

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6
7 17 August 1988

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of C. W. Trainer for CASE
11 compulsory pooling, Lea County, New 9457
12 Mexico.

13 BEFORE: David R. Catanach, Examiner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S

16 For the Division: Robert G. Stovall
17 Attorney at Law
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19 For the Applicant: Ernest L. Carroll
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22 For Campbell Partners, Ltd. Karen Aubrey
23 and Unicon Producing Co.: Attorney at Law
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I N D E X

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STATEMENT BY MR. CARROLL

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N. RAYMOND LAMB

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Direct Examination by Mr. Carroll

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Cross Examination by Mr. Catanach

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Cross Examination by Mr. Stovall

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E X H I B I T S

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Applicants Exhibit One, Map

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Applicants Exhibit Two, Cross Section

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Applicants Exhibit Three-A and Three-B, PI Cards

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Applicants Exhibit Four, AFE

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Applicants Exhibit Five, Graph

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Applicants Exhibit Six, Intention to Drill

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Applicants Exhibit Seven, Map

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Applicants Exhibit Eight,

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Applicants Exhibit Nine, Notice, etc.

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1 MR. CATANACH: Call next Case
2 Number 9457.

3 MR. STOVALL: Application of
4 C. W. Trainer for compulsory pooling, Lea County, New
5 Mexico.

6 MR. CATANACH: Are there ap-
7 pearances in this case?

8 MR. CARROLL: Yes, Mr. Examin-
9 er. I'm Ernest Carroll of Losee, Carson, Haas & Carroll of
10 Artesia, New Mexico, and we will have one witness.

11 MR. CATANACH: Will there be
12 other appearances?

13 MS. AUBREY: Yes, Mr. Cata-
14 nach. I'm Karen Aubrey for the Santa Fe firm of Kellahin,
15 Kellahin & Aubrey. I'm appearing for Campbell Partners,
16 Ltd., and Unicon Producing Company.

17
18 (Witness sworn.)

19
20 MR. CARROLL: Mr. Examiner, if
21 I might make a slight statement to you concerning the reas-
22 ons for this compulsory pooling application it might speed
23 things up and make sure that counsel and I are in --
24 thinking the same way.

25 This particular lease, as you

1 oath, testified as follows, to-wit:

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DIRECT EXAMINATION

4

BY MR. CARROLL:

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Q Would you please state your name for the record, sir?

7

A N. Raymond Lamb.

8

Q And what is your profession, sir?

9

10

A I'm a consulting petroleum engineer and geologist.

11

12

Q Have you testified and qualified as an expert before this Commission before this time?

13

A Yes, I have.

14

15

MR. CARROLL; I would tender Mr. Lamb as an expert.

16

17

MR. CATANACH: He is so qualified.

18

19

20

21

Q Mr. Lamb, you have prepared a package of exhibits for this particular hearing beginning with Exhibit One. Would you please explain those exhibits to the Examiner?

22

23

24

A Exhibit One is an enlarged land ownership map and sets out the acreage in question, which is the east half of Section 6, 22, 34, Lea County.

25

It also indicates the producing well

1 which is in Section 4 as the Shell GRA-4-1. It is a Morrow
2 producing well.

3 The well in Section 5 has production at
4 a shallower level but did go into the Morrow.

5 The well drilled on the Trainer acreage
6 by the Southern Union Barbara Federal No. 1 did go through
7 the Bone Spring and into the Morrow for 15,101 feet, I
8 think, but it does give a layout of the acreage and you can
9 also see the lands that make up the entire lease, 14004.

10 Q All right, now the half section, the
11 east half of Section 6 which is marked in yellow, that is
12 the half section which Mr. Trainer seeks to pool.

13 A That is correct.

14 Q All right. Would you explain next Exhi-
15 bit Number Two?

16 A The direction and spacing of Exhibit
17 Number Two is indicated on Exhibit Number One by a red line
18 between the wells that are included on the cross section.

19 The well on the right is the Shell GRA
20 No. 1, Grama Ridge Morrow gas well, and this section covers
21 the interval from the top of the Morrow limestone down
22 through the Morrow and the yellow marks on the log indi-
23 cates the zone that has production in the Shell GRA and
24 there are several of them, several of them. The major one
25 is at about 12,900. Then some above and below, but these

1 Southern Union.

2 Q All right, Mr. Lamb, would you please go
3 to your Exhibit Three-A and explain what -- Exhibit Three-A
4 and Three-B, and explain what they are?

5 A Three-A and Three-B are copies of the PI
6 information scout cards on the three wells on the Exhibit
7 Two cross section. It's the complete data.

8 There is a little confusion about the
9 casing in the Southern Union well. The card shows that the
10 7-5/8ths was set at 9870.

11 The electric log data and other data
12 that I have seen says the casing was 7-7/8ths and was set
13 at 12,280 feet.

14 That leaves some 300 -- 3000 feet of
15 open hole in the Southern Union Well that was not tested.

16 Q All right. Mr. Lamb, would you explain
17 your Exhibit Four?

18 A Exhibit Four is the AFE, Authority for
19 Expenditure. It was prepared by Mr. Trainer's office as
20 to the amount of money he expects to expend in re-entering
21 this well and completing in the Morrow.

22 Q Have you examined this AFE to determine
23 if it appears to be reasonable for such operation to be
24 conducted in the area that the Southern Union Well is in in
25 Lea County?

1 A The amounts shown here are reasonable
2 and I gather from the data here that he does not expect
3 any problems with the re-entry.

4 Q All right, could you explain Exhibit
5 Five?

6 A Exhibit Five is a graph filed by the
7 Union Texas as to the remaining equipment in the hole.
8 They -- it has not been plugged for all of this stuff --
9 for the equipment that is in place, 16-inch casing at 360
10 feet, 10-3/4 casing at 4800 feet, the 7-7/8ths is at
11 12,297. Now, I have seen two numbers on 7-7/8ths and
12 7-5/8ths but not knowing exactly which is correct is not
13 really significant in this proceeding.

14 Q All right, could you explain Exhibit
15 Six.

16 A Exhibit Six was filed by Southern Union
17 with the Department of Interior as to their intention to
18 drill the Barbara Federal No. 1 and their plan and program
19 for casing for this drilling.

20 Q All right, and Exhibit Seven, if you
21 would explain that, please?

22 A Exhibit Seven is a map not drawn by me
23 but by a map service and the purpose of it is to give you
24 an idea of the trend of the structures in the area and from
25 my own personal experience this is reasonable as to inter-

1 Q All right, with respect to that risk
2 calculation is Mr. Trainer asking for a particular penalty
3 to be set by this Commission?

4 A Yes. I understand it's 200 percent.

5 Q All right, cost plus 200 percent?

6 A Right.

7 Q All right. Now, Mr. Lamb, what are the
8 overhead charges that Mr. Trainer is asking the Commission
9 to approve?

10 A The amounts were \$600 for a producing
11 well per month and \$6000 for a drilling well.

12 Q Now, Mr. Lamb, you have worked exten-
13 sively in the Grama Ridge, which is just a mile or two off
14 to the east of this area, have you not?

15 A Yes.

16 Q And these overhead charges of 600 per
17 month operating and 6000 per month drilling, are these
18 reasonable?

19 A They are reasonable and in line.

20 Q All right. With respect, Mr. Lamb, to
21 your -- of course Mr. Trainer is coming asking this Commis-
22 sion for immediate approval of this forced pooling. Do you
23 feel that that request is reasonable with the facts that
24 have been presented to you and from your study and given
25 the lease termination of this particular --

1 A As I would see it, now is the time to do
2 the re-entry because if it is not to follow at this time,
3 the well will be plugged and abandoned and the re-entry
4 will be considerably more difficult.

5 So I would say that now is the time
6 before the well is plugged and abandoned as required by the
7 Federal rule, that it should be undertaken now because I
8 would seriously doubt anyone would come in drill a new hole
9 to that depth with the prospects that we see in this well,
10 but the re-entry at \$300,000 plus is a reasonable venture,
11 but to drill a new hole would be somewhere in the vicinity
12 of 3-million.

13 Q Mr. Lamb, Exhibits One through Seven
14 were prepared by yourself or at your direction, were they
15 not?

16 A That's correct.

17 Q Do they fairly and accurately depict the
18 items that you have described and how you have used them
19 here today before this Commission?

20 A That is correct.

21 MR. CARROLL: Exhibits, Mr.
22 Examiner, Exhibits Eight and Nine were prepared by myself.
23 Exhibit Eight and Nine were merely to help and aid the
24 Commission.

25 Exhibit Nine is merely a

1 package of the notice letter, the waivers and consents that
2 were prepared and sent and the application itself, just to
3 give -- so that you would have them before you.

4 We would move admission of all
5 nine exhibits at this time.

6 MR. CATANACH: Exhibits One
7 through Nine will be admitted as evidence.

8 Q Mr. Lamb, I guess one final question. Is
9 it -- if the Commission did adopt, or accept, or grant the
10 application of Mr. Trainer, would this promote conserva-
11 tion, prevent waste, and protect correlative rights?

12 A Well, yes, it would do both of those. I
13 could not say that in years to come someone might not re-
14 enter, but this is the opportune time to do it and I think
15 in the interest of conservation it would be best to do the
16 re-entry now.

17 MR. CARROLL: Mr. Examiner,
18 the only -- that's all the testimony that we have to pre-
19 sent today to you. We would make a request that we -- if
20 at all possible we could get immediate action by the Com-
21 mission on this because of the shortness of time, because
22 October 9th is the date that we would lose -- unless we
23 have production by that date, we lose the well.

24 Once we have the pooling order
25 by the Commission, then we just need to file the communiti-

1 zation agreement with the Feds and we may begin operations
2 immediately out there on this lease, so our only require-
3 ment at this time is the granting of the pooling applica-
4 tion and we would be able to begin immediately, and this is
5 something that because there has been no activity in this
6 well for a couple of years, we've -- we've acquired all the
7 information we can but we really don't know the status of
8 the equipment in the hole, whether there's anything, junk
9 that's been dropped in there, and, of course, there are
10 parts of this hole which were not cased and we will have to
11 do some drilling.

12 So it is imperative that we be able to
13 begin operations immediately.

14 MR. CATANACH: Ms. Aubrey, do
15 you have anything?

16 MS. AUBREY: No, Mr. Examiner,
17 nothing.

18
19 CROSS EXAMINATION

20 BY MR. STOVALL:

21 Q Mr. Lamb, how long do you think the
22 operations will take to (not clearly heard)?

23 A Well, we certainly hope that it that it
24 can be within 45 days after commencing on it. Where there
25 are not any problems, proposed tubing, rods and tubing, and

1 drill out the bridge plugs should be in a matter of days.
2 The problems that I see that could be complicating is the
3 heaving shales in the Morrow.

4 Q Is the Morrow formation the only forma-
5 tion you intend to test?

6 A That is the main objective. Of course
7 there's a fall back on new completion techniques in the
8 Bone Spring. The well was originally drilled in '74, so
9 the new ideas and new developments in the Bone Spring might
10 lead us to there as a salvage.

11 Q This well was produced in what forma-
12 tion?

13 A Bone Spring.

14 Q It was produced in the Bone Spring?

15 A Uh-huh.

16 Q As I understand it, you are at this time
17 trying to reach an agreement with the Campbells and Unicon,
18 is that correct?

19 MR. CARROLL: Mr. Catanach,
20 that agreement, we have an agreement. It's the just the
21 paperwork, and it -- it goes back to this -- since this was
22 the last partnership property, if we had -- Mr. -- well, if
23 Mr. Trainer did not -- tried to buy the property, the en-
24 tire Campbell, Limited, would have just evaporated and
25 there would have been no problems.

1 The money has been arrived at and agreed
2 to; there are no problems there.

3 The only work that they're doing now is
4 actually acquiring title requirements. When Unicon bought
5 this it was one of these highly leveraged type deals with
6 Chase Manhattan Bank. There are a number of releases of
7 mortgages and financing statements that we're getting the
8 paperwork prepared, and I, in all honesty, there are no
9 issues. The deal has been a done deal as far as a meeting
10 of the minds as to what's going to be paid and what's going
11 to be received.

12 It's -- at first Union Texas was unsure
13 as to how to proceed with this limited partnership, since
14 it was a remaining property of an inactive partnership and
15 that caused a lot of problems for Union Texas' legal de-
16 partment and I think slowed a lot of it down, but again
17 Mr. Trainer has the money. We've made all -- we have pre-
18 sented letters which are binding contracts which obligate
19 us to pay that money to them, and as of yesterday evening
20 at 5:00 o'clock I was told that all the assignments had
21 been prepared and they were being sent around for proper
22 execution and the releases of mortgage were being approved
23 at that time and we had hoped, really, to have it done by
24 Monday, but it's just one of those things, it just didn't
25 get done. A couple of things apparently fell by the side

1 in the Legal Department down in Houston and they didn't get
2 it executed, and I -- I know of nothing which would pre-
3 vent it from happening at this point in time.

4 MR. CATANACH: These are the
5 only two parties that you're actually pooling at this time?

6 MR. CARROLL: That is all the
7 -- originally there were two other partners. It was Amoco
8 and Hanover Petroleum. We have purchased those interests
9 and that's -- we've spent approximately \$35,000 in that
10 purchase and if we don't get started out there and we lose
11 that lease, we have thrown \$35,000 down the drain.

12 MR. CATANACH: Okay.

13 Q Mr. Lamb, that well in Section 4, was
14 that a producing oil well?

15 A Yes, it's a good Morrow well.

16 Q It is still producing?

17 A Yes.

18 Q And you said that your risk comes in
19 dropping off due to the transition zone where you might get
20 wet, might be some wet sands?

21 A Yes, sir.

22 Q Are there any wells in the area that you
23 know of that hit wet sand in the Morrow?

24 A Yes. Those that are east of the GRA. I
25 was involved in drilling of a high structural well that had

1 100 feet of Morrow sand, flowed 100 barrels of water an
2 hour. So, I mean, the only way to know is to test it and
3 there is a risk involved there. I mean you don't have the
4 assurance of it's not going to be wet, but we hope it's
5 not.

6 Q And you said the well in Section 5 was
7 never tested at all?

8 A No, the log looks like maybe that was a
9 wise move, too.

10 Q How did you arrive at your overhead
11 rates, 400, where did you get those rates?

12 A That was for the --

13 Q For the overhead supervision while
14 drilling.

15 A -- supervision? Well, the number of
16 experienced personnel that it would require on the rig, it
17 will take \$6000 a month to run it. Now that doesn't con-
18 tinue except during the drilling and completion time.

19 Q So you don't have any actual operations
20 in the area of that rig that you oriented your current fig-
21 ures on?

22 A Not current.

23 Q Do you know what other operators in this
24 area are charging for overhead rates?

25 A No. I will say that in this area immed-

1 diately to the north and east, I've worked the area for 42
2 years, so I'm pretty familiar with the cost of operations
3 as they've grown, but not right at the present date.

4 Q Okay.

5 MR. CARROLL: Mr. Catanach,
6 I'm sorry that we were unable to get Mr. Trainer here. He
7 has had other operations or participated in other wells,
8 and he is the one also that has arrived at that cost and he
9 has participated in wells which that overhead has been used
10 and it's mainly because of the depth and what have you, and
11 I'm sorry I do not have a witness to testify to that, but
12 those numbers, Mr. Trainer assured me, were used in other
13 wells that he had participated in as far as overhead char-
14 ges of 6000 and 600.

15 MR. CATANACH: Do you know if
16 these wells are in this area? Are they in the state?

17 MR. CARROLL: They're in this
18 area, Morrow production. Mr. Trainer, about 15 -- he's
19 presently drilling a well about 15 miles from there. Mr.
20 Trainer has been, and I have been involved with Mr. Train-
21 er up here in some other gas wells in which we used this
22 with Phillips. We had a -- and it's been six months ago
23 but -- in which that was a very similar fee that was used
24 and I'm -- I'm sorry, I just couldn't have the specifics
25 on that.

1 Q Okay.

2 MR. STOVALL: Let me ask a
3 question in that line, Mr. Examiner.

4

5 CROSS EXAMINATION

6 BY MR. STOVALL:

7 Q Are you familiar with the -- I'll ask
8 the witness first and then if the witness is unable,
9 perhaps counsel could respond. I believe it's Ernst and
10 Whinney does an annual study of overhead rates among other
11 things.

12 Are you familiar with that study and --

13 A No.

14 MR. STOVALL: Counsel, do you
15 agree with that?

16 MR. CARROLL: I am familiar
17 with it but I did not --

18 MR. STOVALL: Do you know what
19 those figures are?

20 MR. CARROLL: I did not look
21 at that to determine what the overhead rates. This was, as
22 you might be well aware, or guess, this was a rushed type
23 project that I got a call the day before the last moment
24 I could call in to put this on, when Mr. Trainer became
25 aware that he was having -- things were beginning to fall

1 Federal government, BLM. That is the understanding that
2 once the paperwork is signed there will be no liability on
3 the part of Unicon and Campbell Partners for any of the
4 expenses or anything such as that, and we certainly anti-
5 cipate the paperwork being signed.

6 We're -- we're not seeking
7 advanced costs or anything such as that. I think the
8 standard pooling order would probably suffice. If it does
9 fall, the entire program falls completely apart. I think
10 Mr. Trainer has -- generally has good working relationships
11 with most of the companies that cooperate in the oil patch
12 and I know of no reason not to doubt that if Union Texas,
13 if for some reason they can't deliver the property, that
14 they're going to perform as they would be expected to and,
15 of course, if a problem arose I think we could then come
16 back to the Commission and get it resolved. There is no
17 problem from the standpoint that Mr. Trainer might not have
18 the finances to continue the operation and there would be
19 no claim brought to the Commission that we lost our well
20 because they didn't pay up front or any of that sort of
21 thing. That -- that is not a consideration.

22 So I don't --

23 MR. STOVALL: Let me inter-
24 rupt you here for a moment. I wouldn't be so much con-
25 cerned with that as if a well were started and Mr. Trainer

1 MR. STOGNER: You might take a
2 look at the order, Mr. Carroll, and see if it's in there
3 and if it's not --

4 MR. CARROLL; Quite frankly, I
5 have not come by -- you know, we have not considered the
6 problem. I visited with Mr. Losee, a senior partner in our
7 firm, and we felt that the basic -- I think the standard
8 order would cover all this.

9 MR. STOVALL: Okay, that's
10 fine. I just want to raise the point and make sure whether
11 (interrupted and unclear) --

12 MR. CARROLL: But, you know,
13 if there's some uncomfortableness of the Commission then,
14 you know, we certainly want to take care of that, but, you
15 know --

16 MR. STOVALL: Be more concern-
17 ed about your client than the Commission. I'm not too wor-
18 ried about the (unclear).

19 MR. CARROLL: But like I say,
20 we've explored this, the problem with Mr. Trainer, and I
21 think he's well satisfied.

22 MR. CATANACH: Anything fur-
23 ther in this case?

24 MR. LAMB: May I say one other
25 word?

1 MR. CATANACH; Certainly.

2 MR. LAMB: The average cost
3 for supervising a well, and which you're referring to, has
4 the well from top to bottom. In other words, there are
5 blocks of the upper section which are no problems to get
6 through. We're dealing with a well that after the second
7 day, if we get the plug drilled out, we're into the prob-
8 lems. And that's the reason I would think that the \$6000
9 per month for dealing with the problems. I feel sure that
10 it's going to need to have some specials, mud in particu-
11 lar.

12 MR. CATANACH: Anything fur-
13 ther?

14 If not, Case 9457 will be
15 taken under advisement.

16
17 (Hearing concluded.)

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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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9457, heard by me on August 17 19 58.

David R. Catamb, Examiner
Oil Conservation Division