STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

22 May 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of HCW Exploration, Inc. for compulsory pooling and a non-standard gas proration unit, Lea County, New Mexico. CASE 8604

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. STOGNER: Call next Case 8604.

MR. TAYLOR: Application of HCW Exploration, Inc., for compulsory pooling and a nonstandard gas proration unit, Lea County.

Applicant has requested this case be continued.

MR. STOGNER: Case Number 8604 will be continued to the Examiner's Hearing scheduled for June 5th, 1985.

MR. KELLAHIN: Mr. Examiner, I believe that HCW Exploration case was to be consolidated with one of Mr. Hartman's cases, and both of those cases are set for Commission hearing in July.

MR. STOGNER: Thank you, Mr. Kellahin.

An examiner -- the Commission hearing has not been scheduled as of yet for July and hopefully a date will be set by the time this application is recalled on June 5th, 1985.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the examiner hearing of Case No. 8604. heard by me on 22 May 1985.

Michael E. Stogner, Examiner
Oil Conservation Division

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

5 June 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of HCW Exploration, Inc. for compulsory pooling and a non-standard gas proration unit, Lea County, New Mexico.	CASE 8604

BEFORE: Gilbert P. Quintana Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. QUINTANA: We'll call next Case 8604.

MS. LUNDERMAN: Application of HCW Exploration, Inc. for compulsory pooling and a nonstandard gas proration unit, Lea County, New Mexico.

Mr. Hearing Examiner, this case will be continued -- or a motion has been made to continue the case until a Commission Hearing July 10th.

MR. QUINTANA: Case 8604 will be so continued to a Commission Hearing on July 10th, 1985.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8604 heard by me on June 5, 1985.

Gilbert P. Quintana, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

10 July 1985

COMMISSION HEARING

IN THE MATTER OF:

Application of HCW Exploration, Inc. for compulsory pooling and a non-standard proration unit, Lea County, New Mexico. CASE 8604

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the OCD: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Karen Aubrey
Attorney at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

MR. STAMETS: CAll next Case 8604, application of HCW Exploration, Inc., for compulsory pooling and a nonstandard gas proration unit, Lea County, New Mexico.

Ms. Aubrey?

MS. AUBREY: Mr. Stamets, Karen Aubrey, Kellahin and Kellahin, appearing for HCW Exploration.

We would request that this case and the succeeding two cases be continued to the Examiner Hearing on the 18th of September, 1985.

MR. CARR: May it please the Commission, I am William F. Carr with the Campbell Law Firm.

We represent Doyle Hartman in the following two cases and we concur with the request of Ms. Aubrey.

MR. STAMETS: Let me call those two cases and then we'll continue all three to the September 18th Examiner Hearing.

Case 8605 is the application of Doyle Hartman to rescind Division Order R-3690, Lea County, New Mexico.

Case 8594 is application of Doyle Hartman for a compulsory pooling, a nonstandard proration unit, and unorthodox location, Lea County, New Mexico.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico

18 September 1985

COMMISSION HEARING

IN THE MATTER OF:

Application of HCW Exploration, Inc., for compulsory pooling and a nonstandard gas proration unit, Lea County, New Mexico. CASE 8604

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. STAMETS: Call next Case 8604.

MR. TAYLOR: The application of HCW Exploration, Inc., for compulsory pooling and a nonstandard gas proration unit, Lea County, New Mexico.

Applicant has requested that this case be continued.

MR. STAMETS: Is that to the October 17th hearing?

It will be so continued.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

17 October 1985

COMMISSION HEARING

IN THE MATTER OF:

Application of HCW Exploration, Inc. for compulsory pooling and a non-standard gas proration unit, Lea County, New Mexico. CASE 8604

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:
Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:
W. Thomas Kellahin
Attorney at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STAMETS: We'll call next Case Number 8604.

MR. TAYLOR: Application of HCW Exploration, Incorporated, for compulsory pooling and a nonstandard gas proration unit, Lea County, New Mexico.

MR. KELLAHIN: If the Examiner please, if the Commission please, I'm Tom Kellahin appearing on behalf of the applicant, and I have one witness to be sworn.

(Witness sworn.)

DAVID T. SITES,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Sites, for the record would you please state your name and occupation?

A David T. Sites. I'm a production geologist.

Q Mr. Sites, have you previously testified before the Oil Conservation Division of New Mexico as a pet-

roleum geologist?

A Yes, I have.

Q Would you describe to the Commission when and where you obtained your degree in geology?

A I was -- I have a Bachelor's degree in geology from the University of Texas in the Permian Basin; received it in 1980.

Q Subsequent to your graduation have you been involved in geology in Lea County, New Mexico?

Q Yes.

Q And have you made a study of the geology surrounding this application by your company, HCW?

A Yes, I have.

MR. KELLAHIN: We tender Mr. Sites as an expert petroleum geologist.

MR. STAMETS: He is considered qualified.

Q Mr. Sites, let me commence my questions to you by showing you what is marked as Exhibit Number One. It is a production data map. Would you first of all identify for us the proposed 160-acre nonstandard proration unit for the subject well?

A Yes, it will be -- the 160-acre proration uill be made up of the southeast quarter of Section 27, Township 23 South, Range 36 East.

The proposed location is -- of the George Etz No. 6 is signified by the red dot 660 from the south, 660 from the east line.

Q And what is the formation to which you'll drill this well and hopefully obtain production?

A The base -- the well will be TD'ed in the Seven Rivers formation.

Q What, in your opinion is the most likely formation for which you will obtain production?

A Yates and Seven Rivers.

Q Would you identify for the Commission the other wells that are located in the southeast quarter of the section?

A Okay. There's not -- there's two wells. There's the Skelly Com Best No. 1, which was drilled in 1936. There's no data on that well, but it was drilled down into the Langlie Mattix and was plugged and abandoned.

The George Etz No. 4 is located in the southeast quarter. It was completed as a Jalmat Gas well. The last production was in 1979 and the well was plugged and abandoned in 1984.

Q In addition to seeking approval of a non-standard proration unit, Mr. Sites, are you also seeking to pool through a compulsory pooling order, certain working interest owners in this proration unit?

A That is correct.

Q Can you identify for the Commission the individuals or companies to which you seek to apply a forced pooling order?

A Doyle Hartman and Barton Brothers Royalty.

Q Can you approximate for us, Mr. Sites, what percentage of the working interest ownership in the 160 acres is controlled by HCW or has agreed to participate with HCW in the drilling of the well?

A Approximately 90 percent.

Q And the balance of that interest, approximately 10 percent, would relate to the Barton/Doyle Hartman interest?

A Correct.

Q All right. Would you describe for the Commission what has been the producing capacities of the other relative wells in the area so that you may determine for us what, in your opinion, is the risk that ought to be applied to this well in the forced pooling application?

A Our proposed location is offset in all directions by four Jalmat gas wells. The George Etz No. 4 in the southeast quarter of 27 had a cumulative production of 17.1 billion cubic feet.

The Conoco Stevens "A" No. 2, which is

located in the northeast quarter of Section 34, had a cumulative production of 5.7 billion cubic feet.

The ARCO Com Best in the northwest quarter of Section 35, has cumulative totals of 844 million cubic feet.

In Section 26 our proposed location is offset by the Conoco Linn "B" which is No. 4, which has produced 3.2 billion cubic feet.

The northwest quarter of Section 36, there's a Jalmat gas well, the Conoco Linn "B" No. 3, which has produced 5.3 billion cubic feet.

Current production rates in the area certainly have an impact upon the economics of this well. Currently the southwest offset, the Conoco Stevens "A" is currently making approximately 100 MCF per month.

The ARCO Com Best No. 4, it's currently making about 5 million cubic feet per month.

The Conoco Linn "B" No. 4 in the southwest quarter of Section 26 is currently making 2-to-300 MCF per month, and of course, the George Etz No. 4 is plugged and abandoned.

Q Would you now turn to Exhibit Number Two, Mr. Sites, which is your structure map on top of the Yates?

A Correct.

Q All right, sir, would you identify that

exhibit?

A That's a structure map contoured on the top of the Yates. The contour interval is 50 feet. It shows the structure as it exists over the south half in the Yates formation.

The George -- it also shows the proposed location of George Etz No. 6 approximately flat to the George Etz No. 4, at a subsea depth of +292 feet.

Q What, if any, structural significance is there to you as a geologist in assessing the risk to be applied against the nonconsenting owners in the forced pooling case?

A I would say that the structural advantage doesn't play a great role in it. The higher -- the more reserves produced out of the southeast quarter by the George Etz No. 4 is -- increases the risk of drilling a marginal or uneconomic well in the same southeast quarter.

Q In looking at the wells that offset your proposed location, approximately how long have those wells been in existence as producers?

A They've been producing since the 1940's and fifties; late forties and fifties.

The ARCO Com Best, I do not know what it -- how long it's been on but it is a fairly -- it's less old than both the Conoco Linn "B" and the Conoco Stevens "A"

or the George Etz No. 4.

The George Etz No. 4 was completed in 1949.

Q The Commission is authorized by statute to impose a risk factor penalty not in excess of 200 percent to apply for the risk involved in drilling this type of well.

Do you have a recommendation to the Commission as to what that percentage risk ought to be in terms of writing this order?

A I would recommend 200 percent.

Q Can you describe for us the reasons upon which you base that opinion?

A If one would draw -- take the northeast quarter of 34, the southeast quarter of 27, the southwest quarter of 26, and the northwest quarter of 35, those four wells through that area have produced a cumulative total of 16.8 billion cubic feet of gas.

The risk, we feel, due to the presence of that George Etz No. 4, which has produced by far the greatest production of 7.1 billion cubic feet, and the fact that we're drilling 660 from the south, 660 from the east and approximately 1046 feet from the 4, increases the risk of having a marginal well and -- or an noneconomic well.

Q Let me direct your attention now, Mr.

Sites, to what is marked as Exhibit Number Three, which is a packet of correspondence.

Mr. Sites, have you or other representatives of your company made an effort to form a voluntary unit composed of all the working interest owners in the 160-acre unit?

A Yes.

Q Would you describe for us without reading the correspondence in detail, but describe for us generally what has occurred in efforts on behalf of your company to form a voluntary unit?

A We, after we received a letter from Mr. Hartman saying that he acquired the leases and he had intentions of drilling, our first thoughts on the matter, since HCW operates two wells in the southwest quarter and then we felt like -- we also had a well staked in the southwest quarter, the George Etz No. 5 to be drilled as a Langlie Mattix well, we felt the best course of action would be to call a working interest owners meeting, find out what Mr. Hartman planned on doing in the southwest -- southeast quarter, and proceed about developing this south half in an orderly fashion.

So we directed a letter to him, the president of our organization, Mr. James C. Brown, on April 15th, announcing that we would hold a working interest own-

ers and our meeting in our offices on April 23rd, 1985, and invited him to attend.

We invited all working interest owners in the south half to attend. This, they all -- all working interest owners were present with the exception of Mr. Hartman and in that meeting it was decided that the working interest owners would like HCW to drill a well in the southeast quarter as the George Etz No. 6.

So at that time I -- April 24th, I wrote a letter to Mr. Hartman explaining to him what was decided at that meeting and how we -- there was something on the order of 90 percent of the working interest present at the meeting, and relayed to him their desires for development of this south half.

At that time I invited him, I explained to him that we were going to drill the George Etz No. 6 at a legal location 660 from south, 660 from east, dedicate the southeast quarter of Section 27. I enclosed a copy of our AFE and I also, in this letter I offered to allow him to join with us or we would workout a farmout arrangement, an equitable farmout arrangement.

At that time I also sent out letters to various working interest owners telling them what I had done and at that time we filed a compulsory pooling request.

Q Let me turn to the April 25th letter

that's later in the package and it's addressed to the Bargon Brothers Land and Royalty Company. Do you have a copy of that letter?

A Yes, I do.

Q What has been the efforts to obtain the Barton Brothers voluntary participation in the well?

A I have, when I wrote those -- the Barton Brothers this letter, explained to them that we were drilling -- had intentions of drilling the George Etz No. 6, I enclosed a copy of the AFE to them and they in turn sent a letter back to me stating that they had joined Doyle Hartman and had already signed an operating agreement, thanking me for my AFE but they had already signed with Mr. Hartman.

Q Following the -- your letter to the Barton Brothers there is an AFE attached to Exhibit Number Three. Is this the AFE that you've submitted to Mr. Hartman and the other working intreest owners?

A Yes.

Q Is this an accurate and reasonable estimate of well expenditures for the subject well, in your opinion?

A Yes. What we did was use our R. W. Cowden C-9, which is a Jalmat gas well, and was drilled approximately three years ago. We went back and saw what we -- HCW had spent on that well and how we had completed it, and

we -- we made the AFE estimate from that.

Q Is this the AFE that was submitted to the other working interest owners?

A Yes, it was.

Q And is this the AFE that has been approved by the other working interest owners with the exception of Mr. Hartman and the Barton Brothers?

A That's correct.

Q Is this the AFE that you propose to submit to Mr. Hartman again subsequent to the pooling order?

A Yes.

Q Have you obtained, Mr. Sites, waivers from offsetting operators in the Jalmat for the proposed nonstandard proration unit?

A Yes. I've sent out those and obtained waivers from ARCO, Conoco, and El Paso Natural Gas, who are the offset operators.

Q And are those appended to Exhibit Three as the last three attachments to that exhibit?

A Yes.

Q Let me direct your attention at this time, Mr. Sites, to Exhibit Number Four. Would you identify Exhibit Number Four for us?

A It's an operating agreement, a model form operating agreement, which will apply to -- we will submit

to Mr. Hartman and all the working interest owners in the George Etz lease.

Q Attached to the operating agreement is a COPAS schedule with some overhead rates in it. Would you turn to those rates, please?

A Right.

Q Do you have a recommendation to the Examiner as to the -- the Commission as to the overhead rates that ought to be applied in this pooling order?

A Yes. Drilling rates will be $250 per -- I mean $2500 per month and a producing well rate of $250 a month.

Q How do these overhead rates compare to similar wells in the area?

A They're -- I think they're in line with all -- with other wells.

Q Are these the overhead rates that your recommend to the Commission to adopt in this pooling order?

A Yes.

Q When do you propose to commence the well, Mr. Sites?

A As soon as legally possible.

Q Were Exhibits One and Two, the geologic exhibits, prepared by you or compiled under your direction and supervision?

A Yes.

Q And was the correspondence, Exhibit Number Three, and the proposed operating agreement represent true and accurate copies of correspondence and documents from the files of HCW that are under your control and direction?

A That's correct.

MR. KELLAHIN: We move the introduction of Exhibits One through Four.

MR. STAMETS: These exhibits will be admitted.

MR. KELLAHIN: That concludes my examination of Mr. Sites.

MR. STAMETS: Any questions of the witness?

MR. TAYLOR: I didn't see here, did you give notice to -- I know, obviously Hartman knows about the hearing, but did you give notice of hearing?

A Yes, I did.

MR. TAYLOR: Is there a copy or something? Could you furnish us with a letter or something?

MR. KELLAHIN; Mr. Hartman's attorney was here and he was going to make a statement about this. Let me find out for you.

[illegible]

[illegible]

A [illegible]

[illegible] We move the [illegible]

[illegible]

MR. [illegible] [illegible]

[illegible] .

MR. [illegible] That [illegible]

[illegible] Mr. [illegible].

MR. [illegible] [illegible]

the [illegible].

MR. [illegible] I didn't [illegible]

[illegible] you have [illegible] -- I know, [illegible] [illegible]

[illegible] but [illegible] you have [illegible]

A [illegible] [illegible].

MR. [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible]

[illegible].

M. [illegible] MR. [illegible]

[illegible] [illegible] [illegible] [illegible] to make a [illegible]

[illegible] [illegible] [illegible] [illegible].

MR. STAMETS: Mr. Kellahin, you can furnish that information later.

MR. KELLAHIN: Thank you, Mr. Chairman.

MR. STAMETS: The witness is excused.

The Commission is going to approve the application, a 200 percent risk factor, a $2500 drilling rate, $250 production rate, and an order will be forthcoming in written form when we get around to it.

If there is nothing further in this case, the case is concluded.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR