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:

APPLICATION OF OXY USA WTP LIMITED
PARTNERSHIP FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 13,017

)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS RECEIVED

EXAMINER HEARING

MAR 27 2003

BEFORE: DAVID K. BROOKS, JR., Hearing Examination Division

March 13th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, March 13th, 2003, 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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REPORTER'S CERTIFICATE

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* * *

Examination by Examiner Stogner

EXHIBITS

Applicant's	Identified	Admitted
Exhibit Exhibit Exhibit Exhibit Exhibit	2 8 3 9 4 10 5 11	13 13 13 13 13
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* * *

APPEARANCES

FOR THE APPLICANT:

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

* * *

ALSO PRESENT:

MICHAEL E. STOGNER Hearing Examiner New Mexico Oil Conservation Division 1220 South Saint Francis Drive Santa Fe, NM 87505

* * *

WHEREUPON, the following proceedings were had at 1 8:40 a.m.: 2 EXAMINER BROOKS: Back on the record. At this 3 time we'll call Case 13,017, the Application of OXY USA WTP 4 Limited Partnership for compulsory pooling, Lea County, New 5 Mexico. 6 7 Call for appearances. MR. CARR: May it please the Examiner, my name is 8 William F. Carr with the Santa Fe office of Holland and 9 Hart, L.L.P. We represent OXY USA WTP Limited Partnership, 10 and I have two witnesses. 11 12 EXAMINER BROOKS: Other appearances? 13 Witnesses please stand to be sworn. (Thereupon, the witnesses were sworn.) 14 15 EXAMINER BROOKS: You may proceed. MR. CARR: Thank you, Mr. Brooks. Our first 16 17 witness will be Patrick Sparks. 18 PATRICK S. SPARKS, the witness herein, after having been first duly sworn upon 19 his oath, was examined and testified as follows: 20 DIRECT EXAMINATION 21 BY MR. CARR: 22 Would you state your full name for the record, 23 Q. please? 24 25 Α. Patrick Stephen Sparks.

Mr. Sparks, where do you reside? Q. 1 2 Α. Midland, Texas. By whom are you employed? 3 0. OXY USA WTP Limited Partnership. Α. 4 5 Q. And what is your position with OXY? I'm a senior landman. 6 Α. Have you previously testified before the New 7 Q. Mexico Oil Conservation Division? 8 No, sir. Α. 9 Could you briefly review for the Examiner your 10 Q. educational background and then summarize your work 11 experience? 12 I've got a bachelor's degree from the University 13 of Tulsa in business management, 1976. I've been in the 14 oil industry for 32 years, the last 22 doing land work. 15 And the area in which you've worked is southeast Q. 16 New Mexico/Permian Basin? 17 Yes, sir. 18 Α. Are you familiar with the Application filed in 19 0. this case on behalf of OXY? 20 Yes, sir. 21 Α. 22 0. Are you familiar with the status of the lands and the ownership of those lands in the areas which are the 23 24 subject of this pooling Application?

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Α.

Yes, sir.

MR. CARR: Are the witness's qualifications 1 2 acceptable? EXAMINER BROOKS: He is so qualified. 3 (By Mr. Carr) Mr. Sparks, would you briefly 4 Q. state what OXY seeks with this Application? 5 6 Α. Yes, sir, we seek a force pooling on a 320-acre 7 deep gas, being the north half of Section 8, 22 South, 38 East, the northeast quarter for 160-acre gas and the 8 southwest of the northeast for 40-acre oil. 9 10 Q. The primary objective in this Application is actually Ellenburger oil, is it not? 11 Yes, sir. 12 Α. But you -- also there is a potential in the area 13 Q. for deep gas which would be developed on 160-acre spacing? 14 That's correct. Α. 15 And what is the name of the well to which you 16 propose to dedicate these pooled units? 17 The Brabant Number 1. 18 Α. 19 0. And where is the Brabant Number 1 located? It will be 1980 from the north line and 1980 from 20 the east line. 21 And that's of Section 8? 22 Q. Eight. 23 Α. Let's go to what has been marked for 24 Q. identification as OXY Exhibit Number 1. Would you identify 25

that for Mr. Brooks and review the information on this exhibit?

- A. Yes, sir. We have a map showing Section 8, the north half being divided into three separate lease interests. The western third we're calling -- for this purpose we're calling Lease A, the center third Lease B and the eastern third Lease C. We in OXY USA secured leases on all of Lease A. We have eight owners we've been unable to reach agreement with or to find in Lease B, and two owners in Lease C. And their tabulation of their interest is listed on the bottom part.
- Q. And you have indicated with various colored blocks the three spacing units which are the subject of this hearing?
- 15 A. Correct.

- 16 Q. The well location is also shown?
- 17 A. Yes, sir.
- Q. Mr. Sparks, we're actually in an area that has not been leased for many years; is that right?
 - A. That's correct.
 - Q. How long do you think it's been since any of this acreage was actually under lease?
 - A. the last activity out there was in 1970, and I believe the leases were taken in the 1960s for that activity.

Are there any special pool rules which apply to 1 2 any of the acreage? Yes, sir. Α. 3 And what would that be? 4 We've got the South Brunson-Drinkard-Abo Pool and 5 then the special Tubb Gas Pool. 7 Q. And those rules were approved by Order Number R-8170-H; is that correct? 8 Yes, sir, for the Tubb. 9 Α. Q. And do you have the number of the other pool 10 rules? 11 It was R-8593. Α. 12 Otherwise, we're looking at acreage which is 13 Q. developed under the general Rules of the Oil Conservation 14 Division? 15 That's correct. Α. 16 17 Q. Would you identify what has been marked as OXY Exhibit Number 2? 18 Yes, sir, this is a tabulation spreadsheet 19 Α. 20 showing the uncommitted interest by their lease, and the calculations on 40 acres, 160 acres and 320 acres. 21 0. And these are the interests in this acreage. 22 Is 23 everyone other than OXY that is shown on this exhibit 24 subject to a force pooling order? 25 Α. Yes, sir.

Okay. Let's go to what has been marked as OXY 1 Q. 2 Exhibit Number 3. Would you first just identify what this is? 3 This is just a summary of our attempts on the 4 uncommitted owners to secure agreements with them. 5 Are there any interest owners that you have in 6 Q. 7 fact been unable to locate? 8 A. Yes, sir. 9 And would you identify them? 0. Fred Tankersley. 10 Α. And you have in this exhibit sheets on each of 11 Q. these individual owners, do you not? 12 Yes, sir. A. 13 Is the third sheet the page that addresses your 14 Q. efforts to find Mr. Tankersley? 15 That's correct. Α. 16 Could you review for Mr. Brooks your efforts to 17 ο. locate this individual? 18 We searched, of course, the records of Lea 19 Α. County, New Mexico. 20 We did Internet searches to find him. We located 21 22 his brother Drury Tankersley and his sister Ruby Ramsey, 23 but we were informed by them that he died some 25 years 24 ago. He was married to Veleta Tankersley. They had no 25 idea -- They did not think she was still alive either, they had no children.

- Q. How will the production proceeds that are attributable to Mr. Tankersley's interest be handled by OXY?
- A. They will be escrowed in a banking institution in Lea County and then escheated to the State in accordance with rules.
- Q. Does Exhibit 3 contain a page that summarizes your contacts and efforts to reach a voluntary unit with each of the mineral owners that are subject to pooling?
 - A. Yes, it does.
- Q. In your opinion, have you made a good-faith effort to obtain the voluntary participation of each of these owners?
- 15 A. Yes, sir.
- Q. How long have you been working on this prospect,

 Mr. Sparks?
 - A. A little over six months.
 - Q. Let's go to what's been marked as OXY Exhibit

 Number 4. Would you identify that, please? This is just a

 packet of correspondence.
 - A. Correspondence from the various owners and what we have sent, you know, our -- summarizing the correspondence and efforts to secure a commitment from these owners.

1	Q. And these are the communications that simply back
2	up and supplement the summaries contained in Exhibit Number
3	3?
4	A. That's correct.
5	Q. Let's go to what has been marked for
6	identification as Exhibit Number 5. Would you identify
7	this, please?
8	A. That's the AFE to drill and equip the Brabant
9	Number 1 well.
10	Q. Has this been provided to the uncommitted mineral
11	owners?
12	A. Yes, sir.
13	Q. Would you review the totals reflected on this
14	AFE?
15	A. The total and I don't see where they got the
16	second page showing the actual cost, but the totals to
17	drill and equip and complete the well was \$950,000, dryhole
18	expense would be \$455,000.
19	MR. CARR: May it please the Examiner, we'll
20	supplement with the second page of the AFE that contains
21	these totals with your permission.
22	EXAMINER BROOKS: That will be acceptable.
23	Q. (By Mr. Carr) Mr. Sparks, do the figures that
24	you've just quoted are those in line with what has been
25	charged by OXY and other operators in this area for similar

wells?

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- A. Yes, sir.
- Q. Have you made an estimate of the overhead and administrative costs to be incurred while drilling this well and also while producing it if, in fact, it is a successful well?
- A. Yes, sir.
 - Q. And what are those costs?
 - A. \$6000 for drilling overhead and \$600 a month for operating overhead.
- Q. And these are the rates that would be included for a joint operating agreement on this property; is that right?
- A. That is correct.
- Q. And how do they compare to the most recent Ernst and Young figures?
 - A. They're slightly below the average in the area.
 - Q. And do you recommend that these figures be incorporated into any order that results from this hearing?
 - A. Yes, sir.
 - Q. What is OXY Exhibit Number 6?
 - A. An accounting procedure, our standard accounting procedure that we attach to joint operating agreements.
 - Q. And does this form provide for the periodic adjustment of overhead and administrative charges?

- 13 Yes, sir. 1 Α. 2 Q. And are these consistent with the COPAS forms, or is this the COPAS form? 3 This is the COPAS form. 4 5 Does OXY request that the Division order that results from this hearing provide that these overhead and 6 7 administrative costs be adjusted in accordance with these COPAS procedures? 8 Yes, sir. 9 Α. Q. Does OXY seek to be designated operator of the 10 well? 11 Yes, sir. 12 A. Is OXY Exhibit Number 7 an affidavit confirming 13 Q. that notice of this hearing has been provided to the 14 mineral owners subject to this case in accordance with the 15 Rules of the Division? 16 Α. Yes, sir. 17 Were Exhibits 1 through 7 either prepared by you 18 Q. or compiled at your direction? 19 Α. Yes, sir. 20 21 MR. CARR: At this time, Mr. Brooks, we'd move
- the admission of OXY Exhibits 1 through 7. 22

23 EXAMINER BROOKS: One through 7 are admitted.

24 MR. CARR: And that concludes my direct examination of Mr. Sparks. 25

EXAMINATION 1 BY EXAMINER BROOKS: 2 Have you got pool names for the pools that this 3 0. will affect, if any? 4 Yes, sir. 5 Α. And what are those? 6 0. 7 The -- Get my notes back out here. That would be Α. the South Brunson-Drinkard-Abo Pool. 8 South Brunson- --9 0. -- -Drinkard-Abo. 10 Α. -- -Drinkard-Abo. 11 Q. And the Tubb Oil and Gas Pool. 12 Α. And what are the spacing in those pools? 13 Q. The spacing for the South Brunson-Drinkard-Abo 14 Α. Pool is 160 on -- if it calculates as a gas well. 15 16 Q. Okay. 17 Α. And so is the Tubb. 18 Q. And you're dealing with this for gas and an oil unit. Is it a standard location for either one? 19 20 Α. Yes, sir. 21 Okay. You list one of the owners here as the Q. 22 Fasken Foundation, and I notice you have an address of 500 West Texas, from which -- since that used to be the Midland 23 24 National Bank Building, that would infer that that's 25 probably the Murray Fasken family.

1	A. Yes, I was actually dealing with Stephen Fasken,
2	and he has an office there in Midland, one in Austin, one
3	in Colorado Springs, and I've contacted him all three
4	places.
5	Q. He's about two years younger than me. I thought
6	he was a really little kid when I was a They lived about
7	a block and a half from us.
8	Okay. Well, I know who that is and that doesn't
9	create a problem. I of course have some connections with
10	the David Fasken family, and I want to be sure I'm not in a
11	conflict of interest here.
12	I think that's all my questions, Mr. Carr.
13	MR. CARR: Mr. Brooks, as to the subject pools, I
14	think they're set forth on the form, but if they're not
15	they're also in the Application.
16	EXAMINER BROOKS: Okay.
17	MR. CARR: And the Tubb Oil and Gas Pool would be
18	160-acre spacing for gas and 40-acre for oil.
19	EXAMINER BROOKS: Okay.
20	MR. CARR: There are a number of oil pools that
21	are in this immediate area. They're set forth in the
22	Application, but they include the Undesignated Granite Wash
23	Pool, the Undesignated South Brunson-Drinkard-Abo Pool, the

Undesignated Blinebry Oil and Gas Pool and the Undesignated

Paddock Pool. We have a number of 40-acre pools in

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1 different horizons in the subject acreage. 2 EXAMINER BROOKS: So do you have a list of all 3 those pools? MR. CARR: They're in the Application --4 5 EXAMINER BROOKS: Okay. 6 MR. CARR: -- and they're supposed to be on the 7 compulsory pooling form. 8 EXAMINER BROOKS: Yes, I know --9 MR. CARR: I hope they are. 10 EXAMINER BROOKS: That's good, I just wanted to 11 be sure. 12 MR. CARR: All right. 13 EXAMINER BROOKS: Thank you. 14 Mr. Stogner? 15 EXAMINER STOGNER: Yes, I do have a question. 16 **EXAMINATION** 17 BY EXAMINER STOGNER: 0. Just for clarification in this Exhibit Number 3, 18 this is the first time I've run across this. 19 The lease is set up as the top of the north half, a third each. 20 the first time you've ever run into this? 21 22 Α. No, sir, I've had -- It can even get worse than 23 that on occasion, but when it was split out it was split 24 where the ownership was split out in three separate 25 parcels.

- Q. Also, in looking at -- Let's see, Exhibit 4, is that the thick --
 - A. Yes, sir.

- Q. Okay. This is something new for me also. Did you prepare the oil and gas lease?
 - A. Which one?
- Q. Looking at the third page, starting with the first page of the --
 - A. Okay.
- 10 0. -- lease.
- 11 A. That is a -- No, that is actually Republic
 12 Royalty's oil and gas lease form. The comments on the side
 13 are our proposed changes.
 - Q. Yeah, that's what I was getting at. I've never seen this format. Is this -- Am I going to see more of these?
 - A. I don't know. It's easier to negotiate when you're -- you know, over by e-mailing them back and forth and then just highlighting the changes to them that you want them to make, and then they can accept or reject the changes, rather than trying to take a pencil and mark it all up.
 - Q. Actually, that was very clear, and I -- those comments on the side were very clear. I just wanted to double-check that.

1	Also, just for the record, the Tubb Oil and Gas
2	and the Blinebry Oil and Gas Pool, those are essentially
3	treated as associated and
4	MR. CARR: Right.
5	EXAMINER STOGNER: correct me if I'm wrong,
6	Mr. Carr.
7	MR. CARR: You're right.
8	EXAMINER STOGNER: 160 if it's gas and 40 if
9	MR. CARR: 40 if it's oil.
10	EXAMINER STOGNER: 40 if it's oil. Okay, I
11	have nothing further. Thank you, sir.
12	MR. CARR: May it please the Examiner, at this
13	time we call Mr. Scott Gengler.
14	EXAMINER BROOKS: Proceed.
15	SCOTT E. GENGLER,
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. CARR:
20	Q. State your name for the record, please.
21	A. My name is Scott Edward Gengler.
22	Q. Mr. Gengler, where do you reside?
23	A. Midland, Texas.
24	Q. By whom are you employed?
25	A. OXY USA WTP Limited Partnership.

1 And what is your position with OXY? Q. I'm a petroleum engineer. 2 Α. Have you previously testified before this 3 Q. Division and had your credentials as an expert in petroleum 4 engineering accepted and made a matter of record? 5 Yes, I have. 6 Α. 7 Are you familiar with the Application filed on 0. behalf of OXY in this case? 8 9 Α. Yes, I am. Have you made an engineering study of the area 10 0. which is the subject of this Application? 11 Yes, I have. 12 Α. 13 0. Are you prepared to share the results of that work with Mr. Brooks? 14 15 Α. Yes, I am. 16 MR. CARR: Are the witness's qualifications 17 acceptable? 18 EXAMINER BROOKS: They are accepted. 19 Q. (By Mr. Carr) Mr. Gengler, what is the primary 20 objective in this well? The Ellenburger formation. Α. 21 Q. Let's go to OXY Exhibit Number 8. Would you 22 identify what that is and then review the information shown 23 on this exhibit? 24 25 Α. Exhibit Number 8 is a structure map on top of the

Ellenburger formation, based off seismic data. What we have in this structure map is two faults coming together up in the northwest corner of the map. To the east fault -- or west fault, excuse me. To the west of that we have an unconformity which has eroded off the Ellenburger, and there's no Ellenburger present in that area. You go straight from the Abo into the Granite Wash.

On the east fault, when you head off to the northeast of that you go downdip, and there's been only one test over there and it has been wet.

In between the two faults there's only been one Ellenburger test, in Section 6. It was drilled down to the Ellenburger, had a drill stem test of over 4000 feet of salt water and was a dry hole. We have identified an Ellenburger high in Section 8 where we propose to drill the well.

- Q. We've used seismic to identify and map the Ellenburger?
 - A. That is correct.

- Q. How long has it been since there's been any development in this area?
- A. There has not been really any new wells drilled in probably 30, 40 years.
- Q. If we look at the well in Section 6, that well was wet?

A. That is correct.

- Q. Have you been able to establish an oil-water contact in this reservoir?
- A. We know that it is above that point. Since there are no other wells that penetrate the Ellenburger in this fault block, we are not able to determine exactly what the oil-water contact is.
- Q. And the proposed location is hopefully high enough to be above the oil-water contact?
 - A. That is correct.
 - Q. But there is some risk that it might not be?
- A. Right, you need at least some oil column within the well to make it commercial. We've identified what we think is a structure. There's some risk that that structure isn't as high as what it is based on our interpretation of the geophysics.
- Q. Are you prepared to make a recommendation to the Examiner as to the risk penalty that should be assessed against any nonparticipating interests in this well?
 - A. Yes, I am.
 - Q. And what is that?
- A. I propose that there be a 200-percent risk penalty.
- Q. And can you just summarize for Mr. Brooks your reason behind that recommendation?

1	A. The reason behind that is the high risk of this
2	Ellenburger, not knowing what the oil-water contact is or
3	for sure what kind of column that we're going to have
4	presents a fairly high risk.
5	Q. In your opinion, will granting this Application
6	be in the best interests of conservation, the prevention of
7	waste and the protection of correlative rights?
8	A. Yes, I do.
9	Q. How soon does OXY hope to spud this well?
10	A. We hope to spud this well in about 30 days.
11	Q. Was OXY Exhibit Number 8 prepared by you?
12	A. It was under my direction.
L3	Q. And can you testify as to its accuracy?
L4	A. Yes, I can.
L5	MR. CARR: At this time, Mr. Examiner, we move
L6	the admission into evidence of OXY Exhibit Number 8.
L7	EXAMINER BROOKS: Number 8 is admitted.
L8	MR. CARR: That concludes my direct examination
L9	of Mr. Gengler.
20	EXAMINER BROOKS: Okay. Well, I don't have any
21	questions. Mr. Stogner?
22	EXAMINATION
23	BY EXAMINER STOGNER:
4	Q. Yes, sir. Where is the nearest Ellenburger
5	nroduction around this area?

1	A. The nearest Ellenburger production is to the
2	southeast of this area, over in Andrews County, Texas, in
3	the Nelson-Ellenburger field, which is about five to eight
4	miles southeast of here.
5	Q. And what depth is that production? And is it
6	still producing?
7	A. I think there's one well left, making very little
8	oil. It was discovered in the 1940s. It's at about 11,000
9	feet.
10	Q. Have you investigation of wells well, within
11	the area of this map actually there doesn't show to be too
12	many, is there?
13	A. This particular map is actually wells that were
14	deeper than 7500 feet.
15	Q. Okay, did they necessarily penetrate the
16	Ellenburger?
17	A. There's only two Ellenburger penetrations, the
18	well in Section 6 and the well in Section 5. Both of them
19	were dry holes.
20	Q. So you derived this map from a 3-D seismic?
21	A. That is correct.
22	EXAMINER STOGNER: Okay, I have no other
23	questions. Thank you, sir.
24	MR. CARR: That concludes or presentation in this
25	case.

1 EXAMINER BROOKS: Thank you. There being nothing 2 further, then Case Number 13,107 will be taken under 3 advisement. 4 MR. CARR: Mr. Brooks, the second page of the AFE is included in the large correspondence document, so that 5 it is included in the record. 6 7 EXAMINER BROOKS: It's in Exhibit 4? 8 MR. CARR: Yes, it is. 9 EXAMINER BROOKS: Okay, thank you. (Thereupon, these proceedings were concluded at 10 11 9:02 a.m.) 12 13 14 15 16 I to be rely sently through the foreigning to · Carriero and the state some the factor 17 in the desire of the second of the 13017 ward by me or March 13 2003 18 19 Conservation Division 20 21 22 23 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 March 14th, 2003.

STEVEN T. BRENNER

CCR No. 7

My commission expires: October 16th, 2006