

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4  
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7 EXAMINER HEARING  
8

9 IN THE MATTER OF:  
10

11 Application of Santa Fe Energy Case 9815  
12 Operating Partners, L.P., for  
13 compulsory pooling, Lea County,  
14 New Mexico  
15  
16

17 TRANSCRIPT OF PROCEEDINGS  
18

19 BEFORE: DAVID R. CATANACH, EXAMINER  
20

21 STATE LAND OFFICE BUILDING

22 SANTA FE, NEW MEXICO

23 November 15, 1989  
24  
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**ORIGINAL**

## A P P E A R A N C E S

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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: HINKLE, COX, EATON  
COFFIELD & HENSLEY  
Attorneys at Law  
218 Montezuma  
Santa Fe, New Mexico 87504-2068  
BY: JAMES G. BRUCE, ESQ.

## I N D E X

	Page Number
Appearances	2
1. GARY GREEN	
Direct Examination by Mr. Bruce	4
Cross-Examination by Hearing Examiner	9
Redirect Examination by Mr. Bruce	11
Cross-Examination by Hearing Examiner	12
2. ROBERT C. SEILER	
Direct Examination by Mr. Bruce	13
Cross-Examination by Hearing Examiner	17
Certificate of Reporter	20

## E X H I B I T S

Applicant's Exhibit 1	6
Applicant's Exhibit 2	6
Applicant's Exhibit 2-A	10
Applicant's Exhibit 3	7
Applicant's Exhibit 4	8
Applicant's Exhibit 5	14
Applicant's Exhibit 6	15
Applicant's Exhibit 7	15

1 HEARING EXAMINER: At this time we'll call  
2 Case 9815.

3 MR. STOVALL: Application of Santa Fe  
4 Energy Operating Partners, L.P., for compulsory  
5 pooling, Lea County, New Mexico.

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

8 MR. BRUCE: Mr. Examiner, my name is Jim  
9 Bruce from the Hinkle law firm in Albuquerque  
10 representing the Applicant, and I have two witnesses  
11 to be sworn.

12 HEARING EXAMINER: Any other appearances?

13 (Witnesses sworn.)

14 GARY GREEN,  
15 the witness herein, after having been first duly sworn  
16 upon his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Green, would you please state your full  
20 name and your city of residence.

21 A. My name is Gary Green. I live in Midland,  
22 Texas.

23 Q. Who are you employed by and in what  
24 capacity?

25 A. I'm employed by Santa Fe Energy Operating

1 Partners, L.P., as a landman.

2 Q. Have you previously testified before the  
3 OCD as a landman and had your credentials accepted as  
4 a matter of record?

5 A. Yes, I have.

6 Q. Are you familiar with the land matters  
7 involved in Case 9815?

8 A. Yes, I am.

9 MR. BRUCE: Mr. Examiner, is the witness  
10 acceptable?

11 HEARING EXAMINER: Yes, sir.

12 Q. (BY MR. BRUCE) Mr. Green, would you please  
13 state briefly what Santa Fe seeks in this  
14 application.

15 A. Santa Fe Energy Operating Partners, L.P.,  
16 seeks an order pooling all mineral interests from the  
17 surface to the base of the Morrow formation underlying  
18 the west half of Section 16, Township 21 South, Range  
19 35 East, in Lea County, New Mexico, to form a  
20 standard, 320-acre gas spacing proration unit. The  
21 unit will be dedicated to a well located at a standard  
22 location.

23 Santa Fe also requests consideration of  
24 costs of drilling and completing the well, allocation  
25 of the cost as well as the actual operating costs, and

1 charges for supervision. Santa Fe asks that it be  
2 designated as operator of the well, and that its  
3 charge for the risk involved in drilling the well be  
4 assessed.

5 Q. Would you please refer to Exhibit No. 1 and  
6 describe it briefly.

7 A. Exhibit No. 1 is a land plat that indicates  
8 the west half of Section 16, Township 21 South, Range  
9 35 East, Lea County, New Mexico, to be the proposed  
10 spacing unit. It also indicates the location of the  
11 proposed well, being 1980 from the north line and 660  
12 from the west line of Section 16.

13 The acreage that is colored in yellow  
14 indicates Santa Fe's acreage position in this  
15 prospect.

16 Q. Who are the interest owners that Santa Fe  
17 seeks to pool into this well?

18 A. Santa Fe seeks to pool Chevron USA Inc.

19 Q. That's the only one?

20 A. Yes.

21 Q. Will you please describe your efforts to  
22 get these this interest owner to join in the well?  
23 And I refer you to Exhibit 2.

24 A. Exhibit 2 is a letter dated October 19,  
25 1989, whereby Santa Fe proposed to Chevron to join in

1 the drilling of this well on a farmout under  
2 reasonable terms.

3 Also, indicated in my letter, Santa Fe  
4 acquired this prospect through a third-party,  
5 PetroQuest. Santa Fe had requested PetroQuest to  
6 continue to negotiate with Chevron to acquire  
7 acceptable terms under farmout or join. That began in  
8 February of 1989 and continued to the present time.

9 Q. So PetroQuest, who you acquired certain  
10 acreage from, started negotiations with Chevron in  
11 February; is that correct?

12 A. Yes, sir, they did.

13 Q. And what percent of the proposed unit is  
14 currently committed to the well?

15 A. 50 percent.

16 Q. Will you please now refer to Exhibit No. 3  
17 and discuss the cost of the well.

18 A. Exhibit No. 3 is the Santa Fe Energy  
19 Company generalized well cost estimate. It provides a  
20 dry hole cost of \$881,255, a completed cost of  
21 \$1,114,745.

22 Q. Is this cost in line with those normally  
23 encountered in drilling wells of this depth in this  
24 area of Lea County?

25 A. Yes, they are.

1 Q. Do you have a recommendation as to the  
2 amount which Santa Fe should be paid for supervision  
3 and administrative expenses?

4 A. Yes, I do. Santa Fe would request that  
5 they be paid \$5,000 per month be allowed for drilling  
6 well rate and \$500 per month for producing well rate.

7 Q. Is this in line with the charges set forth  
8 in the annual Ernst & Whinney surveys?

9 A. Yes, they are.

10 Q. Are these amounts in line with amounts  
11 normally charged by Santa Fe and other operators for  
12 wells of this type in this area?

13 A. Yes, they are.

14 Q. What penalty do you recommend against the  
15 nonconsenting interest owners?

16 A. Santa Fe recommends cost plus 200 percent.

17 Q. Is this commonly used in operating  
18 agreements used by Santa Fe in New Mexico?

19 A. Yes.

20 Q. Were all interested parties notified of  
21 this hearing?

22 A. Yes, they were.

23 Q. Is that letter of notice submitted as  
24 Exhibit No. 4?

25 A. Yes, it is.

1 Q. Were Exhibits 1 through 4 prepared by you  
2 or compiled from company records?

3 A. Yes, they were.

4 Q. In your opinion, will the granting of this  
5 application be in the interests of conservation and  
6 the prevention of waste?

7 A. Yes, it will.

8 MR. BRUCE: Mr. Examiner, I move the  
9 admission of Exhibits 1 through 4.

10 HEARING EXAMINER: Exhibits 1 through 4  
11 will be admitted as evidence.

12 MR. BRUCE: Pass the witness.

13 MR. STOVALL: Mr. Examiner, I have a couple  
14 of questions of the witness.

15 CROSS-EXAMINATION

16 BY MR. STOVALL:

17 Q. Exhibit No. 2 indicates that Santa Fe  
18 Energy has had a single correspondence with Chevron,  
19 asking them to either join or farm out on your terms.  
20 Have you had any response to that?

21 A. I have -- in addition to this, I've had a  
22 number of phone conversations with Chevron employees  
23 in Midland and in Houston. The latest response, that  
24 this proposal is currently under consideration by  
25 upper management. That's where we're at right now.

1 Q. Do you have any indication of what  
2 Chevron's possible or probable position might be in  
3 this?

4 A. Yes. Chevron has indicated as far back as  
5 July that they would not participate in the drilling  
6 of the well but would consider farm out of their  
7 interest under terms that were unacceptable to Santa  
8 Fe and PetroQuest at that time.

9 Q. Did they make any formal farm-out offer to  
10 you?

11 A. Yes, they did.

12 Q. Is it a written offer?

13 A. Yes, it is.

14 Q. Would it possible to submit that as an  
15 exhibit?

16 A. Yes, sir.

17 MR. BRUCE: (Indicating.)

18 Q. (BY MR. STOVALL) What we're submitting now  
19 is a letter dated July 17, 89, from Chevron to  
20 PetroQuest Exploration; is that correct?

21 A. That's correct.

22 Q. It's been marked as Exhibit 2-A by Mr.  
23 Bruce?

24 A. That's correct.

25 MR. STOVALL: If I may, Mr. Bruce, just for

1 efficiency, you are offering this into evidence; is  
2 that correct?

3 MR. BRUCE: Yes, sir, Mr. Stovall.

4 Q. (BY MR. STOVALL) It references, I assume,  
5 a PetroQuest letter of February 13, 89; is that  
6 correct?

7 A. Yes.

8 Q. So, presumably, PetroQuest has previously  
9 attempted to negotiate with Chevron?

10 A. Yes, they have, since February 13, 1989.

11 Q. When did you acquire the prospect from  
12 PetroQuest?

13 A. In June of 89.

14 Q. And you were aware of these negotiations at  
15 that time?

16 A. Yes, we were. At that time we asked  
17 PetroQuest to continue to negotiate with Chevron to  
18 acquire farmout or joinder.

19 MR. STOVALL: I have no further questions.

20 MR. BRUCE: If I could ask one.

21 REDIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. If I could just ask Mr. Green to discuss  
24 the terms of the Chevron offer contained in that  
25 letter, and why they were not acceptable.

1           A.       Chevron proposed that they retain a 12-1/2  
2 percent override and at payout, they would either  
3 escalate their override to a 17-1/2 percent override  
4 or a 50 percent back-in working interest.

5           Q.       What is a common back-in in this area that  
6 you've been dealing with?

7           A.       In this area for wells of this depth, it's  
8 very common to deliver a 75 percent net revenue lease  
9 with a 25 percent back-in working interest, with the  
10 option to convert.

11                   CROSS-EXAMINATION

12 BY HEARING EXAMINER:

13           Q.       It's your opinion the offer you made to  
14 Chevron was fair and reasonable?

15           A.       Very fair and reasonable. We obtained  
16 farmout from other parties in the area under the terms  
17 that we have requested Chevron participate.

18           Q.       Has Santa Fe drilled a Morrow test or a  
19 Morrow well in this area?

20           A.       Santa Fe is currently drilling a well  
21 located in the east half of Section 16 at a location  
22 1,980 from the north and 1,980 from the east line of  
23 Section 16. That well is currently drilling.

24           Q.       So you've got a good handle on the costs?

25           A.       Yes, sir.

1 Q. And the overhead rates as well?

2 A. Yes, sir.

3 HEARING EXAMINER: I have no further  
4 questions of the witness.

5 ROBERT C. SEILER,  
6 the witness herein, after having been first duly sworn  
7 upon her oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you state your name and where you  
11 reside, please.

12 A. My name is Robert C. Seiler. I reside in  
13 Midland, Texas.

14 Q. Who are you employed by and in what  
15 capacity?

16 A. I'm employed by Santa Fe Energy Operating  
17 Partners, L.P., and I'm senior staff geologist.

18 Q. Have you previously testified before the  
19 OCD?

20 A. I have.

21 Q. As a geologist?

22 A. Yes.

23 Q. Are you familiar with the geological  
24 matters involved in this case?

25 A. I am.

1 MR. BRUCE: Mr. Examiner, is the witness  
2 acceptable?

3 HEARING EXAMINER: He is. What was his  
4 last name again?

5 THE WITNESS: Seiler, S-e-i-l-e-r.

6 HEARING EXAMINER: Thank you.

7 Q. (BY MR. BRUCE) Mr. Seiler, would you  
8 please refer to Santa Fe's Exhibit No. 5 and discuss  
9 it for the examiner.

10 A. Exhibit No. 5 is a 1 to 2,000 --  
11 approximate 1 to 2,000 scale map of the subject area.  
12 It is a net sand isopach map with production data for  
13 the existing Morrow wells.

14 The contours are drawn on what's called the  
15 South Osudo Fan, which is a Morrow unit or a unit  
16 within the Morrow.

17 The contour interval is somewhat variable,  
18 as is indicated. It goes up -- the sand deposit  
19 exceeds 50 feet.

20 The display also indicates the producing  
21 Morrow wells in red, as indicated with their  
22 associated production, as keyed in the legend. It  
23 shows the proration unit, our proposed location, and  
24 also the drilling well that was referred to by Mr.  
25 Green in the east half of Section 16.

1           Q.       Would you please refer to Exhibit 6 and  
2 describe that.

3           A.       Exhibit 6 is a structure map of this same  
4 area. The map is drawn on the top of the Morrow  
5 Clastics. The contour interval is 100 feet. It  
6 indicates a general dip of 2 to 3 degrees generally to  
7 the south across the proration unit.

8                   Shown on top of it in color banding is the  
9 general outline of the sand deposit indicated on  
10 Exhibit No. 5.

11                   I should point out also on Exhibit 5 are  
12 two dashed lines. One is indicated as the lowest  
13 known gas seen at an elevation of minus 8398 in the  
14 well in the southwest quarter of Section 15, and also  
15 a dashed line that's the highest known water at an  
16 elevation of minus 8522, seen in the well in the  
17 northwest quarter of Section 19. And those lines are  
18 brought over from the structure map, of course.

19           Q.       And referring to Exhibit 7, would you  
20 describe its contents, please.

21           A.       Seven is a structural cross-section that's  
22 keyed back to the two previous displays, cross-section  
23 A-A', basically northwest to southeast. It passes  
24 through three wells as well as our proposed location  
25 in the west half of Section 16.

1           Indicated on the cross-section highlighted  
2 in yellow is the South Osudo Fan. Shown in the second  
3 well from the right, the Amerada Hess State W.E.K. No.  
4 1, are red perforations within this fan interval.  
5 This is the primary objective of our prospect. In  
6 that particular well, the sand has cum'd 6.2 Bcf and  
7 129,000 barrels of condensate. It is now on its last  
8 legs. The last monthly rate showed a daily rate  
9 average of only 6 Mcf a day.

10       Q.     The nearest Morrow wells are the Amerada  
11 well and then the well to the west in Section 17; is  
12 that correct?

13       A.     Yes, sir, producing.

14       Q.     And Santa Fe's well on the east half of  
15 Section 16 is still drilling, and it is not completed  
16 at this time?

17       A.     Correct. It's drilling below 5,100 feet at  
18 this time.

19       Q.     In your opinion, what penalties should be  
20 assessed against the nonconsenting interest owner?

21       A.     It is my opinion it ought to be cost plus  
22 200 percent based on the inherent risk of the  
23 prospect.

24           The well, as you can see, the location on  
25 the sand map, sand thickness is everything here. We

1 run the risk of running into a thin deposit, and  
2 therefore the inherent risk of the prospect indicates  
3 200 percent plus cost to me.

4 Q. In your opinion, is the granting of this  
5 application in the interest of conservation and the  
6 prevention of waste?

7 A. Yes, it is.

8 Q. Were Exhibits 5 through 7 prepared by you?

9 A. They were originally prepared by  
10 PetroQuest, but I have reviewed all the data on them  
11 and concur with everything that's presented.

12 MR. BRUCE: Mr. Examiner, I move the  
13 admission of Exhibits 5 through 7.

14 HEARING EXAMINER: Exhibits 5 through 7  
15 will be admitted as evidence.

16 MR. BRUCE: Pass the witness.

17 CROSS-EXAMINATION

18 BY HEARING EXAMINER:

19 Q. Mr. Seiler, how many feet of sand do you  
20 generally have to have to have a good well in this  
21 area?

22 A. Well, the well in 17 had 17 feet and has  
23 made 1.3 Bcf. That was drilled in 74. It's still  
24 making 245,000 a day as of June 89's records. That  
25 well would probably be marginally economic. So I would

1 say you would want to try to get better than 25 feet,  
2 if possible.

3 The well to the northeast, I might point  
4 out, in Section 10, only had 12 feet. It only made .6  
5 of a Bcf and is down to 600 M's a day, and it probably  
6 is -- definitely is not economic in today's market, in  
7 today's economics.

8 Q. What caused you to drop your 50-foot  
9 contour line south of your proposed location?

10 A. Just generally mapping it in with the  
11 existing control, we have down to the southwest in  
12 Section 19, wells with 90 feet and 77 feet in the  
13 southern half of that section, and then the well in  
14 Section 20 with 40, it's envisioned as a low bait  
15 prospect, low bait sand -- I'm sorry -- with the thick  
16 running through the south half of 16 just in uniform  
17 contour interval from existing control.

18 HEARING EXAMINER: That's all the questions  
19 I have of the witness at this time. He may be  
20 excused.

21 MR. STOVALL: Mr. Bruce, just for the  
22 record, I'm not sure that between us we got Exhibit  
23 2-A actually admitted by the examiner. Would you move  
24 that?

25 MR. BRUCE: Mr. Examiner, I move the

1 admission of Exhibit 2-A.

2 HEARING EXAMINER: Exhibit 2-A will be  
3 admitted as evidence. Did you move these, Mr. Bruce?

4 MR. BRUCE: I believe we did. If not, we  
5 move the admission of Exhibits 5 through 7.

6 HEARING EXAMINER: If you did not, they  
7 will be admitted.

8 Anything further in this case?

9 MR. BRUCE: Not by me.

10 HEARING EXAMINER: Case 9815 will be taken  
11 under advisement.

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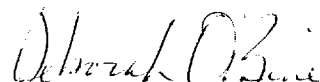
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
COUNTY OF SANTA FE )

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

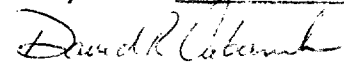
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 25, 1989.

  
DEBORAH O'BINE  
CSR No. 127

My commission expires: August 10, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9815 heard by me on November 15, 1989.

, Examiner  
Oil Conservation Division