

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10998

IN THE MATTER OF:

The Application of Hallwood Petroleum,
Inc., for an Unorthodox Oil Well
Location and Nonstandard Oil Proration
Unit, Lea County, New Mexico.

BEFORE:

JIM MORROW
Hearing Examiner
State Land Office Building
June 9, 1994

REPORTED BY:

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

19 1994

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
Post Office Box 2265
Santa Fe, New Mexico 87504-2265
BY: W. THOMAS KELLAHIN, ESQ.

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1 EXAMINER MORROW: At this time we'll
2 call Case 10998, which is the application of
3 Hallwood Petroleum, Incorporated, for an
4 unorthodox oil well location and nonstandard oil
5 proration unit in Lea County, New Mexico.

6 Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom
8 Kellahin of the Santa Fe law firm of Kellahin &
9 Kellahin, appearing today on behalf of the
10 Applicant, and I have two witnesses to be sworn.

11 EXAMINER MORROW: Please stand.

12 [And the witnesses were duly sworn.]

13 MR. KELLAHIN: Mr. Examiner, at this
14 time I'll call Mr. Kevin O'Connell. Mr.
15 O'Connell is a petroleum engineer.

16 Mr. Examiner, Mr. O'Connell, on behalf
17 of his company, has taken a well that was
18 originally drilled by BELCO, back in 1974. The
19 well was drilled at an approved location by the
20 Oil Conservation Commission at an unorthodox
21 Morrow location.

22 Subsequently, Mr. O'Connell has taken
23 over this well and has now recompleted it as a
24 Delaware oil well. The original order approving
25 this location was issued on January 15, 1974, and

1 it's Order R-4699. Here's a copy of that order.

2 If you'll look at the approved
3 location, you'll find that it's approximately 10
4 feet off a quarter/quarter section line and,
5 because of its close proximity to the adjoining
6 40-acre tract, Hallwood had a dilemma on what
7 acreage to assign and what to do with the well.

8 The surface location of the wellbore is
9 in the southeast/southeast, and yet it is very
10 close to the southwest/southeast. And, after
11 various consultations with Mr. Stogner and
12 others, we've come to believe that the best way
13 to handle this unusual circumstance for an old
14 gas well recompleted now as an oil well, is to
15 consolidate the interest owners in an 80-acre
16 nonstandard proration unit for oil production.

17 It will allow us to avoid the drilling
18 of a second well, but let us share production
19 from this well with the adjoining owners and,
20 because of the close proximity to each of the
21 tracts, we've attempted to consolidate.

22 Ms. Wood is here to testify. She's the
23 land manager for her company and, in that
24 capacity, has had her employees obtain all the
25 identifications and addresses of the parties that

1 would share in production. They have been in
2 correspondence and discussions with all those
3 parties. We believe there is unanimous agreement
4 with all interest owners to have the production
5 shared in this fashion.

6 In addition, we have notified the
7 offsetting operators of our request, and she's
8 here to testify as to who those parties are, and
9 there is no objection from any party to
10 accomplish this. So that's where we're headed.

11 **KEVIN O'CONNELL**

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

14 EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. O'Connell, for the record, could
17 you please state your name and occupation?

18 A. My name is Kevin O'Connell, and I'm the
19 drilling and production manager for Hallwood's
20 Rocky Mountain Midcontinent District.

21 Q. On past occasions have you testified
22 before the Division, as well as the Commission,
23 and qualified as an expert petroleum engineer,
24 and testified in your capacity as the engineering
25 manager as well as the petroleum engineer?

1 A. Yes, sir.

2 MR. KELLAHIN: We tender Mr. O'Connell
3 as an expert witness.

4 EXAMINER MORROW: We accept Mr.
5 O'Connell.

6 Q. Let me have you take what's been marked
7 as Exhibit No. 1. Describe for us what it is
8 you've shown on that display.

9 A. Exhibit 1 was an attachment to our
10 communitization agreement. It's a plat of the
11 southeast quarter of Section 30, Township 20
12 South, Range 33 East, in Lea County, New Mexico.

13 It shows the four 40-acre parcels in
14 the southeast quarter, as well as the location of
15 the Bass Federal No. 2, which is located, as Mr.
16 Kellahin mentioned, in the southeast/southeast.

17 And I've also illustrated the
18 nonstandard 80-acre proration and spacing unit
19 that we're recommending for this well, which is
20 the southeast/southeast quarter and the
21 southwest/southeast.

22 Q. In addition to Exhibit 1, Mr.
23 O'Connell, have you prepared a tabulation or a
24 chronology shown on Exhibit 2, of significant
25 events concerning the Bass Federal No. 2?

1 A. Yes, sir, I have.

2 Q. Take us through a summary of the well's
3 history.

4 A. This well was drilled in 1974. It
5 originally, as Mr. Kellahin mentioned, required a
6 location exception, primarily due to some potash
7 leases in the area, and the well was the second
8 gas well on this lease.

9 There is an existing Bass Federal #1 in
10 the northwest quarter, and that has the north
11 half 320 dedicated to it. When this well was
12 originally drilled, it had the south half 320.

13 The well was originally drilled by
14 BELCO Petroleum, and was completed as a Morrow
15 well, from approximately a 13,200-foot depth in
16 1974. It produced essentially 15 years, from
17 1974 to 1993--almost 20 years--but in 1989
18 Hallwood obtained ownership in the well and
19 assumed operations from Enron.

20 At the same time that this well was-
21 depleting, the Hat Mesa (Delaware) Pool was
22 established in January of 1990, and it's located
23 primarily to the southeast, in Section 32, and it
24 extends a little bit down into Sections 5 and 6.

25 In March of 1990, the well was no

1 longer capable of production, and Hallwood shut
2 it in after it produced about 1.3 Bcf. The well
3 was idle for about three years, and last year we
4 completed a study of the area, as well as
5 reviewed some of the newer offset wells, and we
6 proceeded with a Wolfcamp test that was
7 unsuccessful, and then followed it last August
8 with a Lower Delaware test, and obtained
9 commercial production from the Lower Delaware.

10 We produced that until--or we produced
11 those zones from late September of 93, until this
12 May. We went in and tested the Upper Delaware
13 and established production there, and now we
14 have--as of a little over a week ago, or just
15 barely a week ago, we've started pump-testing
16 commingled Upper and Lower Delaware zones from
17 this well at about 120 barrels a day. So, that's
18 the brief history of the well.

19 Q. For wells at this depth, oil wells,
20 what is the depth bracket oil allowable?

21 A. It's 142 barrels a day for the Hat Mesa
22 (Delaware) Pool.

23 Q. If the Division applies the typical
24 allowable, of the number of spacing units in a
25 nonstandard proration unit times the depth

1 bracket allowable, the allowable for the well
2 would simply be twice that--127, was it?

3 A. 142.

4 Q. So twice the 142?

5 A. Yes, sir.

6 Q. Have you tested this well now
7 sufficiently in the Delaware that you're
8 satisfied you've got all of the potential
9 production open in the wellbore within that pool?

10 A. I think we have all the potential
11 Delaware zones open and producing now. I don't
12 know for sure if the well's producing at its full
13 capacity yet. We may experiment with different
14 pump sizes, different pump depths and change
15 that, but I don't think we're going to open up
16 any more pay in the well.

17 Q. There's a possibility that the well
18 might be able to utilize the allowable of the
19 adjoining spacing unit that's now dedicated to
20 the well, if the Examiner approves your request?

21 A. Yes, sir.

22 Q. Is this solution appropriate for all
23 the interest owners that would share in this
24 production?

25 A. Yes, I believe so. I think this is the

1 fair and equitable thing to do on this well,
2 given the close proximity. The only
3 alternatives, to me, are to dedicate the 40 acres
4 that it's on, and you would have to severely
5 penalize the well, which would not be fair to
6 those people.

7 Q. The penalty doesn't mean anything
8 unless you drill another well?

9 A. That's right. And if you drill another
10 well at a conventional location, and I think it
11 will create waste and you'll have two wellbores
12 competing for the same reserves.

13 Q. At this point, do you see any reason to
14 have the second well competing with the first
15 well?

16 A. No, sir.

17 Q. The better method of depletion would be
18 to take this well to some reasonable abandonment
19 rate and seek to replace that well with another
20 well?

21 A. Yes.

22 Q. Have you received any objection from
23 any of the parties?

24 A. No, sir. We've notified all the offset
25 operators; we've sent out waiver letters. We've

1 received one signed waiver back from Meridian,
2 but we've received no objection whatsoever.

3 Q. Do you have an engineering opinion as
4 to whether or not approval of this application by
5 the Division will be in the best interests of
6 conservation, the prevention of waste, and the
7 protection of correlative rights?

8 A. Yes, I think it will.

9 Q. That is your opinion?

10 A. Yes.

11 MR. KELLAHIN: That concludes my
12 examination of Mr. O'Connell. We move the
13 introduction of his Exhibits 1 and 2.

14 EXAMINER MORROW: Exhibits 1 and 2 are
15 admitted.

16 EXAMINATION

17 BY EXAMINER MORROW:

18 Q. Do you know, and this may come from the
19 next witness, do you know if the royalty interest
20 is common under the 80 acres?

21 A. I think it's separate royalty, but it's
22 probably best to defer that to her.

23 Q. You're not asking for any increased
24 allowable at this time, it's just that if we
25 granted you an 80-acre assignment, the increased

1 allowable would automatically be assigned or
2 could be requested if you needed it, is that
3 correct?

4 A. Yes, sir. I don't see where we're
5 going to need much, if any, but I don't want to
6 limit myself and only take a 40-acre allowable.

7 Q. So, right now, and in the foreseeable
8 future, you don't expect any additional drilling
9 on this 80-acre tract?

10 A. No, sir. These wells are fairly
11 expensive wells in this 8,000 depth bracket, and
12 with the casing programs they're about \$600,000
13 wells. And reserve-wise, we couldn't justify
14 one.

15 Q. How about the offset? You didn't
16 present anything on offset development. Would
17 you be drained by offsets in any way?

18 A. Would this 80-acres be drained?

19 Q. Yes, since it doesn't have a well to
20 each 40.

21 A. I don't think so, because the Delaware
22 is very complex out here. We had a geologist
23 review this, and there's at least 10 or 12 sands
24 in this Delaware that come and go and interlap,
25 and it's hard to tell whether they're all

1 continuous through the area. So, no, I don't
2 think it would be drained by another well.

3 Q. Are the Upper and Lower Delaware
4 intervals both a part of the vertical intervals
5 for the Hat Mesa?

6 A. Yes, they're both common sources of
7 supply for the field.

8 EXAMINER MORROW: All right. Thank
9 you, Mr. O'Connell.

10 THE WITNESS: Thank you, sir.

11 MR. KELLAHIN: Call, at this time, Mrs.
12 Woods.

13 **CHRIS WOODS**

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

16 EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Ms. Woods, would you please state your
19 name and occupation?

20 A. My name is Chris Woods. I'm the land
21 manager for the Rocky Mountain Midcontinent
22 Region of Hallwood Petroleum.

23 Q. On prior occasions have you testified
24 as a landman before this Division?

25 A. No.

1 Q. Summarize for us your education and
2 employment experience in that field.

3 A. I have a B.A. in business and
4 accounting from Columbia. I have been in the oil
5 industry since 1978, and with Hallwood since
6 1985.

7 Q. As the land manager for your company,
8 does this particular well and its proposed
9 spacing unit come under your control?

10 A. Yes, it does.

11 Q. As part of your duties, did you have
12 employees under your direction, or consultants,
13 provide for you an accurate list of the interest
14 owners for each of the 40-acre tracts?

15 A. Yes, I did.

16 Q. In addition, are you aware of the
17 offsetting interest owners to the spacing units?

18 A. Yes, I am.

19 MR. KELLAHIN: We tender Ms. Woods as
20 an expert petroleum landman.

21 EXAMINER MORROW: We'll accept Ms.
22 Woods.

23 Q. I've taken a copy of the federal
24 communitization agreement and have made an
25 Exhibit No. 3 out of part of that document. For

1 purposes of this here, let's look at the
2 tabulation of data and have you identify for us
3 how you've come to know the interest owners in
4 Tract 1, which is the southeast of the
5 southeast.

6 Is that shown on this display
7 somewhere?

8 A. It's set out initially on the first
9 page of Exhibit B, and as backup for this
10 information I have four different title opinions
11 that we had prepared, or our predecessors had
12 prepared. And, in addition, I have an operating
13 agreement that sets out the working interest
14 ownership.

15 Q. Based on all that information, do you
16 have an opinion as to whether or not the
17 tabulation of interests, shown on Exhibit No. 3,
18 is current and accurate?

19 A. Yes, I do.

20 Q. What is that opinion?

21 A. I believe it is correct.

22 Q. When we look at Tract 2, is Tract 2 and
23 its interest owners also identified in this
24 exhibit package?

25 A. Yes, it is.

1 Q. Where do we find that?

2 A. On page 2 of Exhibit B.

3 Q. Tract No. 1, which is the east 40,
4 that's a federal lease?

5 A. Yes, it is.

6 Q. And then the western 40-acre tract,
7 Tract 2, that's a State of New Mexico oil and gas
8 lease?

9 A. That is correct.

10 Q. Describe for us the process you've gone
11 through to notify and attempt to consolidate
12 these interest owners.

13 A. Initially what we did, we had the
14 interests set up under an initial 320-acre
15 spacing unit, so title opinions were made based
16 on that. Within those title opinions is a
17 breakdown of each 40-acre tract, so we have that
18 to verify the interest owners.

19 In addition to that--would you like me
20 to get into the communitization agreements?

21 Q. Well, the first part of the process had
22 already begun because you needed that title
23 ownership information for the gas production?

24 A. That is correct.

25 Q. Now that you've converted it to an oil

1 well, you're able to retrieve out of your data
2 files, information by which you could determine
3 ownership?

4 A. Of each 40-acre tract, yes.

5 Q. All right. Having accomplished that,
6 what then did you do?

7 A. We sent out communitization agreements
8 to all of the people listed in the opinions and
9 on the operating agreement, both on the federal
10 form and on the state form, to enlist their
11 support of our proposed 80-acre location.

12 Q. In order to obtain an approved
13 communitization agreement from both the State of
14 New Mexico and the Bureau of Land Management, you
15 must first have the approval of the Oil
16 Conservation Division of a spacing unit or a
17 nonstandard proration unit that is consistent
18 with the acreage dedicated in the Com agreement?

19 A. Right.

20 Q. So that's why you're here?

21 A. Right.

22 Q. If the Examiner approves the
23 nonstandard proration unit, you've now
24 established the predicate by which you can get
25 the other regulatory agencies to approve the

1 communitization?

2 A. That's correct.

3 Q. Once that's done, you can allocate the
4 federal royalty and the state royalty on an
5 80-acre basis?

6 A. That is correct.

7 Q. Do you have a copy of the application
8 we filed for your company before the Division?

9 A. Yes, I do.

10 Q. If you'll turn to that, I'll hand the
11 Examiner another copy. If you'll turn to the
12 attachments in the application, there's a locator
13 map, if you will, that shows the identity of the
14 offsetting interest owners. Describe for us what
15 you have determined to be the ownership
16 surrounding the spacing unit.

17 A. The other operators out there that are
18 in Section 29, down in the southwest quarter is
19 Enron; Section 32 in the northwest quarter is
20 Meridian; and Section 31 in the northeast quarter
21 is Bass.

22 Q. Have you received any objection from
23 any of those parties to having the Division
24 approve this case?

25 A. I have not, no.

1 Q. When you look beyond the locator map,
2 there is a tabulation of interest owners.
3 Following that, I think, there is a list of the
4 offset operators. Move to, I believe it's
5 Exhibit C to the application.

6 A. Right.

7 Q. In addition, there's a supplemental
8 Exhibit C?

9 A. Right.

10 Q. When you look at Exhibit C and
11 supplemental Exhibit C to the application, do
12 those names contain all of the parties that would
13 share in revenues derived from the spacing unit
14 attributed to production from this well?

15 A. Yes, they would.

16 EXAMINER MORROW: Where was that, in
17 Exhibit 3?

18 MR. KELLAHIN: If you look in the
19 application, there are some attachments to the
20 application. After the map there is a short list
21 of offset operators, and then there's an Exhibit
22 C, which is one page, and after that there's a
23 supplemental Exhibit C, of two pages.

24 Taken together, those two exhibits,
25 according to Ms. Woods, are all the interest

1 owners that will share in revenues derived from
2 the spacing unit.

3 EXAMINER MORROW: These are all
4 something other than royalty interest owners, is
5 that right?

6 MR. KELLAHIN: They include the royalty
7 owners, too, sir. I'm sure she's picked up some
8 overriding royalty owners, other interest
9 owners. It's everyone that would share.

10 EXAMINER MORROW: The reason I ask
11 that, all the royalty on the west 40 is owned by
12 the state, and the royalty on the east 40 is
13 owned by the--

14 THE WITNESS: BLM. That's correct.

15 EXAMINER MORROW: Go ahead.

16 MR. KELLAHIN: Finally, Mr. Examiner,
17 Exhibit 4 is my certificate of mailing to all the
18 parties in that application. That concludes my
19 examination of Ms. Woods. We move the
20 introduction of Exhibits 3 and 4.

21 EXAMINER MORROW: Exhibits 3 and 4 are
22 admitted.

23 EXAMINATION

24 BY EXAMINER MORROW:

25 Q. In the file in connection with the

1 application, there's a letter from the State Land
2 Office indicating an early objection to the
3 combination of the two tracts, and then they
4 withdrew that. Do you recall that?

5 A. No. I haven't seen that letter.

6 Q. Is it your opinion and testimony that
7 the State Land Office is agreeable to this, or do
8 you know?

9 A. I don't know.

10 EXAMINER MORROW: Do you know if
11 they've been approached, sir?

12 MR. KELLAHIN: I'm not sure what the
13 current status of that is. I will certainly
14 inquire, subsequent to the hearing, so I can
15 advise you later if there's any objection by the
16 land office. Ultimately they have ultimate
17 control, because we need their approval of the
18 communitization agreement.

19 EXAMINER MORROW: Okay. Has there
20 been, I assume there's been some production from
21 this well?

22 MR. O'CONNELL: The Hobbs's office
23 approved a temporary C-104, and we went through
24 the motions. We dedicated the
25 southeast/southeast acreage when we submitted our

1 completion report that enabled us to produce.
2 Pending approval of this order, we'll submit a
3 new C-102 with a new acreage, and the
4 communitization agreement.

5 EXAMINER MORROW: In fact, you date
6 back to first production?

7 MR. O'CONNELL: Yes.

8 EXAMINER MORROW: First production
9 would be allocated all across the tracts?

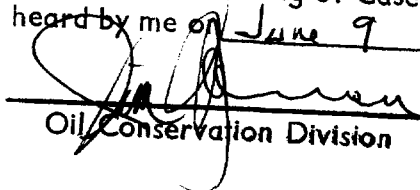
10 MR. O'CONNELL: That's the way it would
11 have to be done on a royalty basis.

12 EXAMINER MORROW: All right. Thank
13 you.

14 MR. KELLAHIN: That concludes our
15 presentation.

16 EXAMINER MORROW: Case 10998 will be
17 taken under advisement.

18 (And the proceedings concluded.)
19
20
21

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 10998,
25 heard by me on June 9 1994.
 Examiner
Oil Conservation Division


1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4 COUNTY OF SANTA FE) ss.
5

6 I, Carla Diane Rodriguez, Certified
7 Shorthand Reporter and Notary Public, HEREBY
8 CERTIFY that the foregoing transcript of
9 proceedings before the Oil Conservation Division
10 was reported by me; that I caused my notes to be
11 transcribed under my personal supervision; and
12 that the foregoing is a true and accurate record
13 of the 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 July 15, 1994.
20

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