

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,010

EXAMINER HEARING

IN THE MATTER OF:

Application of Oxy USA, Inc., for Compulsory
Pooling, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 25, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Natural Gas Programs
P.O. Box 2088
Room 206, State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL & BLACK, P.A.
Attorneys at Law
By: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

ALSO PRESENT:

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

* * *

I N D E X

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Exhibits

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BILL SELTZER

Direct Examination by Mr. Carr

5

Examination by Examiner Catanach

11

ROBERT DOTY

Direct Examination by Mr. Carr

13

Examination by Examiner Catanach

21

Certificate of Reporter

23

* * *

E X H I B I T S

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* * *

1 WHEREUPON, the following proceedings were had
2 at 8:24 a.m.:

3 EXAMINER CATANACH: Call Case 10,010.

4 MR. CARROLL: Application of Oxy USA, Inc.,
5 for compulsory pooling, Eddy County, New Mexico.

6 EXAMINER CATANACH: Appearances in this case?

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

10 We represent Oxy USA, Inc., and I have two
11 witnesses.

12 EXAMINER CATANACH: Any other appearances?

13 (Thereupon, the witnesses were sworn.)

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

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Will you state your full name and place of
20 residence?

21 A. Bill Seltzer, Midland, Texas.

22 Q. Mr. Seltzer, by whom are you employed and in
23 what capacity?

24 A. I'm employed by Oxy USA as a land consultant.

25 Q. Have you previously testified before this

1 Division and had your credentials as a land consultant
2 accepted and made a matter of record?

3 A. Yes.

4 Q. Are you familiar with the Application filed
5 in this case on behalf of Oxy USA, Inc.?

6 A. Yes.

7 Q. Are you familiar with the subject area?

8 A. Yes.

9 MR. CARR: Are the witness's qualifications
10 acceptable?

11 EXAMINER CATANACH: They are.

12 Q. (By Mr. Carr) Mr. Seltzer, would you briefly
13 state what Oxy seeks with this Application?

14 A. We seek an Order pooling all of the interests
15 in the Pennsylvania formation covering the east half of
16 Section 29, Township 21 South, Range 27 East, Eddy
17 County, New Mexico.

18 Q. Would you refer to what has been marked for
19 identification as Oxy Exhibit Number 1, identify this
20 exhibit and review it for Mr. Catanach?

21 A. Exhibit Number 1 is a plat showing the east
22 half of Section 29 of Township 21 South, Range 27 East.

23 Outlined in yellow is the proration unit, and
24 the lower part of it showing lots that I have been
25 leasing to form a voluntary unit for all of the east

1 half of Section 29.

2 Q. What is the acreage on this exhibit that is
3 cross-hatched?

4 A. The acreage on this exhibit cross-hatched in
5 the lower part, in that south half of the southeast
6 quarter, are those tracts which I have been unable to
7 secure voluntary pooling at this time.

8 However, my office informed me yesterday I
9 have two leases in hand, and upon examination of those
10 leases and to see if they are properly executed, I will
11 dismiss the parties or delete the parties from your
12 Order.

13 Q. And so at this time you have certain
14 agreements in hand, you just have not had an
15 opportunity to review them?

16 A. Right, correct.

17 Q. And is the subject well the Simpson A Number
18 2 well?

19 A. Yes.

20 Q. And it's indicated on this plat?

21 A. It's indicated on the plat as 1980 feet from
22 the south and east line of Section 29.

23 Q. Is that a standard well location?

24 A. That is a standard location.

25 Q. Would you identify Exhibit Number 2 and

1 review it for Mr. Catanach?

2 A. Exhibit Number 2 is a list of the owners of
3 the interest in the east half of Section 29. Oxy owns
4 all of the interests with the exceptions of those
5 listed below, showing Fred O'Cheskey and his heirs,
6 Alvin Perrin, and Fermin Garcia and Dora Garcia, who I
7 understand are now deceased. I am in the process of
8 securing a lease from their daughter, but I do not have
9 it in hand at this time.

10 Q. And you have the lease in hand from Mr.
11 O'Cheskey's heirs --

12 A. Yes.

13 Q. -- you just haven't reviewed that?

14 What percent of the ownership is voluntarily
15 committed to the well at this time?

16 A. Prior to receiving the leases in hand, I
17 believe I have 97.3 percent.

18 Q. Would you identify Exhibit Number 3, please?

19 A. Exhibit Number 3 is an AFE showing the cost
20 of a dryhole and a completed well.

21 We have a dryhole of \$453,650, with a
22 completion cost of \$301,850, for a total cost of
23 \$755,500.

24 Q. Are these costs in line with what is being
25 charged by other operators in the area for similar

1 wells?

2 A. Yes, they are.

3 Q. Could you summarize for Mr. Catanach the
4 efforts you have made to identify and obtain the
5 voluntary joinder in this project of all interest
6 owners in the spacing unit?

7 A. For the last 90 days I have contacted all
8 unleased owners in the proration unit, and I have a
9 copy of the -- certified copy of my letters to each
10 uncommitted owner, inviting them to join or lease, and
11 my date of my letters are May the 8th, June the 13th,
12 June the 15th, and July the 1st -- July the 2nd, 1990.

13 Q. And with these letters, you've provided not
14 only proposed leases but an AFE?

15 A. Correct.

16 Q. In your opinion, has Oxy made a good-faith
17 effort to obtain the voluntary joinder in this well of
18 all interest owners in the acreage they propose to
19 dedicate to it?

20 A. Yes, I believe we have.

21 Q. Has Oxy drilled other Pennsylvanian wells in
22 the immediate area?

23 A. Yes, we have.

24 Q. Could you identify what is marked as Oxy
25 Exhibit Number 4?

1 A. That is my letters to each of the owners,
2 inviting them to either join, lease in this particular
3 well.

4 Q. Is Exhibit Number 5 a copy of an affidavit
5 from Campbell and Black confirming that notice has been
6 provided of this hearing as required by OCD Rules?

7 A. Yes.

8 Q. Have you made an estimate of the overhead
9 administrative costs that will be incurred while
10 drilling the well and then while producing if, in fact,
11 it is a successful well?

12 A. Yes, we have. We figure -- estimate that
13 \$5500 per month for a drilling well, \$550 per month for
14 a producing well.

15 Q. And are these costs in line with what other
16 operators charge for similar wells?

17 A. Yes, they are.

18 Q. Do you recommend that these figures be
19 incorporated into any Order which results form this
20 hearing?

21 A. Yes.

22 Q. Does Oxy USA, Inc., seek to be designated
23 operator of the well?

24 A. Yes.

25 Q. In your opinion, will granting this

1 Application be in the best interest of conservation,
2 the prevention of waste and the protection of
3 correlative rights?

4 A. Yes.

5 Q. Were Exhibits 1 through 5 either prepared by
6 you or compiled under your direction and supervision?

7 A. Yes, they were.

8 MR. CARR: Mr. Catanach, at this time we move
9 the admission of Oxy USA Exhibits 1 through 5.

10 EXAMINER CATANACH: Exhibits 1 through 5 will
11 be admitted as evidence.

12 MR. CARR: We will call another witness to
13 testify as to the risk penalty involved in drilling
14 this well.

15 EXAMINER CATANACH: Okay.

16 MR. CARR: That concludes my direct of Mr.
17 Seltzer.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Seltzer, are the parties listed on
21 Exhibit 2, those are the only three parties that are
22 being pooled?

23 A. There were three parties originally. It was
24 the O'Cheskey and his brothers and sisters under the
25 estate of Fred O'Cheskey. My office informed me

1 yesterday that that lease did come in. I have not seen
2 if it's properly executed or not.

3 Fermin Garcia and -- That last one down at
4 the bottom is Fermin Garcia and his wife Dora, who I
5 just found out are deceased. They left no will. They
6 lived in Carlsbad, New Mexico. I have run down the
7 sole and only heir, who is a Rachael Garcia Barrera,
8 and I am getting a lease from her. Upon receiving the
9 lease properly executed and acknowledged, then I'll ask
10 that that party be deleted from the Order.

11 The Alvin Perrin is -- lives in Las Vegas and
12 will not respond to telephone calls or attempts to make
13 a lease with.

14 Q. Now, the Rachael Garcia interest, you said
15 you will secure a lease with her?

16 A. Yes.

17 Q. Okay.

18 A. As soon as I find that it's properly executed
19 and acknowledged, I'll ask it to be deleted from your
20 Order.

21 Q. So you have been in contact with this party?

22 A. Yes.

23 Q. You said that Oxy has drilled Pennsylvanian
24 wells in this area?

25 A. Yes.

1 Q. Recently?

2 A. I would say yes.

3 Q. Okay. And these costs are pretty much in
4 line --

5 A. Yes --

6 Q. -- with what they have incurred?

7 A. -- they are.

8 EXAMINER CATANACH: I have no further
9 questions.

10 Anything else?

11 The witness may be excused.

12 MR. CARR: At this time we call Robert Doty.

13 ROBERT DOTY,

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your full name and place of
19 residence?

20 A. Robert Doty, Midland, Texas.

21 Q. Mr. Doty, by whom are you employed and in
22 what capacity?

23 A. I'm employed by Oxy USA as exploitation
24 manager.

25 Q. Have you previously testified before the New

1 Mexico Oil Conservation Division?

2 A. No, sir.

3 Q. Would you review for Mr. Catanach your
4 educational background and then briefly summarize your
5 work experience?

6 A. I have a bachelor's degree in geology from
7 the State University of New York and a master's degree
8 in geology from Northern Arizona University.

9 I've been employed in the oil and gas
10 business for over 12 years by Oxy USA and its
11 predecessor company, City Service.

12 Q. Are you familiar with the Application filed
13 in this case by Oxy?

14 A. Yes, sir.

15 Q. Are you familiar with the area that is the
16 subject of this Application?

17 A. Yes, sir.

18 MR. CARR: We tender Mr. Doty as an expert
19 witness in petroleum geology.

20 EXAMINER CATANACH: He is so qualified.

21 Q. (By Mr. Carr) Mr. Doty, have you studied the
22 area which is the subject of this Application?

23 A. Yes, I have.

24 Q. Would you refer to what has been marked as
25 Oxy Exhibit Number 6, identify this and then review the

1 information contained thereon?

2 A. Oxy Exhibit Number 6 is a type log that we're
3 using for the Burton Flat Morrow field to identify the
4 Morrow channelized reservoir in that field.

5 It's the Oxy USA CDM "A" Number 1, which is
6 to the north of the proposed Simpson A 2.

7 Q. In the proposed well, does Oxy intend to test
8 all the zones that are shown on the type log in both
9 the Morrow "A" and "B" sands?

10 A. Yes, sir.

11 Q. What are your primary objectives in the well?
12 The "A" or the "B"?

13 A. The "B" sands.

14 Q. Let's go now to Exhibit Number 7, the cross-
15 section, and I'd ask you to review this exhibit for the
16 Examiner.

17 A. Exhibit Number 7 is a cross-section which
18 further identifies each individual Morrow channelized
19 sand that goes through the proposed location, the
20 Simpson A Number 2, and it further identifies -- helps
21 explain the following exhibits.

22 Q. All right. Let's use this just as a -- more
23 or less an index map or general reference point and
24 move to Exhibit Number 8, and I would ask you to
25 identify first what Exhibit Number 8 is.

1 A. Exhibit Number 8 is a structure map on the
2 top of the Morrow "A". That would be the Upper Morrow
3 A, as marked on the cross-sections.

4 It shows that the proposed location, Simpson
5 A Number 2, will be one of the lowest wells
6 structurally in the area, the Burton Flat field. The
7 significance of that is, the Morrow "A" sands in that
8 low a structural position are wet in this area and
9 nonproductive.

10 Q. Okay. Let's now go to Exhibit Number 9 and
11 review that.

12 A. Exhibit Number 9 is a net sand isopach
13 identifying the amount of pay which should be
14 encountered in the lower Morrow "A" sequence --
15 reservoir quality sand, not necessarily pay -- in the
16 area of the Simpson A Number 2.

17 This sand will be wet as it is wet in all
18 higher wells in the area, with the exception as we go
19 farther to the east it is productive, when we go
20 upstructure.

21 Q. Okay. At this location the sand is present,
22 but you anticipate it will be wet?

23 A. Yes.

24 Q. All right. Let's go to Exhibit Number 10.

25 A. Exhibit Number 10 is a net sand isopach of

1 the upper Morrow "A" again identified on the cross-
2 section.

3 It also should be present but fairly thin at
4 the Simpson A 2 location, but again it would be wet.

5 So the structure map and these two sand
6 isopachs indicate that at this location, about half of
7 the productive -- potentially productive sands in the
8 Morrow -- entire Morrow sequence -- will be wet at this
9 location, which greatly increases our risk.

10 Q. All right. Now, let's go to Exhibit Number
11 11 and look at the "B-1" sand.

12 A. Exhibit 11 is a net sand isopach of the
13 Morrow "B-1", which is identified on the cross-section
14 also. And at the Simpson A Number 2 location, we're
15 projecting between five and ten feet of potentially
16 productive Morrow "B" sand.

17 What we've done is, we've observed in areas
18 of better control, such as way to the north, where you
19 can see the sand going from very thin, thickening again
20 up to a maximum of about 15 feet and then thinning
21 again on either side, with a channel thickness of about
22 -- oh, a little a less than a mile. And we're
23 projecting that same trend to continue to the south,
24 although we really have no control to fully quantify
25 where it will be.

1 Q. Okay. Now let's go to Exhibit Number 12.

2 A. Exhibit 12 is net sand isopach for the Morrow
3 "B-2" sand, which is the most likely pay sand for the
4 Simpson A 2 location.

5 It's well developed in the CDM A Number 1 to
6 the northwest of the location. The sand is very thick
7 in the Oxy Simpson A Number 1 location to the
8 northeast.

9 However, in that well even though the sand
10 was present and appeared to have porosity, occasionally
11 there is a random distribution of poor permeability in
12 the sand, and this seems to be what occurred in the
13 Simpson A 1.

14 Simpson A 1 DST'd this sand and tested gas at
15 non-economic rates, and it did not make a Morrow
16 completion. It failed and made a non-economic Wolfcamp
17 completion, in fact.

18 So that the presence of sand, we feel fairly
19 confident that we should have this sand at the Simpson
20 A 2 location. We're hoping that it will have the
21 permeability that the Simpson A 1 lacked.

22 Q. Let's move, now, to Exhibit Number 13.

23 A. Exhibit 13 is the Morrow "B-3" sand, which
24 appears to be thickening to the south of the -- both
25 the Simpson A Number 1 and the CDM A unit well to the

1 north. And again we're projecting trends based on
2 better controlled areas, that the sand may extend
3 through that area of the south half of the southeast
4 quarter of Section 29.

5 Q. Let's move to the "B-4" sand on Exhibit 14.

6 A. "B-4" is very similar to "B-3" in that again,
7 if some of the productive trends that we've observed
8 elsewhere continue in this area, the sand should be
9 present, a little over five feet at the Simpson A 2, if
10 these trends do indeed continue.

11 Q. Based on these projections, the sand is not
12 present south -- or thins to the south of this
13 location; is that right?

14 A. It would -- Actually, based on this
15 projection, it would thicken to the south of the
16 Simpson A 2 location.

17 Q. All right.

18 A. Based on the well control, however, we have a
19 well far to the south, the Oxy Tracy C Number 1, that
20 had some of the sand, not a great deal. We're hoping
21 it would thicken in between.

22 Q. Okay. Let's go now to Exhibit Number 15.

23 A. Exhibit Number 15 is a Morrow "B-5" net sand
24 isopach, which is not projected to be extremely thick
25 in the area. There's a few wells in the northeast that

1 encountered up to 11 feet of the sand, one foot in the
2 Simpson A 1, one foot in the CDM A Number 4, and it was
3 absent in all the wells to the south. We do hope,
4 however, that we may encounter somewhat over five foot
5 of sand in that location.

6 Q. Mr. Doty, based on your geologic study of
7 this area, are you prepared to make a recommendation to
8 the Examiner as to the risk penalty that should be
9 assessed against any interest owner who doesn't
10 voluntarily participate in the well?

11 A. Yes, sir.

12 Q. And what would that penalty be?

13 A. 200 percent.

14 Q. In your opinion, is it possible at the
15 proposed location that Oxy could drill a well that
16 would not, in fact, be a commercial success?

17 A. Yes, sir.

18 Q. In fact, the Simpson A Number 1 well, the
19 immediate offset, was a commercial failure in the
20 Morrow interval; is that not correct?

21 A. That's correct.

22 Q. Were Exhibits 6 through 15 prepared by you or
23 compiled under your direction and supervision?

24 A. Yes, sir.

25 Q. Have you reviewed them and can you testify as

1 to their accuracy?

2 A. (Nods)

3 MR. CARR: At this time, Mr. Catanach, we
4 would move the admission of Oxy USA, Inc., Exhibits 6
5 through 15.

6 EXAMINER CATANACH: Exhibits 6 through 15
7 will be admitted as evidence.

8 MR. CARR: And that concludes my direct
9 examination of Mr. Doty.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Doty, what is being produced in the CDM A
13 Unit Number 1?

14 A. The "B-1" sand has been perforated in that
15 well. The "B-2" sand, the "B-3" sand, and that's all.
16 Each individual sand isopachs has a circle around those
17 wells which was perforated in that interval.

18 Q. And those are the sands that you're most
19 likely to obtain production from the proposed well?

20 A. Yes, sir.

21 Q. Was the A well -- I'm sorry, the CDM A well,
22 was that tested in the "A" zone?

23 A. No sir, it wasn't tested, but log
24 calculations indicate that it's clearly wet.

25 Q. The Simpson A Number 1, that was drilled as a

1 Morrow test?

2 A. Yes, sir.

3 Q. And it was tested in the "A" as well as the
4 "B"?

5 A. It was DST'd in the "B" zone, flowed gas at
6 166 MCF per day, and analysis of that DST indicates
7 very poor permeability.

8 Q. Which "B" zone was that in?

9 A. It would include "B-3" through "B-1".

10 Q. And it indicated low permeability, did you
11 say?

12 A. Yes, sir.

13 EXAMINER CATANACH: I have no further
14 questions of the witness. The witness may be excused.
15 Anything further in this case?

16 MR. CARR: Nothing further.

17 EXAMINER CATANACH: Case 10,010 will be taken
18 under advisement.

19 (Thereupon, these proceedings were concluded
20 at 8:43 a.m.)

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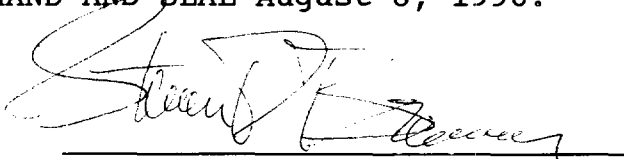
CERTIFICATE OF REPORTER

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

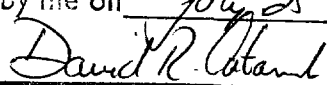
I, Steven T. Brenner, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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 8, 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. 10010, heard by me on July 25 1990:

David R. Coland, Examiner
Oil Conservation Division