration Company, I believe they  
25 have signed an AFE; is that correct?

1           A.    They've signed an AFE, and they've told me  
2 they've signed the operating agreement, but I haven't seen  
3 that yet.

4           Q.    Okay, when you receive the operating agreement  
5 will you notify the Division that they are no longer  
6 subject to the pooling?

7           A.    Yes, I will.

8           Q.    Okay. What does Exhibit 3 show, Mr. Thompson?

9           A.    The working interest owners are shown on Exhibit  
10 3.

11          Q.    These are the ones who have already committed  
12 their interests?

13          A.    Yes. Included are Marbob, Pitch, Yates,  
14 Sacramento, Wilson and Barr, OXY USA and Occidental,  
15 McCombs, Roca. And I've given Bellwether credit --

16          Q.    Okay.

17          A.    -- trusting that that will be signed.

18          Q.    Okay. Now, the total for Southwestern Energy,  
19 does that include all of the currently nonconsenting  
20 working interest owners?

21          A.    Yes, it does.

22          Q.    Okay. Based on your interest ownership in the  
23 well, does Southwestern ask that it be designated operator  
24 of the well unit?

25          A.    Yes, we do.



1 Q. Okay. Mr. Thompson, could you move on to Exhibit  
2 4 and discuss when you first proposed the well in the north  
3 half of Section 31 to the working interest owners?

4 A. July 24th of 2000, we initially proposed a well  
5 in the northeast northeast of 31.

6 Q. And --

7 A. Subsequent to that proposal we changed our  
8 location, and on January 5th of 2001 we moved it to 1980  
9 from the west line and 1980 from the north line.

10 Q. The change in location was due to geology?

11 A. Yes, it was.

12 Q. Okay. Now, you have a couple of letters here.  
13 In the interim, did you have numerous phone conversations  
14 with the interest owners?

15 A. Oh, yes.

16 Q. Can you guess how many?

17 A. Oh, 40. And as a result of that, we did get to  
18 the ownership that I just mentioned, the partners that are  
19 joining.

20 Q. Okay, so a number of the working interest owners  
21 joined others, what, farmed out or gave you term  
22 assignments?

23 A. Yes.

24 Q. In your opinion, has Southwestern made a good  
25 faith effort to obtain the voluntary joinder of working

1 interest owners in the north half of Section 31?

2 A. I believe we have.

3 Q. What is Exhibit 5?

4 A. Five is our latest AFE. Back in July the AFE we  
5 had was a little bit lower, but the real costs are shown on  
6 this AFE of \$702,500 for dryhole and \$994,500 for completed  
7 well.

8 Q. Well costs have gone up --

9 A. Yes, they have.

10 Q. -- a fair amount in the last six months, have  
11 they not?

12 A. Right. That's based on a \$9000-a-day day rate.

13 Q. Are the well costs proposed in this AFE fair and  
14 reasonable, and are they comparable to the cost for other  
15 wells of this depth drilled in this area of Eddy County?

16 A. We believe they are.

17 Q. What overhead rates does Southwestern propose?

18 A. We're asking for \$5500 during the drilling phase  
19 and \$550 for producing on a monthly basis.

20 Q. And are these rates reasonable and in line with  
21 the operating costs of other Morrow wells in this area?

22 A. We think they're a little low. We could probably  
23 go to \$6000 and \$600 fairly easily.

24 Q. Okay. And was notice of the Application given to  
25 all of the working interest owners?

1 A. Yes, it was.

2 Q. And are Exhibits 6 and 7 my affidavits of notice?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, Exhibit 6 is the notice  
5 given of the original Application, and Exhibit 7 is the  
6 notice letter for the amended Application.

7 Q. (By Mr. Bruce) Mr. Thompson, in your opinion is  
8 the granting of this Application in the interest of  
9 conservation and the prevention of waste?

10 A. It is.

11 Q. And were Exhibits 1 through 7 prepared by or  
12 under your direction or compiled from company business  
13 records?

14 A. Yes, they were.

15 MR. BRUCE: Mr. Examiner, I'd move the admission  
16 of Southwestern Exhibits 1 through 7.

17 EXAMINER CATANACH: Exhibits 1 through 7 will be  
18 admitted as evidence.

19 Mr. Carr, do you have any questions of this  
20 witness?

21 MR. CARR: I have no questions.

22 EXAMINER CATANACH: Mr. Bruce, why was the  
23 Application amended?

24 MR. BRUCE: To change the well location and to --  
25 It is a nonstandard unit because of the variation in the

1 government survey. That was not included in the original  
2 Application. The well unit is about 327 acres in size.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Okay. Mr. Thompson, all the parties that you  
6 tried to pool, you were able to locate all those parties;  
7 is that correct?

8 A. Yes. And we're continuing to offer the same  
9 terms that we've offered for the last six months, and I  
10 suspect that we will come to terms on three or four of the  
11 other parties. They're small interests, you know, 10 or 12  
12 acres, but I anticipate having term assignments for those  
13 folks.

14 Q. What percentage do you have tied up voluntarily  
15 in the unit?

16 A. Well, I could -- Exhibit --

17 MR. BRUCE: -- 3.

18 THE WITNESS: -- 3, we've got about 75 percent  
19 tied up at this point.

20 Q. (By Examiner Catanach) So you do anticipate that  
21 some of these other parties will eventually join?

22 A. Yes, I do. Well, I say "join". We'll get a term  
23 assignment. I don't think any of the parties that I have  
24 left that I'm pooling are going to actually participate in  
25 the well, but I think we'll come to terms on the bonus and

1 an override and a term assignment. The people that aren't  
2 joining are mineral owners.

3 Q. Okay. You are continuing to negotiate with these  
4 people?

5 A. Yes, I am. I'd rather have a term assignment  
6 than a pooled interest.

7 EXAMINER CATANACH: Okay, that's all the  
8 questions I have of this witness.

9 Mr. Bruce?

10 JAMES J. DENNEY, Jr.,

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

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

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

17 A. My name is James H. Denney, Jr., and I live in  
18 Houston, Texas.

19 Q. Who do you work for?

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

22 Q. What's your job with Southwestern?

23 A. I'm a geologist.

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

1 A. Yes, sir, I have.

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

4 A. Yes, they were.

5 Q. And does your area of responsibility at  
6 Southwestern include this area of New Mexico?

7 A. Yes, it does.

8 Q. And you're familiar with the geology involved in  
9 this case?

10 A. I am.

11 MR. BRUCE: Mr. Examiner, I'd tender Mr. Denney  
12 as an expert petroleum geologist.

13 EXAMINER CATANACH: He is so qualified.

14 Q. (By Mr. Bruce) Mr. Denney, could you identify  
15 Exhibit 8 for the Examiner and briefly describe its  
16 contents?

17 A. Exhibit 8 is a structure map done on the top of  
18 the lower Morrow, and it shows -- generally it shows dip to  
19 the southeast across the prospect area.

20 It also shows the two red wells that are shaded  
21 on the map -- and one is Section 36 of 17 South, 27 East,  
22 and the other well in Section 30 of Township 17 South, 28  
23 East -- as middle Morrow producers.

24 And of course it shows cross-section A-A'.

25 Q. Okay. Now, on this map and on your succeeding

1 maps, this only shows the deep well tests, does it not?

2 A. Yes.

3 Q. There are a multitude of shallow wells in this  
4 area?

5 A. Yes, there are.

6 Q. Why don't you move to your Exhibit 9, identify  
7 that, and describe the reason for the well location?

8 A. Exhibit 9 is an isopach on the middle Morrow sand  
9 objective that we're going to drill for at our proposed  
10 location. It also shows the two wells that have been  
11 productive out of this interval, the two wells I previously  
12 mentioned, one being in Section 36 and the other in Section  
13 30. And it also shows cross-section A-A'.

14 Q. Now, looking at this map, a couple of things.  
15 Could you discuss some of the production from these Morrow  
16 wells in this particular middle Morrow zone?

17 A. Okay. The well in Section 36, the Southwestern  
18 Energy Number 1 No Bluff State was completed in a middle  
19 Morrow sand. It was completed in March of 2000.  
20 Perforations were from 9634 to -38 and 9652 to -58. This  
21 well initially flowed about 1.7 million cubic feet a day  
22 and is active at this time. My cumulative production is  
23 through December, and it's made about 0.36 BCF so far.

24 The other well, the other producer out of the  
25 middle Morrow, located in Section 30, the Holly Energy

1 State "30" Com Number 1, was completed in the middle Morrow  
2 in October of 1980. It produced consecutively through  
3 April of 1992, and when it ceased production its cumulative  
4 production at that time was 0.11 BCF, 168 barrels of oil  
5 and 121 barrels of water.

6 Those were the only two wells on the map here  
7 that has produced out of the middle Morrow.

8 Q. Why don't you move on to your cross-section and  
9 maybe discuss that a little bit, to discuss your proposed  
10 well location?

11 A. Okay, Exhibit 10 is a cross-section, A-A', as  
12 shown on both the structure map and the isopach map. It is  
13 a stratigraphic cross-section, which has been hung on the  
14 top of the Morrow clastics, as indicated on the green  
15 shading on the cross-section.

16 And it shows the Southwestern Energy No Bluff  
17 Number 1 well on the far left, which was located in Section  
18 36, and it proceeds through the proposed location in  
19 Section 31, and then on to the last well, the Mewbourne  
20 Chalk Bluff "31" State Number 1, also located in 31, that  
21 well being on the far right-hand side of that cross-  
22 section.

23 As I mentioned, the Southwestern Energy well was  
24 completed as a gas well in the middle Morrow, as shown as  
25 the perforations that I mentioned as before. These are



1 shaded red on the cross-section. And also shaded dark red  
2 on the log on the cross section is the density neutron log  
3 crossover, indicating that porosity is present.

4 And of course, the location of our proposed well  
5 kind of explains the relationship that we expect to see  
6 there when we encounter those same Morrow gas objectives.

7 And then the last well on the cross-section, on  
8 the far right, the Mewbourne well, was a dry hole in the  
9 middle Morrow. And as a matter of fact -- Let's see, that  
10 well was drilled in September of 1993. There were no  
11 Morrow tests of any type reported for that well. And of  
12 course it was devoid of any porosity in the middle Morrow  
13 sand.

14 Q. Now, looking at your final two exhibits together,  
15 on Exhibit 9 you theorize that the Morrow, middle Morrow,  
16 may thicken a little bit to the west of your proposed  
17 location. Now, are there secondary targets in this well?

18 A. Yes, there are.

19 Q. What zones may be prospective?

20 A. Well, there's an Atoka well that is present in  
21 the south of Section 36 that remains to be active. That  
22 well was initially completed in September of 1999, and  
23 production continued through August of 2000. Through that  
24 date it had produced about 16.8 million cubic feet, 1500  
25 barrels of oil, and it remains active. That is also one of

1 our secondary objectives.

2 Q. Okay. So you're hoping in this well to maybe  
3 stack a couple of zones together?

4 A. Yes, we are.

5 Q. And the reason for your proposed location is not  
6 only the middle Morrow but perhaps one of those other  
7 secondary zones?

8 A. That's correct.

9 Q. Now, looking at your Exhibit 9, you're virtually  
10 surrounded by dry holes in the middle Morrow. Do you  
11 believe that this justifies the maximum cost plus 200-  
12 percent penalty if any working interest owner goes  
13 nonconsent in this well?

14 A. Yes, I do.

15 Q. In your opinion, is the granting of this  
16 Application in the interests of conservation and the  
17 prevention of waste?

18 A. Yes, I believe it is.

19 Q. And were Exhibits 8 through 10 prepared by you or  
20 under your supervision?

21 A. They were.

22 MR. BRUCE: Mr. Examiner, I'd move the admission  
23 of Southwestern Exhibits 8 through 10.

24 EXAMINER CATANACH: Exhibits 8 through 10 will be  
25 admitted as evidence.

1 Any questions, Mr. Carr?

2 MR. CARR: No, sir, no questions.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Okay, Mr. Denney, the secondary targets, the  
6 Atoka, you've chosen not to provide a map, but I suspect  
7 that -- At your proposed well location, will it be a  
8 thicker section in the Atoka?

9 A. Yes, it should be favorable.

10 Q. The only well control -- Well, you've got the  
11 well in Section 36 that you operate, but you've really not  
12 got a whole lot of well control to the east to determine  
13 the Morrow thickness; is that a fair statement?

14 A. Yes, sir.

15 Q. The well in the south half of Section 31, it  
16 didn't have any sand in that Morrow section?

17 A. That's correct. And also, there were no Morrow  
18 tests reported, no drill stem tests, no perforations of any  
19 type.

20 Q. There's a well in Section 32. Did that penetrate  
21 that section?

22 A. Yes, it did.

23 Q. And that did not have any sand either?

24 A. Yes, I gave it zero. It actually -- That well  
25 was drilled in May of 1954, and it drill stem tested the

1 lower Morrow unsuccessfully.

2 Q. Okay, but it didn't test the middle Morrow?

3 A. No tests were run.

4 Q. And the well that you've drilled in Section 36,  
5 how long did you say that it had been producing?

6 A. It's been producing since March of 2000, and it  
7 for all practical purposes would appear to be a good well.

8 Q. Do you know what the rate on that well is today?

9 A. I'm going to say it's around 1100 MCF a day.  
10 It's maintaining itself at a pretty good rate, which is, of  
11 course, our interest here in the prospect here, in 31.

12 Q. Is there any potential for anything above the  
13 Atoka in this well?

14 A. I haven't looked that much at the shallow stuff.

15 Q. How about Strawn or --

16 A. Running across the production, or the scout  
17 tickets, there doesn't seem to be a lot of things that  
18 caught my interest, and so I didn't really work up the  
19 geology on that.

20 I don't consider it a target for us, and I didn't  
21 present this prospect to my management as a prospect for  
22 the shallower zones.

23 EXAMINER CATANACH: Okay, I have nothing further,  
24 Mr. Bruce.

25 MR. BRUCE: I have nothing further, Mr. Examiner.

1 EXAMINER CATANACH: All right. Mr. Carr,  
2 anything further?

3 MR. CARR: Nothing further.

4 EXAMINER CATANACH: There being nothing further  
5 in this case, Case 12,500 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at  
7 8:45 a.m.)

8 \* \* \*

9  
10  
11  
12  
13  
14  
15  
16  
17  
18 I hereby certify that the foregoing is  
19 a correct and true record of the proceedings in  
20 the above case, Case No. 12500.  
21 Recorded by me on February 22, 1961.  
22 David R. Catanach, Secretary  
23 Oil Conservation Division  
24  
25

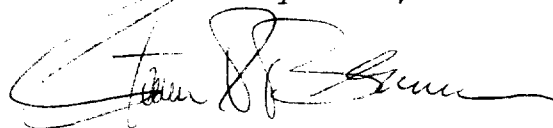
## CERTIFICATE OF REPORTER

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 February 23rd, 2001.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002

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. 12,500
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APPLICATION OF SOUTHWESTERN ENERGY	)	
PRODUCTION COMPANY FOR COMPULSORY	)	
POOLING AND TWO NONSTANDARD GAS SPACING	)	
AND PRORATION UNITS, EDDY COUNTY,	)	
NEW MEXICO	)	
	)	

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, 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.

\* \* \*

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