

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. 12,960
)
 APPLICATION OF OCEAN ENERGY, INC., FOR)
 COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 14th, 2002

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 14th, 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.

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November 14th, 2002
 Examiner Hearing
 CASE NO. 12,960

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

ALSO PRESENT:

WILLIAM V. JONES, JR.
Petroleum Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 8:58 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,960, the Application of Ocean Energy, Incorporated, for
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

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

9 EXAMINER CATANACH: Any additional appearances?
10 Will the witnesses please stand to be sworn in?
11 (Thereupon, the witnesses were sworn.)

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

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Will you please state your name for the record?

18 A. Derold Maney.

19 Q. Where do you reside?

20 A. In Houston, Texas.

21 Q. Who do you work for?

22 A. I work for Ocean Energy.

23 Q. And what's your job at Ocean?

24 A. 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 landman
4 accepted as a matter of record?

5 A. Yes, they were.

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

8 A. Yes, sir.

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

11 EXAMINER CATANACH: Mr. Maney is so qualified.

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

14 A. Exhibit 1 is a land plat with Ocean's proposed
15 west-half spacing unit in the west half of Section 23, 14
16 South, 37 East, outlined in yellow. And we seek an order
17 pooling the west half of Section 23 from the surface to 200
18 feet below the top of the Mississippian formation for all
19 pools and formations spaced on 320 acres.

20 Q. What is the well's proposed location?

21 A. It's 660 feet from the south line and 1980 feet
22 from the west line.

23 Q. Now, the Application originally requested pooling
24 of the southwest quarter for 160-acre units and the
25 southeast quarter, southwest quarter for 40-acre units, did

1 it not?

2 A. Yes. We came to terms with all the working
3 interest owners in the southwest quarter, so we only seek
4 to pool 320-acre units at this time.

5 Q. What is the -- One thing on Exhibit 1 shows that
6 part of this acreage is in the Denton North Wolfcamp Unit;
7 is that correct?

8 A. Yes, it is.

9 Q. And we're not seeking to pool anything that's in
10 that unit?

11 A. No.

12 Q. Okay. Now, what is the ownership of the west-
13 half well unit? And I refer you to Exhibit 2.

14 A. There are two tracts in the west half. The
15 southwest quarter, Ocean has 100-percent working interest
16 by assignments or farmouts. And the northwest quarter,
17 Ocean owns working interests except for two unlocatable
18 interest owners and two interest owners with whom we're
19 unable to agree to terms.

20 Q. Okay. Who are the unlocatable owners?

21 A. The unlocatable owners. Ruth Walls --

22 Q. Halls?

23 A. Halls, I'm sorry, Halls, Trustee, and Hitchcock
24 and Chamberlain.

25 Q. Okay. And looking at Exhibit 2, they own a

1 pretty small interest; is that correct?

2 A. Yes, sir.

3 Q. What did Ocean do to try to locate these interest
4 owners? And I refer you to Exhibit 3.

5 A. Yes, sir. We checked the county records for
6 updated addresses, we sent letters to the last known
7 addresses, and we searched Ruth Halls in the area phone
8 directory and called parties, attempted to contact Ruth
9 Halls.

10 And we sent a fax to Howard Sargent who was the
11 alternate executer of the estate of Jay C. Halls, deceased,
12 husband of Ruth N. Halls, and Mr. Sargent replied that he
13 did not know J.C. Halls or Ruth N. Halls. And there's a
14 copy of that letter or fax.

15 Q. And what about Hitchcock and Chamberlain?

16 A. We checked the county records for updated
17 addresses, we sent a letter to the last known address and
18 we searched Hitchcock and Chamberlain in the phone
19 directory and called in an attempt to contact. And we
20 contacted the California Secretary of State, and the entity
21 Hitchcock and Chamberlain was not in the database, so we
22 ran into a dead end there.

23 Q. Okay. In your opinion, did Ocean make a good-
24 faith effort to locate these two interest owners?

25 A. I believe we did.

1 Q. Now, then referring back to Exhibit 2 again,
2 Sempra Energy Production Company and the Nysewander Trust,
3 those persons are locatable?

4 A. Yes, and we are -- I'm told that Sempra Energy is
5 going to sign our lease, and that should be forthcoming but
6 I haven't received it yet, so I don't want to -- I still
7 want to pool them and will advise you when I do get the
8 lease so you're aware that we did reach agreement.

9 Q. Okay, go ahead.

10 A. And the Bank, we've sent a lease to them with our
11 proposed changes. Their lease provisions are fairly
12 onerous and they won't come off of them. And we've, I
13 guess, come to a dead end, and they have not contacted us
14 since the last e-mail that we sent them with our proposed
15 changes.

16 Q. Does Exhibit 4 contain copies of your
17 correspondence with the Nysewander Trust?

18 A. Yes, sir.

19 Q. And does Exhibit 5A contain copies of your
20 correspondence with Sempra?

21 A. 5A, yes, it does.

22 Q. Now, you've been in touch with them for several
23 months, correct?

24 A. Yes, sir.

25 Q. And if you do obtain a lease from Sempra Energy,

1 will we notify the Division of that fact?

2 A. Yes.

3 Q. One final matter, although it wasn't listed on
4 Exhibit 2. Now Exhibit 5B, what is that?

5 A. It's a letter that we sent to Merit Energy, and
6 they've agreed to farmout terms. And I have an agreement
7 to them that they said that they would sign.

8 Q. But they haven't yet?

9 A. No, they have not.

10 Q. Now, they aren't listed on Exhibit 2, but at this
11 point you would also seek to force pool them because they
12 haven't signed on the dotted line?

13 A. Yes, sir.

14 Q. And again, will you notify the Division if Merit
15 Energy does sign -- Is it a term assignment or a farmout?

16 A. It's a farmout.

17 Q. Okay.

18 A. Yes, sir.

19 Q. In your opinion, have you made a good-faith
20 effort to obtain the voluntary joinder of Sempra Energy,
21 the Nysewander Trust and Merit Energy?

22 A. Yes, sir.

23 Q. Referring back to Exhibit 5A, Mr. Maney, there is
24 an AFE in there. Is that the AFE that was sent to the
25 various interest owners in the well?

1 A. Yes, sir, it was.

2 Q. And what are the costs of the proposed well?

3 A. Dryhole cost is \$1,226,310, and a completed well
4 is \$1,454,840.

5 Q. And is this cost in line with the cost of wells
6 to this depth drilled in this area of Lea County?

7 A. Yes, sir.

8 Q. And does Ocean request that it be designated
9 operator of the well?

10 A. Yes, we do.

11 Q. What are your recommendations as to the amounts
12 which Ocean should be paid for supervision and
13 administrative expenses?

14 A. \$7000 for a drilling well and \$700 for a
15 producing well.

16 Q. Are these amounts equivalent to those normally
17 charged by Ocean and other operators in this area for wells
18 of this depth?

19 A. Yes, sir.

20 Q. Do you request that this rate be adjusted under
21 the COPAS accounting procedure?

22 A. Yes, sir, I do.

23 Q. Were the locatable interest owners notified of
24 this hearing?

25 A. Yes.

1 Q. And is that reflected on Exhibit 6?

2 A. Yes, it is.

3 Q. In your opinion, is the granting of Ocean's
4 Application in the interests of conservation and the
5 prevention of waste?

6 A. Yes, sir.

7 Q. And were Exhibits 1 through 6 prepared by your or
8 under your supervision or compiled from company business
9 records?

10 A. They were, yes, sir.

11 Q. Now, when does Ocean plan on commencing this
12 well?

13 A. Right now there's supposed to be a rig available
14 on the 20th of December.

15 Q. Okay. Are there some time constraints in
16 drilling this well?

17 A. We have some farmout terms that require
18 commencement of drilling operations prior to March 1st.

19 Q. Are there also some surface-use issues?

20 A. Yes, sir, there's circular irrigation out there.
21 We've come to terms with the land owner, and he is going to
22 let us drill the well at the location we proposed.

23 Q. Okay, but you have to be off that drill site
24 before his spring irrigation season begins?

25 A. Yes, sir.

1 Q. And if you couldn't drill at this location, you
2 would have had to have moved the well location and drilled
3 directionally, is that correct?

4 A. Yes, sir.

5 MR. BRUCE: Okay. Mr. Examiner, I'd move the
6 admission of Ocean's Exhibits 1 through 6.

7 EXAMINER CATANACH: Exhibits 1 through 6 will be
8 admitted.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Maney, the vertical interval that you're
12 pooling is from the surface to 200 feet below the top of
13 the Mississippian formation?

14 A. The Mississippian lime, yes, sir.

15 Q. Except for the Wolfcamp; is that correct?

16 A. Yes, sir.

17 Q. What interest does Merit own in this acreage?

18 A. I don't remember the exact amount, but they have
19 a small interest that we negotiated to take a farm-in from
20 them. I don't remember the exact acreage number. I can
21 get my briefcase and look at the title opinion and --

22 MR. BRUCE: It's about a 1-percent, maybe less
23 than a 1-percent working interest in the well, in the 320-
24 acre unit.

25 Q. (By Examiner Catanach) Do you know which quarter

1 section it's in?

2 A. I believe it's in the northwest.

3 Q. Northwest quarter. And you anticipate they will
4 ultimately sign that agreement?

5 A. Yes, they've indicated that they would farm out,
6 and I sent the agreement to them.

7 Q. And Sempra, you said, probably will sign?

8 A. They have agreed to terms, and we sent the lease
9 to them to sign. I just have not received it.

10 Q. Okay. Why did you all send notice to Phillips?

11 A. Phillips has an interest in there, and we've got
12 a farmout agreement from them.

13 Q. It's already been signed?

14 A. Yes.

15 EXAMINER CATANACH: Okay, I don't think I have
16 anything else.

17 EXAMINATION

18 BY MR. JONES:

19 Q. Why is the Wolfcamp being excluded?

20 A. There's an existing Wolfcamp unit that covers the
21 south half of the southwest quarter.

22 MR. JONES: Thank you.

23 EXAMINATION

24 BY MR. BROOKS:

25 Q. This surface location that's shown on Exhibit 5A,

1 in the AFE it says 660 from the south, 1980 from the west.
2 Is that the correct surface location? 5A.

3 A. Okay, I was going to see what my location was
4 here on the -- 660 from the south and 1980 from the west.

5 Q. Okay.

6 A. That's correct.

7 MR. BROOKS: Thank you.

8 FRANK MESSA,

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

11 DIRECT EXAMINATION

12 BY MR. BRUCE:

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

15 A. My name is Frank Messa, I reside in Houston,
16 Texas.

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

18 A. I work for Ocean Energy as an exploration
19 geologist.

20 Q. Have you previously testified before the
21 Division?

22 A. Yes, I have.

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

25 A. Yes, they were.

1 Q. And does your area of responsibility at Ocean
2 include this part of New Mexico?

3 A. Yes, it does.

4 Q. Are you familiar with the geology involved in
5 this Application?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I'd move the admission
8 -- or excuse me, I'd tender Mr. Messa as an expert
9 petroleum geologist.

10 EXAMINER CATANACH: Mr. Messa is so qualified.

11 Q. (By Mr. Bruce) Mr. Messa, could you identify
12 Exhibit 7 and describe the primary zone of interest in your
13 well?

14 A. Okay, Exhibit 7 is a structure map on the top of
15 the lower Mississippian formation at the north end of the
16 Denton field area, 14 South, 37 East. Structure plays a
17 very significant part of this prospect.

18 As you can see, running north and south through
19 Section 23 is a pair of faults that are down to the east on
20 the west and down to the west on the east fault, creating a
21 graben running north and south through Section 23. That
22 fault system is key to the prospect, and it creates the
23 accommodation space for the deposition of the Atoka sands
24 we're targeting in this well.

25 Q. The Atoka is the primary formation?

1 A. The Atoka is the primary objective.

2 Q. Would you move on to your Exhibit 8 and describe
3 what you see as the Atoka reservoir in this area?

4 A. Exhibit 8 is an attempt, really, to isopach the
5 Atoka sands from a net standpoint. The challenge here with
6 this map was, vintage of the logs are 1950s, dealing mostly
7 with electric logs. So I've had to net out the sands based
8 on an SP deflection greater than 40 millivolts. And so
9 there's a lot of zeroes on this map, but...

10 Locate the two wells that have fair thickness
11 values: There's a well in Section 23 that had 20 feet and
12 a well over in Section 27 that has 27 feet. These two
13 wells are located -- at least the well in Section 23 is
14 located in the graben that sets up this thick sand channel
15 running north and south through there.

16 Q. This well will be a wildcat in the Atoka, the
17 Morrow and the Mississippian, will it not?

18 A. Yes, this will be a wildcat well. There's no
19 Atoka production for nearly seven miles. I think you have
20 to go to 15 South, 36 East for the nearest Atoka
21 production.

22 Q. Is the Mississippian a secondary objective?

23 A. Yes, the Mississippian, the upper Mississippian
24 Chester formation, which we call Austin, is secondary
25 potential in this area as well.

1 Q. Could you move on to your cross-section, Exhibit
2 9, and describe what you hope to hit in your well, and
3 could you identify roughly where your proposed well is
4 located on this cross-section?

5 A. Okay, cross-section in Exhibit 9 is mostly an
6 east-west cross-section, west to east, basically, beginning
7 in Section 27 and moving east southeast into Section 26.
8 And as you look at the two wells in the cross-section, the
9 Denton Foster Number 1-A and the Shelton Number 2, the
10 cross-section shows a thickening in the Atoka formation.

11 This stratigraphic cross-section is hung at the
12 top of the Atoka, the red line that you see going flat
13 across the cross-section. And then the squiggly line you
14 see at the base of the Atoka formation is the interval that
15 these sands are deposited in. You can also see the quality
16 of the logs that we're dealing with, and I've also noted
17 the DSTs in these particular intervals on each of these
18 wells.

19 And you can see in the well in Section 23, which
20 is basically a well that we will be twinning, has an Atoka
21 DST that flowed gas to surface at 679 MCF a day. There's
22 some pressure information and some volumes recovered, fluid
23 volumes recovered.

24 And then you can see the second DST at about
25 11,800 feet, a DST in the Austin formation, recovered

1 similar amounts of gas at the surface.

2 Q. Those wells were never completed in those zones,
3 however; is that correct?

4 A. That's correct, these zones were never completed.
5 My understanding is, these wells were drilled to Devonian,
6 produced Devonian oil, and then have come up and have since
7 been producing from the Wolfcamp.

8 Q. In your opinion, should the maximum cost-plus-
9 200-percent penalty be assessed against any nonconsenting
10 interest owner?

11 A. Yes, I do.

12 Q. Were Exhibits 7, 8 and 9 prepared by you?

13 A. Yes, they were.

14 Q. And in your 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 Exhibits 7, 8 and 9.

20 EXAMINER CATANACH: Exhibits 7, 8 and 9 will be
21 admitted.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Messa, on your Exhibit Number 8, what control
25 did you use to map those Atoka sands up in Section 23 and

1 14?

2 A. The only control that I have to map the sand is
3 the accommodation space that I see from the structure map.
4 We also have 3-D seismic covering this area, and so the 3-D
5 seismic data played a significant role in determining the
6 outline and the configuration, shape and thickness of this
7 Atoka sand.

8 Q. Is there any other sand buildup in any of the
9 other formations, Morrow or -- that you can see in there?

10 A. No, sir, the Morrow is not present in this area.
11 The Atoka formation sits unconformably on the top of the
12 Mississippian, so there's really no Morrow sands out here.

13 Q. You said the closest Atoka production is a
14 considerable distance; is that --

15 A. That's right. You really have to go to 15 South,
16 36 East, the Caudill field. There is one producing well in
17 that field that produced from the Atoka formation,
18 approximately .3 of a BCF. It's about seven miles west.

19 Q. What about the Mississippian? Is there anything
20 in this area?

21 A. Numerous DST shows and one or two producing
22 wells.

23 The nearest producing well would be on the south
24 end of the Denton structure, and I believe that's in
25 Section 13 of 15-37. It's basically a show well, but it

1 did produce and was reported to the OCD. It produced
2 something on the order of 1000 barrels.

3 EXAMINATION

4 BY MR. JONES:

5 Q. Mr. Messa, the Devonian you didn't want to go
6 down to --

7 A. No, we believe that the structure as we have it
8 mapped at -- we believe it will be too far downdip. We
9 believe that the Devonian has also been fairly drained and
10 do not attribute much reserves to that.

11 Q. And these logs, you put the lateral logs on
12 there, but there was no porosity logs at all available, no
13 neutrons?

14 A. No, these logs -- These wells were drilled in the
15 early, mid-1950s.

16 There are some wells that have gamma-ray neutron
17 logs, but most of them that are consistent logs that are
18 scaled the same are these resistivity logs. And so the --
19 you can see the SP deflection on these logs, and you can
20 see that there's not much, really, to hang your hat on as
21 far as trying to net out the sands.

22 Q. You've got some separation, though, I guess
23 you've highlighted that on the lateral logs?

24 A. Right, highlighted the separation as an
25 indication of a permeability.

1 Q. Did you have available mud logs?

2 A. No. There are -- In some of these wells there
3 are sample logs, not really mud logs. At the time when
4 these wells were drilled, mudlogging where they're
5 measuring the gas and that kind of stuff wasn't used,
6 mostly just looking at the cuttings and describing the
7 rocks that these guys see.

8 Q. And just for my information, is that Austin
9 Chester -- that's two different names you're using for the
10 Mississippian lens -- is that a lime or a sand?

11 A. Yes, that is a limestone.

12 Q. Lime.

13 A. You can also see -- I didn't point this out too
14 strongly -- that the quality of the DSTs and the shows that
15 were recovered from these wells, quite significant,
16 especially if you look over to the east -- sorry, to the
17 west end of the cross-section.

18 Q. And I guess you didn't have available a well to
19 re-enter here, you want to drill another well?

20 A. Correct.

21 MR. JONES: That's all my questions.

22 EXAMINER CATANACH: I have nothing further.

23 Anything further, Mr. Bruce?

24 MR. BRUCE: I have nothing further in this
25 matter.

1 EXAMINER CATANACH: There being nothing further
2 in this case, Case 12,960 will be taken under advisement.

3 (Thereupon, these proceedings were concluded at
4 9:25 a.m.)

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13 I do hereby certify that the foregoing is
14 a complete record of the proceedings at
the Examiner hearing of Case No. 12960,
15 heard by me on October 14 1920.
16 David H. Catanch, Examiner
Oil Conservation Division
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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 20th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006