

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4
5

6 EXAMINER HEARING
7

8 IN THE MATTER OF:
9

10 Application of Oryx Energy Cases 9783,
11 Company for compulsory pooling, 9784
12 Lea County, New Mexico
13
14

15 TRANSCRIPT OF PROCEEDINGS
16

17 BEFORE: MICHAEL E. STOGNER, EXAMINER
18

19 STATE LAND OFFICE BUILDING

20 SANTA FE, NEW MEXICO

21 October 18, 1989
22
23

24 ORIGINAL
25

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Divison
State Land Office Building
Santa Fe, New Mexico

FOR THE APPLICANT:

KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
117 N. Guadalupe
Santa Fe, New Mexico 87504
BY: W. THOMAS KELLAHIN, ESQ.

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1 HEARING EXAMINER: Let's call the next
2 case, No. 9783, which is the application of -- I'm
3 sorry. That's your job.

4 MR. STOVALL: Application of Oryx Energy
5 Company for compulsory pooling, Lea County, New
6 Mexico.

7 HEARING EXAMINER: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom
9 Kellahin of the law firm of Kellahin, Kellahin and
10 Aubrey, Santa Fe, New Mexico, appearing on behalf of
11 the Applicant. I would request the examiner, for
12 purposes of hearing, consolidate the testimony in this
13 case with the next case, which is 9784.

14 HEARING EXAMINER: Are there any
15 objections? Then I'll call the next case, No. 9784.

16 MR. STOVALL: Application of Oryx Energy
17 Company for compulsory pooling, Lea County, New
18 Mexico.

19 HEARING EXAMINER: Are there any other
20 appearances in either of these cases besides Mr.
21 Kellahin?

22 Let the record show there is not.

23 Mr. Kellahin, do you have any witnesses?

24 MR. KELLAHIN: Mr. Examiner, I propose to
25 call Mr. Alan Beers, who is a petroleum landman, and

1 Mrs. Shelley Lane, who is a petroleum geologist. I'd
2 like the record to reflect that they have previously
3 been qualified as expert witnesses, and that they both
4 continue under oath.

5 HEARING EXAMINER: Let the record so show.
6 Mr. Kellahin, you may proceed.

7 MR. KELLAHIN: Mr. Examiner, at this time I
8 call Mr. Alan Beers.

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

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Beers, I have attempted to consolidate
15 your exhibits, and so I don't lose track of you or you
16 me, I have taken your land testimony exhibits with
17 regards to each case and kept them separately
18 numbered, and then numbered them within each case,
19 Exhibits 1 through 4 or 5 or 6, whatever the number
20 was. Let's use the exhibits for Case 9783 and start
21 with those first.

22 The first exhibit I have as No. 1 is a land
23 plat that shows various working interest ownerships
24 and percentages. Are you familiar with that display?

25 A. Yes, sir.

1 Q. Let's use that display and have you, first
2 of all, identify to the best of your knowledge the
3 information contained on that display is true and
4 accurate, is it?

5 A. Yes, it is.

6 Q. Let's identify the well that is the subject
7 of Case 9783, which, according to the docket sheet is
8 identified as the spacing unit in the south half of
9 Section 26. And that will be the Ojo Chiso Federal
10 No. 2 Well, is it?

11 A. Yes, sir, it sure is.

12 Q. How is that shown on the exhibit?

13 A. It is shown as a proposed location, and the
14 working interest is owned, Oryx 50 percent; BTA, 25
15 percent; Pacific Enterprises, 12.5; and Joe Reynolds,
16 12.5.

17 Q. For Case 9784, the docket identifies that
18 acreage to be the north half of Section 27, and that
19 is identified as the Antelope Ridge No. 1 Well, I
20 believe; is that correct?

21 A. That is correct.

22 Q. Is that proposed well location and spacing
23 unit shown on your display?

24 A. Yes, it is.

25 Q. Is there any difference in the working

1 interest owners between the spacing unit in the south
2 half of 26 and the spacing unit in the north half of
3 27?

4 A. No, there's not.

5 Q. Let's turn to the Ojo Chiso Federal No. 2
6 Well and have you look at Exhibit No. 2. What is that
7 exhibit?

8 A. That is a summary of events between myself
9 and the other parties that own a working interest.

10 Q. Who are the working interest owners that
11 you have had discussions with?

12 A. Pacific Enterprises, BTA Producers, and Joe
13 Reynolds.

14 Q. As of the date of this hearing, Mr. Beers,
15 have you reached on a voluntary basis 100 percent
16 commitment of the working interest owners to the well
17 either by farmout or participation?

18 A. No, sir.

19 Q. On either well?

20 A. Not 100 percent, no, sir, on either well.

21 Q. When we look at 9783, which is the Ojo
22 Chiso No. 2 Well, tell us what parties still have not
23 committed their interest to the well?

24 A. BTA Producers, Pacific Enterprises, and Joe
25 Reynolds.

1 Q. When we look at the other case, 9784, for
2 the Antelope Ridge No. 1 Well, what working interest
3 owners as of the date of the hearing today have not
4 committed their working interest?

5 A. Pacific Enterprises and Joe Reynolds.

6 Q. So for the north half of 27 then, BTA's
7 interest is in fact committed --

8 A. Yes, sir.

9 Q. -- while their interest is not committed in
10 the Ojo Chiso No. 2 Well?

11 A. That's correct.

12 Q. When did you first propose both of these
13 wells to the working interest ownership?

14 A. The Ojo Chiso's Federal No. 2 and the south
15 half of 26 was proposed on September the 12th, and the
16 Antelope Federal Com No. 1 in the north half of 27 was
17 proposed on August the 29th.

18 Q. When we look at the correspondence by which
19 you have transmitted your proposals with regards to
20 the well, does Exhibit No. 3 in Case 9783 represent
21 that correspondence?

22 A. Yes, it does.

23 Q. When we turn to Exhibit No. 4 in Case 9783,
24 what is that?

25 A. That is our proposed AFE for the proposed

1 well in the south half of Section 26.

2 Q. Is this the AFE you submitted to the
3 working interest owners?

4 A. Yes, it is.

5 Q. Have you received any objection with
6 regards to the estimated cost of the well as
7 identified on Exhibit No. 4?

8 A. No, I haven't.

9 Q. Again, for the pooling of this spacing
10 unit, you're proposing to pool all deep gas formations
11 below the top of the Wolfcamp to the base of the
12 Pennsylvanian formation?

13 A. I believe we're pooling from the surface to
14 the basin of the Pennsylvanian; is that not correct?

15 Q. Yes, sir, but with regards to the deep gas
16 spacing on 320 acres from the top of the Wolfcamp to
17 the base of the Pennsylvanian, is the spacing unit --

18 A. Yes, that's correct.

19 Q. If there is shallower production that would
20 be based on, say, 160 acres, do the parties or the
21 percentages change from the 320 participation?

22 A. No, they don't.

23 Q. If it's reduced to 80's or 40-acre oil or
24 gas spacing, are the parties the same and the
25 percentages the same?

1 A. Yes, they are the same.

2 Q. In both wells?

3 A. In both wells.

4 Q. Let's turn to the exhibit package in the
5 case, and it continues with Exhibit No. 5, which is
6 the proposed Joint Operating Agreement?

7 A. Okay.

8 Q. That Joint Operating Agreement is a copy of
9 the Joint Operating Agreement from the north half of
10 Section 26, is it not?

11 A. It sure is, yes.

12 Q. Do you propose to use the same type format,
13 Joint Operating Agreement, for each of these two wells
14 that are the subject of the consolidated hearing?

15 A. Yes, I do.

16 Q. And you'll simply modify the language to
17 make it appropriate for these wells?

18 A. That's correct.

19 Q. What are the proposed overhead rates in the
20 Joint Operating Agreement for the north half of 26?

21 A. We propose a drilling well rate of \$5,800
22 and a producing well rate of \$580.

23 Q. The same parties involved in these two
24 spacing cases have agreed in writing by signing that
25 Joint Operating Agreement to those proposed operating

1 charges?

2 A. Yes, sir.

3 Q. Do you recommend those charges to the
4 examiner in the pooling cases before him now?

5 A. Yes, I do.

6 Q. Let's go through the package of exhibits
7 for Case No. 9748. This is the Antelope No. 1 Well.
8 Exhibit 1 is the same as Exhibit 1 in the other case?

9 A. That's correct.

10 Q. Exhibit No. 2, what is that?

11 A. That is my summary of events in proposing a
12 well and trying to get a voluntary joinder in a
13 proposed well.

14 Q. When we turn to Exhibit No. 3 in Case 9784,
15 what does this represent?

16 A. This is my correspondence with the parties
17 involved.

18 Q. Exhibit No. 3 is a package of letters dated
19 August 29, 1989?

20 A. Yes, it is. That was the first proposal of
21 the proposed well with the attached AFE.

22 Q. When we go to Exhibit No. 4, which is a
23 letter dated August 30, 1989, what are you attempting
24 to do here?

25 A. The proposed AFE went out with Oryx Energy

1 Company's interest being wrong, and we simply changed
2 it and mailed out the same AFE with the Oryx interest
3 being changed from 100 percent to 50 percent, which
4 didn't affect any cost for any of the parties.

5 Q. When we turn to Exhibit No. 5, would you
6 identify and describe this correspondence?

7 A. This is my notification to the parties that
8 we were scheduling a pooling hearing for October the
9 18th.

10 Q. Exhibit No. 6 represents what, Mr. Beers?

11 A. This is our proposed AFE for the Antelope
12 Federal Com, the well in the north half of Section 27.

13 Q. And Exhibit No. 7 in Case 9784 is the Joint
14 Operating Agreement?

15 A. Yes, it is.

16 Q. That was used for the north half of 26?

17 A. Yes, it was.

18 Q. And, again, you propose to utilize that
19 same format?

20 A. Yes.

21 Q. And language for the Antelope Ridge No. 1
22 Well?

23 A. Right.

24 Q. In your opinion, Mr. Beers, have you as a
25 landman exhausted all good faith efforts to form on a

1 voluntary basis spacing units for each of the two
2 wells?

3 A. Yes, I have.

4 MR. KELLAHIN: That concludes my
5 examination of Mr. Beers, Mr. Stogner.

6 We would move the introduction of his
7 Exhibits 1 through 6 in Case 9783, and 1 through 7 in
8 Case 9784.

9 HEARING EXAMINER: All the exhibits which
10 you mention are going to be taken under advisement at
11 this time. I'm also going to take administrative
12 notice of the testimony presented in the previous
13 case, Case No. 9782, in the best interests of time.

14 And at that point I have no questions of
15 this witness.

16 You may continue.

17 MR. KELLAHIN: Thank you. At this time,
18 Mr. Examiner, I would like to submit to you the
19 certificates of mailing. The certificate of mailing
20 in Case 9783 is Exhibit No. 6. The certificate of
21 mailing in Case 9784 is Exhibit No. 8.

22 At this time, Mr. Examiner, we'd like to
23 call Mrs. Shelley Lane as the petroleum geologist on
24 behalf of Oryx Energy Company.

25 SHELLEY LANE,

1 the witness herein, after having been first duly sworn
2 upon her oath, was examined and testified as follows:

3 DIRECT EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Miss Lane, would you identify for the
6 examiner how you have organized your geologic
7 presentation in terms of both these cases?
8 Specifically, if he looks at a set of the geologic
9 displays in Case 9783, are you proposing the same
10 geologic displays in Case 9784?

11 A. Yes. They are essentially the same.

12 Q. In what ways are they different?

13 A. The pond chart for the risk factor, those
14 are different, and they do have the proposed units on
15 them for the -- for instance, in 9783, I have outlined
16 or hatched the proposed unit, and then on 9784, I've
17 hatched that proposed unit. So there is a slight
18 difference.

19 Q. Let's do this then. I'm going to hand you
20 what is proposed as Exhibit No. 7 in Case 9783, as
21 well as Exhibit No. 9 in Case 9784. If you'll lay
22 them side by side, we'll talk about both cases with
23 regards to that structure map.

24 A. Yes.

25 Q. Let's start with the well in the south half

1 of 26, which is your Ojo Chiso No. 2 Well?

2 A. Yes, sir.

3 Q. Why have you selected this particular
4 location and this particular orientation of the
5 spacing unit?

6 A. I first might address the location. That
7 is the proposed location that is on the AFE. We do --
8 we are still negotiating the exact location. BTA
9 would like to move the location a little bit to the
10 west, and so they would like this order to reflect a
11 legal location, and not this specific location.

12 Q. I believe, Miss Lane, that the application
13 does, in fact, indicate a standard location anywhere
14 within the particular quarter section?

15 A. Yes.

16 Q. We may have been so specific as to
17 designate a possible 40-acre tract, but you're
18 proposing a standard location?

19 A. Exactly, yes, sir.

20 Q. That is true of both wells, each well in
21 each case is a standard well location?

22 A. Yes, sir.

23 Q. The examination of the geology to the Ojo
24 Chiso No. 2 Well in Case 9783 results in what geologic
25 conclusion with regards to a risk factor penalty?

1 A. The risk factor, in my opinion, would be
2 the maximum risk factor at 200 percent. And that is
3 based on my evaluation of the surrounding wells within
4 this area. If you look at the nine-section areas
5 surrounding the Section 26, there are only about 45
6 percent of those wells that have been economic
7 producers in the Morrow formation, and the rest of the
8 wells in this area have been dry and abandoned, or
9 they have actually set pipe, and then tried to
10 complete the zone, and that adds another bit of risk
11 in that the zone is -- you cannot just evaluate it
12 based on log analysis. There is some risk in
13 completing the Morrow after you set pipe.

14 So based on those two factors, I would
15 recommend the 200 percent penalty.

16 Q. Let's turn to the stratigraphic
17 cross-section, which is your cross-section -- which
18 should be B-B', isn't it?

19 A. Yes, sir.

20 MR. KELLAHIN: For purposes of the record,
21 Mr. Examiner, I have marked the B-B' cross-section in
22 Case 9783 as Exhibit No. 8.

23 Q. Before you describe your geologic
24 conclusions, Mrs. Lane, would you identify for us the
25 wells, and describe for us how to read the display?

1 A. Yes. This is a cross-section that's a
2 stratigraphic cross-section through the Ojo Chiso
3 Morrow field, and the wells are numbered. It's the
4 cross-section on the location map that's indicated
5 B-1, B-2, B-3, B-4, and B-5 are the wells on that
6 location map, and these are the wells on the
7 cross-section.

8 I might point out that Wells B-3 and B-4,
9 the information down at the bottom of those wells was
10 inadvertently switched. It's just a drafting error.
11 So I've indicated that with a red arrow that the
12 production in those wells should be switched.

13 The conclusions that I draw from this
14 cross-section -- and this is a cross-section which
15 vertically includes the Morrow formation. And the
16 datum is the Morrow lime marker. And the conclusion
17 that can be drawn from this cross-section is that the
18 Morrow is extremely discontinuous. The productive
19 sands can occur anywhere from around 12,800 feet down
20 to something around 13,550 feet, and you do not
21 necessarily know which sand you're going to get when
22 you drill the well. So this increases the risk
23 factor.

24 The sands are colored in yellow, and you
25 can see the discontinuity of the actual sands. And

1 then the porosity is even more discontinuous than the
2 sands, and it is colored in red. This would support
3 the 200 percent penalty.

4 Q. Is that your recommendation to the examiner
5 for a risk factor penalty to assess in each of the two
6 cases?

7 A. Yes, sir, it is.

8 Q. Does it diminish or reduce the risk to less
9 than 200 percent based upon the results or outcome or
10 log information available as the wells are drilled?

11 A. No, sir, it does not. The risk factor in
12 here is actually much greater than the maximum allowed
13 by the Commission, and that would not diminish the
14 risks; so we are asking for the maximum penalty of 200
15 percent.

16 Q. I direct your attention now to what is
17 marked as Exhibit No. 9 in Case 9783. Would you
18 identify Exhibit No. 9 in Case 9783?

19 A. Yes. This is pie chart which I've
20 constructed, and it covers the area surrounding
21 Section 26, and it includes the nine sections
22 surrounding Section 26.

23 This pie chart shows that there were 11
24 Morrow penetrations within this nine-section area, and
25 out of those 11 Morrow penetrations, only

1 approximately 45 percent of those were economic
2 producers. And by economic producers, I'm using 1 Bcf
3 ultimate recoverable reserves for cutoff there.

4 Then if you look at the actually blackened
5 area where I've annotated that as dry and abandoned
6 without pipe, that means that the operator did not set
7 pipe. They DST'd and decided the well would not
8 produce.

9 The other wells that I talk about, the 36
10 percent that are dry and abandoned or marginal with
11 pipe, the operator actually set pipe on those wells
12 and went to the added expense of setting production
13 casing, and also attempting a completion. So that's
14 indicating that there is a risk of completion in the
15 Morrow formation.

16 Then the other portion, the 9 percent
17 represents the Ojo Chiso No. 1 Well, which is
18 currently completing, and we don't know the results of
19 that well.

20 Q. Do you have a geologic opinion as to
21 whether or not there is a reasonable geologic
22 probability of Atoka production at the Ojo Chiso No. 2
23 Well location in the south half of Section 26?

24 A. I do not believe we'll encounter any Atoka
25 porosity at that location.

1 Q. The geologic conclusion then defines as the
2 most prospective formation, the Morrow formation?

3 A. Yes, sir.

4 Q. In analyzing the economic production as
5 you've defined it among the 11 Morrow penetrations, it
6 appears that you have less than 50 percent of those
7 penetrations that are economic by your standards?

8 A. Yes, sir.

9 Q. Does that fact reduce the risk factor
10 penalty to less than 200 percent for this well?

11 A. No, sir.

12 Q. Turn with me now, if you will, to Case
13 9784, and I'm going to show you what is marked as
14 Exhibits 10 and 11. Let's start with 10. Would you
15 identify and describe that?

16 A. Yes. This is a similar sort of
17 presentation, a pie chart, and this represents the
18 nine-section area surrounding Section 27 in our
19 proposed Antelope No. 1 Well.

20 This chart shows that there are 12 Atoka
21 penetrations in that nine-section area, and out of
22 those 12 Atoka penetrations, only about a third of
23 those have been economic producers. At least 50
24 percent of those have been dry and abandoned or
25 marginal wells, and then there are about 17 percent of

1 the wells that haven't been tested, and that's because
2 they are completed at a deeper Morrow formation.

3 Q. Turn now to Exhibit No. 11 in Case 9784,
4 and describe that display for us and your
5 conclusions.

6 A. Yes. This is a similar chart surrounding,
7 again, Section 27. This chart is showing the Morrow
8 penetrations around Section 27. There were 10 Morrow
9 penetrations, and out of those, 50 percent were
10 economic producers. 40 percent were dry and
11 abandoned, or marginal, and they did set pipe and go
12 to the added expense of attempting a completion, and
13 then 10 percent is testing, which again represents our
14 Ojo Chiso No. 1 Well.

15 Q. With regards to the Antelope Ridge No. 1
16 Well in the Atoka formation, does the economic
17 evaluation that you've made with regards to the
18 potential economic production from the Atoka of being
19 approximately a third of the penetrations cause you to
20 reach the geologic conclusion that the risk factor
21 should be less than 200 percent?

22 A. No, sir, it should be 200 percent.

23 Q. As to the Morrow penetrations shown on your
24 analysis in Exhibit No. 11, does the fact that you
25 find 50 percent of those penetrations to be economic

1 allow you to reach the conclusion that the risk factor
2 penalty should be less than 200 percent?

3 A. No, sir. Again, the 50 percent is a very
4 risky number, and then the additional 40 percent of
5 the wells which were either dry and abandoned, or some
6 of those had to actually go to added expense; that
7 increases the risk. So I believe the 200 percent is
8 valid.

9 Q. In the event the Antelope Ridge No. 2 Well,
10 which is the south half of Section 22, if, for
11 happenstance, that well happens to be drilled first in
12 sequence between the Antelope 1 and the Antelope 2,
13 would that diminish the risk for the penalty factor
14 for the Antelope region of the well?

15 A. Say that again. I'm sorry.

16 Q. We're looking at the risk factor penalty in
17 the Atoka formation for the Antelope Ridge No. 1 in
18 the north half of Section 27.

19 A. Right.

20 Q. The proposal is to drill that well
21 concurrently with the Ojo Chiso Federal No. 2?

22 A. Yes.

23 Q. That's your plan?

24 A. Yes.

25 Q. If the sequence is that you drilled -- let

1 me ask you, maybe I've presumed too much. Would that
2 be the sequence rather than have you drill the south
3 half of Section 22 as the first well?

4 A. Yes. We would not drill the south half of
5 22 first.

6 Q. That would be much too risky?

7 A. Yes.

8 Q. Are you going to learn anything between the
9 Ojo Chiso No. 2 and the Antelope Ridge No. 1 that
10 would allow you, because of that sequence and the
11 information developed from that drilling, to diminish
12 the risk of the second well?

13 A. No, because you still do not have any
14 production to the north or west of you. So we are
15 continually stepping out and extending the field, and
16 the risk from well to well is still very high.

17 MR. KELLAHIN: That concludes my
18 examination of Miss Lane.

19 We move the introduction of her exhibits.

20 HEARING EXAMINER: Her exhibits are hereby
21 admitted into evidence.

22 MR. KELLAHIN: I've lost track of them.

23 HEARING EXAMINER: In the best interests of
24 time, I'm going to again stress I'm going to take
25 administrative notice of the testimony presented in

1 Case No. 9782 in this case.

2 Is there anything further?

3 MR. KELLAHIN: No, sir.

4 HEARING EXAMINER: In either case?

5 Does anybody else have anything further in
6 Case Nos. 9783 and 9784?

7 Before I take this under advisement, I will
8 make one statement. In my opinion, a little over a
9 month is not time enough to reach voluntary
10 agreement. However, even in a previous case in which
11 we heard today, that was not the issue. But the next
12 time, Mr. Beers, you come in and request compulsory
13 pooling when you've only given them just a little over
14 a month, I will give you extra time.

15 And with that, Cases Nos. 9783 and 9784
16 will be taken under advisement.

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1 CERTIFICATE OF REPORTER

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

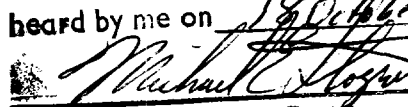
6 I, Deborah O'Bine, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that the
8 foregoing transcript of proceedings before the Oil
9 Conservation Division was reported by me; that I
10 caused my notes to be transcribed under my personal
11 supervision; and that the foregoing is a true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

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

17 WITNESS MY HAND AND SEAL November 13, 1989.

18 
19 DEBORAH O'BINE
20 CSR No. 127

21 My commission expires: August 10, 1990
22

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case Nos. 9783 + 9784
heard by me on 18 October 1989.
 Examiner
Oil Conservation Division