

DIVISION
'90 DEC 13 AM 8 54

December 10, 1990

Certified Return Receipt Requested

Mr. Michael Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Case 9966

RE: Compulsory Pooling Order #R-9209
Milky Way State #1
Lea County, New Mexico

Mr. S.



Dear Mr. Stogner:

Pursuant to the terms of the captioned Compulsory Pooling Order, enclosed please find an itemized schedule of actual well costs for the Milky Way State #1 Well through October 31, 1990. Under separate cover, we are sending this same schedule of well costs to both Texaco Inc. and Rowan Petroleum, Inc. the known working interest owners in this well.

Call me if there are any questions.

Sincerely,

MITCHELL ENERGY CORPORATION

Steven J. Smith
Senior Landman

SJS/jm

Enclosure

MITCHELL ENERGY CORPORATION

MILKY WAY STATE #1

AFE B3882

CAPITAL COSTS INCURRED AS OF 10/31/90

DRILLING COSTSAmountINTANGIBLE

10	Dry Hole Abandonment	\$	
11	Rig Mobilization & Demobilization		
12	Power & Fuel		
13	Water		10,654.84
14	Solids Control Equipment Rental		
15	Directional Equipment & Services		
16	Fishing Tools & Services		
17	Subsurface Casing Equipment		
18	Contract Labor & Services		4,734.02
19	Supervision - Company and / or Contract		18,199.84
50	Road & Site Preparation		18,428.11
51	Footage Contract Fee		90,237.20
52	Daywork Contract Fee		23,987.10
53	Mud & Chemicals		13,073.69
54	Bits & Reamers		
55	Drilling Tools & Equipment Rental		5,890.78
56	Cement & Cement Services		23,883.33
57	Open Hole Logging-Testing		40,689.59
58	Drill Stem Testing		5,081.54
59	Coring & Analysis		700.00
60	Transportation		1,644.81
61	Air/Marine Transportation		
63	Overhead		4,283.40
64	Insurance		
65	Company Labor & Services		
66	Prospect Generation		15,646.27
67	Miscellaneous Services & Contingency		2,385.71
TOTAL INTANGIBLE COSTS		\$	279,520.23

TANGIBLE

21	Casing-Drive Pipe & Conductor		
40	Casing - Surface 400' - 13 3/8" 48# K-S		11,194.48
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S		45,592.04
42	Casinghead Equipment (Including Valves) (3000 psi)		6,056.71
43	Casing Spool (Including Valves) (3000 psi)		2,936.25
44	Miscellaneous Equipment		
TOTAL TANGIBLE COSTS		\$	65,779.48

TOTAL DRILLING (DRY HOLE) COSTS

\$ 345,299.71

MILKY WAY STATE #1

AFE B3882

CAPITAL COSTS INCURRED AS OF 10/31/90

COMPLETION COSTSAmountINTANGIBLE

22	Overhead	\$	2,564.10
23	Company Labor & Services		
24	Contract Labor & Services		24,765.14
25	Air/Marine Transportation		
26	Other Transportation		2,919.49
27	Plugging & Abandonment		
28	Rig Mobilization & Demobilization		
29	Supervision - Company and / or Contract		
30	Site Preparation & Clean-up		285.27
31	Subsurface Casing Equipment		1,042.09
32	Squeeze Cement & Service		
33	Completion Fluids		3,087.92
34	Pump Truck Services		1,036.81
35	Rental Tools		6,256.63
36	Bits & Reamers		
37	Insurance		
38	Wireline Services		
53	Tertiary Injectants		
68	Fencing		
83	Daywork Contract Fee		18,847.93
84	Cement & Cement Services - Primary		9,343.57
85	Acidizing & Fracturing		29,372.40
86	Cased Hole Logging & Perforating		7,855.49
93	Reimbursement Meals & Entertainment		221.00
94	Miscellaneous Services & Contingency		1,189.73

TOTAL INTANGIBLE COSTS

\$ 108,767.57

TANGIBLE

69	Tubinghead Equipment (Including Valves)		3,404.63
70	Casing-Production &/or Liner 6700' - 5 1/2" 17# K-55		44,828.89
71	Tubing 6600' - 2 7/8" J-55		20,910.05
72	Packers & Subsurface Equipment		
73	Production Tree (Including Valves)		
74	Storage Tanks 2 - 400 bbl steel & 1 - 400 bbl fiberglass		9,805.50
75	Seperating Equipment		
76	Treating Equipment 4x20 Heater Treater		7,927.50
77	Artificial Lift Equipment C-320-305-100 w/76 rod string & pump		41,250.21
78	Line Pipe		1,437.98
79	Valves & Fittings Beyond Wellhead		2,523.81
80	Miscellaneous Equipment		7,786.10
81	Platform & Structures		
82	Metering Equipment		
87	Pumps		635.25
90	Electrical Equipment		
91	Instrumentation Equipment		
96	Dehydrators & Dryers		

TOTAL TANGIBLE COSTS

\$ 140,509.92

TOTAL COMPLETION COSTS

\$ 249,277.49

TOTAL COST AS OF 10/31/90 FOR MILKY WAY STATE #1

\$ 594,577.20

OIL CONSERVATION DIVISION
RECEIVED

'90 JUL 23 AM 9 49

July 17, 1990

Mr. Michael Stogner
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

RE: COMPULSORY POOLING ORDER #R9209
MILKY WAY STATE WELL NO. 1
LEA COUNTY, NEW MEXICO

*Case No. 9966
m.s.*



Dear Mr. Stogner:

Enclosed you will find a copy of Form C-101 and Form C-102 which have been filed for the permitting of the subject well. As you will notice upon your review of these forms, the location of our Milky Way State No. 1 well has changed. The original surface location had to be moved due to numerous pipelines and electrical line easements in the area. The new well location is still a standard location for our Wildcat Delaware test well.

Should you require any additional information or if I can be of any further help, kindly advise.

Very truly yours,

MITCHELL ENERGY CORPORATION

George Mullen

George Mullen
Regulatory Affairs Specialist

GM:mtb
3gMilkyNol

Enclosures

CC: Mr. David Sleeper - Texaco

Submit to Appropriate
District Office
State Lease - 6 copies
Fee Lease - 5 copies

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-101
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

API NO. (assigned by OCD on New Wells)
30-025-30941

5. Indicate Type of Lease
STATE ☒ FEE ☐

6. State Oil & Gas Lease No.
V-1565

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. Type of Work:

DRILL ☒ RE-ENTER ☐ DEEPEN ☐ PLUG BACK ☐

b. Type of Well:

OIL WELL ☒ GAS WELL ☐ OTHER ☐

SINGLE ZONE ☒

MULTIPLE ZONE ☐

7. Lease Name or Unit Agreement Name

Milky Way State

2. Name of Operator

Mitchell Energy Corporation

8. Well No.

1

3. Address of Operator

P.O. Box 4000, The Woodlands, TX 77387-4000

9. Pool name or Wildcat

Wildcat

4. Well Location

Unit Letter I : 1,700 Feet From The south Line and 330 Feet From The east Line

Section 17

Township 18S

Range 35E

NMPM

Lea

County

10. Proposed Depth

6,700

11. Formation

Delaware

12. Rotary or C.T.

Rotary

13. Elevations (Show whether DF, RT, GR, etc.)
3938 GR

14. Kind & Status Plug. Bond
Blanket on file

15. Drilling Contractor

16. Approx. Date Work will start
7/20/90

17. PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
17-1/2"	13-3/8"	54.50	400'	445	Surface
12-1/4"	8-5/8"	32.00	3,350'	2,000	Surface
7-7/8"	5-1/2"	15.50	6,700'	955	Surface

Mitchell proposes to drill to a depth sufficient to test the Delaware formation for oil. If productive, 5-1/2" casing will be cemented at TD. If non-productive, the well will be plugged and abandoned in a manner consistent with State of New Mexico regulations. Blowout preventer schematic attached as Attachment 1.

AMENDED PERMIT: Location has been moved 355' to the south.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTIVE ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE George Mullen TITLE Regulatory Affairs Specialist DATE 7/13/90
TYPE OR PRINT NAME George Mullen TELEPHONE NO. _____

(This space for State Use)

APPROVED BY _____ TITLE _____ DATE _____

CONDITIONS OF APPROVAL, IF ANY:

Milky Way State Well No. 1
NE/4 SE/4 Sec. 17, T18S R35E
Lea County, New Mexico

MINIMUM BLOWOUT PREVENTER REQUIREMENTS

3,000 psi Working Pressure

3 MWP

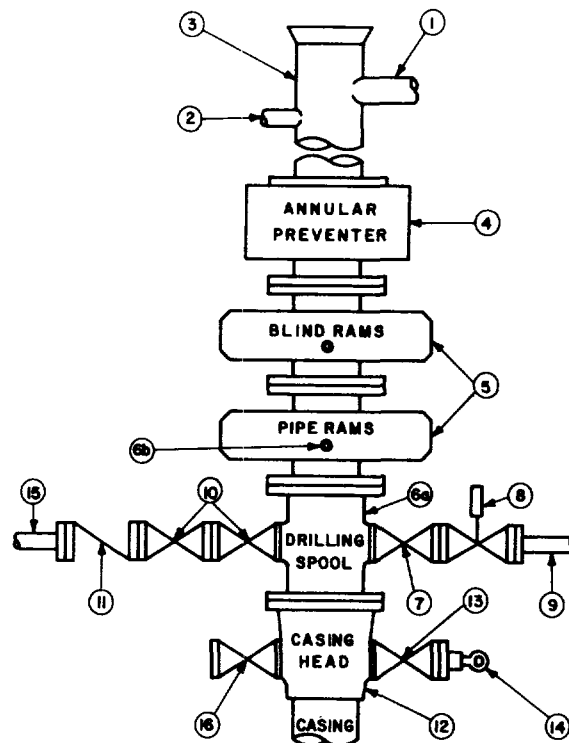
STACK REQUIREMENTS

No.	Item	Min. I.D.	Min. Nominal
1	Flowline		
2	Fill up line		2"
3	Drilling nipple		
4	Annular preventer		
5	Two single or one dual hydraulically operated rams		
6a	Drilling spool with 2" min. kill line and 3" min choke line outlets		
6b	2" min. kill line and 3" min. choke line outlets in ram. (Alternate to 6a above.)		
7	Valve Gate <input type="checkbox"/> Plug <input type="checkbox"/>	3-1/8"	
8	Gate valve—power operated	3-1/8"	
9	Line to choke manifold		3"
10	Valves Gate <input type="checkbox"/> Plug <input type="checkbox"/>	2-1/16"	
11	Check valve	2-1/16"	
12	Casing head		
13	Valve Gate <input type="checkbox"/> Plug <input type="checkbox"/>	1-13/16"	
14	Pressure gauge with needle valve		
15	Kill line to rig mud pump manifold		2"

OPTIONAL

16	Flanged valve	1-13/16"	
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CONFIGURATION A

**CONTRACTOR'S OPTION TO FURNISH:**

1. All equipment and connections above bradenhead or casinghead. Working pressure of preventers to be 3,000 psi, minimum.
2. Automatic accumulator (80 gallon, minimum) capable of closing BOP in 30 seconds or less and, holding them closed against full rated working pressure.
3. BOP controls, to be located near drillers position.
4. Kelly equipped with Kelly cock.
5. Inside blowout preventer or its equivalent on derrick floor at all times with proper threads to fit pipe being used.
6. Kelly saver-sub equipped with rubber casing protector at all times.
7. Plug type blowout preventer tester.
8. Extra set pipe rams to fit drill pipe in use on location at all times.
9. Type RX ring gaskets in place of Type R.

MEC TO FURNISH:

1. Bradenhead or casinghead and side valves.
2. Wear bushing, if required.

GENERAL NOTES:

1. Deviations from this drawing may be made only with the express permission of MEC's Drilling Manager.
2. All connections, valves, fittings, piping, etc., subject to well or pump pressure must be flanged (suitable clamp connections acceptable) and have minimum working pressure equal to rated working pressure of preventers up through choke. Valves must be full opening and suitable for high pressure mud service.
3. Controls to be of standard design and each marked, showing opening and closing position.
4. Chokes will be positioned so as not to hamper or delay changing of choke beans. Replaceable parts for adjustable choke, other bean sizes, retainers, and choke wrenches to be conveniently located for immediate use.
5. All valves to be equipped with handwheels or handles ready for immediate use.
6. Choke lines must be suitably anchored.

7. Handwheels and extensions to be connected and ready for use.
8. Valves adjacent to drilling spool to be kept open. Use outside valves except for emergency.
9. All seamless steel control piping (3000 psi working pressure) to have flexible joints to avoid stress. Hoses will be permitted.
10. Casinghead connections shall not be used except in case of emergency.
11. Do not use kill line for routine fill-up operations.

Submit to Appropriate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator MITCHELL ENERGY CORPORATION			Lease MILKY WAY STATE		Well No. #1
Unit Letter I	Section 17	Township T.18S.	Range R.35E.	County LEA	
Actual Footage Location of Well: 1700 feet from the FSL line and 330 feet from the FEL line					
Ground level Elev. 3938	Producing Formation DELAWARE	Pool WILDCAT	Dedicated Acreage: 40 Acres		

1. Outline the acreage dedicated to the subject well by colored pencil or hectare marks on the plat below.

2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).

3. If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?

☒ Yes ☐ No If answer is "yes" type of consolidation Force-Pooling (Order #R9209)

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowance will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.

OPERATOR CERTIFICATION
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
George Mullen

Printed Name
George Mullen

Position
Regulatory
Affairs Specialist

Company
Mitchell Energy Corp.

Date
July 13, 1990

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes or actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
7/10/90

Signature & Seal of
Professional Surveyor
John A. Aques
62960
NEW MEXICO
REGISTERED PROFESSIONAL ENGINEER

BKSS Pg 30

July 3, 1990

CERTIFIED RETURN RECEIPT

Texaco Inc.
P. O. Box 2100
Denver, CO 80201

Attn: Mr. David L. Sleeper

RE: Proposed Delaware Test
06213-01 - Milky Way State #1
SE/4 Section 17, T-18-S, R-35-E
Lea County, New Mexico
MILKY WAY PROSPECT
MEC Lease #40007-1



Gentlemen:

On June 28, 1990, the State of New Mexico Oil Conservation Division issued a Compulsory Pooling Order effecting Texaco Inc.'s interest in the captioned acreage, a copy of which is attached. Pursuant to said Order, enclosed herewith are duplicate copies of the AFE Cost Estimates for dry hole costs and completed well costs for the captioned well.


If you elect to participate in the drilling of the subject well, please execute and return one (1) copy each of the enclosed AFE Cost Estimates and one (1) original signature page to the Operating Agreement which was sent to you by letter dated May 3, 1990.

As you are aware, the lease on which we are attempting to drill will expire on August 1, 1990, unless extended by drilling operations or production. Accordingly, we ask that you advise the undersigned as to your intent in this matter at your earliest possible convenience.

Thank you for your cooperation.

Sincerely,

MITCHELL ENERGY CORPORATION



Steven J. Smith
Senior Landman

SJS/tl
Attachments

xc: Rowan Petroleum, Inc.
New Mexico Oil Conservation Division w/Attachments

MITCHELL ENERGY & DEVELOPMENT CORP. - ENERGY DIVISION

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

☒ Exploratory☐ Injection☐ Water Supply☐ Development☐ Disposal☐ Depth 6700'

Form B-1

☐ Add☐ Change☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed No. 1Project Description DrillNet Working Interest .50

Group Code _____

Location Code _____

Department Number 712County Lea St. NMOperator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

DRILLING COSTS

INTANGIBLE

Amount

10	Dry Hole Abandonment	
11	Rig Mobilization and Demobilization	
12	Power and Fuel	
13	Water	
14	Solids Control Equipment Rental	10,000
*15	Directional Equipment and Services	
16	Fishing Tools and Services	
17	Subsurface Casing Equipment	2,500
18	Contract Labor and Services	10,000
19	Supervision - Company and/or Contract (15 days @ \$500/day)	7,500
50	Road and Site Preparation	25,000
51	Footage Contract Fee (6700' @ \$13.50/ft)	90,500
52	Daywork Contract Fee (2 days @ \$3800/day)	7,600
53	Mud and Chemicals (mud-up 5500')	20,000
54	Bits and Reamers	
55	Drilling Tool and Equipment Rental	3,000
56	Cement and Cement Services	22,000
*57	Open Hole Logging-Testing (incl 12 days ML @ \$350/day)	4,200
*58	Drill Stem Testing	
59	Coring and Analysis	
60	Transportation	4,500
61	Air/Marine Transportation	
63	Overhead	5,000
64	Insurance	
65	Company Labor and Services	
*66	Prospect Generation	10,000
67	Miscellaneous Services and Contingency	10,000
TOTAL INTANGIBLE COSTS		\$231,800

TANGIBLE

21	Casing-Drive Pipe & Conductor	
40	Casing - Surface 400' - 13 3/8" 48# K-S @ \$23.62/ft	\$9,450
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S @ \$14.00/ft	46,900
42	Casinghead Equipment (Including Valves) (3000 psi)	3,500
43	Casing Spool (Including Valves) (3000 psi)	5,000
44	Miscellaneous Equipment	
TOTAL TANGIBLE COSTS		\$64,850

TOTAL DRILLING (DRY HOLE) COSTS

\$296,650

* Invalid for disposal and water supply wells.

MEDC 252-02

APPROVED - TEXACO INC.

Prepared By:

G. W. Tullos

Rev. 4/29/85

BY: _____

Date Prepared:

3/9/90

G.W.I. - 0.2775000

MITCHELL ENERGY & DEVELOPMENT CORP. - ENERGY DIVISION
AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

- ☒ Exploratory ☐ Recompletion (Zone Change Only) ☐ Disposal
☐ Development ☐ Plug and Abandon (Previously Producing Well) Depth 6700'
☐ Injection ☐ Water Supply

Form B-2 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed. #1

Project Description Complete

Net Working Interest .5000

Group Code _____

Location Code _____

Department Number 730

County Lea St. NM

Operator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

COMPLETION COSTS

Amount

INTANGIBLE

22	Overhead	\$2,000
23	Company Labor and Services	
24	Contract Labor and Services	10,000
25	Air/Marine Transportation	
26	Other Transportation	2,000
27	Plugging and Abandonment	
28	Rig Mobilization and Demobilization	
29	Supervision - Company and/ or Contract	2,000
30	Site Preparation and Clean-up	1,000
31	Subsurface Casing Equipment	2,000
32	Squeeze Cement and Service	
33	Completion Fluids	1,000
34	Pump Truck Services	2,000
35	Rental Tools	4,000
36	Bits and Reamers	
37	Insurance	
38	Wireline Services	
39	Fishing Tools and Services	
*53	Tertiary Injectants	
68	Fencing	
83	Daywork Contract Fee	6,000
84	Cement and Cement Services - Primary	15,000
85	Acidizing and Fracturing	40,000
*86	Cased Hole Logging and Perforating	7,000
94	Miscellaneous Services and Contingency	2,000

TOTAL INTANGIBLE COSTS

\$96,000

TANGIBLE

69	Tubinghead Equipment (Including Valves)	\$3,500
70	Casing-Production and/or Liner <u>6700' - 5 1/2" 17# K-55</u>	54,300
71	Tubing <u>6600' - 2 7/8" J-55</u>	26,000
72	Packers and Subsurface Equipment	
73	Production Tree (Including Valves)	
74	Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	13,000
75	Separating Equipment	
76	Treating Equipment <u>4x20 Heater treater</u>	7,900
77	Artificial Lift Equipment <u>C-320-305-100 w/76 rod string & pump</u>	39,000
78	Line Pipe	1,000
79	Valves and Fittings Beyond Wellhead	
80	Miscellaneous Equipment	1,300
81	Platform and Structures	
82	Metering Equipment	
87	Pumps	
90	Electrical Equipment	
91	Instrumentation Equipment	
96	Dehydrators and Dryers	
TOTAL TANGIBLE COSTS		146,000

TOTAL COMPLETION COSTS

\$242,000

* Invalid for disposal and water supply wells.

MEUC 252-03 APPROVED - TEXACO INC.
Rev. 4/29/85

BY: _____
G.W.I. - 0.2775000

Prepared By: _____
Date Prepared: _____

Jim Blount *JJB*
3/8/90

July 3, 1990

CERTIFIED RETURN RECEIPT

Rowan Petroleum, Inc.
1900 Post Oak Tower
5051 Westheimer Road
Houston, TX 77056

Attn: Mr. Jeff Boucher

RE: Proposed Delaware Test
Milky Way State #1
MILKY WAY PROSPECT
Lea County, New Mexico



Dear Jeff:

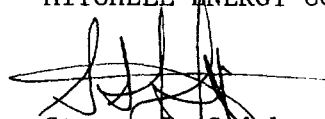
As you are aware, the New Mexico Oil Conservation Division recently issued a Compulsory Pooling Order for the captioned test well. Pursuant to said order, enclosed herewith are copies of the AFE Cost Estimates for dry hole costs and completed well costs for the captioned well.

In that Rowan has already executed AFE Cost Estimates covering its interest in the captioned well, no action is necessary on your part regarding the enclosed AFE Cost Estimates.

Call me if you have any questions.

Sincerely,

MITCHELL ENERGY CORPORATION



Steven J. Smith
Senior Landman

SJS/tl
Attachments

xc: New Mexico Oil Conservation Division

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATEType Project (check 1 only)☒ Exploratory☐ Injection☐ Water Supply☐ Development☐ Disposal☐ Depth 6700'

Form B-1

☐ Add☐ Change☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed No. 1Project Description DrillNet Working Interest .50 _____

Group Code _____

Location Code _____

Department Number 712County Lea St. NMOperator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

DRILLING COSTSINTANGIBLEAmount

10	Dry Hole Abandonment	
11	Rig Mobilization and Demobilization	
12	Power and Fuel	
13	Water	
14	Solids Control Equipment Rental	10,000
*15	Directional Equipment and Services	
16	Fishing Tools and Services	
17	Subsurface Casing Equipment	2,500
18	Contract Labor and Services	10,000
19	Supervision - Company and/or Contract (15 days @ \$500/day)	7,500
50	Road and Site Preparation	25,000
51	Footage Contract Fee (6700' @ \$13.50/ft)	90,500
52	Daywork Contract Fee (2 days @ \$3800/day)	7,600
53	Mud and Chemicals (mud-up 5500')	20,000
54	Bits and Reamers	
55	Drilling Tool and Equipment Rental	3,000
56	Cement and Cement Services	22,000
*57	Open Hole Logging-Testing (incl 12 days ML @ \$350/day)	4,200
*58	Drill Stem Testing	
59	Coring and Analysis	
60	Transportation	4,500
61	Air/Marine Transportation	
63	Overhead	5,000
64	Insurance	
65	Company Labor and Services	
*66	Prospect Generation	10,000
67	Miscellaneous Services and Contingency	10,000
TOTAL INTANGIBLE COSTS		\$231,800

TANGIBLE

21	Casing-Drive Pipe & Conductor	
40	Casing - Surface 400' - 13 3/8" 48# K-S @ \$23.62/ft	\$9,450
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S @ \$14.00/ft	46,900
42	Casinghead Equipment (Including Valves) (3000 psi)	3,500
43	Casing Spool (Including Valves) (3000 psi)	5,000
44	Miscellaneous Equipment	
TOTAL TANGIBLE COSTS		\$64,850

TOTAL DRILLING (DRY HOLE) COSTS

\$296,650

* Invalid for disposal and water supply wells.

MEDC 252-02

APPROVED - ROWAN PETROLEUM, INC. Prepared By:

G. W. Tullos

Rev. 4/29/85

BY: _____

Date Prepared:

3/9/90

MITCHELL ENERGY & DEVELOPMENT CORP. - ENERGY DIVISION
AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

☒ Exploratory ☐ Recompletion (Zone Change Only) ☐ Disposal
☐ Development ☐ Plug and Abandon (Previously Producing Well) Depth 6700'
☐ Injection ☐ Water Supply

Form B-2 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed. #1

Project Description Complete

Net Working Interest .5000

Group Code _____

Location Code _____

Department Number 730

County Lea St. NM

Operator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

COMPLETION COSTS

Amount

INTANGIBLE

22	Overhead	\$2,000
23	Company Labor and Services	
24	Contract Labor and Services	10,000
25	Air/Marine Transportation	
26	Other Transportation	2,000
27	Plugging and Abandonment	
28	Rig Mobilization and Demobilization	
29	Supervision - Company and/ or Contract	2,000
30	Site Preparation and Clean-up	1,000
31	Subsurface Casing Equipment	2,000
32	Squeeze Cement and Service	
33	Completion Fluids	1,000
34	Pump Truck Services	2,000
35	Rental Tools	4,000
36	Bits and Reamers	
37	Insurance	
38	Wireline Services	
39	Fishing Tools and Services	
*53	Tertiary Injectants	
68	Fencing	
83	Daywork Contract Fee	6,000
84	Cement and Cement Services - Primary	15,000
85	Acidizing and Fracturing	40,000
*86	Cased Hole Logging and Perforating	7,000
94	Miscellaneous Services and Contingency	2,000

TOTAL INTANGIBLE COSTS

\$96,000

TANGIBLE

69	Tubinghead Equipment (Including Valves)	\$3,500
70	Casing-Production and/or Liner <u>6700' - 5 1/2" 17# K-55</u>	54,300
71	Tubing <u>6600' - 2 7/8" J-55</u>	26,000
72	Packers and Subsurface Equipment	
73	Production Tree (Including Valves)	
74	Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	13,000
75	Separating Equipment	
76	Treating Equipment <u>4x20 Heater treater</u>	7,900
77	Artificial Lift Equipment <u>C-320-305-100 w/76 rod string & pump</u>	39,000
78	Line Pipe	1,000
79	Valves and Fittings Beyond Wellhead	
80	Miscellaneous Equipment	1,300
81	Platform and Structures	
82	Metering Equipment	
87	Pumps	
90	Electrical Equipment	
91	Instrumentation Equipment	
96	Dehydrators and Dryers	
TOTAL TANGIBLE COSTS		146,000

TOTAL COMPLETION COSTS

\$242,000

* Invalid for disposal and water supply wells.

MEUC 252-03 APPROVED-ROWAN PETROLEUM, INC.

Rev. 4/29/85

Prepared By:

Jim Blount *JJB*

Date Prepared:

3/8/90

BY:

GWI - 0.2225000

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

EXAMINER HEARING

IN THE MATTER OF:

Application of Mitchell Energy
Corporation for compulsory Case 9966
pooling, Lea County, New Mexico

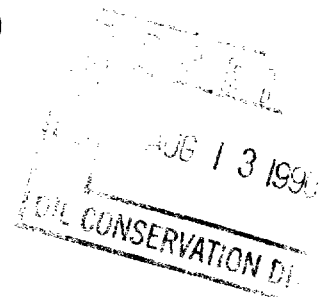
TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 13, 1990



CUMBRE COURT REPORTING
(505) 984-2244

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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I N D E X

1			
2			Page Number
3	Appearances		2
4	1. STEVEN SMITH		
5	Direct Examination by Mr. Kellahin	4	
6	Cross-Examination by Hearing Examiner	12	
7	2. TED GAWLOSKI		
8	Direct Examination by Mr. Kellahin	15	
9	Cross-Examination by Hearing Examiner	28	
10	Certificate of Reporter	31	

E X H I B I T S

10	Exhibit No. 1	6
11	Exhibit No. 2	8
12	Exhibit No. 3	9
13	Exhibit No. 4	16
14	Exhibit No. 5	21
15	Exhibit No. 6	22
16	Exhibit No. 7	24
17	Exhibit No. 8	27
18	Exhibit No. 9	27
19	Exhibit No. 10	27

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18
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21
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1 HEARING EXAMINER: Call next case, No.
2 9966, which is the application of Mitchell Energy
3 Corporation for compulsory pooling, Lea County, New
4 Mexico.

5 I'll call for appearances.

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

10 HEARING EXAMINER: Are there any other
11 appearances?

12 Will the witnesses please stand and be
13 sworn.

14 (Witnesses sworn.)

15 HEARING EXAMINER: Mr. Kellahin, I show on
16 the prehearing statement you have three witnesses.
17 Which two do I have today?

18 MR. KELLAHIN: Mr. Smith is the landman
19 sitting at the table. Mr. Gawloski is the geologist
20 sitting to my left. Mr. Carl Richards is here. He's
21 the petroleum engineer and the drilling engineer to
22 justify the AFE, and we believe that's not an issue
23 between the parties; and so I propose not to present
24 him, but he is available.

25 HEARING EXAMINER: With this new procedure,

1 I'm trying to kind of fit it in with what I'm doing
2 here. I appreciate that, Mr. Kellahin.

3 MR. KELLAHIN: We anticipated it might be
4 contested and therefore brought Mr. Richards.

5 HEARING EXAMINER: So he got a nice trip to
6 Santa Fe. Thank you, Mr. Kellahin.

7 STEVEN SMITH,
8 the witness herein, after having been first duly sworn
9 upon his oath, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. KELLAHIN:

12 Q. Mr. Smith, for the record, would you please
13 state your name and occupation.

14 A. My name is Steven J. Smith, and I'm a
15 senior landman with Mitchell Energy Corporation.

16 Q. Mr. Smith, on prior occasions have you
17 testified before the Division as a petroleum landman?

18 A. No, I have not.

19 Q. Summarize for us your educational
20 background and your employment experience.

21 A. I have a Bachelor of Business
22 Administration Degree from the University of Oklahoma
23 with a major in petroleum land management.

24 Q. In what year, sir?

25 A. May of 1980. I worked as an independent

1 landman in the western part of the United States for
2 five years after that date. I went to work for
3 Mitchell Energy Corporation about five years ago, and
4 I have worked the Permian Basin area for Mitchell
5 Energy Corporation since then.

6 Q. Has your work included portions of Lea
7 County, New Mexico, that you have described as your
8 Milky Way prospect?

9 A. Absolutely.

10 Q. Have you been dealing with the various
11 interest owners in order to obtain voluntary agreement
12 for the drilling of the well that's on the docket
13 today in Case 9966?

14 A. Yes, I have.

15 MR. KELLAHIN: We tender Mr. Smith as an
16 expert petroleum landman.

17 HEARING EXAMINER: Mr. Smith is so
18 qualified.

19 Q. (BY MR. KELLAHIN) If you'll turn, sir, to
20 what is marked as Exhibit No. 1; I believe the exhibit
21 numbers are on the back of that display. Orient us as
22 to what your company is proposing to do, Mr. Smith.

23 A. Basically, we proposed to the participants
24 the formation of working interest unit in anticipation
25 of drilling 6700-foot Delaware test in the northeast

1 southeast of Section 17, 18 south, 35 east, Lea
2 County. The land plat shows the acreage which is the
3 subject of this case, and as indicated by the yellow
4 hatching, which represents Mitchell's 50 percent
5 interest in that lease.

6 Q. What is your understanding of the principal
7 objective for the well?

8 A. Again, I believe the principal objective is
9 the Delaware. It's at a depth of approximately 6700
10 feet.

11 Q. And is that anticipated to be gas or oil
12 production?

13 A. Oil.

14 Q. Are you familiar with and do you know what
15 the potential spacing is for oil production at that
16 depth?

17 A. At that depth statewide, I believe is 40
18 acres, and currently we're not aware of any pools that
19 would rule in this area.

20 Q. If it is 40-acre oil spacing versus 160-
21 acre shallow gas spacing for the southeast quarter,
22 will any of the parties or their percentages change?

23 A. No, they will not.

24 Q. So regardless then of the spacing in the
25 southeast quarter in the 40's up to 160's, we're

1 dealing with the same parties?

2 A. That's correct.

3 Q. As of today, would you identify for the
4 Examiner what working interest owners have not yet
5 committed their interest to the well?

6 A. Currently, Texaco, Inc., is the only
7 potential participant which has not committed, and
8 they own 27.75 percent interest in the lease.

9 Q. At the time of the filing of the
10 application, were there any other parties?

11 A. There was another party, Rowan Petroleum,
12 Inc., which has since committed. They own 22.25
13 percent.

14 Q. In dealing with both Rowan Petroleum and
15 Texaco, have you made both companies the same offers
16 for participation?

17 A. Absolutely.

18 Q. Sent them the same AFE's and the same
19 proposed terms for drilling and producing the well?

20 A. That's correct.

21 Q. Let's turn to the specifics of what you
22 proposed. Starting with what is marked as Exhibit No.
23 2, which is an exhibit containing various
24 correspondence and documents numbered pages 1 through
25 13?

1 A. That's correct.

2 Q. This represents what?

3 A. All of the written correspondence with
4 Rowan Petroleum, Inc. regarding our efforts to secure
5 their participation in this effort.

6 Q. And you have advised us now that they are
7 contractually committed on a voluntary basis to the
8 well whether it's based on 40's or 160's?

9 A. That's correct.

10 Q. Let's pass then to Exhibit No. 3 and deal
11 with your involvement with Texaco.

12 A. Okay.

13 Q. Does this package of documents represent
14 your written correspondence with that company?

15 A. That's correct.

16 Q. What was your first proposal to them in
17 writing for this particular well?

18 A. It was an offer or a request for their
19 participation dated April 25th for formation of 160-
20 acre working interest unit and for the drilling of a
21 6700-foot Delaware test to be located in the northeast
22 southeast of Section 17.

23 We requested they either participate in the
24 well based upon the AFE's that were enclosed. We also
25 offered to purchase their interest outright, if they

1 so chose to do that. And we also made them an offer
2 to farm out based upon Mitchell earning the proration
3 unit and them retaining an override equal to the
4 difference by which 25 percent exceeds lease burdens,
5 with us also earning 50 percent of their acreage
6 outside of the proration unit, limited to 100 feet
7 below total depth drilled.

8 Q. Did you receive any response from Texaco?

9 A. We did receive a letter stating that they
10 had received our proposal and that they were
11 reviewing, and that letter is dated --

12 Q. May 3rd?

13 A. May 3rd.

14 Q. That's found on page 4?

15 A. I have it on page 9 on mine.

16 Q. Yes, I'm sorry. I have it on page -- maybe
17 mine is misnumbered. It's the last page of the
18 exhibit is the Texaco response?

19 A. That's correct.

20 Q. Have you received any other written
21 response from Texaco with regards to the proposal for
22 the initial southeast quarter working interest unit
23 or, subsequently, for the 40-acre Delaware oil space?

24 A. No written responses.

25 Q. What has been the general content of any

1 oral communications with Texaco?

2 A. I've talked with Mr. Sleeper, who is the
3 landman handling this for Texaco, numerous times.
4 He's basically informed me that Texaco, because of
5 their method of doing business, can't move fast enough
6 to make a decision in a timely manner; that he
7 personally saw nothing wrong with the AFE or the Joint
8 Operating Agreement; however, they simply could not
9 logistically get to a decision in time.

10 Q. In your initial letter, you also advised
11 them that the spacing unit for the Delaware would be
12 the northeast of the southeast, that 40-acre tract?

13 A. That's correct.

14 Q. Texaco, to the best of your knowledge, has
15 not objected to you as the operator, meaning Mitchell?

16 A. That's correct.

17 Q. No objection to the AFE?

18 A. None.

19 Q. It's just that they haven't been able to
20 get around to it?

21 A. That's my understanding.

22 Q. In your opinion as a landman, Mr. Smith,
23 will further efforts on your behalf to obtain a
24 voluntary agreement on Texaco's part likely be
25 successful?

1 A. There's a good chance of it. However,
2 they've not -- from my conversations with Mr. Sleeper,
3 indications are they've looked favorably on the
4 project. However, they have not given any indication
5 as to whether or not they intend to participate.

6 Q. At this point are you in need of the forced
7 pooling order?

8 A. The lease in question expires August 1 of
9 this year, and without it we're in danger of losing
10 the lease.

11 Q. So you've waited as long as you can for
12 Texaco, and you must have the assistance of a pooling
13 order or you run the risk of losing your lease?

14 A. That's correct.

15 MR. KELLAHIN: That concludes my
16 examination of Mr. Smith. We would move the
17 introduction of his Exhibits 1, 2 and 3.

18 HEARING EXAMINER: Exhibits 1, 2 and 3 will
19 be admitted into evidence at this time.

20 CROSS-EXAMINATION

21 BY HEARING EXAMINER:

22 Q. Mr. Smith, I know you're not an expert on
23 Texaco, but you do live in Midland; right?

24 A. That's correct.

25 Q. This is the first one I've seen like this;

1 so bear with me. Texaco in Denver?

2 A. They have moved their exploration land
3 group to Denver.

4 Q. Did Mr. Sleeper say when or how long have
5 you dealt with Texaco in Denver as opposed to your
6 dealings with Texaco in Midland?

7 A. Well, we have started off dealing with
8 Texaco in Denver because we knew when we began our
9 negotiations that that is where they were. So they've
10 been there ever since we started this project, and Mr.
11 Sleeper has, again, acknowledged the receipt of the
12 papers sent them and has indicated they're moving as
13 fast as they can to make a decision.

14 Q. In talking with Mr. Sleeper, is it your
15 observation that this move has probably halted some of
16 their decision-making process?

17 A. There is the likelihood -- the move was
18 somewhat immediately before our efforts to put this
19 project together, and it is a chance that their move
20 has entered into the problem in making a decision.

21 Q. This is more out of curiosity, and I'm
22 trying to realize -- in the industry as of this point,
23 your dealings with Texaco with Texas, do you still
24 deal with them in Midland or do you deal with them in
25 Denver?

1 A. No. All of their Permian Basin exploration
2 group is in Denver.

3 Q. The Texas company has moved out of Texas?
4 Okay.

5 A. They may be back. You never know.

6 Q. I was looking at your AFE's on both of your
7 Exhibits 2 and 3. Maybe I'm anticipating. Should I
8 wait and ask particulars about the AFE of your next
9 witness, Mr. Kellahin?

10 MR. KELLAHIN: I don't know if Mr. Smith
11 has had much involvement in it, but let's ask him and
12 see. If not, we do have an engineer that can respond
13 if you do have some specifics.

14 Q. (BY HEARING EXAMINER) I'm a little
15 confused. You have, Type of Project, check 1 -- they
16 seem to be for the same AFE but two different
17 figures. What am I looking at here?

18 A. One is dry hole and one is completion cost.

19 Q. It appears you have this on a computer
20 program?

21 A. We do.

22 HEARING EXAMINER: I have no other
23 questions of Mr. Smith. Are there any other questions
24 of this witness?

25 MR. KELLAHIN: No, sir.

1 HEARING EXAMINER: He may be excused.

2 MR. KELLAHIN: I'd like to call Mr.
3 Gawloski at this time.

4 TED GAWLOSKI,
5 the witness herein, after having been first duly sworn
6 upon his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Mr. Gawloski, would you please state your
10 name and occupation?

11 A. My name is Ted Gawloski, and I'm a staff
12 geologist for Mitchell Energy.

13 Q. Mr. Gawloski, on prior occasions have you
14 testified as a petroleum geologist before the
15 Division?

16 A. Yes, I have.

17 Q. Have you made a geologic study of this
18 particular prospect?

19 A. Yes, I have.

20 Q. Have you reached geologic opinions with
21 regards to your proposed risk factor penalty to be
22 applied against Texaco's interest in the event they
23 ultimately elect not to participate pursuant to the
24 order?

25 A. Yes, I have.

1 MR. KELLAHIN: We tender Mr. Gawloski as an
2 expert petroleum geologist.

3 HEARING EXAMINER: Mr. Gawloski is so
4 qualified.

5 Q. (BY MR. KELLAHIN) I direct your attention
6 to Exhibit No. 4. Identify that for us, please.

7 A. Exhibit No. 4 is essentially a production
8 plat of the area around our Milky Way Prospect, which
9 is in the southeast quarter of Section 17, essentially
10 dealing with the production that is shallower,
11 including the Delaware and shallower horizons.

12 I would make a notation that there is some
13 shallower production in Section 5 and 6 associated
14 with the Vacuum Grayburg/San Andres, but that is
15 really not close enough for me to put on this
16 particular map.

17 Q. Let's look at the southeast quarter of 17.
18 There is a red dot. That's for the proposed well
19 location?

20 A. That's the approximate proposed well
21 location.

22 Q. That's a standard location for a 40-acre
23 oil well?

24 A. Yes, it is.

25 Q. The crosshatched yellow shading is what?

1 A. That's Mitchell's leasehold in the area.

2 Q. When we see that crosshatched shading in
3 other sections on the display, that's what that
4 represents?

5 A. That's correct.

6 Q. What is the significance of the well
7 symbols that are circled in red?

8 A. The well symbols in red are the Queen
9 production in the area. Essentially, the Queen
10 production lies to the south and southwest of the
11 proposed location. And I've made some notations on
12 some of the wells surrounding the proposed location,
13 and most of them did not have any tests whatsoever
14 within the Queen. Some to the south to the north did,
15 but they did not encounter any commercial quantities
16 of hydrocarbons and did not warrant a production test.

17 Q. In. Analyzing the geology and looking at
18 other than potential Delaware or potential Queen, is
19 there any other potential production that might be
20 available for this well at this location?

21 A. No. The Queen and the Delaware are
22 essentially the only shallow producers within the
23 area.

24 Q. Anything else would be more speculative?

25 A. Correct.

1 Q. Define for us what you assess to be the
2 risk and the potential for Queen production.

3 A. The Queen production in here, and we'll get
4 into that with a little display later on, but
5 essentially it's lying to the south, and there really
6 hasn't been any significant test or production until
7 you get way up to the Vacuum Grayburg/San Andres Field
8 where there's some associated Queen production, but
9 other than that, all the production lies to the south
10 southeast.

11 Q. In your opinion, does the absence of the
12 immediate Queen production in the area justify in your
13 opinion the maximum penalty for the Queen production
14 of 200 percent?

15 A. Yes, it did.

16 Q. Primary, then, objective is the potential
17 for Delaware oil?

18 A. That's correct.

19 Q. Summarize for us what is your opinion about
20 the percentage risk involved under the pooling orders
21 for the Delaware oil production.

22 A. As you note on this map here, there are
23 only three Delaware producers in the area. One of
24 them is a little hard to see in Section 11. That well
25 has only made somewhere around 100 barrels of oil, and

1 it has already been temporarily abandoned.

2 There's a well in Section 14 that has made
3 approximately 9,000 barrels, and it's also a very poor
4 producer.

5 The only other Delaware well is the well in
6 Section 16, which is the Maralo well, which is the
7 well that Mitchell plans to offset. This well is in a
8 different zone than the other two Delaware producers
9 farther to the east, and it essentially is the only
10 Delaware producer in this three, four-mile area around
11 our lease. You can see by the notations, really
12 nobody has DST'd or tested the Delaware in hardly any
13 of the wells out here. It has essentially not
14 produced until the Maralo well was recompleted in
15 February of this year.

16 Q. Have you concluded that it justifies the
17 maximum 200 percent penalty?

18 A. Yes.

19 Q. Tell us a little bit about the production
20 rates on the Maralo well in Section 16.

21 A. The Maralo well was potentialized in February
22 for an initial flow rate of 69 barrels of oil per day,
23 and that is a typo in there. It should be 64 barrels
24 of water after that. And the well flowed for several
25 weeks, and then essentially the oil rate had dropped

1 off to where the company then put it on pump. When
2 the well was put on pump, the rates increased upwards
3 of 200 barrels a day. And our last report, which is
4 probably early May, was that the well was currently
5 making 85 to 90 barrels of oil a day.

6 Q. So the production is declining during the
7 period of pumping the well?

8 A. That's correct.

9 Q. What was the original prospect by which you
10 acquired the southeast quarter of 17? What were you
11 looking for?

12 A. We acquired this lease essentially five
13 years ago, and it was essentially Devonian prospect in
14 here. Subsequent to our acquiring the lease, Maralo
15 just soon after that drilled their well to the
16 Devonian and made a Delaware producer; however, it was
17 a relatively poor producer, and it was making quite a
18 bit of water. We then subsequently shot several lines
19 of seismic over the prospect and determined that we
20 didn't have the structure sufficient enough to drill
21 the Devonian test.

22 So essentially our deep prospect was
23 essentially in jeopardy, and we did not pursue it
24 further. We didn't pursue the prospect any further
25 until Maralo recompleted their well in February of

1 this year. We then pursued it looking for the
2 shallower Delaware horizon.

3 Q. The Maralo well then did create some
4 opportunity for you to develop the lease and look for
5 the Delaware oil?

6 A. That's correct. They did have a drill stem
7 test in the well, but it was still a lot of question
8 marks, and it wasn't enough yet for us to go and
9 pursue and drill a well.

10 Q. Let's turn to Exhibit No. 5 and have you
11 identify and describe that exhibit.

12 A. Exhibit No. 5 is essentially a type log of
13 the Maralo well, a porosity log and essentially a
14 resistivity log. It shows the recompleted pay zone in
15 the Delaware down in there in yellow, and I've colored
16 the porosity greater than 10 percent in red.

17 You can see that one of the things I wanted
18 to point out about this is that this particular
19 Delaware pay is very unique, and I've looked at
20 several Delaware fields in Lea County, and it's unique
21 in that it's much cleaner in the gamma ray than most
22 of them. The porosity is extremely high for the
23 Delaware that's in the northern part of Lea County.
24 It approaches 28 percent.

25 And another factor in there is that it has

1 very low resistivities. It gets down to less than 1
2 ohm of resistivity, which also puts some of our data
3 as to whether or not the well would have produce oil
4 until they actually completed it.

5 These factors will come into the risk
6 factor as far as being upstructure and having
7 sufficient enough porosity to be able to produce the
8 well.

9 Q. Did you attempt to correlate the Delaware
10 sand that's being produced in the Maralo to see
11 whether or not you could use that available data and
12 extend the sand into your spacing unit?

13 A. Yes, sir, I did, and it's a very difficult
14 correlation in the area.

15 Q. Let's turn to Exhibit 6 and see your
16 correlation. When we look at the cross-section, this
17 is the Maralo well we've been discussing is where on
18 the cross-section?

19 A. It's the second well from the right.

20 Q. Have you found that -- you've called it
21 Brushy Canyon Pay?

22 A. Right. And using -- it's a correlation,
23 it's the lower part of the Delaware. There really
24 isn't any good correlations in here, and most of us
25 call it the Delaware Sand Section, but I put it in the

1 lower part of the Delaware, which would be in the
2 Brushy Canyon.

3 Q. It appears you've correlated the Maralo/
4 Brushy Canyon Pay with a well to the south and east?

5 A. That's correct. It is a little bit of a
6 difficult correlation in here. One of the things that
7 the cross-section illustrates is that there's numerous
8 interfingering here with a lot of carbonate lenses
9 through the entire Delaware section, which could
10 immediately cut off any particular sand in the area.

11 Within the Maralo well, there's three
12 different carbonate lenses within the Delaware Sand
13 Section itself. And these particular zones come and
14 go really at random, and it is very difficult to
15 correlate in the area.

16 Q. Let's look at the wells on the
17 cross-section in which any of the Delaware has been
18 perforated.

19 A. That is just the Maralo well is the only
20 well that's been tested.

21 Q. If anyone else took the logs and made the
22 correlation and decided where to perforate,
23 apparently, they decided not perforate these wells
24 with the exception of the Maralo well?

25 A. That's correct.

1 Q. When we go from the Maralo well to the next
2 well to the west, that's the next available wellbore
3 for the correlation?

4 A. That's correct.

5 Q. You don't show it.

6 A. The sand does not appear to be present
7 there at all.

8 Q. It appears then that the sand is going to
9 pinch out, disappear, or otherwise cease to exist
10 somewhere between the control to the east and the
11 control to the west?

12 A. That's correct.

13 Q. And you don't know where?

14 A. That's correct.

15 Q. That represents part of the risk, doesn't
16 it?

17 A. Um-hm.

18 Q. Have you attempted to, even with the
19 sketchy data available for the correlation, have you
20 attempted to create an isopach map of that particular
21 Brushy Canyon Sand?

22 A. Yes, I have.

23 Q. Turn to Exhibit 7. Is that your
24 correlation of the -- is that your isopach map?

25 A. That's correct.

1 Q. Describe for us what assumptions you were
2 making, what data you used in filing, what conclusions
3 you've reached.

4 A. I used all the available log information
5 within essentially a mile or two radius of the lease,
6 and I took an arbitrary porosity cutoff of
7 approximately 10 to 12 percent, and that is a very --
8 it's an optimistic cutoff for production because I
9 didn't really know what the cutoff was because there
10 was on really only one well control, and I essentially
11 used that so I could get some kind of orientation to
12 the sand. If I used too strict a porosity cutoff, it
13 could have eliminated the rest of the well control.
14 So I use add rather liberal porosity cutoff so I could
15 get an orientation for the sand.

16 The one thing of note here is, I have a red
17 line drawn across the thick part of that isopach, and
18 the wells to the south and west of that line
19 essentially are either not deep enough or do not have
20 the sand present at all; so as we move to the west and
21 southwest of that Maralo well, the risk increases
22 rather greatly.

23 Q. There are some other things on the
24 display. There's some dots, open circles, running in
25 straight lines. Those are your shot points for

1 seismic lines?

2 A. That's correct.

3 Q. Seismic is not a useful geologic device to
4 help you with the Delaware, is it?

5 A. Not when your isopaching a very small sand
6 like this. It's beyond its resolution.

7 Q. The hope then is that the sand for the
8 Maralo well is extensive enough to move over into the
9 southeast quarter of 17, but you have absence of any
10 data to the south and west to tell you how far it may
11 extend?

12 A. That's correct.

13 Q. You lack sufficient production information
14 from the Maralo well to have the engineering staff
15 confirm for you any volumetrics based upon your
16 isopach?

17 A. That's correct.

18 Q. So we don't know how big the reservoir is
19 necessarily from an engineering aspect of the oil
20 being produced by the Maralo well?

21 A. That's correct.

22 Q. Summarize for us then, Mr. Gawloski, the
23 principal geologic points that support your conclusion
24 about the maximum risk involved.

25 A. From the isopach map?

1 Q. From any of your data.

2 A. All the data supports that, as you proceed
3 to the west and southwest from the Maralo well, the
4 risk increases both from an isopach thickness and a
5 structural relationship, both for the Delaware and for
6 any up-hole potential horizons, being that Queen
7 formation.

8 MR. KELLAHIN: That concludes my
9 examination of Mr. Gawloski.

10 We move the introduction of his exhibits.
11 There are some additional exhibits, and perhaps we
12 need to touch on them, Mr. Examiner. I don't intend
13 to go through them in detail. We've confined our
14 principal presentation to the Delaware. He has
15 provided you a structure map on the top of the Bone
16 Springs to complete the analysis.

17 Exhibit 9 is his Queen map. Obviously,
18 that's still a high risk.

19 Exhibit 10 is the cross-section on the
20 Queen information that supports his ultimate
21 conclusions about the Queen risk.

22 At this time we would move the introduction
23 of his engineering study, which is found from Exhibits
24 4 through Exhibit No. 10.

25 HEARING EXAMINER: Exhibits 4 through 10

1 will be admitted into evidence.

2 CROSS-EXAMINATION

3 BY HEARING EXAMINER:

4 Q. Mr. Gawloski, in looking at the spot that
5 you chose to put your well, do you know what the
6 location of that is?

7 A. It's a 1,980 from the south and 330 from
8 the east.

9 Q. That's an unorthodox gas well location, is
10 it not?

11 A. Yes, it would be.

12 Q. Have you made application for that
13 unorthodox location?

14 A. No, we have not.

15 Q. What is the reason for the location? Is it
16 due to geology or topography?

17 A. It's due primarily to the geology. We did
18 not want to get too far to the west of the Maralo well
19 because of our general lack of information and
20 negative information in that direction. And also it
21 would be to be in our best structural position, we
22 didn't look at that exhibit, but that's also one of
23 the reasons we want to be in that location as well.

24 (Thereupon, a discussion was held
25 off the record.)

1 MR. KELLAHIN: Mr. Examiner, you've raised
2 a question about the potential for an unorthodox
3 location in the Queen. We think the Queen is highly
4 speculative. It is productive on Exhibit No. 4 but
5 certainly not in the immediate area.

6 The primary prospect is Delaware oil, which
7 would be below the Queen. The Delaware oil is on
8 statewide 40-acre spacing. The well location would be
9 a standard well location. We have sought to include
10 the southeast quarter for Queen gas spacing. In the
11 unlikely event the Delaware is nonproductive, and the
12 Queen is, then we will have pooled Texaco on that
13 spacing unit. We recognize that we will have to come
14 back before producing the Queen gas and obtain further
15 orders from the Division approving that as an
16 unorthodox location. However, the primary objective
17 would be the 40-acre oil.

18 The documentation we've introduced
19 addresses both the Delaware, and the exhibits that Mr.
20 Gawloski did not describe in detail are those exhibits
21 that looked at the Queen where you can conclude for
22 yourself that it is very speculative.

23 HEARING EXAMINER: Thank you, Mr.
24 Kellahin. I have no further questions of this
25 witness.

1 One last thing, what were the overhead
2 charges.

3 MR. SMITH: \$470 for producing and \$4,700
4 for drilling.

5 MR. KELLAHIN: They're out of the Ernst &
6 Young report.

7 HEARING EXAMINER: I missed writing them
8 down.

9 MR. KELLAHIN: I think I missed asking
10 him. We're using the Ernst & Young.

11 HEARING EXAMINER: I have no further
12 questions of either of the witnesses. Is there
13 anything further in Case No. 9966?

14 MR. KELLAHIN: No, sir.

15 HEARING EXAMINER: In not, this case will
16 be taken under advisement, and let's take a lunch
17 recess until 1:30.

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1 CERTIFICATE OF REPORTER

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

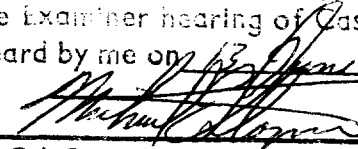
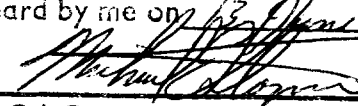
6 I, Deborah O'Bine, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that the
8 foregoing transcript of proceedings before the Oil
9 Conservation Division was reported by me; that I
10 caused my notes to be transcribed under my personal
11 supervision; and that the foregoing is a true 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 July 15, 1989.

18 
19 DEBORAH O'BINE
20 CSR No. 127

21 My commission expires: August 10, 1990

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 9966
25 heard by me on  1990.
, Examiner
Oil Conservation Division