

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

11 September 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of TXO Production Corp.
for compulsory pooling, Lea County,
New Mexico.

CASE
~~8666~~
8698

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
Legal Counsel to the Division
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State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. QUINTANA: Call Case 8698.
The application of TXO Production Corporation for compulsory
pooling, Lea County, New Mexico.

MR. DICKERSON: Mr. Examiner,
I'm Chad Dickerson of Artesia, New Mexico, on behalf of the
applicant and we have two witnesses.

MR. QUINTANA: Excuse me again,
would you please restate that?

MR. DICKERSON: Mr. Examiner,
I'm Chad Dickerson of Artesia, New Mexico, on behalf of the
applicant and we have two witnesses.

MR. QUINTANA: Are there other
appearances in this case?

If there are no further
appearances in this case, would you please have your
witnesses stand and be sworn in at this time?

(Witnesses sworn.)

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

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DIRECT EXAMINATION

BY MR. DICKERSON:

Q Will you state your name, your occupation, and by whom you're employed, please?

A My name is Jeff Bourgeois. I'm a landman with TXO Production Corp. in Midland, Texas.

MR. QUINTANA: How do you spell your name, last name?

A B-O-U-R-G-E-O-I-S.

Q Mr. Bourgeois, you have previously testified as a landman before this Division and made your credentials a matter of record, have you not?

A Yes, I have.

Q Will you briefly state the purpose of TXO's application in Case 8698?

A TXO seeks an order pooling all mineral interest from 4825 feet below the surface to the base of the Bone Springs formation at approximately 8800 feet, underlying the northeast quarter, the northwest quarter of Section 26, Township 18 South, Range 33 East, Lea County, New Mexico, for an oil well to be drilled at a standard location thereon with the northeast quarter northwest quarter to be dedicated as the proration unit.

Q Will you refer to what we have submitted

1 as Exhibit Number One and describe what is shown on that
2 map?

3 A Exhibit Number One shows the proposed lo-
4 cation of our Sprinkle Federal No. 2, which is a re-entry
5 and deepening of the Walker Federal dry hole. The 40-acres
6 colored yellow is the acreage to be dedicated as the prora-
7 tion unit and the circle, red circle, indicates the loca-
8 tion.

9 Q Mr. Bourgeois, who are the parties who
10 have not agreed to pool their interest voluntarily and who
11 are sought to be pooled in this proceeding?

12 A There are three parties. Firstly, Mr.
13 Joseph Sprinkle; second, Mr. Lewis Burleson; and thirdly,
14 Mr. O. H. Berry.

15 Q And what are the interests of those three
16 parties?

17 A Mr. Sprinkle has a leasehold interest of
18 31.25 percent.

19 Mr. Burleson, a 1.30209 percent; and Mr.
20 Berry, a 1.30208 percent.

21 Q Will you direct the Examiner's attention
22 to the packet you have marked as Exhibit Number Two and tell
23 him what that consists of?

24 A Exhibit Number Two is copies of corres-
25 pondence along with certified mail receipts, correspondence

1 to the parties we are attempting to pool in this case.

2 The letters offer the individuals the op-
3 portunity to participate in the drilling of this well and as
4 an alternative, TXO has offered the option to farmout their
5 interest to TXO with terms delivering a 75 percent net rev-
6 enue lease with an option at payout to convert their reser-
7 ved overriding royalty to a 25 percent working interest pro-
8 portionately reduced.

9 Q Have you received a written response from
10 these parties stating their position?

11 A No, sir, I have not received a written re-
12 sponse. I have been in touch over the phone with Mr. Sprin-
13 kle, who is presently -- tells me he is leaing towards par-
14 ticipating in the well but as yet has not made a decision.
15 Mr. Burleson said that he and Mr. Berry would just go ahead
16 and get pooled in this case.

17 MR. DICKERSON: Mr. Examiner,
18 the file will also reflect an affidavit of mailing, giving
19 those three parties notice of this hearing together with
20 copy of application.

21 Q Mr. Bourgeois, refer to Exhibit Number
22 Three and tell the Examiner what that is.

23 A Exhibit Number Three is TXO's AFE for the
24 drilling of our Sprinkle Federal No. 2 Well prepared by our
25 Engineering Department. Reflected on this AFE are the costs

1 for the drilling of this well with a total dry hole cost at
2 \$235,750 and completed well costs at \$615,250.

3 Q And this AFE was prepared by your Engine-
4 ering Department based on TXO's experience in the area?

5 A Yes, sir.

6 Q Refer to Exhibit Number Four and state
7 what that is, Mr. Bourgeois.

8 A Exhibit Number Four is an operating
9 agreement which TXO proposes to use to govern the operations
10 covering drilling and producing of our well.

11 Q Will you direct the Examiner's attention
12 to the provision in that operating agreement which covers
13 the operator's overhead for -- overhead charges for supervi-
14 sion?

15 A On exhibit three, excuse me, Exhibit C,
16 page three, TXO is requesting an overhead rate for a drill-
17 ing well rate of \$5374 per month and producing well rate of
18 \$538 per month.

19 Q Mr. Bourgeois, do you have a memorandum
20 prepared by your Accounting Department in support of that
21 accounting rate, which you request the Examiner allow you to
22 submit at a later date?

23 A Yes, we do.

24 MR. DICKERSON: Mr. Examiner,
25 with your permission, TXO will submit a memorandum support-

1 ing that overhead rate request.

2 MR. QUINTANA: Fine. I'll wait
3 for that.

4 Q Direct the Examiner's attention, Mr.
5 Bourgeois, to the provision in the operating agreement gov-
6 erning penalties imposed upon parties who do not consent to
7 the operations under that operating agreement.

8 A On page five in the body of the agree-
9 ment, down here at the bottom, TXO proposes a 300 percent,
10 400 percent penalty for parties who elect to go nonconsent
11 in any subsequent operations proposed on the contract area.

12 Q Mr. Bourgeois, with the exception of the
13 interest which you gave for the three parties who are sought
14 to be pooled in this proceeding, does TXO own the rest of
15 the interest in this proposed well?

16 A TXO currently controls approximately 51
17 percent through farm-in agreements. There is another party,
18 Mr. D. Daniel Walker of Ft. Worth who participated with us
19 in the Sprinkle Federal No. 1 Well and we're currently talk-
20 ing to him for his decision on the Sprinkle Federal No. 2.

21 Q Mr. Bourgeois, were Exhibits One, Two,
22 Three, and Four compiled by you or under your direction and
23 supervision?

24 A Yes, they were.

25 MR. DICKERSON: Mr. Examiner,

1 at this time we move the admission of Applicant's Exhibits
2 One, Two, Three, and Four.

3 MR. QUINTANA: Exhibits One
4 through Four in Case 8698 will be entered in evidence.

5 MR. DICKERSON: And I have no
6 further questions of this witness.

7 MR. QUINTANA: I have no fur-
8 ther questions of the witness.

9 You may be excused.

10

11

ANDREW T. O'HARE,
12 being called as a witness and being duly sworn upon his
13 oath, testified as follows, to-wit:

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DIRECT EXAMINATION

16

BY MR. DICKERSON:

17

Q Would you state your name, your occupa-
18 tion, and by whom you're employed, please?

19

A My name is Andrew T. O'Hare. I'm a geo-
20 logist in Midland, Texas, with TXO Production Corporation.

21

Q Mr. O'Hare, have you previously testified
22 as a geologist before this Division?

23

A No, I haven't.

24

Q For the Examiner's information, would you
25 briefly summarize your educational and employment back-

1 ground?

2 A I received a Bachelor's degree in
3 chemistry and a Master's degree in geology in 1980 and 1982,
4 respectively, and worked for Union Oil of California in Mid-
5 land starting in 1982 and then recently changed companies
6 six months to TXO, so I've got a cumulative experience of
7 three years.

8 Q Mr. O'Hare, are you familiar with TXO's
9 application in Case 8698?

10 A Yes, I am.

11 Q And have you made a study of the geologi-
12 cal -- of the geology of the area in preparation for your
13 testimony regarding the risk penalty requested in this case?

14 A Yes, I have.

15 MR. DICKERSON: Mr. Examiner,
16 I'll tender this witness as an expert geologist.

17 MR. QUINTANA: Did you say you
18 graduated in 1982?

19 A In 1982 with my Master's degree.

20 MR. QUINTANA: And all that
21 time you've worked in the oil and gas industry.

22 A (Not clearly understood.)

23 MR. QUINTANA: The witness is
24 considered qualified.

25 Q Mr. O'Hare, will you refer the Examiner

1 to what we've marked Exhibit Number Five and tell him what
2 you've shown on that exhibit?

3 A Exhibit Number Five is a production study
4 of a nine section area. The proposed re-entry and the pro-
5 posed 40-acre proration unit is shown in yellow. There are
6 17 wells in the immediate area demonstrated that have pene-
7 trated the pooled area below 4825 feet. Of that 17, 13
8 wells have tested the Bone Spring formation. Six wells have
9 proven productive from the Bone Spring formation and five
10 wells produce from the primary objective TXO has in the
11 Sprinkle Federal No. 2.

12 To date one well has cumulative produced
13 40,524 barrels, the Shell Querecho Plains Unit No. 2 in Sec-
14 tion 27. It has since then been plugged and more recently
15 the Mewbourne Oil Federal 1-G has produced 65,816 barrels
16 from the Bone Spring formation.

17 The two most recent wells are Mewbourne
18 Federal 10-E and the Sprinkle Federal No. 1, of which there
19 is very little production history.

20 Q Do you have anything further you would
21 like to add to that?

22 A Yes. Within the pooled interval there is
23 a secondary objective, which is the Delaware formation. It
24 is the Harvey Yates Sweeney Federal in Section 25. It has
25 produced to date 32,077 barrels and would be considered bor-

1 derline economically.

2 Q Mr. O'Hare, refer to your Exhibit Number
3 Six and describe and describe what it shows.

4 A Exhibit Number Six is a structure map,
5 contour interval 50 feet, with the proposed re-entry and
6 proposed 40-acre proration unit shown in yellow. The pro-
7 posed location for the Sprinkle Federal No. 2 would be ap-
8 proximately 30 to 40 feet down structure in a structural
9 trough and can be seen on the map off the east point of the
10 designated nose, south-plunging nose. The location would be
11 admittedly then down dip.

12 The five -- six Bone Spring producers are
13 shown in pink.

14 Q And your cross section, in preparation
15 for your next exhibit is indicated on there, is it not?

16 A Yes. The cross section line is A-A' and
17 it's a west to east cross section.

18 Q Refer to your Exhibit Number Seven that
19 tell us what you've shown in that.

20 A Exhibit Number Seven is the previously
21 designated cross section.

22 The sand pay is designated in yellow.
23 Perforations in that pay that are producing are designated
24 in pink and porosity is designated in green.

25 The 1st Bone Spring Sand, the mapped hor-

1 izon, is shown by the dashed line and it can be seen that
2 the reservoir is a fairly shaley sandstone, difficult to
3 correlate both locally and regionally. Permeabilities are
4 generally very low. The reservoir must be fraced consider-
5 ably to be productive, and objective pay for the Sprinkle
6 No. 2, approximately 15 feet with greater than 10 percent
7 porosity is assumed as a possibility.

8 Q Okay, refer the Examiner to your Exhibit
9 Number Eight and tell us what you've shown on that map.

10 A Exhibit Number Eight is a porosity Iso-
11 pach demonstrating porosity greater than 10 percent in a
12 previously described sand.

13 The Sprinkle Federal No. 1 penetrated
14 this interval and had a cumulative number of approximately
15 20 feet.

16 The proposed Sprinkle No. 2 should con-
17 tain approximately 15 and then further down structure,
18 slightly down structure from the proposed No. 2, the Harvey
19 Yates Sweeney Federal penetrated an interval of approximate-
20 ly 18 feet demonstrating greater than 10 percent porosity.

21 Q Mr. O-Hare, what conclusions have you
22 drawn from your review of this information?

23 A I think the geologic risks imposed, we'll
24 be drilling off the east flank of the structure in a trough,
25 down dip from the most recently completed well, Sprinkle No.

1 1; number of footage of pay sand is projected to be 5 foot,
2 approximately 5-foot less and possibly equivalent to the
3 Harvey Yates Sweeney Federal No. 1 Well, which is unproduc-
4 tive, tested unproductive in the interval.

5 On top of the geologic risks there is al-
6 so the mechanical risk of re-entering. We are planning ot
7 re-enter the John H. Hill Walker Federal No. 1, which has no
8 -- which had no casing, no casing has remained in the well-
9 bore upon plugging and could pose further problems and fur-
10 ther risk in the drilling of the Sprinkle Federal No. 2.

11 Therefore I recommend a 200 percent pen-
12 alty.

13 Q Do you feel that the appropriate risk
14 penalty for -- imposed on the nonjoining parties in this
15 well would be the maximum statutory 200 percent?

16 A Yes, I do.

17 Q Mr. O'Hare, were Exhibits Five, Six,
18 Seven, and Eight prepared by you?

19 A Yes, they were.

20 MR. DICKERSON: Mr. Examiner,
21 move admission of those exhibits at this time.

22 MR. QUINTANA: Exhibits Five
23 through Eight in Case 8698 will be entered as evidence.

24 MR. DICKERSON: And I have no
25 further questions of this witness.

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CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. O'Hare, your offset well to the west

--

A Uh-huh.

Q -- you said there's not very much history
about that well?

A No, it was just recently completed about
three weeks ago and it was -- the initial potential is
demonstrated on the production map of (not clearly under-
stood) barrels a day. Last week they did production tests,
limited production tests, and it's been flowing at an
approximate rate of 100 barrels a day.

I do predict steep decline and feel as if
there's not enough evidence to tell whether the well will be
productive, due to the nature of the reservoir, very low
permeability, very low (not clearly understood), and also
the sands appear very ratty and shaley.

You may refer once more to the cross sec-
tion, Exhibit Number Seven, in the Sprinkle Federal No. 1,
which we recently drilled, we penetrated two sands just a-
bove the designated pay. The porosity appeared considerable
higher than the interval we eventually completed in. We
tested both those sands and they came on producing large
volumes of water.

1 And so there is considerable risk as to
2 whether there will be significant pay in the area, and look-
3 ing across the cross section, it is admittedly difficult to
4 correlate these individual --

5 Q It would be helpful next time that if you
6 would -- if you do make tests like that, you would have them
7 on the side and that would help a lot in assigning a risk
8 penalty factor.

9 A Okay.

10 Q Do you make the --

11 A I can -- I can provide that information
12 for you.

13 Q Do you make the recommendation for the
14 drilling of the wells? Did you make the recommendation for
15 the drilling of this well?

16 A Yes, in combination with the (not clearly
17 audible.)

18 Q In your recommendation would you consider
19 it to be economical?

20 A Well, it's hard to tell, really; I just
21 -- I mean I'm hoping that it was an economic consideration
22 but --

23 Q You wouldn't make a recommendation to
24 your superiors that it was not a noneconomical well.

25 A I wouldn't. I wouldn't recommend drill-

1 ling a noneconomical well, but just the same, local produc-
2 tion just doesn't allow me to say that this will be economic
3 or not, based on the history.

4 I've seen wells come on like this and de-
5 plete in six to eight months, and there is very little 1st
6 Bone Spring Sand production in the unit area, in the town-
7 ship area, three or four township area. There's not much --
8 there's not much control in the reservoir.

9 MR. QUINTANA: I have no
10 further questions of the witness.

11 Are there other questions of
12 the witness?

13 MR. DICKERSON: Nope.

14 MR. QUINTANA: If not, he may
15 be excused.

16 Is there anything further in
17 Case 8698?

18 If not, Case 8698 will be taken
19 under advisement.

20
21 (Hearing concluded.)
22
23
24
25

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 hear-
ing, 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. 8698
heard by me on SEPT. 11 1985

Silbert P. Quintana, Examiner
Oil Conservation Division