

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9932

EXAMINER HEARING

IN THE MATTER OF:

Application of Anadarko Petroleum Corporation for
Compulsory Pooling, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

May 2, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

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1 WHEREUPON, the following proceedings were had
2 at 12:00 noon:

3 EXAMINER CATANACH: All right. At this time
4 we'll call Case 9932, Application of Anadarko Petroleum
5 Corporation for compulsory pooling, Lea County, New
6 Mexico.

7 MR. CARR: May it please the Examiner, my
8 name is William F. Carr, with the law firm Campbell and
9 Black, P.A., of Santa Fe.

10 We represent Anadarko Petroleum Corporation,
11 and I have two witnesses.

12 EXAMINER CATANACH: Any other appearances?
13 Will the two witnesses please stand and be
14 sworn in?

15 (Thereupon, the witnesses were sworn)

16 WAYNE M. WHEELIS,
17 the witness herein, after having been first duly sworn
18 upon his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. CARR:

21 Q. Will you state your full name for the record,
22 please?

23 A. Wayne Michael Wheelis.

24 Q. Mr. Wheelis, where do you reside?

25 A. In Midland, Texas.

1 Q. By whom are you employed, and in what
2 capacity?

3 A. I'm employed by Anadarko Petroleum
4 Corporation. I'm a landman.

5 Q. Have you previously testified before the Oil
6 Conservation Division and had your credentials as a
7 landman accepted and made a matter of record?

8 A. Yes, sir.

9 Q. Are you familiar with the Application filed
10 in this case and the subject area?

11 A. Yes, sir.

12 MR. CARR: Are the witness's qualifications
13 acceptable?

14 EXAMINER CATANACH: They are.

15 Q. (By Mr. Carr) Mr. Wheelis, would you briefly
16 state what Anadarko seeks with this Application?

17 A. We seek to pool TXO's working interest, 8.9
18 percent working interest, under the southeast northwest
19 quarter of Section 33, Township 16 South, Range 38
20 East, Lea County, New Mexico.

21 Q. Has this acreage been the subject of a prior
22 pooling case?

23 A. Yes, sir, it has.

24 Q. Would you refer to what has been marked as
25 Anadarko Exhibit Number 1, identify that for the

1 Examiner, and just explain what it is.

2 A. Yes, sir, this is three parts. First part,
3 actually the third in this, is the order for pooling an
4 unorthodox location. And the two top pieces of that
5 are extensions to that order.

6 Q. The last part is Order Number R-9046?

7 A. Yes, sir.

8 Q. And that approved directional drilling at
9 unorthodox location, and the pooling of this acreage?

10 A. That's correct.

11 Q. And the order is still in effect by
12 extensions from Mr. LeMay, and copies of his extension
13 letter are attached?

14 A. Yes, sir.

15 Q. Why are you seeking to, at this time, pool
16 the interest of TXO?

17 A. We previously thought we had an agreement to
18 accept a farmout agreement from TXO. We got down the
19 road with that, there were provisions in it that were
20 -- we couldn't decide on, couldn't accept.

21 Q. And have you been talking to TXO since the
22 November hearing in this case?

23 A. Yes, sir, we have.

24 Q. At this time do you believe it is going to be
25 possible to reach voluntary agreement for participation

1 of TXO in this prospect?

2 A. No, sir.

3 Q. Would you identify what has been marked as
4 Anadarko Exhibit Number 2, please?

5 A. This is the AFE we delivered to TXO.

6 Q. Would you review the costs that are requested
7 on this AFE?

8 A. These show the dryhole costs and the
9 completion costs for drilling, completing and equipping
10 the well.

11 Q. Do these costs also reflect additional costs
12 to cover the directional drilling portion of this
13 prospect?

14 A. Yes, sir, in accordance with the existing
15 order.

16 Q. And what are the dryhole and completed well
17 costs?

18 A. Total dryhole costs, \$554,900. Additional
19 completion costs of \$281,100.

20 Q. Are these costs in line with what's being
21 charged by other operators in this area for similar
22 wells?

23 A. Yes, sir.

24 Q. All right. At this time I'd like to go back
25 and ask you some general questions about the well.

1 What is the primary objective in this well?

2 A. A Strawn well.

3 Q. And where is the nearest Strawn production?

4 A. Two and a half miles west.

5 Q. Have you reviewed and are you familiar with
6 the status of the ownership in this tract?

7 A. Yes, sir, I am.

8 Q. Could you review for the Examiner the current
9 status of the ownership?

10 A. We have interests, mineral interests, from
11 Mr. Balban and Mr. Renencourt that are pooled under
12 Order Number R-9046. All other mineral interest owners
13 are voluntary committed except TXO's. Wood Oil Company
14 has mineral interests. They're participating with us.
15 Amron Hess has leasehold interests, and we have a
16 farmout agreement.

17 Q. And what percent of the acreage is
18 voluntarily committed to the well?

19 A. Over 91 percent.

20 Q. Do you have any lease-expiration problems?

21 A. Yes, sir, we do. Our expiration from this
22 date is August 1st.

23 Q. Okay. Do you request that the order entered
24 in this case be expedited?

25 A. Yes, sir.

1 Q. Could you briefly summarize for the Examiner
2 the efforts that you have made to obtain the voluntary
3 joinder of TXO, and in doing this would you refer to
4 what has been marked as Anadarko Exhibit Number 3?

5 A. Anadarko Exhibit 3 are seven letters.
6 Initial contact made, initial official contact, was in
7 June of 1989 where we sent them an AFE and a well
8 proposal. The additional six letters are
9 correspondences back and forth, setting parameters for
10 a farmout.

11 The actual farmout that we received had
12 additional provisions that made us come to this stage.

13 Q. Have you, in your opinion, made a good-faith
14 effort to obtain the voluntary joinder of TXO?

15 A. Yes, sir, we have.

16 Q. Is what has been marked Anadarko Exhibit
17 Number 5 a copy of an affidavit and notice letters
18 providing notice of today's hearing to TXO as required
19 by Oil Conservation Division Rules?

20 A. Yes, sir, but this is Exhibit 4.

21 Q. I'm sorry, Exhibit Number 4 is the affidavit,
22 and attached to that are copies of the letters; is that
23 correct?

24 A. Yes, sir.

25 Q. Have you made an estimate of overhead and

1 administrative costs to be incurred while drilling the
2 well and also producing the well, if in fact it is a
3 producer?

4 A. Yes, sir, we have. We've reached figures, a
5 cost of \$500 -- No, \$5500 for drilling and \$500 for
6 producing, per-month rates.

7 Q. And what are these costs based on?

8 A. These are consistent with Order R-9046, and
9 it's also what we've done in the area in another
10 Anadarko-operated well that was within a mile from this
11 well.

12 Q. And are these in line with what's being
13 charged by other operators?

14 A. Yes, sir, these costs are in fact a little
15 less than costs Anadarko has accepted as a non-operator
16 in a well in this very area.

17 Q. And are they consistent with figures that are
18 currently contained in the Ernst & Young survey for
19 well costs for drilling in this area?

20 A. Yes, sir.

21 Q. Do you recommend that these figures be
22 incorporated into the Order which results from today's
23 hearing?

24 A. Yes, sir, I do.

25 Q. Does Anadarko seek to be designated operator

1 of the proposed well?

2 A. Yes, sir.

3 Q. Were Exhibits 1 through 4 either prepared by
4 you, Mr. Wheelis, or compiled under your direction and
5 supervision?

6 A. Yes, sir, they were

7 MR. CARR: At this time we would move the
8 admission of Anadarko Exhibits 1 through 4.

9 EXAMINER CATANACH: Exhibits 1 through 4 will
10 be admitted as evidence.

11 MR. CARR: That concludes my direct
12 examination of Mr. Wheelis.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Wheelis, is it?

16 A. Yes, sir.

17 Q. TXO's interest in the proration unit is what
18 amount?

19 A. 8.9 percent.

20 Q. Okay, there are still uncommitted interest
21 owners besides TXO; is that correct?

22 A. No, sir.

23 Q. Subject to the forced-pooling provisions of
24 the previous order?

25 A. Yes, sir, those two interests, small mineral

1 interests, Renencourt and Balban.

2 MR. CARR: What we have is some previous
3 owners that were pooled. The purpose of this hearing
4 is just to bring TXO under these -- umbrella of the
5 prior order.

6 Q. (By Mr. Catanach) Now, the AFE and overhead
7 rates are the same as were presented in the original
8 case?

9 A. Yes, sir.

10 Q. When does Anadarko propose to drill the well?
11 Or do you know -- have any idea when that might be?

12 A. We're waiting to get this interest owned by
13 TXO under our control.

14 Q. Do you understand that with the new
15 compulsory pooling order TXO will have an additional
16 election period to voluntarily join?

17 A. Yes, sir.

18 Q. Okay.

19 A. TXO is very familiar with our well. We have
20 shown them our prospect. They have declined to join,
21 preferred to farm out. We got several steps into that.
22 It was other provisions in the farmout agreement that
23 were unacceptable to us, and they are not here today
24 because they're not going to join.

25 Q. Other than pooling TXO's interest, is

1 anything else changing? The well location?

2 Everything is still the same, the directional
3 drilling?

4 MR. CARR: Let me respond to that, Mr.
5 Catanach.

6 The directional drilling in this case is
7 necessary because of a circular sprinkler system that
8 is on one of Mr. Squire's ranches.

9 The -- Since the original hearing, there has
10 been an extension, we believe, of one of the arms of
11 one of his sprinklers.

12 I am representing Anadarko today. Anadarko
13 was previously represented by Kellahin, Kellahin and
14 Aubrey, and they administratively requested permission
15 to move the surface location away from this extended
16 arm.

17 That's not within the call of this case. It
18 will not change the directional drilling, it will not
19 change the bottom-hole location.

20 And so it's not within the overall -- It's
21 not within this case, although they are going to have
22 to move the surface slightly farther away from this
23 circular sprinkling system.

24 Other than that, what we're seeking today is
25 only one thing, and that is to have TXO. The testimony

1 and everything, that remains virtually the same.

2 EXAMINER CATANACH: I see. No further
3 questions.

4 MR. CARR: And I have a couple questions
5 further.

6 FURTHER EXAMINATION

7 BY MR. CARR:

8 Q. Mr. Wheelis, in your opinion is a 30-day
9 election period appropriate for TXO, in view of the
10 information that's been made available to them and the
11 time they've had to review this project?

12 A. I wish we could get a reduced clock time on
13 that.

14 Q. If the period were reduced to, say, 15 days
15 after receiving an AFE, would that accelerate the time
16 within which Anadarko could start going forward with
17 this project?

18 A. To the best of my knowledge, it would be. It
19 would also put us that much farther ahead from
20 exploration.

21 MR. CARR: I have nothing further.

22 EXAMINER CATANACH: The witness may be
23 excused.

24 MR. CARR: At this time we would call Mr.
25 Thompson.

1 TOMMY THOMPSON,

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

4 EXAMINATION

5 BY MR. CARR:

6 Q. Will you state your full name and place of
7 residence?

8 A. My name is Tommy Thompson. I live and reside
9 in Midland, Texas.

10 Q. Mr. Thompson, by whom are you employed and in
11 what capacity?

12 A. I'm employed as a staff engineer for Anadarko
13 Petroleum Corporation. I have served in that capacity
14 for approximately nine years.

15 Q. Have you previously testified before this
16 Division?

17 A. Yes, I have.

18 Q. Were your credentials accepted and made a
19 matter of record at that time?

20 A. Yes, they were.

21 Q. Are you familiar with the Application filed
22 in this case and the subject area?

23 A. I am.

24 Q. Have you prepared certain exhibits for
25 presentation in this hearing?

1 A. I have prepared or supervised the preparation
2 of exhibits in this hearing, yes.

3 Q. Would you refer to what I believe is marked
4 as Exhibit Number 5, a producing-zone map, and identify
5 this and review it for the Examiner, please?

6 A. Yes. Mr. Examiner, Exhibit Number 5 is a
7 producing-zone map of portions of Lea County, New
8 Mexico. The scale of this map is one inch equals 5000
9 feet.

10 Shown on this map first of all is a red arrow
11 and red dot which signifies Anadarko's bottom-hole
12 location in the northwest quarter of Section 33. In
13 pencil are quarter quarter sections lines of Section
14 33. Also indicated on this map are producing
15 formations that are known to produce in this portion of
16 the county.

17 In the instance of Anadarko's Application,
18 the Strawn Formation is a Pennsylvanian Age formation.
19 It's highlighted by blue crosshatching. Please notice
20 that the nearest Strawn production -- or actually it's
21 in green, excuse me, Mr. Examiner. The nearest Strawn
22 production is approximately 2-1/2 miles to the west.

23 In orange are shallower Permian Age
24 production, and in blue are known Devonian producers in
25 the area.

1 Q. There is a well in the southeast quarter of
2 Section 28 at the Anadarko Wood Well. Could you -- Was
3 that well projected to the Strawn Formation?

4 A. Yes, sir, the location of the southeast
5 quarter of Section 28 is a recently drilled Strawn test
6 that was drilled and left as dry and abandoned by
7 Anadarko Petroleum.

8 Q. Are you prepared to make a recommendation to
9 the Examiner as to the risk penalty that should be
10 assessed against TXO if it elects -- continues to elect
11 not to participate in this project?

12 A. Yes, sir. Anadarko seeks a 200-percent non-
13 consent penalty.

14 Q. Could you refer to what has been marked as
15 Anadarko Exhibit Number 6, identify that, and then
16 using that exhibit, explain to the Examiner your reason
17 for recommending a 200-percent penalty.

18 A. Exhibit Number 6 is a structure map, mapped
19 on the Lower Strawn Marker as identified by seismic and
20 offset logs. The contour intervals here are on 50-foot
21 intervals. A dot signifies Anadarko's bottom-hole
22 location. A dot and an arrow signify Anadarko's
23 proposed surface location.

24 Also on this map you'll notice several lines
25 that are indicative of the seismic that Anadarko has

1 either shot or acquired in the area in process to
2 generate this prospect.

3 Anadarko seeks the maximum 200-percent non-
4 consent penalty due to the risk of this prospect. One,
5 it is an exploratory test to be drilled to 11,700 feet.
6 It's a deviated wellbore. The risk of getting that
7 wellbore down to a target does exist.

8 The nearest production is approximately 2-1/2
9 miles east -- or to the west of this location. We have
10 drilled a dry hole in the immediate area.

11 Although it is highly seismic intensive, the
12 nature of the reservoir is that there are very small
13 anomalies. They're steep-dipped. If you notice on
14 your structure map here, you can drop 50 feet of
15 structure in a very short distance. The scale of this
16 map is one inch equals 500 feet, so as you approach
17 back to a standard location to the west, you could drop
18 over 50 feet in structure.

19 They are or do appear to be water-dry
20 reservoirs, so it's imperative that Anadarko seek the
21 highest structure point.

22 So on those factors, the deviated well, the
23 distance to existing production, and the nature of the
24 reservoir, we do believe that a maximum penalty is in
25 order.

1 Q. In your opinion, if this Application is
2 granted and the 200-percent risk penalty adopted by the
3 Commission, would the best interests of conservation be
4 served, the prevention of waste and the protection of
5 correlative rights?

6 A. Yes, it would.

7 Q. Are Exhibits 5 and 6 the same exhibits that
8 were offered by Anadarko in the original proving case?

9 A. Yes, these are exhibits that were presented
10 and admitted in the case in November of last year.

11 MR. CARR: At this time, Mr. Catanach, I
12 would move the admission of Anadarko Exhibits 5 and 6.

13 EXAMINER CATANACH: Exhibits 5 and 6 will be
14 admitted as evidence.

15 MR. CARR: I have nothing further on direct
16 of Mr. Thompson.

17 EXAMINER CATANACH: I have no questions of
18 the witness. You may excused.

19 Anything further in this case?

20 MR. CARR: Nothing further.

21 EXAMINER CATANACH: Case 9932 will be taken
22 under advisement.

23 (Thereupon, these proceedings were concluded
24 at 12:17 p.m.)
25

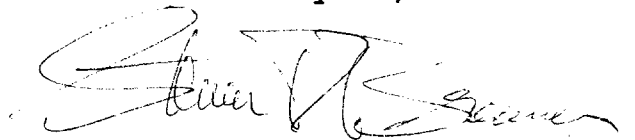
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, 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 transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL May 20, 1990.



STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9932, heard by me on May 2 19 90.

David R. Catant, Examiner
Oil Conservation Division