

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. 12,872
)
 APPLICATION OF OCEAN ENERGY, INC.,)
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILL JONES, Hearing Examiner

May 30th, 2002

Santa Fe, New Mexico

02 JUN 13 AM 7:55
CLERK OF COURT

This matter came on for hearing before the New Mexico Oil Conservation Division, WILL JONES, Hearing Examiner, on Thursday, May 30th, 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

May 30th, 2002
 Examiner Hearing
 CASE NO. 12,872

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DEROLD MANEY</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Jones	10
Examination by Mr. Brooks	12
<u>FRANK MESSA</u> (Geologist)	
Direct Examination by Mr. Bruce	13
Examination by Examiner Jones	16
REPORTER'S CERTIFICATE	22

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	10
Exhibit 2	6	10
Exhibit 3	8	10
Exhibit 4	9	10
Exhibit 5	14	16

* * *

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 THE APPLICANT:

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

ALSO PRESENT:

MICHAEL E. STOGNER
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:25 a.m.:

3 EXAMINER JONES: At this time let's call Case
4 12,872, Application of Ocean Energy, Inc., for compulsory
5 pooling in Lea County, New Mexico.

6 Call for appearances in this case.

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

9 EXAMINER JONES: Okay, would you like to swear in
10 the witnesses?

11 (Thereupon, the witnesses were sworn.)

12 EXAMINER JONES: Any other appearances in this
13 case?

14 There being none, Mr. Bruce, you may proceed.

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

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

22 A. Derold Maney, Houston, Texas.

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

24 A. Ocean Energy, I'm a landman.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes, I have.

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

5 A. Yes, sir, they were.

6 Q. And are you familiar with the land matters
7 involved in this case?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender Mr. Maney as
10 an expert petroleum landman.

11 EXAMINER JONES: No objections, he is so
12 qualified.

13 Q. (By Mr. Bruce) Mr. Maney, could you identify
14 Exhibit 1 and describe what Ocean seeks in this case?

15 A. This is a land map showing our leasehold interest
16 in the area. It has the proposed unit outlined in black,
17 and the red dot in the south half of that spacing unit is
18 the proposed well. The yellow acreage, the yellow portion
19 is acreage held by ocean.

20 Q. And the well unit you seek is the east half of
21 Section 8?

22 A. Yes, sir.

23 Q. And what's the township and range?

24 A. It is 16 South, 35 East.

25 Q. And you are only seeking to pool 320-acre units;

1 is that correct?

2 A. Yes, sir.

3 Q. What is the ownership of the well unit?

4 A. Ocean has a term assignment from OXY covering the
5 east half of the west half of the northeast quarter, and
6 Exxon Mobil owns the remaining interest.

7 Q. Okay. Actually, the owner of record is still
8 what, Mobil Producing Texas and New Mexico, Inc.?

9 A. I believe that's correct.

10 Q. This is in 17 South, 35 East; is that correct?
11 Not 16 --

12 A. Yes, 17 South, 35 East.

13 Q. Okay, thank you. And what is the proposed well's
14 location?

15 A. It is 1980 from the south line and 1980 from the
16 east line.

17 Q. Let's discuss Ocean's efforts to obtain the
18 voluntary joinder of Exxon Mobil in the well. What is
19 Exhibit 2?

20 A. Exhibit 2 is a letter that I wrote to Exxon Mobil
21 in November of 2000, proposing that we get a farmout or a
22 term assignment covering their acreage in Section 8.

23 Q. Okay, and these handwritten notes are your notes
24 on the deal?

25 A. Yes.

1 Q. Okay. And what is page 2?

2 A. Page 2 is a letter dated January 22nd, 2002,
3 where I propose the drilling of the well to Exxon Mobil.

4 Q. Okay. So you have these two letters. Were there
5 also phone conversations with the landman for Exxon Mobil
6 regarding this proposed well?

7 A. Yes, sir, we had several conversations.

8 Q. And just so we're straight, you've been in
9 negotiations with them for about a year and a half now?

10 A. Yes, sir.

11 Q. And the well proposal was sent out about five
12 months ago?

13 A. Yes, sir.

14 Q. Did Exxon at one point ask you to delay the
15 drilling of this well for several months?

16 A. They asked that I not pool them for several
17 months, because they were having trouble getting it
18 reviewed in the offices. So I finally told them I would
19 give them until May 1st to get me an agreement, or that we
20 would have to go to pool them.

21 Q. Have you just recently received a draft agreement
22 from Exxon Mobil?

23 A. I have, I received it yesterday by fax. It was
24 faxed to your office here in Santa Fe when I was already up
25 here.

1 Q. But have you had time to review it and follow up
2 on that?

3 A. No, I haven't.

4 Q. Okay. Now, in your opinion have you made a good-
5 faith effort to obtain the voluntary joinder of Exxon Mobil
6 in this proposed well?

7 A. Yes, sir, I have.

8 Q. Now, they have finally faxed you an agreement.
9 If you can come to terms with Exxon Mobil over the drilling
10 of the well, will you notify the Division?

11 A. Absolutely.

12 Q. What is Exhibit 3, Mr. Maney?

13 A. That's the AFE for the well.

14 Q. Okay, and what are the proposed well costs?

15 A. \$1,502,910 for dryhole, and completed well is
16 \$2,034,540.

17 Q. And is this cost in line with the cost of other
18 wells drilled to this depth in this area of New Mexico?

19 A. Yes, sir, I think it is.

20 Q. And does Ocean request that it be designated
21 operator of the well?

22 A. Yes, sir.

23 Q. And do you have a recommendation for the amounts
24 Ocean should be paid for supervision and administrative
25 expenses?

1 A. Yes, sir, \$7000 for a drilling well and \$700 for
2 a producing well.

3 Q. And are these amounts equivalent to those
4 normally charged by Ocean and other operators in this area
5 for wells of this depth?

6 A. Yes, sir.

7 Q. And do you request that this rate be adjusted
8 periodically under the COPAS accounting procedure?

9 A. Yes, I do.

10 Q. One final thing, going back. You finally
11 received a proposal from Exxon Mobil for a term assignment.
12 You need to move forward with the drilling of this well, do
13 you not?

14 A. Yes, we do.

15 Q. Because you have a term assignment with OXY which
16 is coming up to expiration?

17 A. Yes, it's in the fall. I don't know the exact --
18 remember the exact date, but it does expire.

19 Q. Okay, so you do need to start this well in the
20 next couple of months, in other words?

21 A. Yes, sir.

22 Q. Okay. And was Exxon Mobil notified of this
23 hearing?

24 A. They were.

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

1 A. Yes, it is.

2 Q. Were Exhibits 1 through 4 prepared by you or
3 under your supervision, or compiled from company business
4 records?

5 A. They were.

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

9 A. Yes, it is.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Ocean Exhibits 1 through 4.

12 EXAMINER JONES: 1 through 4 are so admitted.

13 MR. BRUCE: And I have nothing further of the
14 witness, Mr. Examiner.

15 EXAMINATION

16 BY EXAMINER JONES:

17 Q. Okay, Mr. Maney, I think Mr. Bruce has pretty
18 much asked all the questions that I would have asked you.

19 I guess you started in the year 2000 and you
20 negotiated over two years' time. And then you get a letter
21 recently; is that right? You get a letter as you're coming
22 to the hearing today?

23 A. Right, they finally got something out, you know.
24 They -- It's been like pulling teeth. It's a little
25 difficult to get them to, I guess, get an agreement out.

1 And this is the second one I've gotten, and it generally
2 takes a minimum of six to eight months to get them to turn
3 an agreement over to you.

4 Q. Okay. You don't want to show that letter, or you
5 don't want to talk about it at this time; is that --

6 A. I haven't had a chance to review it.

7 Q. Okay.

8 A. The conversation I had with the landman, Paul
9 Keffer, said that the terms that we agree to, you know, are
10 in the letter.

11 Q. Okay.

12 A. And basically we agreed to pay him \$300 per acre
13 for a two-year term assignment. And that's probably the
14 meat of it. I just need to review the agreement and have
15 our legal group to see what other terms and provisions --
16 It's 23 pages long, so it's something I didn't want to do
17 at the last minute --

18 Q. Right.

19 A. -- and then dismiss them and get back to the
20 office and find out that there was something in the
21 agreement that couldn't be tolerated or, you know, that
22 would be difficult to live with.

23 Q. Right. I remember, I started working the Vacuum
24 field, right north of the Vacuum field, real similar to
25 where you're talking about here. We had a gas well in the

1 Morrow, and we didn't have to do anything with this well.
2 It was no operating cost whatsoever. They told us not to
3 touch this well. It was making, you know, \$2 million a
4 year, so to speak, back then, which was really good, so...

5 But you're asking for a COPAS of \$700 for
6 drilling, \$700 per month for operations?

7 A. \$7000 per month for drilling, and \$700 per month
8 operating -- producing well.

9 Q. That's normal for this area?

10 A. That's in the range of agreements we've done
11 before and agreements we've executed.

12 EXAMINER JONES: Okay, I have no further
13 questions.

14 MR. BROOKS: One, if I may?

15 EXAMINER JONES: Okay.

16 EXAMINATION

17 BY MR. BROOKS:

18 Q. At a little over \$2 million, this is probably
19 just about the highest AFE I've seen. Can you tell me why
20 the expenses are so high on this well?

21 A. I didn't prepare the AFE. I really couldn't go
22 through with it, but it's in line with what we've been
23 drilling.

24 MR. BROOKS: Okay, is your other witness capable
25 of responding to that?

1 MR. BRUCE: I think our next witness, the
2 geologist, could respond to some of your inquiries, Mr.
3 Brooks.

4 MR. BROOKS: Okay, very good. That's all I have.

5 MR. BRUCE: I will say, Mr. Examiner, that the
6 Exxon agreement took approximately -- with the fine print,
7 approximately 50 minutes to come through the fax machine
8 yesterday.

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

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

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

15 A. Frank Messa.

16 Q. Where do you reside?

17 A. In Houston, Texas.

18 Q. And who do you work for?

19 A. I work for Ocean Energy.

20 Q. And what's your job with Ocean?

21 A. I'm an exploration geologist.

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

24 A. Yes, I have.

25 Q. And were your credentials as an expert petroleum

1 geologist accepted as a matter of record?

2 A. Yes, they were.

3 Q. And are you familiar with the geology involved in
4 this matter?

5 A. Yes, I am.

6 MR. BRUCE: Mr. Examiner, I tender Mr. Messa as
7 an expert petroleum geologist.

8 EXAMINER JONES: He's so qualified.

9 Q. (By Mr. Bruce) Mr. Messa, could you identify
10 your Exhibit 5 and identify the primary zone of interest in
11 your well?

12 A. Okay. This exhibit shows the net sand isopach
13 map of the lower Atoka, what we locally refer to as the
14 Brunson sand. And this is a fluvial sand, similar in
15 depositional nature to the Morrow sands.

16 And I'm also showing alongside each well symbol a
17 red value which indicates that net sand, which has a cutoff
18 of sand greater than 8 percent density porosity. And then
19 the black number shows the gross sand, which is a cutoff of
20 less than 60 API on the gamma-ray.

21 In addition, alongside each wellbore that is
22 productive there are two numbers. One is underlined. That
23 is the current producing rate as of approximately six
24 months ago, and the current cumulative production from the
25 well as of approximately six months ago.

1 The sand channels show a general north-to-south
2 trend. It shows a nice thick in Section 8, in the east
3 half of Section 8, where we'd like to drill. And this is
4 the primary zone for which this well will be drilled,
5 although there are secondary zones in the deeper portions
6 of the Mississippian and the Morrow formations, as well as
7 a shallower objective in the Wolfcamp.

8 Q. The well will be drilled to test the
9 Mississippian, will it not?

10 A. Yes, this will be drilled to test the
11 Mississippian.

12 Q. Okay. In looking at this data, there are some
13 pretty decent wells to the south and west of your proposed
14 well, are there not?

15 A. Yes, there are.

16 Q. But to the north and east it looks pretty barren
17 for a couple of miles except for, what, Ocean's well in
18 Section 5?

19 A. That is correct.

20 Q. Is that a fairly new well?

21 A. It's a recent well, drilled about a year ago by
22 Ocean.

23 Q. Okay. But other than that well, it looks pretty
24 uneconomic to the north and to the east?

25 A. That is true. You have to go a couple of miles

1 to the north to find any decent production from this
2 formation.

3 Q. Do you believe that this is a high-risk well?

4 A. Yes, I do.

5 Q. And again, it's what, about a 12,800- or 13,000-
6 foot test?

7 A. Yes, 12,800 feet will get us there.

8 Q. In your opinion, should the maximum cost-plus-
9 200-percent penalty be assessed against Exxon Mobil if it
10 does go nonconsent in this well?

11 A. Yes, I do.

12 Q. And was Exhibit 5 prepared by you?

13 A. Yes.

14 Q. In you opinion, is the granting of Ocean's
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes, I do.

18 MR. BRUCE: Mr. Examiner, I'd move the admission
19 of Ocean Exhibit 5.

20 EXAMINER JONES: Exhibit 5 is admitted.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Are you using seismic to come up with this, or
24 was it just well control?

25 A. I integrated both seismic and well control.

1 Q. Okay.

2 A. That's correct.

3 Q. Probably 3-D seismic?

4 A. Yes.

5 Q. And it was targeting the Mississippian depth on
6 your processing?

7 A. That's correct.

8 Q. Okay. I guess one big question I have is, you
9 said something about the Wolfcamp might be a bailout zone;
10 is that correct?

11 A. Correct.

12 Q. And it's a different -- What spacing is the
13 Wolfcamp?

14 A. I believe the Wolfcamp would be either on 40 or
15 80 acres.

16 Q. Okay, for oil.

17 A. For oil, yes.

18 Q. Okay. So that would -- But in this order you're
19 asking for from the -- let's see, base of the -- I thought
20 the order was stating base of the Mississippian.

21 MR. BRUCE: Mr. Examiner, we are not seeking the
22 pooling of any oil zones, because at this point we do not
23 own any interest in that drill site.

24 EXAMINER JONES: Right, okay. Okay, that was a
25 big question.

1 Q. (By Examiner Jones) The cost plus 200 percent
2 that you're asking for, this AFE -- Can you go over it just
3 a little bit, or --

4 A. Yes, this AFE was not prepared by me, but I am
5 familiar with how it's prepared and some of the data that's
6 input into this and -- I believe the biggest cost is the
7 daily rig cost. I don't see that broken down here, but
8 this AFE was prepared at a time when probably rig rates
9 were a bit higher. I do know that a new AFE can be
10 prepared if it's necessary.

11 The other things to note are, the mud fluids and
12 chemicals, typically we run polymer mud systems with very
13 low water loss that really helps protect the formation,
14 especially in the shales, to keep the shales from caving in
15 on the well.

16 On the completion side, let's see here --

17 Q. It looks like you have 8-5/8 casing, and then
18 you're drilling out, but I don't -- Oh, here's the 5-1/2-
19 inch, so --

20 A. Yeah.

21 Q. -- the 5-1/2 is to 12,800?

22 A. Yes.

23 Q. And that's the TD, I believe?

24 A. That's correct.

25 Q. Okay.

1 A. Our engineers usually include a frac stimulation
2 treatment for the well of this particular sand, although if
3 you hit a really good portion of the reservoir with good
4 permeability a frac is not needed. But we include the frac
5 stimulation as a contingency if we need one.

6 Q. Okay. Now, you didn't put any P-and-A costs in
7 there, which -- You don't anticipate being a dry hole.

8 A. That's correct.

9 Q. Let's see, what else...

10 (Off the record)

11 Q. (By Examiner Jones) Mr. Messa, do you remember
12 when this AFE was prepared?

13 A. I don't know when the actual AFE was prepared.
14 It may have been prepared at the time when the well
15 proposal was sent to Exxon Mobil.

16 Q. Okay, which would have been in the year 2000,
17 probably. Prices were pretty high back -- Rig costs
18 were --

19 MR. BRUCE: Mr. Examiner, I think if you look --
20 I don't have the AFE in front of me right now, but I think
21 if you look at the January 22, 2002, letter, I think the
22 costs in that letter are the same as the costs on the AFE.

23 EXAMINER JONES: They are the same?

24 MR. BRUCE: So --

25 EXAMINER JONES: Yeah.

1 MR. BRUCE: -- the AFE is about five --
2 approximately five months old.

3 THE WITNESS: Okay.

4 EXAMINER JONES: Yes, the letter has those
5 numbers on it.

6 I'm still a bit uncomfortable with this AFE,
7 possibly, even though this letter has the cost on there
8 of -- It doesn't exactly say when the AFE was prepared. It
9 does say enclose duplicate for your view and approval,
10 though, doesn't it?

11 (Off the record)

12 EXAMINER JONES: I think Mr. Brooks has
13 straightened me out on this, and I think --

14 MR. BRUCE: Mr. Examiner, Mr. Maney pointed out
15 to me, assuming that you come to terms with Exxon Mobil,
16 Ocean will be absorbing all of these costs, so...

17 EXAMINER JONES: Oh, yeah, they -- assume they --
18 if they don't come to terms --

19 MR. BRUCE: Well, even if they don't come to
20 terms

21 EXAMINER JONES: Yeah.

22 MR. BRUCE: -- because I think it's been -- I
23 cannot remember the last Morrow well that Exxon actually
24 drilled in this state, but I believe it was at least 11 or
25 12 years ago, and I do not know that they have participated

1 in any deep tests since then.

2 EXAMINER JONES: They're offshore Nigeria now.

3 MR. BRUCE: They're everywhere.

4 EXAMINER JONES: Yeah. Well, that's all I have
5 for this witness.

6 MR. BRUCE: And I have nothing further, Mr.
7 Examiner.

8 EXAMINER JONES: You don't want to make a closing
9 statement?

10 MR. BRUCE: No, no, I can only hurt myself.

11 EXAMINER JONES: Okay, with that, Case 12,872
12 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 11:45 a.m.)

15 * * *

16
17
18
19 I do hereby
20 a complete
the State of
heard by me on 5/30/
21 Will Jones
22 Oil Company
23
24
25

12872
2002

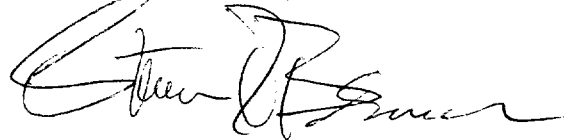
CERTIFICATE OF REPORTER

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 June 1st, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002