

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

4  
5  
6 EXAMINER HEARING

7  
8 IN THE MATTER OF:

9  
10 Application of Santa Fe Energy  
11 Operating Partners for compulsory Case 10001  
12 pooling, Eddy County, New Mexico  
13

14  
15 TRANSCRIPT OF PROCEEDINGS

16  
17 BEFORE: MICHAEL E. STOGNER, EXAMINER  
18

19  
20 STATE LAND OFFICE BUILDING  
21 SANTA FE, NEW MEXICO

22 August 8, 1990  
23

24 **ORIGINAL**  
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A P P E A R A N C E S

FOR THE DIVISION:           ROBERT G. STOVALL  
                                  Attorney at Law  
                                  Legal Counsel to the Division  
                                  State Land Office Building  
                                  Santa Fe, New Mexico 87501

FOR THE APPLICANT:       JAMES G. BRUCE  
                                  Hinkle, Cox, Eaton, Coffield  
                                  and Hensley  
                                  500 Marquette Avenue, N.W.  
                                  Albuquerque, New Mexico

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## I N D E X

Page Number

## Appearances

2

## 1. VERNON D. DYER

Examination by Mr. Bruce

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Examination by Mr. Stovall

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Examination by the Hearing Examiner

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## Certificate of Reporter

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## E X H I B I T S

## Exhibit No. 9

9

## 1 P R O C E E D I N G S

2 HEARING EXAMINER: Call next case, No. 10001.

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

6 HEARING EXAMINER: Call for appearances.

7 MR. BRUCE: Mr. Examiner, my name is Jim Bruce from  
8 the Hinkle law firm in Albuquerque representing the Applicant.  
9 I have one witness to be sworn.10 HEARING EXAMINER: Are there any other appearances  
11 in this matter?12 Will the witnesses please step forward and be sworn  
13 at this time.14 VERNON D. DYER,  
15 the witness herein, after having been first duly sworn upon his  
16 oath, was examined and testified as follows:17 MR. BRUCE: Mr. Examiner, this case was heard four  
18 weeks ago and due to some questions about notice and some other  
19 matters the case was readvertised. At that prior hearing we  
20 presented Mr. Dyer, the landman, and a geologist, and they  
21 testified. And we are here today to go on into some additional  
22 land testimony regarding further negotiations among the parties  
23 and present evidence on notice. And Mr. Dyer also was  
24 qualified as an expert landman at that time and ask that he be  
25 so recognized at this time.

1 HEARING EXAMINER: The record will so reflect that  
2 Mr. Dyer -- am I getting his name pronounced right, Mr. Bruce?

3 MR. BRUCE: Dyer, D-y-e-r.

4 HEARING EXAMINER: Dyer was previously sworn in the  
5 hearing of July 11, 1990, in which we repeated that process  
6 today.

7 Mr. Bruce.

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Dyer, you testified at the previous hearing in  
11 this matter; did you not?

12 A. That is correct.

13 Q. And at that hearing, at that time, who were the two  
14 interest owners that Santa Fe Energy sought to forced pool?

15 A. Conoco and Marbob.

16 Q. And could you explain what has happened with  
17 Conoco's interests since that time.

18 A. Conoco, since that time has made a farm-out, farmed  
19 out all of their interest to Pacific Energies --

20 Q. Pacific Enterprises.

21 A. -- Enterprises, I am sorry, Pacific Enterprises.

22 And Marbob has farmed out -- Marbob I found out is three  
23 entities now. And two of the entities has farmed out to  
24 Pacific Enterprises and one entity is going to join us.

25 Q. Okay. And could you go into your discussions with

1 Pacific Enterprises during the last four weeks.

2 A. We have come to a verbal agreement that they are  
3 going to join us in the drilling of the well. And they have  
4 agreed on Santa Fe being the operator. The only problem now is  
5 we do not have anything signed. They have agreed to it  
6 verbally and it's supposedly on their managment's desk for  
7 signature.

8 Q. And what is the status of Marbob Energy  
9 Corporation's negotiations with Santa Fe?

10 A. The party that has elected -- that has not farmed  
11 out to Pacific, has elected to join us. They have signed an  
12 operating agreement, but they have made it conditioned to some  
13 further negotiations.

14 Q. So they have not -- neither party, Pacific  
15 Enterprises nor Marbob, has officially signed on the dotted  
16 line.

17 A. That is correct. As far as we're concerned, that is  
18 correct.

19 Q. And therefore you seek to force pool both parties.

20 A. Both parties.

21 Q. And if both parties subsequently sign operating  
22 agreements satisfactory to Santa Fe will Santa Fe notify the  
23 OCD that they have joined and that they are not subject to the  
24 forced pooling order?

25 A. Yes, we will.

1           MR. BRUCE: The only exhibit I have today,  
2 Mr. Examiner, is Exhibit No. 9, which is my affidavit regarding  
3 notice sent out after the prior hearing which contains the  
4 addresses of the parties and the certified return receipts.  
5 And I would ask that that exhibit be admitted at this time.

6                               EXAMINATION

7 BY MR. STOVALL:

8           Q.     Mr. Dyer, let me make sure I understand what you've  
9 said. Do I understand you properly that the interest which you  
10 are calling the Marbob interest is actually owned by three  
11 different entities?

12          A.     Yes.

13          Q.     Who are operating independently who Marbob is not  
14 representing?

15          A.     No, Marbob is representing them. But they are  
16 operating independently.

17          Q.     And --

18          A.     There is two trust in Marbob itself.

19          Q.     I guess what I am getting at as far as the noticed  
20 issue itself, if we get -- you've got one -- can you identify,  
21 name the parties that are under the Marbob interest.

22          A.     I can identify two of them. I can't identify the  
23 other one at the present time. Two of them is Marbob itself,  
24 and then the John Gray Trust, which Marbob is representing.  
25 And then there is another trust that I do not know the name of

1 it because they have farmed out to Pacific Enterprises.

2 Q. Okay. So you know this other trust, you've seen  
3 something sufficient to satisfy you.

4 A. Yes. I've asked for trust documents from Marbob to  
5 furnish us documents to satisfy title of opinions.

6 Q. Okay. So the unidentified trust is fully farmed out  
7 to Pacific is what I understand to best of your knowledge.

8 A. That is correct.

9 Q. And the Marbob -- and what was the other?

10 A. John Gray Trust.

11 Q. The John Gray Trust are at the present time  
12 negotiating with Santa Fe; is that correct?

13 A. Well, no. Marbob has also farmed out their interest  
14 to Pacific.

15 Q. To Pacific, okay.

16 A. And John Gray Trust have signed an operating  
17 agreement with us subject to some conditions that we need to  
18 satisfy, and we are negotiating right now.

19 Q. Okay. But no separate notice was given to John Gray  
20 Trust; is that correct?

21 A. No, there was not. And there is nothing of public  
22 record that they were handling this either. This was an  
23 internal deal that we found out.

24 MR. STOVALL: Okay. That clarifies any question  
25 I've got about this.



## EXAMINATION

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BY THE HEARING EXAMINER:

Q. Mr. Dyer, isn't John Gray also president of Marbob?

A. Yes.

Q. And he works in the Marbob office in Riverside, New Mexico; is that correct?

A. That is correct.

HEARING EXAMINER: It's an additional point of clarification.

Does anybody else have anything of this witness?

Exhibit No. 9 will be admitted into evidence.

If there is nothing else of Mr. Dyer he may be excused.

Also case No. 10001 will be taken under advisement at this time.

\* \* \* \* \*

10001  
90  
8 August  
Michael Dyer  
Oil Conservation Division

## 1 CERTIFICATE OF REPORTER

2

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

5

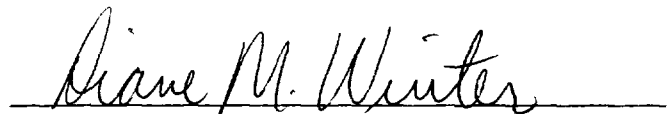
6 I, Diane M. Winter, Certified Shorthand Reporter and  
7 Notary Public, HEREBY CERTIFY that the foregoing transcript of  
8 proceedings before the Oil Conservation Division was reported  
9 by me; that I caused my notes to be transcribed under my  
10 personal supervision; and that the foregoing is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

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

16 WITNESS MY HAND AND SEAL August 20, 1990.

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DIANE M. WINTER  
CSR No. 414

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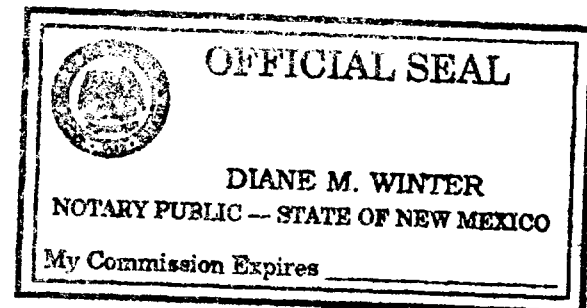
My commission expires: December 21, 1993

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## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date AUGUST 8, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William L. Gay	Samuel and Jack, P.A.	Santa Fe
Ch. Bob Kenderich	El Paso Natural Gas Co	El Paso, TX
James Bruce	Humble Case Firm	Albuquerque, NM
John Smith	Forsyth Oil Co	Ft Worth TX
David R. Vandiver	Fisk & Vandiver	Artesia, NM
Larry Seright	Bridge Oil Co., L.P.	Midland, TX
Vernon D. Dyer	Santa Fe Energy Resources, Inc	Midland, Texas
Rick Brown	BRIDGE OIL CO, L.P.	DALLAS, TX
Emory Perrott	Emron Oil & Gas	Midland, TX
W. E. Kellum	Kellum Kellum and Kellum	Santa Fe
Neal D. Baker	Pacific Enterprises	Midland, TX
Patrick Fowler	ENRON OIL & GAS Co.	MIDLAND, TX
Victor Lyon	OCD	Santa Fe
Ernst L. Padilla	Padilla & Smyer	Santa Fe
Mark Nearberg	Nearberg Producing	Midland



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,001

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa fe Energy Operating Partners,  
L.P., for Compulsory Pooling, Eddy County, New  
Mexico.

TRANSCRIPT OF PROCEEDINGS

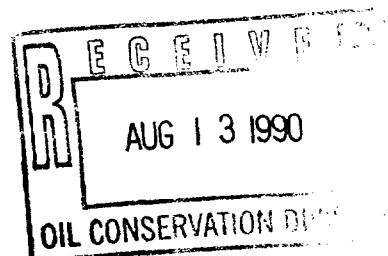
BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990

**ORIGINAL**



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

## FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico 87504

## FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY  
Attorneys at Law  
By: JAMES BRUCE  
500 Marquette, N.W.  
Albuquerque, New Mexico

## FOR CONOCO, INC.:

KELLAHIN, KELLAHIN & AUBREY  
Attorneys at Law  
By: W. THOMAS KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265

## FOR PACIFIC ENTERPRISES:

MONTGOMERY & ANDREWS, P.A.  
Attorneys at Law  
By: W. PERRY PEARCE  
325 Paseo de Peralta  
P.O. Box 2307  
Santa Fe, New Mexico 87504-2307

## ALSO PRESENT:

JAMES MORROW  
Chief Engineer  
Oil Conservation Division  
State Land Office Building  
Santa Fe, New Mexico 87504

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## I N D E X

## Page Number

Appearances

2

Exhibits

4

VERNON D. DYER

Direct Examination by Mr. Bruce

9

Examination by Examiner Stogner

19

BRUCE G. INSALACO

Direct Examination by Mr. Bruce

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Examination by Examiner Stogner

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Certificate of Reporter

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## E X H I B I T S

## APPLICANT'S EXHIBITS:

Exhibit 1	10
Exhibit 2	11
Exhibit 3	13
Exhibit 4	15
Exhibit 5	22
Exhibit 6	25
Exhibit 7	26
Exhibit 8	27

\* \* \*



1           WHEREUPON, the following proceedings were had  
2           at 11:00 a.m.:

3           EXAMINER STOGNER: We'll call the next case,  
4           Number 10,001.

5           MR. STOVALL: Application of Santa Fe Energy  
6           Operating Partners, L.P., for compulsory pooling, Eddy  
7           County, New Mexico.

8           EXAMINER STOGNER: Call for appearances.

9           MR. BRUCE: Mr. Examiner, my name is Jim  
10          Bruce from the Hinkle law firm, Albuquerque,  
11          representing the Applicant.

12          I have two witnesses to be sworn.

13          EXAMINER STOGNER: Are there any other  
14          appearances in this matter?

15          MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
16          of the Santa Fe law firm of Kellahin, Kellahin and  
17          Aubrey, appearing on behalf of Conoco, Inc.

18          I do not have any witnesses this morning, Mr.  
19          Examiner.

20          MR. PEARCE: May it please the Examiner, I'm  
21          W. Perry Pearce of the Santa Fe office of Montgomery  
22          and Andrews, appearing in this matter on behalf of  
23          Pacific Enterprises.

24          I do not have any witnesses, Mr. Examiner.

25          And I should state for the record, Mr.

1 Examiner, Pacific Enterprises has not filed a pre-  
2 hearing statement in this matter. We understand that  
3 Conoco and Pacific Enterprises reached agreement on a  
4 farmout in general terms this morning. That agreement  
5 is not in writing, so we're here and we're interested.

6 EXAMINER STOGNER: Thank you, Mr. Pearce.

7 MR. STOVALL: Mr. Examiner, first, I think  
8 the only pre-hearing statement I've actually got is Mr.  
9 Kellahin's in this.

10 MR. BRUCE: I think I forgot one, Mr.  
11 Stovall. Why did you bring that up?

12 MR. STOVALL: I was going to ask anyway.

13 Mr. Kellahin, just for information, you have  
14 identified in your statement that you would ask that  
15 the case be continued. Are you making that as a formal  
16 request, or was that just a -- was that a possibility  
17 that you identified?

18 MR. KELLAHIN: I've discussed that with Mr.  
19 Bruce this morning. My information is that Conoco has  
20 not received notice of the hearing. The representative  
21 of Conoco now in Midland that talked to me said he  
22 first became aware of this case yesterday in terms of  
23 its hearing today. Although he had received Santa Fe's  
24 correspondence earlier about proposing the well, the  
25 actual notice of hearing he's unable to find. And so

1 I've raised that this morning with Mr. Bruce.

2 I do not know if he has any verification in  
3 his records that he has complied with the 20-day notice  
4 requirements under Rule 1207, and I simply raise that  
5 topic for you now because I do not know the answer.

6 MR. BRUCE: If I could respond, we do have a  
7 letter which we'll present that -- from Santa Fe,  
8 telling Conoco that force-pooling procedures were  
9 initiated prior -- within -- or outside the 20-day time  
10 period.

11 Whether or not that meets the requirements of  
12 the Rule, I think is up for you to decide.

13 But what I would like to do is go on and put  
14 on the witnesses and if necessary, since we're all  
15 here, re-notify, and we can set it up for -- I guess it  
16 would be August 8th. And then if the parties haven't  
17 reached agreement at that time, we could -- If Conoco  
18 wanted to present something at that time --

19 MR. STOVALL: Let me ask another question.  
20 Mr. Kellahin, by your entry of appearance in here, are  
21 you -- Does that in effect, in your opinion, constitute  
22 a waiver of the notice requirement with respect to  
23 notice of participation in the hearing, not with  
24 respect to the presentation of any case material or  
25 evidence?

1 MR. KELLAHIN: I simply was retained  
2 yesterday afternoon. It's been impossible for me to  
3 prepare on short notice any cross-examination of these  
4 witnesses, so we would preserve the right not only to  
5 present our own case on August 8th, but to cross-  
6 examine at that later date any of Mr. Bruce's witnesses  
7 that he desires to call in this case.

8 If he wants to go forward with this case now,  
9 I have no objection, provided I am afforded the  
10 opportunity, not only to present my own case at  
11 subsequent hearing, but to cross-examine his witnesses.

12 MR. BRUCE: And I would have no objection to  
13 that.

14 EXAMINER STOGNER: Therefore, let's proceed.

15 Are there any other appearances? Just wanted  
16 to check.

17 Mr. Bruce, you may continue.

18 (Off the record)

19 MR. STOVALL: One last point before we --

20 (Off the record)

21 MR. STOVALL: With respect to this notice  
22 issue, I think an argument could be made, again, that  
23 Conoco has waived any deficiency in notice, but would  
24 you please review the notice and we'll determine  
25 whether that letter was adequate --

1 MR. BRUCE: We will, as the last exhibit by  
2 the first witness.

3 MR. STOVALL: Okay.

4 (Thereupon, the witnesses were sworn.)

5 EXAMINER STOGNER: Mr. Bruce?

6 VERNON D. DYER,

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

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Mr. Dyer, would you please state your full  
12 name and city of residence?

13 A. It's Vernon D. Dyer. I live in Odessa,  
14 Texas.

15 Q. And who do you work for and in what capacity?

16 A. Santa Fe Energy Operating Partners. I'm a  
17 district land manager.

18 Q. And have you previously testified before the  
19 OCD as a petroleum landman?

20 A. Yes.

21 Q. And were your credentials accepted as a  
22 matter of record?

23 A. Yes.

24 Q. And are you familiar with the land matters  
25 involved in this case?

1 A. Yes.

2 Q. Mr. Dyer, would you please state briefly what  
3 Santa Fe seeks in this case?

4 A. Briefly, we seek to pool all of the mineral  
5 interests in the east half of Section 20 of 17 South,  
6 28 East, for a 320-spacing to be the proration unit  
7 dedicated to the Santa Fe Muskegon State Com Well  
8 Number 1, which is at a standard location.

9 We request that the cost of the drilling  
10 completion of the well, the allocation and approval of  
11 actual operation and charge, that supervision be  
12 approved, we ask to be the operator and that the charge  
13 for the risk involved of drilling be assessed on this  
14 matter.

15 Q. And this Application involves only those  
16 mineral interests below 5000 feet subsurface, does it  
17 not?

18 A. That is correct.

19 Q. Okay. Would you please refer to what's been  
20 marked as Exhibit Number 1, describe it briefly and  
21 identify which companies own what acreage?

22 A. Okay, it is a land plat that we have prepared  
23 for this, with the bold outline of the east half of  
24 Section 20, being the proration unit.

25 Inside of Section 20 there is a red

1     indication of the location, and then yellow -- two 40-  
2     acre tracts in yellow, being the acreage Santa Fe  
3     controls.

4             The northeast of the southeast 40 is  
5     controlled by Marbob, who has -- or had at this time --  
6     has agreed to join in the drilling of this well. But  
7     we have nothing in writing at this time; we have just a  
8     verbal.

9             In the northeast quarter and the southwest of  
10    the southeast quarter belongs to -- is controlled by  
11    Conoco.

12            Q.    All right, thank you. And so the party you  
13    seek to force-pool today is Conoco, Inc.; is that  
14    correct?

15            A.    Well, we had advised Marbob, since we didn't  
16    have anything in writing, that we would leave their  
17    name, and they were agreeable to that.

18            Q.    Okay. Now, would you please describe your  
19    efforts to get these interest owners to join in the  
20    well? And I refer you to exhibit Number 2.

21            A.    Okay, we started -- well, we -- first request  
22    was made May the 9th of 1990 where we sent the letters  
23    to everybody, to Marbob and to Conoco.

24                   And at the same date we also wrote a letter  
25    to Marbob requesting the shallow rights. They control

1     it above 5000 feet. They were quick to respond and say  
2     no.

3             But at that time -- Then we contacted, on May  
4     the 25th, we talked to -- verbally talked to Marbob's  
5     office.

6             On May the 30th, we talked to Mike Boney with  
7     Conoco. And when I say "we," that is either myself or  
8     somebody in my office, a landman working for me, talked  
9     to him. We talked to Mike Boney in the Hobbs office.

10            He referred us to Warren Richardson,  
11     requesting we send letters to him, which we followed up  
12     with. We called Warren that same day, let him know.

13            Then we followed up on June the 6th with a  
14     phone call to Warren Richardson who at that time  
15     verbally verified that he received the letter, and that  
16     was the first time we told him of the date of July 11th  
17     as the force-pooling.

18            He made a statement at that time that his  
19     management wouldn't let us force-pool. So he knew  
20     about it at that time.

21            And the rest of it is just a list of contacts  
22     we made throughout -- up until yesterday afternoon.  
23     Now, I don't have all the contacts yesterday.

24            There was about five phone calls yesterday  
25     with Conoco in the -- of trying to do some negotiations



1 at that time, and we were unable to make a deal with  
2 them up till five o'clock last night, at which time we  
3 were informed that they had made a deal with another  
4 company and that we would have to deal with the other  
5 company, but they would not tell us the other company  
6 at the time.

7 Q. And to the best of your knowledge today, that  
8 company is Pacific Enterprises?

9 A. Yes, I have talked to Pacific Enterprises,  
10 Terry Gant, the landman with Pacific Enterprises who  
11 advised us that they were the ones that took the  
12 farmout from Conoco.

13 Q. Okay. Would you please refer to Exhibit  
14 Number 3 and discuss the cost of the proposed well?

15 A. This is the AFE we presented to Conoco and to  
16 Marbob. It shows the dryhole cost of this well of  
17 \$386,000; and to complete as a producer, \$655,000.

18 Marbob has agreed to this being in line, and  
19 we have had no complaints from anybody else. No one  
20 has contested it.

21 Q. Okay. And is this proposed cost in line with  
22 those normally encountered in drilling wells to this  
23 depth in Eddy County?

24 A. Yes, in this particular area.

25 Q. Okay. And do you have a recommendation about

1 the amounts which Santa Fe should be paid for the  
2 administrative and supervision charges?

3 A. Yes, what we recommended on this, and what  
4 has been agreed to, I might add, by Marbob and also  
5 Fina, who has the back end under agreement with us,  
6 with them, they've agreed to it also -- it's \$5000 a  
7 month on drilling-well rates, \$500 per month on  
8 producing-well rates, which is the -- I'll probably  
9 mispronounce his name -- Ernst and Young recommended  
10 amounts without any escalation at all.

11 Q. And are these amounts, these supervision  
12 amounts which you have recommended, in line with  
13 amounts normally charged by Santa Fe and other  
14 operators in this area of Eddy County?

15 A. Yes, they're in line. You know, some people  
16 add a little escalation to it and some don't; it just  
17 depends.

18 Q. Okay. And what penalty do you recommend  
19 against nonconsenting interest owners?

20 A. Because this is a Morrow well, which is, you  
21 know, wildcat -- any Morrow well is a wildcat in our  
22 opinion -- we recommend cost plus 200 percent.

23 Q. And the geologist will also discuss that?

24 A. That is correct.

25 Q. Now, getting to the issue of notice, Mr.

1 Dyer, looking at Exhibit 4, is this a copy of a letter  
2 dated May 30th, 1990, which you sent to Conoco?

3 A. Yes, it is.

4 Q. And down in the second or third paragraph of  
5 that letter --

6 A. Paragraph 4.

7 Q. -- paragraph 4, does it state that Santa Fe  
8 has initiated forced-pooling proceedings?

9 A. Yes, it does. And this is the letter when I  
10 talked to him on June 6th that he confirms, and that  
11 was the day we told him it would be July the 11th, and  
12 he acknowledged it, and also Mike Boney with Conoco  
13 acknowledged it. And both of them, again, like I said,  
14 they said their management would not let us force pool.

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

17 A. Yes, it was.

18 Q. And in your opinion, will the granting of  
19 this Application be in the interests of conservation,  
20 the prevention of waste and the protection of  
21 correlative rights?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, at this time I move  
24 the admission of Exhibits 1 through 4.

25 EXAMINER STOGNER: Exhibits 1 through 4 --

1 Are there any objections?

2 MR. KELLAHIN: No objection.

3 EXAMINER STOGNER: Exhibits 1 through 4 will  
4 be admitted into evidence.

5 MR. BRUCE: Pass the witness.

6 MR. STOVALL: Before you get Mr. Pearce or  
7 Mr. Kellahin -- Mr. Dyer or Mr. Bruce, is this top  
8 letter, May 30th letter on Exhibit Number 4, the one  
9 you're referring to as potentially being the notice?

10 MR. BRUCE: Yes.

11 THE WITNESS: Yes, sir, it is.

12 MR. STOVALL: I would advise the Examiner  
13 that I think it is totally legally insufficient. Based  
14 upon this letter alone, Conoco would have no idea when  
15 to appear for a hearing or what specifically is  
16 requested in that hearing. And to the extent that  
17 notice has not been waived by Conoco, this is certainly  
18 inadequate to give notice.

19 What about the interests of -- You say you're  
20 still seeking to force-pool Marbob; is that correct?

21 THE WITNESS: Yes.

22 MR. STOVALL: What have they got as far as  
23 any notice? Mr. Bruce, are you going to present any  
24 other additional notice information?

25 MR. BRUCE: No, I'm not, Mr. Stovall.

1 THE WITNESS: The same thing: phone calls  
2 and we've talked to them about it.

3 MR. STOVALL: What about Pacific Enterprises?

4 THE WITNESS: I didn't know until this  
5 morning that they were even involved.

6 MR. STOVALL: They were not a record owner,  
7 or their only interest is --

8 THE WITNESS: No. Their interest come by a  
9 farmout from Conoco at the eleventh hour last night.

10 MR. BRUCE: And I understand, and Mr. Pearce  
11 can confirm this, that it hasn't been reduced to  
12 writing at this point.

13 MR. PEARCE: That's also my understanding,  
14 Mr. Examiner. No record search would have turned up  
15 Pacific Enterprises.

16 MR. STOVALL: So then I would advise that  
17 Pacific Enterprises was, in fact, not entitled to  
18 notice.

19 But I think we have a serious problem,  
20 certainly, with Marbob. If you don't reach agreement  
21 with Marbob, then it sounds like you're back to square  
22 one on this force-pooling Application, Mr. Dyer. I  
23 don't see any evidence of any notice whatsoever to  
24 Marbob. So that may be something you wish to address  
25 if we're coming back in August anyway.

1 I have nothing further with respect to that  
2 issue.

3 MR. BRUCE: I'd like to make a statement, but  
4 I'd rather give Mr. Kellahin and Mr. Pearce a chance to  
5 question the witness first.

6 EXAMINER STOGNER: Mr. Kellahin --

7 MR. KELLAHIN: Yes, sir.

8 EXAMINER STOGNER: -- I'm going to open up  
9 the questioning to you at this time.

10 MR. KELLAHIN: Perhaps I'm confused, Mr.  
11 Examiner. I thought it was agreed that we could  
12 reserve until the subsequent hearing any cross-  
13 examination of this witness.

14 MR. BRUCE: That's fine, I just didn't know.

15 MR. KELLAHIN: I propose not to ask him any  
16 questions at this time.

17 EXAMINER STOGNER: Mr. Pearce?

18 MR. PEARCE: Nothing at this time, Mr.  
19 Examiner, thank you.

20 MR. BRUCE: I'll reserve anything else.

21 I would just merely point out to the hearing  
22 Examiner that they were given verbal notice. I think  
23 the provisions of the notice rule are to give notice of  
24 the hearing and certainly a letter requesting a farmout  
25 and giving notice that a forced-pooling case has been

1 initiated, together with phone calls telling them of  
2 the hearing dates, should be sufficient.

3 Conoco is a pretty knowledgeable operator,  
4 and of course they know how to find Mr. Kellahin. But  
5 if we are going to continue the case, we can certainly  
6 remedy this problem.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Mr. Bruce, on Exhibit -- I'm sorry, Mr. Dyer,  
10 on Exhibit Number 2, you refer on May 9th of a letter  
11 written to Marbob. Could you supply us a copy of that  
12 letter to Marbob?

13 A. Yes, it's --

14 MR. BRUCE: We'll have it delivered to you  
15 today, Mr. Examiner.

16 THE WITNESS: -- I have one in the file that  
17 I can get to you.

18 EXAMINER STOGNER: And we'll make that a part  
19 of Exhibit Number 4.

20 THE WITNESS: Four, okay.

21 EXAMINER STOGNER: Mr. Bruce, while we're on  
22 this subject, since we are going to continue this case  
23 until August 8th, if you will subsequent to today's  
24 hearing provide notice --

25 MR. BRUCE: Right, I was planning on doing

1       that.

2               EXAMINER STOGNER:  -- to all parties, and  
3       certification --

4               MR. STOVALL:  Certified -- notified certified  
5       mail, and of course Rule 1207, and I would include  
6       Pacific Enterprises since you now know they're in the  
7       case.  They certainly -- they're not en- -- entitled to  
8       it before.  Please include that.

9               THE WITNESS:  No, we don't have any problem  
10       with that.

11               (Off the record)

12               EXAMINER STOGNER:  Are there any other  
13       questions of Mr. Dyer?

14               MR. MORROW:  I wanted to clear up just for  
15       myself on that penalty amount.  Is that cost plus 200  
16       or cost times 200?

17               THE WITNESS:  Cost plus 200.

18               MR. MORROW:  So it would be three times the  
19       cost?

20               THE WITNESS:  Yes.

21               MR. MORROW:  Okay.

22               MR. STOVALL:  Mr. Morrow, I'll just advise  
23       you, make you aware.  They're asking for the maximum  
24       statutory allowable, is where they come up with that  
25       number.



1 MR. MORROW: Well, I thought -- I was mixed  
2 up. I thought that was the cost of the --

3 MR. STOVALL: Right, I know, there's always  
4 confusion there.

5 EXAMINER STOGNER: Are there any other  
6 questions of the witness?

7 You may be excused at this time.

8 Mr. Bruce?

9 MR. BRUCE: Call Mr. Insalaco to the stand.

10 BRUCE G. INSALACO,  
11 the witness herein, after having been first duly sworn  
12 upon his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Would you please state your full name and  
16 city of residence?

17 A. Yes, my name is Bruce Insalaco. I live in  
18 Midland, Texas.

19 Q. And what is your occupation, and who are you  
20 employed by?

21 A. I'm a senior petroleum geologist for Santa Fe  
22 Energy Resources.

23 Q. And have you previously testified before the  
24 OCD as a geologist and had your credentials accepted as  
25 a matter of record?

1           A.    Yes, I have.

2           Q.    And are you in charge of geological matters  
3 related to the proposed well in this case?

4           A.    Yes, I am.

5           MR. BRUCE:  Mr. Examiner, is the witness  
6 acceptable?

7           EXAMINER STOGNER:  Are there any objections?

8           MR. KELLAHIN:  No objection.

9           EXAMINER STOGNER:  Mr. Insalaco is so  
10 qualified.

11          Q.    (By Mr. Bruce)  Would you please refer to  
12 Exhibit Number 5 and discuss it briefly?

13          A.    Yes, Exhibit Number 5 is a production study  
14 of the prospect area.

15                Denoted is the producing horizons in the  
16 vicinity of our proposed location, cumulative  
17 production through January 1st of 1990, and an average  
18 daily production as of January 1st, 1990, for the  
19 deeper producing horizons.  And again, only the deeper  
20 producing horizons, because we aren't addressing rights  
21 above 5000 feet.

22                In the title-block area, off to the left  
23 lower portion of the plat, you'll note that what we  
24 have keyed in here is cumulative oil in MBO's for  
25 wells, cumulative gas in MMCF's, again in bold print,

1 and then under that would be average daily production;  
2 on the plat, a red square indicating our proposed  
3 location, and the circle color-coding the different  
4 producing horizons in the area.

5 Let me just bring your attention first of all  
6 to the Morrow. That's our primary objective. And  
7 going through the production study, starting in Section  
8 17, Township 17 South, Range 29 East, we have a Morrow  
9 well that's produced 13,000 barrels and .7 BCF,  
10 currently producing at a rate of 248 MCF a day and five  
11 barrels of oil.

12 As we move closer to our proposed location in  
13 Section 20, we have a well that has produced 5000  
14 barrels of oil, 265 million cubic feet, and is  
15 currently producing at a rate of 283 MCF a day and four  
16 barrels of oil out of the Morrow.

17 Both these wells are -- fall under the Empire  
18 pool designation, as does all of the Morrow production  
19 on the left side of the plat.

20 As we move off to the right side of the plat,  
21 in Section 21, a Morrow producer in the southeast of  
22 the southeast. There's a well they had produce 50,000  
23 barrels and 3.7 BCF, which is now plugged and  
24 abandoned, out of the Morrow.

25 Another well down to the south of that in

1 Section 28, in the northeast quarter of Section 28,  
2 that well had produced 49,000 barrels of oil and 4.5  
3 BCF and is currently inactive.

4 Still another well in Section 28 in the  
5 southwest quarter is a dual Morrow and Atoka producer.  
6 The Morrow had produced .7 BCF and is now inactive.  
7 And Atoka production of 23,000, 2.7 BCF, and P-and-A'd  
8 in the Atoka zone.

9 These wells on, again, the right side of the  
10 plat fall under the pool designation of the Grayburg-  
11 Morrow pool. Both field rules require 320 spacing and  
12 normal spacing for a well, 1980/660.

13 Q. And the Morrow is the primary objective, is  
14 it not?

15 A. The Morrow is the primary objective.

16 I've also tagged on here or denoted wells  
17 producing out of the Atoka.

18 There is Atoka production approximately a  
19 mile and a quarter to the south in Section 29, in the  
20 southeast quarter. That well had made 4000 barrels and  
21 196 million cubic feet of gas and is now plugged in the  
22 Atoka zone.

23 And again, I had referred to the well in the  
24 southwest quarter of 28 as being an Atoka producer.

25 So there is Atoka production in the vicinity

1 of our proposed location, which would also require 320-  
2 acre spacing.

3 There's Pennsylvanian production about two  
4 and a half miles south in Section 33, in the southwest  
5 quarter, which would also fall into the 320 proration  
6 unit.

7 And some Cisco/Canyon production, again, a  
8 mile and a half to two miles away from our proposed  
9 location, and even some Wolfcamp, if we encountered a  
10 more gassier reservoir, that would fall into, possibly,  
11 320-acre spacing.

12 Q. Thank you. Would you please now discuss the  
13 structure and move on to Exhibit Number 6?

14 A. Exhibit Number 6 is a structure map on top of  
15 the Morrow clastics. It's contoured on a 50-foot  
16 interval.

17 Regionally, structure is dropping off, off to  
18 the southeast. We see some subtle noses developing,  
19 structures, does not appear to be critical to the  
20 production that exists out there.

21 The wells colored in red circles are wells  
22 that have produced or are producing from Morrow. Open  
23 circles are wells that penetrated Morrow without having  
24 Morrow production established.

25 Q. And the cross-section marked --

1 A. Yes, sir.

2 Q. Go ahead.

3 A. There's also denoted on this map a cross-  
4 section, A to A prime, starting in section 19, which is  
5 Exhibit Number 7, and moving off to the east to A  
6 prime, ending up in Section 21.

7 Q. Please discuss that cross-section for the  
8 Examiner.

9 A. This Exhibit 7 is a stratigraphic cross-  
10 section, A to A prime, of the Morrow horizon. Starting  
11 at the top, denoted the Atoka marker, it's the base of  
12 the carbonate units, very correlative through the area.

13 Coming down in the section -- and this is  
14 what this section is hung on -- is the top of the  
15 Morrow clastics. That is the same marker I used to  
16 make my structure map, Exhibit Number 6.

17 You can see that from the top of the Morrow  
18 clastics to the top of the Mississippian falls the  
19 Morrow clastics section, and I've broken the Morrow  
20 clastics into two gross zones: the upper Morrow pay  
21 sands and the lower Morrow pay sands.

22 The lower Morrow is generally the producer,  
23 as I had mentioned before, in the Empire Morrow field,  
24 Empire Morrow pool, on the left hand or the west part  
25 of the plat.

1           The wells producing on the east part of the  
2       plats in Section 21, 22, 27, 28 and 33 fall into the  
3       Grayburg-Morrow pool, and most of that production is  
4       from the upper Morrow pay sands, and that is our  
5       primary objective.

6           We plan on drilling a well to go through both  
7       zones, but our primary objective is the upper Morrow  
8       pay sands.

9           If you could look on Exhibit Number 8, I can  
10      discuss what is represented in red on the cross-  
11      section, Exhibit Number 7.

12          Exhibit Number 8 is a net clean sand isopach  
13      of the upper -- only the upper Morrow portion.

14          What I have done is, I have gone through the  
15      wells in the area and used a cutoff of a gamma ray less  
16      than 60 API units to represent clean sand in the upper  
17      Morrow pay.

18          And then I've also denoted another value  
19      which helps us get a better handle on what we feel is  
20      net pay, and that is sand within this clean interval  
21      having porosity greater than seven percent.

22          What I've represented on Exhibit Number 7 in  
23      red, on the gamma ray or on the left-hand side of the  
24      logs, I've gone ahead and denoted my 60 API units, and  
25      that's how I come up with the clean gamma-ray values

1     that I used on my isopach. And the red on the right  
2     side of the density neutron curves, or on the right  
3     side of the logs, are the net porosity values,  
4     represent the net porosity.

5             As you can see from Exhibit Number 8, we  
6     believe that these upper Morrow sands are part of a  
7     package that originate off to the northwest and that  
8     these sands are being deposited off to the southeast in  
9     an effluvial system.

10            The well in Section 17 we're keying on has 34  
11    feet of net clean sand. Referring back to the  
12    production study, that well has produced .7 of a BCF  
13    and 13,000 barrels, still making 200 MCF a day out of  
14    that upper Morrow sand.

15            The other well, in Section 20, off in the  
16    west portion of Section 20, is another Morrow producer  
17    out of the upper Morrow pay section. That well has  
18    produced 5000 barrels and only 265 million cubic feet,  
19    and is down to 283 MCF a day.

20            That's what we see as the risk to the deal.  
21    That well does have plenty of sand, quality -- what  
22    we'd call pay-quality sand -- but it has not produced  
23    as good as some of these other wells.

24            If you follow the sand trend down towards the  
25    southeast into Section 28, we have a well in the



1 northeast quarter of Section 28 that has produced 4.5  
2 BCF and 49,000 barrels of oil out of this upper Morrow  
3 package, and another well in the southeast of the  
4 southeast at 21 that has also produced 3.7 BCF and  
5 50,000 barrels out of the upper Morrow package.

6 So that is our reasoning for pursuing this  
7 upper Morrow package.

8 Q. And what penalty do you recommend against  
9 nonconsenting interest owners?

10 A. Cost plus 200 percent.

11 Q. And what do you base that on?

12 A. We're basing that on the risk. As I noted  
13 with the well in the west half of Section 20, even  
14 though the well did have quantities of sand greater  
15 than some of these wells that have produced 3 to 4 BCF,  
16 the nature of the sand apparently being tight, the well  
17 has not produced quantities that would be economic for  
18 us to drill for.

19 Another instance is a well in the northeast  
20 quarter of Section 21. This well was drilled in 1959,  
21 two years after the well in Section 22 had produced out  
22 of the Morrow. And if you refer to the production  
23 study, that well in 22 has made 17 BCF and 327,000  
24 barrels, but a direct offset and they missed it. They  
25 production-tested the Morrow zone and abandoned the

1 well back in 1959.

2 Q. Thank you. In your opinion, is the granting  
3 of this Application in the interests of conservation  
4 and the prevention of waste?

5 A. Yes, it is.

6 Q. And were exhibits 5 through 8 prepared by you  
7 or under your direction?

8 A. Yes, they were.

9 MR. BRUCE: Mr. Examiner, I move the  
10 admission of Exhibits 5 through 8.

11 EXAMINER STOGNER: Are there any objections?

12 MR. KELLAHIN: No objection.

13 EXAMINER STOGNER: Exhibits 5 through 8 will  
14 be admitted into evidence.

15 Mr. Kellahin, Mr. Pearce, do either one of  
16 you have any questions of this witness at this time?

17 MR. KELLAHIN: No, sir.

18 MR. PEARCE: No, sir.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Mr. Insalaco --

22 A. Yes, sir.

23 Q. -- let's look at the north half of 22 and the  
24 north half of 21 again and the wells in that -- That's  
25 the Grayburg-Morrow; is that correct?

1           A.    Yes, sir -- No, the wells colored red are  
2           Grayburg-Morrow producers. The wells in pink there on  
3           the production study are wells that fall into the  
4           Jackson-Grayburg field.

5           Q.    Okay, I'm referring to Exhibit 8.

6           A.    Okay.

7           Q.    Now, you mentioned about the well in the  
8           southeast quarter, southeast quarter, that Morrow  
9           well --

10          A.    Yes, sir.

11          Q.    -- Section 21. That was a prolific Morrow  
12          producer; is that correct?

13          A.    Yes, sir.

14          Q.    Now, that wasn't the discovery well, was it?

15          A.    No, sir. The discovery well is the well in  
16          Section 22, in the northwest quarter of Section 22.  
17          That well there was drilled back in -- or completed in  
18          November, 1957.

19          Q.    That's still producing?

20          A.    It is P-and-A'd out of the Morrow. It had  
21          made 17 BCF and 327,000 out of the Morrow. It is  
22          P-and-A'd there and currently producing out of the  
23          Atoka.

24          Q.    Now, which was the -- Which well was drilled  
25          after that one --

1           A.    The well --

2           Q.    -- the one in the north half or the south  
3 half of 21?

4           A.    The well in the southeast of the northeast,  
5 the one on my Exhibit 8 that has a hexagon. That well  
6 was drilled in March of 1959. So two years after the  
7 initial well was drilled in the field.

8                   They production-tested it; it is on the  
9 cross-section. They production-tested the upper Morrow  
10 sands, and the well was abandoned.

11                   And then the well that you had referred to  
12 just a minute ago in the southeast of the southeast of  
13 21 was drilled, not until 1971. So twelve years went  
14 by or so before they came in here and drilled another  
15 successful development well to the Grayburg-Morrow  
16 field, offsetting the original.

17                   EXAMINER STOGNER: Any other questions of  
18 this witness?

19                   MR. MORROW: Say again what the color code  
20 is --

21                   THE WITNESS: Yes, sir.

22                   MR. MORROW: -- on the dark yellow and the  
23 light yellow.

24                   THE WITNESS: It's just to try to help  
25 identify what we feel are the sand fairways. We're not

1 dealing with one sand here; we're looking at it as a  
2 package of Morrow -- upper Morrow sands. And it's more  
3 of a visual aid to identify the fairways, the yellow  
4 being the thicker portions of the sand fairways, clean  
5 sand fairways; darker yellow representing thinner  
6 portions; and white, no sand at all.

7 EXAMINER STOGNER: Any other questions of  
8 this witness?

9 If not, he may be excused at this time.

10 THE WITNESS: Thank you.

11 EXAMINER STOGNER: Mr. Bruce, do you have  
12 anything further at this time?

13 MR. BRUCE: No, sir.

14 EXAMINER STOGNER: Does anybody else have  
15 anything further they wish to add at this time?

16 In that case, this -- I'm sorry, Mr. Stovall?

17 MR. STOVALL: Let me just clarify one thing  
18 from Mr. Pearce and Mr. Kellahin, from Mr. Dyer's  
19 testimony. If I understand what he said correctly,  
20 Conoco and Pacific are working on a deal at the moment;  
21 is that correct?

22 MR. KELLAHIN: It's new to me. Mr. Pearce  
23 has made that statement.

24 MR. PEARCE: It's my understanding --

25 MR. STOVALL: Mr. Dyer made it; I want to

1 find out if it's correct. Perry?

2 MR. PEARCE: It's my understanding that if  
3 the deal between Pacific and Conoco is concluded,  
4 Conoco is out of the picture and Pacific is in its  
5 place. It is dealing with Conoco to take a farmout of  
6 Conoco's interest in this acreage.

7 MR. STOVALL: Do you know if Pacific has had  
8 any discussion with Santa Fe at this point with respect  
9 to a telephone --

10 MR. PEARCE: They had a telephone  
11 conversation this morning, but other than that I'm not  
12 aware of a thing.

13 MR. DYER: Just a brief conversation this  
14 morning that said that they will get the farmout from  
15 Conoco, and they would -- they were supposed to meet  
16 tomorrow to find out about it.

17 MR. STOVALL: The reason I'm asking is that  
18 it -- you know, obviously, if the parties all reach an  
19 agreement between now and August 8th, we can then  
20 dismiss the case; is that correct?

21 MR. PEARCE: We'll be happy not to come back.

22 MR. DYER: We will too. We'll be happy not  
23 to come back, because we'd like to spud a well by then.

24 MR. STOVALL: So you'll keep us all informed.  
25 Oh, good.

1 MR. DYER: Yes, sir.

2 EXAMINER STOGNER: But in the meantime, Mr.  
3 Bruce, if you will --

4 MR. BRUCE: I will take care of the notice.

5 EXAMINER STOGNER: -- provide notice to all  
6 parties and submit us a copy and be prepared to submit  
7 the certified copies of return receipts.

8 And in any situation, this case will be  
9 continued and recalled at the August 8th, 1990,  
10 Examiner's hearing.

11 MR. BRUCE: Thank you, Mr. Examiner.

12 (Thereupon, these proceedings were concluded  
13 at 11:36 a.m.)

14 \* \* \*

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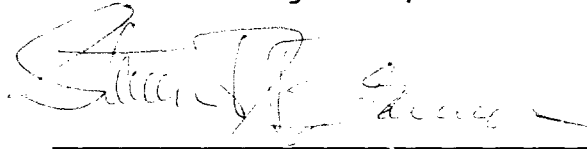
## CERTIFICATE OF REPORTER

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 August 6, 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. 10,001 heard by me on 11 July 1990.

  
\_\_\_\_\_, Examiner  
Oil Conservation Division