

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 IN THE MATTER OF THE HEARING)
5 CALLED BY THE OIL CONSERVATION)
6 DIVISION FOR THE PURPOSE OF)
7 CONSIDERING:)
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CASE NO. 10671

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

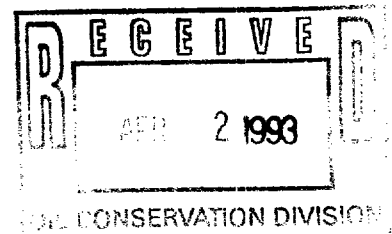
BEFORE: David R. Catanach, Hearing Examiner

March 4, 1993

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on March 4, 1993, at 8:46 a.m. at the Oil Conservation Division Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Freda Donica, RPR, Certified Court Reporter No. 45, for the State of New Mexico.

ORIGINAL



I N D E X

March 4, 1993
Examiner Hearing
CASE NO. 10671

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APPEARANCES

REPORTER'S CERTIFICATE

6

* * *

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT:

CAMPBELL, CARR,
BERGE & SHERIDAN
110 N. Guadalupe Street
Santa Fe, New Mexico
BY: WILLIAM F. CARR, ESQUIRE

1 EXAMINER CATANACH: At this time let me
2 call 10671.

3 MR. STOVALL: Application of Chuza
4 Operating for a pool creation and special pool rules,
5 Lea County, New Mexico.

6 EXAMINER CATANACH: Are there appearances
7 in this case?

8 MR. CARR: May it please the Examiner, my
9 name is William F. Carr of the Santa Fe law firm,
10 Campbell, Carr, Berge & Sheridan. I represent Chuza
11 Operating. This case was heard on February the 18th.
12 Prior to that time there was confusion as to whether
13 or not the completion interval in the subject well was
14 confined to the Blinebry. That formation extends
15 about a hundred feet above the Blinebry marker. And
16 after consultation with Mr. Kautz in the Hobbs office,
17 it was concluded that the interval was completed in
18 the Blinebry, but we hadn't given notice that the new
19 pool might also include a portion of the Paddock. For
20 that reason, the record was left open until this date
21 so that all question about the advertising of the case
22 could run its gamut, the 20-day period of time could
23 run.

24 So at this time we would request that, if
25 there's no further testimony or concern from any other

1 party, that the case be taken under advisement and an
2 order entered on the February 18th record.

3 EXAMINER CATANACH: Is there anything
4 additional that we need to tell the Examiner from that
5 case?

6 MR. CARR: Not that I'm aware of.

7 EXAMINER CATANACH: Are there any
8 additional appearances in this case at this time?
9 There being none, Case 10671 will be taken under
10 advisement.

11 (The foregoing hearing was adjourned at the
12 approximate hour of 8:50 a.m.)

13
14
15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 10671,
heard by me on March 4 1993.

19 David R. Catanach, Examiner
20 Oil Conservation Division
21
22
23
24
25

1 STATE OF NEW MEXICO)


2 :

3 COUNTY OF SANTA FE)

4 I, FREDa DONICA, RPR, a Certified Court
5 Reporter, DO HEREBY CERTIFY that I stenographically
6 reported these proceedings before the Oil Conservation
7 Division; and that the foregoing is a true, complete
8 and accurate transcript of the proceedings of said
9 hearing as appears from my stenographic notes so taken
10 and transcribed under my personal supervision.

11 I FURTHER CERTIFY that I am not related to nor
12 employed by any of the parties hereto, and have no
13 interest in the outcome hereof.

14 DATED at Santa Fe, New Mexico, this 26th
15 day of March, 1993.

16 
17 Freda Donica
18 Certified Court Reporter
19 CCR No. 45
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1 NEW MEXICO OIL CONSERVATION DIVISION

2 STATE LAND OFFICE BUILDING

3 STATE OF NEW MEXICO

4 CASE NO. 10671

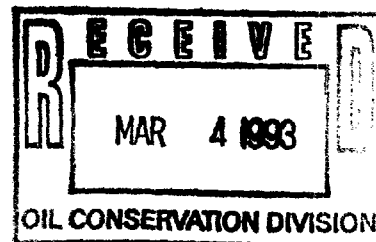
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6 IN THE MATTER OF:7
8 The Application of Chuza Operating
9 for Pool Creation and Special
10 Pool Rules and a Discovery
11 Allowable, Lea County, New Mexico.
12
13
14

15 BEFORE:

16 MICHAEL E. STOGNER

17 Hearing Examiner

18 State Land Office Building

19 February 18, 1993
2021
22
23 REPORTED BY:24 CARLA DIANE RODRIGUEZ
25 Certified Court Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

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Santa Fe, New Mexico 87504-2208

BY: **WILLIAM F. CARR, ESQ.**

FOR KELTON OPERATING CORPORATION:

MR. C. DALE KELTON

President, Kelton Operating Corporation
Post Office Box 276
Andrews, Texas 79714-0276

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1 EXAMINER STOGNER: Let's call the next
2 case, No. 10671.

3 MR. STOVALL: Application of Chuza
4 Operating for pool creation and special pool
5 rules, Lea County, New Mexico.

6 EXAMINER STOGNER: Call for
7 appearances.

8 MR. CARR: May it please the Examiner,
9 my name is William F. Carr with the Santa Fe law
10 firm Campbell, Carr, Berge & Sheridan. I
11 represent Chuza Operating, and I have two
12 witnesses.

13 EXAMINER STOGNER: Are there any other
14 appearances?

15 Will the witnesses please stand to be
16 sworn at this time.

17 [And the witnesses were duly sworn.]

18 **RICHARD L. STAMETS**

19 Having been first duly sworn upon his oath, was
20 examined and testified as follows:

21 EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your name for the
24 record, please.

25 A. I'm Richard L. Stamets.

1 Q. Where do you reside?

2 A. Santa Fe, New Mexico.

3 Q. By whom are you employed and in what
4 capacity?

5 A. I'm an independent consultant. In this
6 case I've been employed by Chuza Operating.

7 Q. Have you previously testified before
8 the Oil Conservation Division?

9 A. I have.

10 Q. At the time of that prior testimony,
11 were your credentials as a petroleum geologist
12 accepted and made a matter of record?

13 A. Yes.

14 Q. Are you familiar with the application
15 filed in this case on behalf of Chuza Operating?

16 A. Yes.

17 Q. Have you made a geological study of the
18 area which is involved in this case?

19 A. I have.

20 MR. CARR: Are Mr. Stamets' credentials
21 acceptable?

22 EXAMINER STOGNER: Have they ever been
23 questioned, Mr. Stamets, before?

24 MR. CARR: Not on the record.

25 THE WITNESS: Excellent answer, Mr.

1 Carr.

2 EXAMINER STOGNER: Mr. Stamets is so
3 qualified.

4 MR. STOVALL: Let the record show there
5 was a long pause.

6 Q. Mr. Stamets, would you briefly state
7 what Chuza Operating seeks with this application?

8 A. Chuza Operating is seeking the creation
9 of a new Blinebry oil pool and a 6000-to-1
10 gas/oil ratio limitation, and asks that the
11 effective date of the GOR be retroactive to the
12 date of completion of Chuza's well.

13 We've got a couple of other things we
14 want to mention, but we can do those at the end.

15 Q. Mr. Stamets, have you prepared certain
16 exhibits for presentation here today?

17 A. Yes, I have.

18 Q. Refer to what has been marked as Chuza
19 Exhibit No. 1, identify this and review it for
20 Mr. Stogner?

21 A. Chuza Exhibit No. 1 is an area
22 ownership map. On here I have marked the
23 Blinebry pools in the area with what was an
24 orange color and sort of turned out brown when it
25 ran through the color copying machine.

1 Chuza's acreage in Section 12 is marked
2 in yellow, and then Paddock pools in the area are
3 marked in blue. The reason the Paddock is on
4 here is because, when I was looking at the logs
5 in this area initially, I thought that we had
6 Paddock perforations, but that is not the case,
7 and we'll get to that in a little bit.

8 Also, not shown on here, my
9 understanding that Kelton Operating, the other
10 owner in the proposed pool, is the operator of
11 160 acres in Section 11, being the
12 east-half-northeast, and the north half of the
13 southeast.

14 Q. The yellow shaded acreage simply shows
15 Chuza acreage in the area?

16 A. That's correct.

17 Q. And it's not designed to show or
18 identify the proposed pool boundaries?

19 A. No.

20 Q. Let's go now to what has been marked as
21 Exhibit No. 2, and I would ask you to review
22 that.

23 A. Okay. Chuza Exhibit No. 2 is a more
24 detailed map of the immediate area. It shows the
25 proposed pool boundary in orange, it shows the

1 Kelton Operating Lineberry No. 1 well in Section
2 11, which was the discovery well for the pool,
3 and it also identifies the Chuza Gambi well in
4 Section 12.

5 Q. Are there any other other
6 Blinebry-producing wells within a mile of the
7 pool boundary?

8 A. No.

9 Q. What rules currently govern development
10 in this proposed pool?

11 A. Statewide rules.

12 Q. When was the Gambi well actually
13 drilled and what is its status?

14 A. The Gambi well was originally drilled
15 or completed in 1984 as a Cline-Drinkard-Abo
16 well. It was then recompleted on December 14 of
17 1992, perforated in the Blinebry from 5489 to
18 5705, and the well is producing.

19 Q. And it's been producing since when?

20 A. Since December of 92.

21 Q. Let's go now to Exhibit No. 3. Would
22 you identify this?

23 A. Yes. Exhibit No. 3 is a structure map
24 on the top of the Blinebry marker that I prepared
25 using the base map that we just looked at. I

1 went through the Division records here in Santa
2 Fe and pulled the logs on all the wells in this
3 nine-township area that were available.

4 Also, I was furnished with some logs by
5 Chuza. And, on the basis of that, then, I
6 determined the Blinebry top or Blinebry marker
7 top. Those are recorded on all the wells where
8 logs were available. And then a structure map
9 was constructed from that.

10 Q. What sort of a trapping mechanism do we
11 have here?

12 A. What we're looking at is an area on the
13 central basin platform. We see some
14 eastward-to-southeastward dip, and then there is
15 a west-east nosing across the upper third of the
16 map.

17 Q. Do we have, what, a structural trap or
18 is it stratigraphic in nature?

19 A. It's a combination of stratigraphy.
20 There is a high area in the northeast of Section
21 11, northeast of 12, so you do have some
22 structure there, but I believe it's
23 stratigraphic, equally.

24 Q. And this map also shows wells in the
25 area?

1 A. Yes, and it does show the current
2 status of the wells. The other maps might show
3 some of these wells to be producers when, in
4 fact, they're old producers which have been
5 plugged and abandoned. I have shown all the
6 plugged and abandoned wells on here, and the
7 wells which are currently indicated to be
8 producers.

9 One other thing that should be noted,
10 looking at the map, is that the proposed pool is
11 currently surrounded by dry holes.

12 Q. All right, Mr. Stamets, let's go to
13 Exhibit No. 4. Would you identify and review
14 this for Mr. Stogner?

15 A. Exhibit No. 4 is a simple two-log
16 cross-section showing the discovery well, the
17 Lineberry well on the left and the Gambi well on
18 the right. The Blinebry marker is shown on each
19 of the wells, and I've shown the perforated
20 interval for each of the wells.

21 We're looking at--like I say, I
22 examined the logs of all the wells in that
23 nine-section area. What we're looking at here is
24 a typical Blinebry section, innerbedded dolomites
25 and shales.

1 Q. If we look at this cross-section, can
2 you just explain where the top of the Blinebry is
3 in relationship to the Blinebry marker?

4 A. Yes. There was some confusion on this
5 initially. In visiting with Paul Kautz in Hobbs'
6 office, he indicated that this is an area where
7 the actual top of the Blinebry is approximately
8 100 feet above the Blinebry marker, and the
9 Blinebry marker is a good marker in the area.
10 That was used by other geologists working in
11 here, and this led to the confusion about where
12 the top of the Blinebry actually was and whether
13 or not those Kelton perforations were in the
14 Paddock or in the Blinebry.

15 But, with the top actually being a
16 hundred feet above the marker, all perforated
17 intervals are within the Blinebry zone.

18 MR. CARR: Mr. Stogner, because of this
19 confusion as to the top of the Blinebry, an
20 amended application was filed in this case. The
21 amendment simply requested the creation of a
22 Blinebry-Paddock pool, and was designed to
23 include the area perforated in the Kelton wells.

24 That is unnecessary as a result of the
25 conversations with Mr. Kautz, so all we're

1 seeking now is the creation of a new Blinebry
2 pool, and any reference to the Paddock, which was
3 only in our amended application, we would request
4 be dismissed.

5 EXAMINER STOGNER: That was
6 readvertised, was it not, for the March 4th
7 hearing?

8 MR. CARR: Right. That's correct. The
9 reason for it was that confusion, and we would be
10 inappropriate to include the Paddock, so that
11 portion should be dismissed at that time.

12 EXAMINER STOGNER: Thank you, Mr. Carr.

13 Q. Mr. Stamets, how would you just
14 generally describe the Blinebry in this area?

15 A. Like I said, it's just a typical
16 dolomite shale sequence. It's virtually
17 indistinguishable from those wells in the
18 Blinebry oil and gas pool to the north and other
19 Blinebry pools in the area.

20 Q. Let's go now to Exhibit No. 5, and
21 identify and review that.

22 A. Exhibit No. 5 is an analysis I made of
23 Blinebry gas/oil ratios, and this was made from
24 two sources. First I looked at the January
25 through June 1993 oil proration schedule for

1 District 1, and I listed all of the Blinebry
2 pools that were shown in that proration schedule,
3 along with their oil allowable gas/oil ratio
4 limits.

5 Then I went to the 1991 Statistical
6 Report and again looked at the Blinebry pools,
7 how many wells were shown to be in those pools,
8 and what the pool gas/oil ratio was.

9 What this shows is that 78 percent of
10 the wells in District 1, 78 percent of the
11 Blinebry wells in District 1, have gas/oil ratio
12 limits in their pool rules of between 4,000 and
13 10,000. It also shows that most Blinebry wells
14 produce at very substantial gas/oil ratios.

15 You compare that with the Lea County
16 total shown in the next to the last line of only
17 2,942, you can see that by and large Blinebry
18 wells do produce at much higher GORs than the
19 average well.

20 Q. Mr. Stamets, is Chuza Exhibit No. 6 an
21 affidavit with attached letters confirming that
22 notice of this hearing has been provided to
23 Kelton Operating Corporation in accordance with
24 OCD rules and regulations?

25 A. Yes.

1 Q. Could you identify what has been marked
2 as Chuza Exhibit No. 7?

3 A. Yes. That is a letter that has been
4 received from Mr. Kelton, and this letter
5 supports our application. And actually it goes
6 further and asks that the special pool rules with
7 6000-to-1 be made retroactive to the original
8 discovery of the pool, which was the October 14,
9 1992 date.

10 Q. Would Chuza support that request of an
11 October 14th effective date?

12 A. Yes. We recognize that Mr. Kelton's
13 well also produces with a high gas/oil ratio.

14 Q. Are you prepared to recommend a name
15 for this new pool?

16 A. I asked the district office if they had
17 a suggestion, and Mr. Kautz said he thought that
18 Cline-Blinebry, although difficult to say,
19 probably was a good name.

20 Q. Did you say decline?

21 A. Just Cline. We certainly hope it's not
22 decline.

23 MR. CARR: The opportunity to support
24 this with poetry is almost limitless.

25 Q. In your opinion, Mr. Stamets, if the

1 application is granted, how long should the
2 temporary rules remain in effect?

3 A. Normally, I know that the rules are
4 made temporary for one year and then there's a
5 hearing, but given the nature of the Blinebry and
6 the large number of pools we already have, it
7 doesn't seem to me that that's necessary in this
8 case.

9 If the Division did want to take
10 another look at this, I would suggest maybe that
11 they just provide for some sort of administrative
12 review either at the district office or here in
13 Santa Fe after a year, and that would avoid the
14 necessity of a hearing and the costs associated
15 with that.

16 Q. Mr. Stamets, what is the current
17 over/underproduced status of the Gambi No. 1?

18 A. I don't have final numbers, but in
19 looking at the production rate, they are
20 producing more gas than would be allowed even at
21 the 6000-to-1 rate. So, they're going to wind
22 up, when this order comes out, with some
23 overproduction.

24 In order to avoid shutting the well in
25 to make that overproduction up, Chuza would like

1 to have up to six months after the order comes
2 out in which to make up any overage on the
3 casinghead gas that's produced.

4 Q. Based on your geological study of this
5 area, what general conclusions can you reach
6 about the proposed new pool?

7 A. What we have is a typical Blinebry
8 reservoir, that the 6000-to-1 gas/oil ratio, at
9 least, is justified, and I would not expect there
10 to be any negative consequences from that action.

11 Q. From a geological point of view, does
12 this appear to be a separate common source of
13 supply?

14 A. It does.

15 Q. Were Exhibits 1 through 7 either
16 prepared by you or compiled at your direction?

17 A. Yes.

18 MR. CARR: At this time, Mr. Stogner,
19 we would move the admission of Chuza Operating
20 Exhibits 1 through 7.

21 EXAMINER STOGNER: Exhibits 1 through 7
22 will be admitted into evidence at this time.

23 MR. CARR: I have nothing further of
24 Mr. Stamets on direct.

25

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Stamets, in looking at Exhibit No. 4, let me make sure I understand what that marker is. Point it out to me.

A. Okay. If you come down on the Gambi well, it's just above 5500 feet. It's about 5485. That is a marker that is pretty uniform across this entire area and easily traceable well to well, and apparently is widely used as a Blinebry marker.

I found lots of other wells as I went through the exhibits with a Blinebry mark at that location.

Q. And that marker, as I understand it, is not the Blinebry zone or Blinebry formation or the Paddock-Blinebry chain?

A. Right. That is a point which is approximately 100 feet below the top of the actual Blinebry.

Q. So you have, essentially, marked the Blinebry marker, not the top of the Blinebry?

A. That's correct.

EXAMINER STOGNER: Okay. I was confused. I don't think I have any other

1 questions right now. I may, perhaps, after we
2 hear from the other witness.

3 [Discussion off the record.]

4 MR. STOVALL: Mr. Stamets, before you
5 go, I do have a question.

6 EXAMINATION

7 BY MR. STOVALL:

8 Q. You have suggested with respect to the
9 6000-to-1 GOR that there be some sort of
10 administrative review or something; but, in fact,
11 is not the trend in the Blinebry pools to try to
12 go in and raise the GORs?

13 A. Yes. I don't think it's necessary at
14 all, but if the Examiner or the Division felt
15 like some sort of review after a year was
16 necessary, I would suggest an administrative
17 review, which would be less expensive than a
18 hearing.

19 Q. Based upon what you know about the
20 other cases, my recollection is that most of the
21 Blinebry cases we've had have been for increases
22 of GORs and they have been in the 6- to 10,000
23 range. Your table here in Exhibit 5 shows 4- to
24 10,000?

25 A. 4- to 10,000, right.

1 Q. So, if I understand you correctly in
2 your last statement, you think this could be made
3 permanent without review, and you could always
4 reopen a case if information is necessary, is
5 that correct?

6 A. Absolutely.

7 FURTHER EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Well, along those same lines, in
10 looking at Exhibit No. 5, perhaps the reason some
11 of the wells that have an actual GOR that's
12 rather high, perhaps they haven't come in and
13 requested a higher GOR because they're pretty
14 marginal production?

15 A. Yeah, that's very possible that they
16 may not have their production restricted even
17 though the GORs are high.

18 FURTHER EXAMINATION

19 BY MR. STOVALL:

20 Q. One last question, just a procedural
21 one. Exhibit 7, the letter from Mr. Kelton, he
22 states that he requests to be noticed as a party
23 of record and, in fact, he's noticed as a party
24 of interest but he is not a party of record.

25 Then it goes on to state that they

1 intend to attend the hearing. Do you know if Mr.
2 Kelton or any representative of Kelton is here?

3 MR. CARR: Mr. Kelton is present.

4 MR. KELTON: I'm here.

5 MR. STOVALL: Mr. Kelton is present.

6 Does Kelton wish to be a party of record in this
7 case?

8 MR. KELTON: A party of record, but I
9 don't need to testify or anything.

10 MR. STOVALL: Well, in order to be a
11 party of record, Mr. Kelton, you actually have to
12 enter an appearance. And I think at this time,
13 since you do not intend to present testimony or
14 do anything, if counsel would concur, we would
15 allow you to enter your appearance.

16 I assume you are the president of
17 Kelton?

18 MR. KELTON: Right.

19 MR. STOVALL: Just to get you on the
20 record so you are an official party of record,
21 you can participate in future proceedings should
22 there be any.

23 If you care to do so at this time, just
24 state your name and the fact that you're
25 appearing for Kelton.

1 MR. KELTON: Okay. My name is Dale
2 Kelton, and I'm the president of Kelton Operating
3 Corporation.

4 MR. STOVALL: So note their appearance
5 in the proceeding.

6 EXAMINER STOGNER: So noted. Any other
7 questions of Mr. Stamets at this time?

8 If not, you may be excused.

9 Mr. Carr?

10 MR. CARR: At this time we would call
11 Mr. Waller.

12 THOMAS J. WALLER, P.E.

13 Having been first duly sworn upon his oath, was
14 examined and testified as follows:

15 EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name for the
18 record, please?

19 A. Thomas J. Waller.

20 Q. Where do you reside?

21 A. I reside in Midland, Texas.

22 Q. By whom are you employed and in what
23 capacity?

24 A. I'm an independent petroleum engineer
25 and acting on behalf of Chuza.

1 Q. Have you previously testified before
2 this Division?

3 A. Yes, I have.

4 Q. At the time of that prior testimony
5 were your credentials as a petroleum engineer
6 accepted and made a matter of record?

7 A. Yes, they were.

8 Q. Are you familiar with the application
9 filed in this case on behalf of Chuza?

10 A. I am.

11 Q. In fact, have you made a geological
12 study of the area and, in particular, the Chuza
13 well in the proposed new pool?

14 A. Yes. I've looked particularly at the
15 engineering aspects, though.

16 MR. CARR: At this time, Mr. Stogner,
17 we would request that Mr. Waller's credentials be
18 accepted.

19 EXAMINER STOGNER: Mr. Waller is so
20 qualified.

21 Q. Have you prepared certain exhibits for
22 presentation here today?

23 A. Yes, I have.

24 Q. Would you refer to what has been marked
25 as Chuza Exhibit No. 8, identify this, and then

1 review the information on this exhibit for Mr.
2 Stogner?

3 A. Okay. This is a graph showing the
4 relationship of gas/oil ratio in yellow, to oil
5 producing rate which is in green, on a daily
6 basis over a two-month period, December 1992 and
7 January 1993.

8 The thing that I'm attempting to point
9 out here over this period of time, the graph
10 shows that by curtailing oil rate we do not,
11 correspondingly, reduce the gas/oil ratio; which,
12 I might add, is typical of Blinbry production.

13 The graph shows that actually by
14 increasing the oil rate, as was done from
15 December 19th to the 27th, and again January 9th
16 to the 23rd, we, in fact, produced at a lower GOR
17 than when curtailing the well at 20 barrels a day
18 or less.

19 Q. Basically, what this shows is, when you
20 produce at a higher rate, in fact the well
21 appears to perform in a better fashion?

22 A. Yes. We will, in fact, produce more
23 oil by pulling the well down slightly more.

24 Q. And actually, as you choke the well
25 back, you have a reverse effect in terms of the

1 gas/oil ratio?

2 A. That is correct. You can get in a
3 situation where you're producing strictly gas and
4 no oil.

5 Q. Let's go now to Exhibit No. 9. Would
6 you identify and review that for the Examiner?

7 A. Yes. Exhibit 9 is a comparison of the
8 payout economics showing the time required to
9 recoup the drilling and completion costs of
10 \$290,000 under the scenario of, one, current
11 field rules of 2000-to-1, and that of a relaxed
12 gas/oil ratio granting of 6000-to-1.

13 As you can see, we're looking at
14 33-month payout as opposed to 10-month payout. I
15 might point out that these are unrisked
16 economics, and in a situation where, for example,
17 we drill a well half as good as the Gambi--which
18 the Gambi is considered to be a very good
19 well--then our the economic payout would be 66
20 months as opposed to 20 months.

21 Q. In effect, will approval of this
22 application provide incentive for additional
23 development in the reservoir?

24 A. Yes, it definitely will.

25 Q. Does Chuza, in fact, have plans to go

1 forward with additional development if, in fact,
2 the application is granted?

3 A. They do. They plan on a recompletion,
4 and they're currently active in attempting
5 farmouts in the area in order to drill.

6 Q. In your opinion, would approval of this
7 application result in any reservoir damage?

8 A. No, not at all.

9 Q. Do you see any evidence of the
10 formation of a gas cap in this reservoir?

11 A. None.

12 Q. If, in fact, this application is
13 granted, what will the effect be on the ultimate
14 recovery of oil from this reservoir?

15 A. I think you will be looking at a higher
16 oil recovery and an equal gas recovery. I think
17 the ultimate gas recovery is going to be the same
18 regardless of what scenario we have. The higher
19 the gas/oil ratio, I can see from the data we've
20 gathered that we will produce more oil.

21 Q. So, if the application is granted,
22 there will be recovery of hydrocarbons otherwise
23 not recovered?

24 A. That's correct.

25 Q. And that will prevent waste?

1 A. Correct.

2 Q. In your opinion, will approval of the
3 application, otherwise, be in the best interest
4 of conservation and the protection of correlative
5 rights?

6 A. It will, definitely.

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

8 A. Yes, they were.

9 MR. CARR: At this time, Mr. Stogner,
10 we would move the admission of Chuza Exhibits 8
11 and 9.

12 EXAMINER STOGNER: Exhibits 8 and 9
13 will be admitted into evidence.

14 MR. CARR: That concludes my direct
15 examination of Mr. Waller.

16 EXAMINER STOGNER: Thank you.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Waller, the Gambi No. 1, I take it
20 that's not on pump at this time? It's a natural
21 flowing?

22 A. That's correct.

23 Q. In your opinion, at the present rate
24 and if the GOR is allowed to be raised to
25 6000-to-1, would that affect the performance of

1 that well and when it would have to go on pump,
2 as opposed to keeping it at 2000-to-1?

3 A. I don't think so. I think in this
4 situation we have a free gas phase in conjunction
5 with an oil phase, and the gas is going to
6 deplete; it's going to produce itself.

7 Q. Take me back to basics here. In this
8 particular Blinebry pool or proposed Blinebry
9 pool, what kind of reservoir mechanism are we
10 seeing?

11 A. I think, as opposed to a gas cap lying
12 on top of an oil zone, we have laminated dolomite
13 sections where both a free oil phase and a gas
14 phase co-exist together. And that's the only way
15 we can explain that type of gas/oil ratio. We're
16 not looking at solution gas/oil ratio at these
17 upper limits.

18 Q. Are we seeing a fingering or is there
19 an actual level of gas and an actual level of
20 oil?

21 A. No. We're not seeing an upper level
22 predominantly gas and a lower level predominantly
23 oil.

24 Q. I'm trying to get a picture. Do we see
25 it appearing in stringers?

1 A. I think it's co-existing with the oil,
2 and the oil is masking it because it is not
3 apparent on the compensated neutron density
4 porosity logs. We do not see a gas effect on the
5 logs, per se, but we know there has to be a free
6 gas phase in there.

7 Q. What was the initial pressure in that
8 well?

9 A. Well, we do not have data that took an
10 actual bottom hole pressure. I back-calculated,
11 based on a 12-hour shut-in pressure, to 2069 psi,
12 I believe that's correct, which calculated to a
13 gradient of .39, as I recall, .372, and a bottom
14 hole pressure of 2046. The .372 is, of course,
15 below a fresh water gradient, but that is not
16 uncommon in newly discovered Blinebry reservoirs
17 in that area.

18 Q. And the water is so small it has no
19 effect?

20 A. That's correct.

21 Q. This type of behavior in this
22 particular area, is that indicative to the other
23 Blinebry pools in the area?

24 A. Yes. High gas/oil ratio is the norm, I
25 would say.

1 Q. The Blinebry pools, I remember, pretty
2 much are located out there south of Hobbs around
3 the Eunice area, is that correct?

4 A. That's correct.

5 Q. And, of course, not too far from
6 Texas. Are you familiar with--I don't think it's
7 called Blinebry in Texas, is it?

8 A. It's called Upper Clearfork, I
9 believe. It is Clearfork. I don't know about
10 Upper Clearfork.

11 Q. Are you familiar with the Clearfork
12 production over in Texas?

13 A. Yes, I am.

14 Q. Do we see the same activity over there
15 or are there higher GORs in those Clearfork pools
16 in Texas?

17 A. They're very similar to the Blinebry.
18 You're dealing with the same animal, really.

19 Q. I guess what I'm asking, what's Texas'
20 limit for GOR? I'm not familiar with the Texas
21 rules and regs.

22 A. Well, field rules, you know, normally
23 they'll ask for pretty much whatever the
24 producing rate is and tone it down to what the
25 economics might dictate. I would say in the

1 neighborhood of 6- to 10,000 gas/oil ratio.

2 Q. So they don't set a GOR limit to a
3 pool?

4 A. Not per se, no.

5 Q. I'm just trying to get an
6 understanding, and since there's a lot of
7 information over on that side, I thought it would
8 help me understand this side, too.

9 If--and, Mr. Stamets, feel free to jump
10 in on this one, too--if the retroactive request
11 was not granted, what would happen to the
12 production on the Gambi No. 1.

13 MR. STAMETS: There would be
14 considerably more gas to be made up. The well
15 has been producing at, oh, anywhere from 28- to
16 36,000 GOR a day. I'm not sure if I've got total
17 volumes that have been produced. Let's see if I
18 can locate that.

19 Anyhow, the point would be that they
20 would have more gas that would have to be made
21 up, and the well would have to be shut in longer.

22 EXAMINER STOGNER: Essentially, they
23 would shut that in to make up any--is it accrued
24 overproduction at this time in the casinghead
25 gas?

1 MR. STAMETS: It would be very
2 quickly. The way the system is designed to work,
3 any time the well is one month overproduced on
4 its casinghead gas allowable, it's required to be
5 shut in. The computer is supposed to send out a
6 notice.

7 So, whatever it is, then they would
8 have to shut the well in.

9 EXAMINER STOGNER: For approximately
10 how long?

11 MR. STAMETS: Looks like they had--
12 Well, let me do some calculations.

13 EXAMINER STOGNER: Just off the top of
14 your head.

15 MR. STAMETS: Well, hang on a minute.
16 Let me check, because I haven't done that. It
17 looks like a long time, if I did this right.

18 MR. STOVALL: Is that geologic time,
19 Mr. Stamets?

20 MR. STAMETS: It almost looks like
21 geologic time here. It looks to me as though for
22 the month of January, the well produced
23 36,000--no, that's the GOR. Let's try about 33-,
24 34,000 Mcf. And you get 2000-to-1, so that would
25 be what? 214,000? And times 30, that would be

1 6,420 for the month.

2 I always have trouble with my zeros on
3 this stuff. That's why I told them they needed
4 an engineer.

5 MR. CARR: Mr. Stogner, do you want
6 this on the record?

7 EXAMINER STOGNER: Oh, yeah, I kind of
8 like his ciphering. It sounds like he's having
9 trouble with his nots.

10 MR. STAMETS: Let me see if my
11 calculator has warmed up enough. The last time I
12 tried this, it wouldn't calculate.

13 EXAMINER STOGNER: This reminds me of
14 when Jethro Bodine used to have to figure on the
15 Beverly Hillbillies.

16 MR. STAMETS: See if the engineers
17 think I'm right. If you have 2,000 cubic feet
18 per barrel, that translates into 214,000 a day at
19 107? Times 30 days. That equals 6420 Mcf.

20 If you look at that compared to 33,
21 that's about four, five times over? Five times
22 what you would be allowed? So, it's a
23 substantial amount.

24 EXAMINER STOGNER: So it would
25 definitely affect this particular well in its

1 payout?

2 MR. STAMETS: Yeah, and that's for only
3 one month. That's not even going back into
4 December. And here we are the middle of
5 February, so it has a substantial impact.

6 EXAMINER STOGNER: Okay. I don't have
7 any other questions of either witness.

8 MR. CARR: Mr. Stogner, that concludes
9 our presentation in this case. We would request
10 that it be continued to the hearing on March 4th,
11 it's been advertised for that date, at which time
12 we will request that the references to the
13 Paddock formation be dismissed and that the case
14 be taken under advisement on the record made here
15 today.

16 EXAMINER STOGNER: So noted. This case
17 will be continued to the Examiner Hearing
18 scheduled for March 4, 1993; and, at that time,
19 it will be taken under advisement.

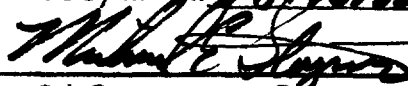
20 Let's take about a 20-minute recess at
21 this time.

22 (And the proceedings concluded.)

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10621
heard by me on 18 February 1993.
, Examiner
Oil Conservation Division

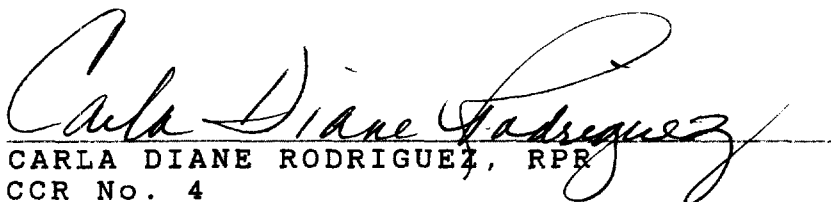
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Carla Diane Rodriguez, Certified
7 Court Reporter and Notary Public, HEREBY CERTIFY
8 that the foregoing transcript of proceedings
9 before the Oil Conservation Division was reported
10 by me; that I caused my notes to be transcribed
11 under my personal supervision; and that the
12 foregoing is a true and accurate record of the
13 proceedings.

14 I FURTHER CERTIFY that I am not a
15 relative or employee of any of the parties or
16 attorneys involved in this matter and that I have
17 no personal interest in the final disposition of
18 this matter.

19 WITNESS MY HAND AND SEAL March 2, 1993.
20

21
22 
23 CARLA DIANE RODRIGUEZ, RPR
24 CCR No. 4
25

NEW MEXICO OIL CONSERVATION DIVISION

STATE LAND OFFICE BUILDING

STATE OF NEW MEXICO

CASE NO. 10671

IN THE MATTER OF:

The Application of Chuza Operating
for Pool Creation and Special
Pool Rules and a Discovery
Allowable, Lea County, New Mexico.

BEFORE:

MICHAEL E. STOGNER

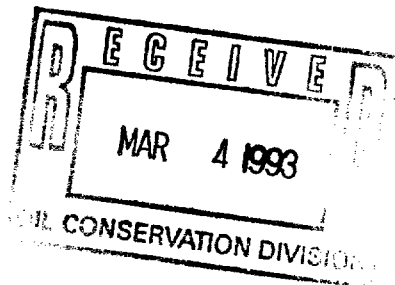
Hearing Examiner

State Land Office Building

February 18, 1993

REPORTED BY:

CARLA DIANE RODRIGUEZ
Certified Court Reporter
for the State of New Mexico



COPY

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1 EXAMINER STOGNER: Let's call the next
2 case, No. 10671.

3 MR. STOVALL: Application of Chuza
4 Operating for pool creation and special pool
5 rules, Lea County, New Mexico.

6 EXAMINER STOGNER: Call for
7 appearances.

8 MR. CARR: May it please the Examiner,
9 my name is William F. Carr with the Santa Fe law
10 firm Campbell, Carr, Berge & Sheridan. I
11 represent Chuza Operating, and I have two
12 witnesses.

13 EXAMINER STOGNER: Are there any other
14 appearances?

15 Will the witnesses please stand to be
16 sworn at this time.

17 [And the witnesses were duly sworn.]

18 RICHARD L. STAMETS

19 Having been first duly sworn upon his oath, was
20 examined and testified as follows:

21 EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your name for the
24 record, please.

25 A. I'm Richard L. Stamets.

1 Q. Where do you reside?

2 A. Santa Fe, New Mexico.

3 Q. By whom are you employed and in what
4 capacity?

5 A. I'm an independent consultant. In this
6 case I've been employed by Chuza Operating.

7 Q. Have you previously testified before
8 the Oil Conservation Division?

9 A. I have.

10 Q. At the time of that prior testimony,
11 were your credentials as a petroleum geologist
12 accepted and made a matter of record?

13 A. Yes.

14 Q. Are you familiar with the application
15 filed in this case on behalf of Chuza Operating?

16 A. Yes.

17 Q. Have you made a geological study of the
18 area which is involved in this case?

19 A. I have.

20 MR. CARR: Are Mr. Stamets' credentials
21 acceptable?

22 EXAMINER STOGNER: Have they ever been
23 questioned, Mr. Stamets, before?

24 MR. CARR: Not on the record.

25 THE WITNESS: Excellent answer, Mr.

1 Carr.

2 EXAMINER STOGNER: Mr. Stamets is so
3 qualified.

4 MR. STOVALL: Let the record show there
5 was a long pause.

6 Q. Mr. Stamets, would you briefly state
7 what Chuza Operating seeks with this application?

8 A. ~~Chuza~~ Chuza Operating is seeking the creation
9 of a new Blinebry oil pool and a 6000-to-1
10 gas/oil ratio limitation, and asks that the
11 effective date of the GOR be retroactive to the
12 date of completion of Chuza's well.

13 We've got a couple of other things we
14 want to mention, but we can do those at the end.

15 Q. Mr. Stamets, have you prepared certain
16 exhibits for presentation here today?

17 A. Yes, I have.

18 Q. Refer to what has been marked as Chuza
19 Exhibit No. 1, identify this and review it for
20 Mr. Stogner?

21 A. Chuza Exhibit No. 1 is an area
22 ownership map. On here I have marked the
23 Blinebry pools in the area with what was an
24 orange color and sort of turned out brown when it
25 ran through the color copying machine.

1 Chuza's acreage in Section 12 is marked
2 in yellow, and then Paddock pools in the area are
3 marked in blue. The reason the Paddock is on
4 here is because, when I was looking at the logs
5 in this area initially, I thought that we had
6 Paddock perforations, but that is not the case,
7 and we'll get to that in a little bit.

8 Also, not shown on here, my
9 understanding that Kelton Operating, the other
10 owner in the proposed pool, is the operator of
11 160 acres in Section 11, being the
12 east-half-northeast, and the north half of the
13 southeast.

14 Q. The yellow shaded acreage simply shows
15 Chuza acreage in the area?

16 A. That's correct.

17 Q. And it's not designed to show or
18 identify the proposed pool boundaries?

19 A. No.

20 Q. Let's go now to what has been marked as
21 Exhibit No. 2, and I would ask you to review
22 that.

23 A. Okay. Chuza Exhibit No. 2 is a more
24 detailed map of the immediate area. ~~It shows the~~
25 proposed pool boundary in orange, it shows the

1 Kelton Operating Lineberry No. 1 well in Section
2 11, which was the discovery well for the pool,
3 and it also identifies the Chuza Gambi well in
4 Section 12.

5 Q. Are there any other other
6 Blinebry-producing wells within a mile of the
7 pool boundary?

8 A. No.

9 Q. What rules currently govern development
10 in this proposed pool?

11 A. Statewide rules.

12 Q. When was the Gambi well actually
13 drilled and what is its status?

14 A. The Gambi well was originally drilled
15 or completed in 1984 as a Cline-Drinkard-Abo
16 well. It was then recompleted on December 14 of
17 1992, perforated in the Blinebry from 5489 to
18 5705, and the well is producing.

19 Q. And it's been producing since when?

20 A. Since December of 92.

21 Q. Let's go now to Exhibit No. 3. Would
22 you identify this?

23 A. Yes. Exhibit No. 3 is a structure map
24 on the top of the Blinebry marker that I prepared
25 using the base map that we just looked at. I

1 went through the Division records here in Santa
2 Fe and pulled the logs on all the wells in this
3 nine-township area that were available.

4 Also, I was furnished with some logs by
5 Chuza. And, on the basis of that, then, I
6 determined the Blinebry top or Blinebry marker
7 top. Those are recorded on all the wells where
8 logs were available. And then a structure map
9 was constructed from that.

10 Q. What sort of a trapping mechanism do we
11 have here?

12 A. What we're looking at is an area on the
13 central basin platform. We see some
14 eastward-to-southeastward dip, and then there is
15 a west-east nosing across the upper third of the
16 map.

17 Q. Do we have, what, a structural trap or
18 is it stratigraphic in nature?

19 A. It's a combination of stratigraphy.
20 There is a high area in the northeast of Section
21 11, northeast of 12, so you do have some
22 structure there, but I believe it's
23 stratigraphic, equally.

24 Q. And this map also shows wells in the
25 area?

1 A. Yes, and it does show the current
2 status of the wells. The other maps might show
3 some of these wells to be producers when, in
4 fact, they're old producers which have been
5 plugged and abandoned. I have shown all the
6 plugged and abandoned wells on here, and the
7 wells which are currently indicated to be
8 producers.

9 One other thing that should be noted,
10 looking at the map, is that the proposed pool is
11 currently surrounded by dry holes.

12 Q. All right, Mr. Stamets, let's go to
13 Exhibit No. 4. Would you identify and review
14 this for Mr. Stogner?

15 A. Exhibit No. 4 is a simple two-log
16 cross-section showing the discovery well, the
17 Lineberry well on the left and the Gambi well on
18 the right. The Blinebry marker is shown on each
19 of the wells, and I've shown the perforated
20 interval for each of the wells.

21 We're looking at--like I say, I
22 examined the logs of all the wells in that
23 nine-section area. What we're looking at here is
24 a typical Blinebry section, innerbedded dolomites
25 and shales.

1 Q. If we look at this cross-section, can
2 you just explain where the top of the Blinebry is
3 in relationship to the Blinebry marker?

4 A. Yes. There was some confusion on this
5 initially. In visiting with Paul Kautz in Hobbs'
6 office, he indicated that this is an area where
7 the actual top of the Blinebry is approximately
8 100 feet above the Blinebry marker, and the
9 Blinebry marker is a good marker in the area.
10 That was used by other geologists working in
11 here, and this led to the confusion about where
12 the top of the Blinebry actually was and whether
13 or not those Kelton perforations were in the
14 Paddock or in the Blinebry.

15 But, with the top actually being a
16 hundred feet above the marker, all perforated
17 intervals are within the Blinebry zone.

18 MR. CARR: Mr. Stogner, because of this
19 confusion as to the top of the Blinebry, an
20 amended application was filed in this case. The
21 amendment simply requested the creation of a
22 Blinebry-Paddock pool, and was designed to
23 include the area perforated in the Kelton wells.

24 That is unnecessary as a result of the
25 conversations with Mr. Kautz, so all we're

1 seeking now is the creation of a new Blinebry
2 pool, and any reference to the Paddock, which was
3 only in our amended application, we would request
4 be dismissed.

5 EXAMINER STOGNER: That was
6 readvertised, was it not, for the March 4th
7 hearing?

8 MR. CARR: Right. That's correct. The
9 reason for it was that confusion, and we would be
10 inappropriate to include the Paddock, so that
11 portion should be dismissed at that time.

12 EXAMINER STOGNER: Thank you, Mr. Carr.

13 Q. Mr. Stamets, how would you just
14 generally describe the Blinebry in this area?

15 A. Like I said, it's just a typical
16 dolomite shale sequence. It's virtually
17 indistinguishable from those wells in the
18 Blinebry oil and gas pool to the north and other
19 Blinebry pools in the area.

20 Q. Let's go now to Exhibit No. 5, and
21 identify and review that.

22 A. Exhibit No. 5 is an analysis I made of
23 Blinebry gas/oil ratios, and this was made from
24 two sources. First I looked at the January
25 through June 1993 oil proration schedule for

1 District 1, and I listed all of the Blinebry
2 pools that were shown in that proration schedule,
3 along with their oil allowable gas/oil ratio
4 limits.

5 Then I went to the 1991 Statistical
6 Report and again looked at the Blinebry pools,
7 how many wells were shown to be in those pools,
8 and what the pool gas/oil ratio was.

9 What this shows is that 78 percent of
10 the wells in District 1, 78 percent of the
11 Blinebry wells in District 1, have gas/oil ratio
12 limits in their pool rules of between 4,000 and
13 10,000. It also shows that most Blinebry wells
14 produce at very substantial gas/oil ratios.

15 You compare that with the Lea County
16 total shown in the next to the last line of only
17 2,942, you can see that by and large Blinebry
18 wells do produce at much higher GORs than the
19 average well.

20 Q. Mr. Stamets, is Chuza Exhibit No. 6 an
21 affidavit with attached letters confirming that
22 notice of this hearing has been provided to
23 Kelton Operating Corporation in accordance with
24 OCD rules and regulations?

25 A. Yes.

1 Q. Could you identify what has been marked
2 as Chuza Exhibit No. 7?

3 A. Yes. That is a letter that has been
4 received from Mr. Kelton, and this letter
5 supports our application. And actually it goes
6 further and asks that the special pool rules with
7 6000-to-1 be made retroactive to the original
8 discovery of the pool, which was the October 14,
9 1992 date.

10 Q. Would Chuza support that request of an
11 October 14th effective date?

12 A. Yes. We recognize that Mr. Kelton's
13 well also produces with a high gas/oil ratio.

14 Q. Are you prepared to recommend a name
15 for this new pool?

16 A. I asked the district office if they had
17 a suggestion, and Mr. Kautz said he thought that
18 Cline-Blinebry, although difficult to say,
19 probably was a good name.

20 Q. Did you say decline?

21 A. Just Cline. We certainly hope it's not
22 decline.

23 MR. CARR: The opportunity to support
24 this with poetry is almost limitless.

25 Q. In your opinion, Mr. Stamets, if the

1 application is granted, how long should the
2 temporary rules remain in effect?

3 A. Normally, I know that the rules are
4 made temporary for one year and then there's a
5 hearing, but given the nature of the Blinebry and
6 the large number of pools we already have, it
7 doesn't seem to me that that's necessary in this
8 case.

9 If the Division did want to take
10 another look at this, I would suggest maybe that
11 they just provide for some sort of administrative
12 review either at the district office or here in
13 Santa Fe after a year, and that would avoid the
14 necessity of a hearing and the costs associated
15 with that.

16 Q. Mr. Stamets, what is the current
17 over/underproduced status of the Gambi No. 1?

18 A. I don't have final numbers, but in
19 looking at the production rate, they are
20 producing more gas than would be allowed even at
21 the 6000-to-1 rate. So, they're going to wind
22 up, when this order comes out, with some
23 overproduction.

24 In order to avoid shutting the well in
25 to make that overproduction up, Chuza would like

1 to have up to six months after the order comes
2 out in which to make up any overage on the
3 casinghead gas that's produced.

4 Q. Based on your geological study of this
5 area, what general conclusions can you reach
6 about the proposed new pool?

7 A. What we have is a typical Blinebry
8 reservoir, that the 6000-to-1 gas/oil ratio, at
9 least, is justified, and I would not expect there
10 to be any negative consequences from that action.

11 Q. From a geological point of view, does
12 this appear to be a separate common source of
13 supply?

14 A. It does.

15 Q. Were Exhibits 1 through 7 either
16 prepared by you or compiled at your direction?

17 A. Yes.

18 MR. CARR: At this time, Mr. Stogner,
19 we would move the admission of Chuza Operating
20 Exhibits 1 through 7.

21 EXAMINER STOGNER: Exhibits 1 through 7
22 will be admitted into evidence at this time.

23 MR. CARR: I have nothing further of
24 Mr. Stamets on direct.

25

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Stamets, in looking at Exhibit No. 4, let me make sure I understand what that marker is. Point it out to me.

A. Okay. If you come down on the Gambi well, it's just above 5500 feet. It's about 5485. That is a marker that is pretty uniform across this entire area and easily traceable well to well, and apparently is widely used as a Blinebry marker.

I found lots of other wells as I went through the exhibits with a Blinebry mark at that location.

Q. And that marker, as I understand it, is not the Blinebry zone or Blinebry formation or the Paddock-Blinebry chain?

A. Right. That is a point which is approximately 100 feet below the top of the actual Blinebry.

Q. So you have, essentially, marked the Blinebry marker, not the top of the Blinebry?

A. That's correct.

EXAMINER STOGNER: Okay. I was confused. I don't think I have any other

1 questions right now. I may, perhaps, after we
2 hear from the other witness.

3 [Discussion off the record.]

4 MR. STOVALL: Mr. Stamets, before you
5 go, I do have a question.

6 EXAMINATION

7 BY MR. STOVALL:

8 Q. You have suggested with respect to the
9 6000-to-1 GOR that there be some sort of
10 administrative review or something; but, in fact,
11 is not the trend in the Blinebry pools to try to
12 go in and raise the GORs?

13 A. Yes. I don't think it's necessary at
14 all, but if the Examiner or the Division felt
15 like some sort of review after a year was
16 necessary, I would suggest an administrative
17 review, which would be less expensive than a
18 hearing.

19 Q. Based upon what you know about the
20 other cases, my recollection is that most of the
21 Blinebry cases we've had have been for increases
22 of GORs and they have been in the 6- to 10,000
23 range. Your table here in Exhibit 5 shows 4- to
24 10,000?

25 A. 4- to 10,000, right.

1 Q. So, if I understand you correctly in
2 your last statement, you think this could be made
3 permanent without review, and you could always
4 reopen a case if information is necessary, is
5 that correct?

6 A. Absolutely.

7 FURTHER EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Well, along those same lines, in
10 looking at Exhibit No. 5, perhaps the reason some
11 of the wells that have an actual GOR that's
12 rather high, perhaps they haven't come in and
13 requested a higher GOR because they're pretty
14 marginal production?

15 A. Yeah, that's very possible that they
16 may not have their production restricted even
17 though the GORs are high.

18 FURTHER EXAMINATION

19 BY MR. STOVALL:

20 Q. One last question, just a procedural
21 one. Exhibit 7, the letter from Mr. Kelton, he
22 states that he requests to be noticed as a party
23 of record and, in fact, he's noticed as a party
24 of interest but he is not a party of record.

25 Then it goes on to state that they

1 intend to attend the hearing. Do you know if Mr.
2 Kelton or any representative of Kelton is here?

3 MR. CARR: Mr. Kelton is present.

4 MR. KELTON: I'm here.

5 MR. STOVALL: Mr. Kelton is present.

6 Does Kelton wish to be a party of record in this
7 case?

8 MR. KELTON: A party of record, but I
9 don't need to testify or anything.

10 MR. STOVALL: Well, in order to be a
11 party of record, Mr. Kelton, you actually have to
12 enter an appearance. And I think at this time,
13 since you do not intend to present testimony or
14 do anything, if counsel would concur, we would
15 allow you to enter your appearance.

16 I assume you are the president of
17 Kelton?

18 MR. KELTON: Right.

19 MR. STOVALL: Just to get you on the
20 record so you are an official party of record,
21 you can participate in future proceedings should
22 there be any.

23 If you care to do so at this time, just
24 state your name and the fact that you're
25 appearing for Kelton.

1 MR. KELTON: Okay. My name is Dale
2 Kelton, and I'm the president of Kelton Operating
3 Corporation.

4 MR. STOVALL: So note their appearance
5 in the proceeding.

6 EXAMINER STOGNER: So noted. Any other
7 questions of Mr. Stamets at this time?

8 If not, you may be excused.

9 Mr. Carr?

10 MR. CARR: At this time we would call
11 Mr. Waller.

12 THOMAS J. WALLER, P.E.

13 Having been first duly sworn upon his oath, was
14 examined and testified as follows:

15 EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name for the
18 record, please?

19 A. Thomas J. Waller.

20 Q. Where do you reside?

21 A. I reside in Midland, Texas.

22 Q. By whom are you employed and in what
23 capacity?

24 A. I'm an independent petroleum engineer
25 and acting on behalf of Chuza.

1 Q. Have you previously testified before
2 this Division?

3 A. Yes, I have.

4 Q. At the time of that prior testimony
5 were your credentials as a petroleum engineer
6 accepted and made a matter of record?

7 A. Yes, they were.

8 Q. Are you familiar with the application
9 filed in this case on behalf of Chuza?

10 A. I am.

11 Q. In fact, have you made a geological
12 study of the area and, in particular, the Chuza
13 well in the proposed new pool?

14 A. Yes. I've looked particularly at the
15 engineering aspects, though.

16 MR. CARR: At this time, Mr. Stogner,
17 we would request that Mr. Waller's credentials be
18 accepted.

19 EXAMINER STOGNER: Mr. Waller is so
20 qualified.

21 Q. Have you prepared certain exhibits for
22 presentation here today?

23 A. Yes, I have.

24 Q. Would you refer to what has been marked
25 as Chuza Exhibit No. 8, identify this, and then

1 review the information on this exhibit for Mr.
2 Stogner?

3 A. Okay. This is a graph showing the
4 relationship of gas/oil ratio in yellow, to oil
5 producing rate which is in green, on a daily
6 basis over a two-month period, December 1992 and
7 January 1993.

8 The thing that I'm attempting to point
9 out here over this period of time, the graph
10 shows that by curtailing oil rate we do not,
11 correspondingly, reduce the gas/oil ratio; which,
12 I might add, is typical of Blinebry production.

13 The graph shows that actually by
14 increasing the oil rate, as was done from
15 December 19th to the 27th, and again January 9th
16 to the 23rd, we, in fact, produced at a lower GOR
17 than when curtailing the well at 20 barrels a day
18 or less.

19 Q. Basically, what this shows is, when you
20 produce at a higher rate, in fact the well
21 appears to perform in a better fashion?

22 A. Yes. We will, in fact, produce more
23 oil by pulling the well down slightly more.

24 Q. And actually, as you choke the well
25 back, you have a reverse effect in terms of the

1 gas/oil ratio?

2 A. That is correct. You can get in a
3 situation where you're producing strictly gas and
4 no oil.

5 Q. Let's go now to Exhibit No. 9. Would
6 you identify and review that for the Examiner?

7 A. Yes. Exhibit 9 is a comparison of the
8 payout economics showing the time required to
9 recoup the drilling and completion costs of
10 \$290,000 under the scenario of, one, current
11 field rules of 2000-to-1, and that of a relaxed
12 gas/oil ratio granting of 6000-to-1.

13 As you can see, we're looking at
14 33-month payout as opposed to 10-month payout. I
15 might point out that these are unrisked
16 economics, and in a situation where, for example,
17 we drill a well half as good as the Gambi--which
18 the Gambi is considered to be a very good
19 well--then our the economic payout would be 66
20 months as opposed to 20 months.

21 Q. In effect, will approval of this
22 application provide incentive for additional
23 development in the reservoir?

24 A. Yes, it definitely will.

25 Q. Does Chuza, in fact, have plans to go

1 forward with additional development if, in fact,
2 the application is granted?

3 A. They do. They plan on a recompletion,
4 and they're currently active in attempting
5 farmouts in the area in order to drill.

6 Q. In your opinion, would approval of this
7 application result in any reservoir damage?

8 A. No, not at all.

9 Q. Do you see any evidence of the
10 formation of a gas cap in this reservoir?

11 A. None.

12 Q. If, in fact, this application is
13 granted, what will the effect be on the ultimate
14 recovery of oil from this reservoir?

15 A. I think you will be looking at a higher
16 oil recovery and an equal gas recovery. I think
17 the ultimate gas recovery is going to be the same
18 regardless of what scenario we have. The higher
19 the gas/oil ratio, I can see from the data we've
20 gathered that we will produce more oil.

21 Q. So, if the application is granted,
22 there will be recovery of hydrocarbons otherwise
23 not recovered?

24 A. That's correct.

25 Q. And that will prevent waste?

1 A. Correct.

2 Q. In your opinion, will approval of the
3 application, otherwise, be in the best interest
4 of conservation and the protection of correlative
5 rights?

6 A. It will, definitely.

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

8 A. Yes, they were.

9 MR. CARR: At this time, Mr. Stogner,
10 we would move the admission of Chuza Exhibits 8
11 and 9.

12 EXAMINER STOGNER: Exhibits 8 and 9
13 will be admitted into evidence.

14 MR. CARR: That concludes my direct
15 examination of Mr. Waller.

16 EXAMINER STOGNER: Thank you.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Waller, the Gambi No. 1, I take it
20 that's not on pump at this time? It's a natural
21 flowing?

22 A. That's correct.

23 Q. In your opinion, at the present rate
24 and if the GOR is allowed to be raised to
25 6000-to-1, would that affect the performance of

1 that well and when it would have to go on pump,
2 as opposed to keeping it at 2000-to-1?

3 A. I don't think so. I think in this
4 situation we have a free gas phase in conjunction
5 with an oil phase, and the gas is going to
6 deplete; it's going to produce itself.

7 Q. Take me back to basics here. In this
8 particular Blinebry pool or proposed Blinebry
9 pool, what kind of reservoir mechanism are we
10 seeing?

11 A. I think, as opposed to a gas cap lying
12 on top of an oil zone, we have laminated dolomite
13 sections where both a free oil phase and a gas
14 phase co-exist together. And that's the only way
15 we can explain that type of gas/oil ratio. We're
16 not looking at solution gas/oil ratio at these
17 upper limits.

18 Q. Are we seeing a fingering or is there
19 an actual level of gas and an actual level of
20 oil?

21 A. No. We're not seeing an upper level
22 predominantly gas and a lower level predominantly
23 oil.

24 Q. I'm trying to get a picture. Do we see
25 it appearing in stringers?

1 A. I think it's co-existing with the oil,
2 and the oil is masking it because it is not
3 apparent on the compensated neutron density
4 porosity logs. We do not see a gas effect on the
5 logs, per se, but we know there has to be a free
6 gas phase in there.

7 Q. What was the initial pressure in that
8 well?

9 A. Well, we do not have data that took an
10 actual bottom hole pressure. I back-calculated,
11 based on a 12-hour shut-in pressure, to 2069 psi,
12 I believe that's correct, which calculated to a
13 gradient of .39, as I recall, .372, and a bottom
14 hole pressure of 2046. The .372 is, of course,
15 below a fresh water gradient, but that is not
16 uncommon in newly discovered Blinebry reservoirs
17 in that area.

18 Q. And the water is so small it has no
19 effect?

20 A. That's correct.

21 Q. This type of behavior in this
22 particular area, is that indicative to the other
23 Blinebry pools in the area?

24 A. Yes. High gas/oil ratio is the norm, I
25 would say.

1 Q. The Blinebry pools, I remember, pretty
2 much are located out there south of Hobbs around
3 the Eunice area, is that correct?

4 A. That's correct.

5 Q. And, of course, not too far from
6 Texas. Are you familiar with--I don't think it's
7 called Blinebry in Texas, is it?

8 A. It's called Upper Clearfork, I
9 believe. It is Clearfork. I don't know about
10 Upper Clearfork.

11 Q. Are you familiar with the Clearfork
12 production over in Texas?

13 A. Yes, I am.

14 Q. Do we see the same activity over there
15 or are there higher GORs in those Clearfork pools
16 in Texas?

17 A. They're very similar to the Blinebry.
18 You're dealing with the same animal, really.

19 Q. I guess what I'm asking, what's Texas'
20 limit for GOR? I'm not familiar with the Texas
21 rules and regs.

22 A. Well, field rules, you know, normally
23 they'll ask for pretty much whatever the
24 producing rate is and tone it down to what the
25 economics might dictate. I would say in the

1 neighborhood of 6- to 10,000 gas/oil ratio.

2 Q. So they don't set a GOR limit to a
3 pool?

4 A. Not per se, no.

5 Q. I'm just trying to get an
6 understanding, and since there's a lot of
7 information over on that side, I thought it would
8 help me understand this side, too.

9 If--and, Mr. Stamets, feel free to jump
10 in on this one, too--if the retroactive request
11 was not granted, what would happen to the
12 production on the Gambi No. 1.

13 MR. STAMETS: There would be
14 considerably more gas to be made up. The well
15 has been producing at, oh, anywhere from 28- to
16 36,000 GOR a day. I'm not sure if I've got total
17 volumes that have been produced. Let's see if I
18 can locate that.

19 Anyhow, the point would be that they
20 would have more gas that would have to be made
21 up, and the well would have to be shut in longer.

22 EXAMINER STOGNER: Essentially, they
23 would shut that in to make up any--is it accrued
24 overproduction at this time in the casinghead
25 gas?

1 MR. STAMETS: It would be very
2 quickly. The way the system is designed to work,
3 any time the well is one month overproduced on
4 its casinghead gas allowable, it's required to be
5 shut in. The computer is supposed to send out a
6 notice.

7 So, whatever it is, then they would
8 have to shut the well in.

9 EXAMINER STOGNER: For approximately
10 how long?

11 MR. STAMETS: Looks like they had--
12 Well, let me do some calculations.

13 EXAMINER STOGNER: Just off the top of
14 your head.

15 MR. STAMETS: Well, hang on a minute.
16 Let me check, because I haven't done that. It
17 looks like a long time, if I did this right.

18 MR. STOVALL: Is that geologic time,
19 Mr. Stamets?

20 MR. STAMETS: It almost looks like
21 geologic time here. It looks to me as though for
22 the month of January, the well produced
23 36,000--no, that's the GOR. Let's try about 33-,
24 34,000 Mcf. And you get 2000-to-1, so that would
25 be what? 214,000? And times 30, that would be

1 6,420 for the month.

2 I always have trouble with my zeros on
3 this stuff. That's why I told them they needed
4 an engineer.

5 MR. CARR: Mr. Stogner, do you want
6 this on the record?

7 EXAMINER STOGNER: Oh, yeah, I kind of
8 like his ciphering. It sounds like he's having
9 trouble with his nots.

10 MR. STAMETS: Let me see if my
11 calculator has warmed up enough. The last time I
12 tried this, it wouldn't calculate.

13 EXAMINER STOGNER: This reminds me of
14 when Jethro Bodine used to have to figure on the
15 Beverly Hillbillies.

16 MR. STAMETS: See if the engineers
17 think I'm right. If you have 2,000 cubic feet
18 per barrel, that translates into 214,000 a day at
19 107? Times 30 days. That equals 6420 Mcf.

20 If you look at that compared to 33,
21 that's about four, five times over? Five times
22 what you would be allowed? So, it's a
23 substantial amount.

24 EXAMINER STOGNER: So it would
25 definitely affect this particular well in its

1 payout?

2 MR. STAMETS: Yeah, and that's for only
3 one month. That's not even going back into
4 December. And here we are the middle of
5 February, so it has a substantial impact.

6 EXAMINER STOGNER: Okay. I don't have
7 any other questions of either witness.

8 MR. CARR: Mr. Stogner, that concludes
9 our presentation in this case. We would request
10 that it be continued to the hearing on March 4th,
11 it's been advertised for that date, at which time
12 we will request that the references to the
13 Paddock formation be dismissed and that the case
14 be taken under advisement on the record made here
15 today.

16 EXAMINER STOGNER: So noted. This case
17 will be continued to the Examiner Hearing
18 scheduled for March 4, 1993; and, at that time,
19 it will be taken under advisement.


20 Let's take about a 20-minute recess at
21 this time.

22 (And the proceedings concluded.)

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10671
heard by me on 10 February 1993.
 Examiner
Oil Conservation Division

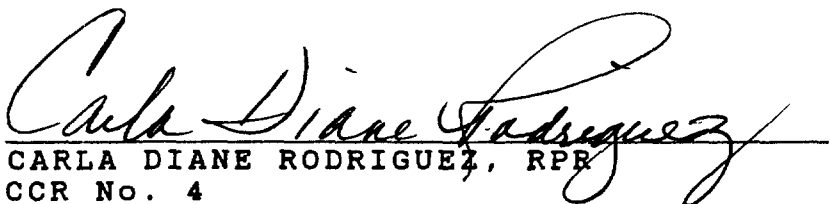
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Carla Diane Rodriguez, Certified
7 Court Reporter and Notary Public, HEREBY CERTIFY
8 that the foregoing transcript of proceedings
9 before the Oil Conservation Division was reported
10 by me; that I caused my notes to be transcribed
11 under my personal supervision; and that the
12 foregoing is a true and accurate record of the
13 proceedings.

14 I FURTHER CERTIFY that I am not a
15 relative or employee of any of the parties or
16 attorneys involved in this matter and that I have
17 no personal interest in the final disposition of
18 this matter.

19 WITNESS MY HAND AND SEAL March 2, 1993.
20

21
22 
23 CARLA DIANE RODRIGUEZ, RPR
24 CCR No. 4
25

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 IN THE MATTER OF THE HEARING)
5 CALLED BY THE OIL CONSERVATION)
6 DIVISION FOR THE PURPOSE OF)
7 CONSIDERING:)
8) CASE NO. 10671
9 APPLICATION OF CHUZA OPERATING)
10 -----)

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

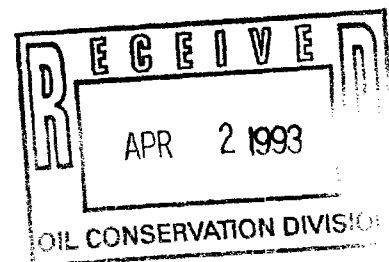
12 EXAMINER HEARING

13 BEFORE: David R. Catanach, Hearing Examiner

14 March 4, 1993

15 Santa Fe, New Mexico

16 This matter came on for hearing before the
17 Oil Conservation Division on March 4, 1993, at 8:46
18 a.m. at the Oil Conservation Division Conference Room,
19 State Land Office Building, 310 Old Santa Fe Trail,
20 Santa Fe, New Mexico, before Freda Donica, RPR,
21 Certified Court Reporter No. 45, for the State of New
22 Mexico.



I N D E X

March 4, 1993
Examiner Hearing
CASE NO. 10671

PAGE
3

APPEARANCES

REPORTER'S CERTIFICATE

6

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Santa Fe, New Mexico 87501

FOR THE APPLICANT:

CAMPBELL, CARR,
BERGE & SHERIDAN
110 N. Guadalupe Street
Santa Fe, New Mexico
BY: WILLIAM F. CARR, ESQUIRE

1 EXAMINER CATANACH: At this time let me
2 call 10671.

3 MR. STOVALL: Application of Chuza
4 Operating for a pool creation and special pool rules,
5 Lea County, New Mexico.

6 EXAMINER CATANACH: Are there appearances
7 in this case?

8 MR. CARR: May it please the Examiner, my
9 name is William F. Carr of the Santa Fe law firm,
10 Campbell, Carr, Berge & Sheridan. I represent Chuza
11 Operating. This case was heard on February the 18th.
12 Prior to that time there was confusion as to whether
13 or not the completion interval in the subject well was
14 confined to the Blinebry. That formation extends
15 about a hundred feet above the Blinebry marker. And
16 after consultation with Mr. Kautz in the Hobbs office,
17 it was concluded that the interval was completed in
18 the Blinebry, but we hadn't given notice that the new
19 pool might also include a portion of the Paddock. For
20 that reason, the record was left open until this date
21 so that all question about the advertising of the case
22 could run its gamut, the 20-day period of time could
23 run.

24 So at this time we would request that, if
25 there's no further testimony or concern from any other

1 party, that the case be taken under advisement and an
2 order entered on the February 18th record.

3 EXAMINER CATANACH: Is there anything
4 additional that we need to tell the Examiner from that
5 case?

6 MR. CARR: Not that I'm aware of.

7 EXAMINER CATANACH: Are there any
8 additional appearances in this case at this time?
9 There being none, Case 10671 will be taken under
10 advisement.

11 (The foregoing hearing was adjourned at the
12 approximate hour of 8:50 a.m.)

13
14
15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 10671,
20 heard by me on March 4 1993.
21 David R. Catanch, Examiner
22 Oil Conservation Division
23
24
25

1 STATE OF NEW MEXICO)


2 :

3 COUNTY OF SANTA FE)

4 I, FREDA DONICA, RPR, a Certified Court
5 Reporter, DO HEREBY CERTIFY that I stenographically
6 reported these proceedings before the Oil Conservation
7 Division; and that the foregoing is a true, complete
8 and accurate transcript of the proceedings of said
9 hearing as appears from my stenographic notes so taken
10 and transcribed under my personal supervision.

11 I FURTHER CERTIFY that I am not related to nor
12 employed by any of the parties hereto, and have no
13 interest in the outcome hereof.

14 DATED at Santa Fe, New Mexico, this 26th
15 day of March, 1993.

16 
17 Freda Donica
18 Certified Court Reporter
19 CCR No. 45
20
21
22
23
24
25