

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

14 September 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Energy Oper- CASE
ating Partners, L. P. for compulsory 9480
pooling, Eddy County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

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 Bldg.
 Santa Fe, New Mexico

For the Applicant:

1 MR. CATANACH: Call next Case
2 9480.

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

6 Applicant requests this case
7 be continued to September 28th.

8 MR. CATANACH: Case 9480 is
9 hereby continued to the September 28th hearing.

10

11 (Hearing concluded.)

12

13

14

15

16

17

18

19

20

21

22

23

24

25

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

28 September 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Energy Oper- CASE
ating Partners, L. P. for compulsory 9480
pooling, Eddy County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

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 Bldg.
Santa Fe, New Mexico

For the Applicant: James Bruce
Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87504

I N D E X

PATRICK TOWER

| | |
|---------------------------------|----|
| Direct Examination by Mr. Bruce | 4 |
| Cross Examination by Stogner | 13 |

CURTIS ANDERSON

| | |
|---------------------------------|----|
| Direct Examination by Mr. Bruce | 14 |
|---------------------------------|----|

E X H I B I T S

| | |
|---|----|
| Applicants Exhibit One, Land Plat | 5 |
| Applicants Exhibit Two, Exhibit A | 6 |
| Applicants Exhibit Three, Letter | 11 |
| Applicants Exhibit Four, AFE | 11 |
| Applicants Exhibit Five, Notices, etc. | 12 |
| Applicants Exhibit Six, Structural Map | 15 |
| Applicants Exhibit Seven, Cross Section | 15 |
| Applicants Exhibit Eight, Isopach | 17 |

1 MR. STOGNER: We'll call next
2 Case Number 9480, which is the application of Santa Fe
3 Energy Operating Partners, Limited Partnership, for com-
4 pulsory pooling, Eddy County, New Mexico.

5 I'll now call for appearances.

6 MR. BRUCE: Mr. Examiner, my
7 name is Jim Bruce from the Hinkle Law Firm, representing
8 the applicant in this matter.

9 MR. STOGNER: Are there any
10 other appearances?

11 There appear there are none.
12 Will the witnesses please -- how many witnesses do you
13 have?

14 MR. BRUCE: Two witnesses, Mr.
15 Examiner.

16 MR. STOGNER: Will the witnes-
17 ses please stand and raise your right hands?

18
19 (Witnesses sworn.)
20

21 MR. STOGNER: Thank you. You
22 may be seated.

23 Mr. Bruce.
24
25

1 PATRICK TOWER,
2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:

4
5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q Will you please state your name and city
8 of residence for the record, please?

9 A My name is Patrick Tower and I reside in
10 Midland, Texas.

11 Q And who are you employed by and in what
12 capacity?

13 A I'm employed as a landman with Santa Fe
14 Energy Operating Partners, L.P..

15 Q And have you previously testified before
16 the OCD as a landman?

17 A Yes, I have.

18 Q Are you familiar with the land matters
19 involved in this case?

20 A Yes, I am.

21 MR. BRUCE: Mr. Examiner, are
22 the witness' credentials acceptable?

23 MR. STOGNER: Mr. Tower is so
24 qualified.

25 Q Mr. Tower, will you please briefly state

1 what Santa Fe seeks in this application?

2 A Santa Fe Energy Operating Partners, L.
3 P., seeks an order pooling all mineral interests from the
4 surface to the base of the Wolfcamp formation underlying
5 the west half of Section 11, Township 22 South, Range 27
6 East in Eddy County, New Mexico, to form a standard 320-
7 acre oil spacing and proration unit.

8 The unit will be dedicated to a well
9 located at a standard location.

10 Santa Fe also requests consideration of
11 the cost of drilling and completing the well and allocation
12 of costs thereof, as well as actual operating costs and
13 charges for supervision.

14 Santa Fe asks that it be designated
15 operator of the well and a charge for the risk involved in
16 drilling the well be assessed.

17 Q Thank you. Would you please refer to
18 Exhibit Number One and describe it briefly?

19 A Okay. Exhibit Number One is a land
20 plat. In yellow outlined is the 320-acre spacing unit in-
21 volving this well.

22 In red is located the approximate loca-
23 tion of our test well.

24 As noted, there's three leases involved.
25 Two of them are Federal, of which Santa Fe owns 100 percent

1 of the working interest; the other is an 80-acre tract,
2 being the east half of the southwest quarter, and this is
3 owned by -- of record, by Union Oil Company of California;
4 however, this particular tract is committed to a working
5 interest unit that extends to the west, which contracts a
6 -- places a number of working interest owners in this tract
7 with approximately 19 to 20 additional parties, which we
8 will name later.

9 Q Thank you.

10 MR. BRUCE: I think Mr. Tower
11 said this is an oil unit and it is a gas unit, of course --

12 A Yes.

13 MR. BRUCE: -- Mr. Examiner.

14 Q Regarding the interest you're seeking to
15 force pool, I refer you to Exhibit Number Two and ask you
16 to describe that briefly.

17 A Exhibit Number Two is the Exhibit A to
18 the operating agreement which we have submitted to the
19 various working interest owners. As noted, it itemizes the
20 parties' working interests in the spacing unit and the pro-
21 posed test well by Santa Fe.

22 As noted, Santa Fe owns 75 percent with
23 I believe quite a considerable amount of people owning
24 about --

25 Q Would you please describe the efforts of

1 Santa Fe to get these interest owners to join in the well?

2 A Starting in -- to give a little bit of
3 background -- back in June of 1985 Santa Fe proposed to
4 Union Oil Company of California, who is the operator of the
5 working unit involving all these third parties, at that
6 time Santa Fe proposed drilling a well in the southwest
7 quarter of Section 2 in the formation of a working unit
8 involving the west half of Section 11, which is the subject
9 of this hearing, as well as some additional lands of
10 Union's in the area.

11 At that time they declined to commit to
12 such unit and consequently Santa Fe went ahead and drilled
13 this well in Section 2.

14 In November of 1987 Santa Fe filed an
15 application with the OCD under Case No. 9234, applying for
16 two nonstandard proration units for the Wolfcamp formation,
17 which in essence covered the northwest quarter and
18 southwest quarter of Section 1 as part of that unit, and --

19 Q Section 11?

20 A Yeah, Section 11, excuse me. At that
21 time Union, as operator of the working interest unit, was
22 advised of the hearing and advised that if that application
23 was successful, you know, we would be drilling these wells
24 on 160-acre spacing.

25 It also advised if we were not success-

1 ful and the wells were drilled on 320-acre spacing, that
2 the lands involved in the west half of Section 11, or
3 specifically the east half of the southeast quarter, would
4 be involved in a well that Santa Fe was planning on
5 drilling.

6 The OCD denied the application in April
7 of 1988. It was at that point that Santa Fe decided they
8 would go ahead with the test; however, they would do it on
9 the 320-acre basis incorporating Union Oil's land in the
10 west half of 11.

11 On August 1st, 1988, a proposal was
12 sent to all the working interest owners involved along with
13 an AFE proposing to drill this test and offering to let let
14 them participate or offer to farm-in.

15 Subsequent to that conversations took
16 place with the various working interest owners and I'll
17 itemize some of those.

18 On August 3rd conversations took place
19 with Ray Crowder of Enstar Corporation to -- by the way,
20 it's also one and the same as Union Texas Petroleum as
21 listed on the previous exhibit we submitted.

22 August 22nd various correspondence --
23 conversations took place with Pennzoil.

24 August 23rd various conversations with
25 Cy Cowan representing the Martin Yates Estate.

1 On September 6th a copy of the
2 compulsory pooling application was sent to all the working
3 interest owners.

4 September 8th conversation took place
5 with Wagner & Brown; September 9th with Randy Shannon of
6 Texaco; again with Union Texas Petroleum or Enstar Corpor-
7 ation.

8 September 15th conversations took place
9 with Bill Faubion of Faubion Oil & Gas. At that time
10 Wainoco, who would show up on some of the correspondence,
11 still believed to be the owner of that interest, and sub-
12 sequently found out that Faubion succeeded to that interest
13 and then we started dealing with Faubion.

14 On September 19th we forwarded some cor-
15 respondence to Faubion to insure that they received all the
16 documents from Wainoco, who apparently had forwarded them
17 over to them but they'd been misplaced

18 Subsequent to that, additional conversa-
19 tion on September 20 took place with Faubion; on September
20 21st some additional conversation took place with Union Oil
21 Company of California.

22 September 22nd we had additional corres-
23 pondence with Yates and Faubion.

24 September 23rd conservation took place
25 with Texaco.

1 On September 23rd additional conversa-
2 tion took place with Roy Hall at First City Bank, which
3 represents the Greathouse Trust and the Helen Greathouse
4 interest.

5 Also on September 23rd additional con-
6 versations took place with Texaco and Enstar.

7 September 26th attempts were made to
8 contact Mr. Olmsted and Mr. J. C. Davis, Junior; however,
9 they failed to return our calls; and also additional con-
10 versation took place with Texaco and Nielson Enterprises,
11 Incorporated. I will note that Nielson Enterprises, Incor-
12 porated at that time advised us that half of their interest
13 had been transferred to Cody Energy, Incorporated, at which
14 party I talked to Robert Snyder, who was the principal
15 owner of Cody.

16 The majority of the documents dealing
17 with these parties besides Union were not filed of record;
18 therefor we had relied on the Union Oil Company of Califor-
19 nia to advise us of who the contractual interest owners
20 were.

21 The majority of the people that we dealt
22 with because of the small nature of their interest either
23 did not respond or advised us that they would look to Union
24 Oil Company of California for a decision on their part and
25 then they would decide as to an election under this well.

1 Some of these parties have indicated an
2 interest to join in the well; however, we have not re-
3 ceived any documentation to formally commit that interest
4 and that's why we're here today.

5 Q Is the proposal letter you submitted,
6 submitted as Exhibit Three?

7 A Yes, it is.

8 Q Referring to Exhibit Four, would you
9 briefly discuss that cost of the proposed well?

10 A Okay. The exhibit indicates that the
11 total dry hole cost estimated for this well is \$390,333,
12 whereas to be completed as a producer the estimated cost is
13 \$617,598.

14 Q And is this cost comparable to those
15 normally encountered in drilling wells to this depth in
16 this area of Eddy County?

17 A Yes, it is.

18 Q Do you have a recommendation as to the
19 amount which Santa Fe should pay for supervision and admin-
20 istrative expenses?

21 A Yes. Those amounts will be a drilling
22 well rate per month of \$3,980. The producing well rate per
23 month will be \$398.

24 Q And are these amounts also comparable to
25 those charged by Santa Fe and other operators for other

1 wells of this type?

2 A Yes, they are.

3 Q Briefly, what type of operating
4 agreement does Santa Fe use?

5 A We use the AAPL 610 1982 forms.

6 Q And what penalty do you recommend
7 against nonconsenting interest owners?

8 A We recommend cost plus 200 percent.

9 Q And is this figure used in your operat-
10 ing agreements?

11 A Yes, it is.

12 Q Were all interested parties notified of
13 this hearing, and I refer you to Exhibit Five?

14 A Yes, they were. Some of these parties,
15 as I noted earlier, the initial notice was sent to the re-
16 presentative and we found that they have since either mer-
17 ged or transferred their name, but they were all-- the re-
18 presentatives for all entities were contacted and were not-
19 ified.

20 Q And are the certified return receipts
21 also attached to Exhibit Five?

22 A Yes, they are.

23 Q Were Exhibits One through Five prepared
24 by you or compiled from Santa Fe's records?

25 A Yes, they were.

1 Q And in your opinion will the granting of
2 this application be in the interest of conservation and the
3 prevention of waste?

4 A Yes, it will.

5 MR. BRUCE: Mr. Examiner, I
6 have no further questions at this time and I move the ad-
7 mission of Exhibits One through Five.

8 MR. STOGNER: Exhibits One
9 through Five will be admitted into evidence at this time.

10

11 CROSS EXAMINATION

12 BY MR. STOGNER:

13 Q Mr. Tower, when I look at Exhibit Number
14 Two, now which companies have not given you any kind of
15 agreement, written or otherwise?

16 A I'm sorry. Virtually everyone on here,
17 with the exception of Santa Fe Energy, has not committed t
18 this well.

19 Q Okay. And now we're talking about 25
20 percent, are we not?

21 A That is correct.

22 MR. STOGNER: Are there any
23 other questions of Mr. Tower?

24 He may be excused.

25 Mr. Bruce?

1 MR. BRUCE: Call Curt Ander-
2 son, the geologist.

3
4 CURTIS ANDERSON,
5 being called as a witness and being duly sworn upon his
6 oath, testified as follows, to-wit:

7
8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q Will you please state your full name and
11 city of residence?

12 A My name is Curtis Anderson. I live in
13 Midland, Texas.

14 Q And who is your employer and in what
15 capacity are you employed?

16 A I'm a geologist with Santa Fe Energy
17 Operating Partners, L. P..

18 Q And have you previously testified as a
19 geologist before the Division?

20 A Yes, I have.

21 Q And are you familiar with the geological
22 matters involved in Case 9480?

23 A Yes.

24 MR. BRUCE: Mr. Examiner, are
25 the witness credentials acceptable?

1 MR. STOGNER: They are.

2 Q Mr. Anderson, referring to Exhibit Six,
3 would you describe its contents for the examiner?

4 A Exhibit Number Six is a structure map
5 contoured on the top of the Lower Wolfcamp A pay zone.
6 This is the primary producing horizon in the Carlsbad East
7 Wolfcamp Field.

8 Also indicated on this map are in red
9 our proposed location, which is in the southeast of the
10 northwest of Section 11.

11 And indicated in green are those produ-
12 cers in the Carlsbad East Wolfcamp Field.

13 Q Would you please now move on to Exhibit
14 Seven and describe its contents?

15 A Exhibit Number Seven is a stratigraphic
16 cross section A-A', and A being to the south, as you'll
17 note on Exhibit Number Six, and it extends to the north.
18 Turn your attention, please, to the outlying interval in
19 green, which is the A pay zone in the Lower Wolfcamp, which
20 is the primary objective at this location.

21 If we briefly walk through this cross
22 section from the south in the southeast of the northeast of
23 Section 11 is the extreme left log on the cross section,
24 the Weston No. 1 Bass. You can see the indicated
25 perforations and information at the bottom of the log.

1 This well was potentialled flowing
2 1.05-million cubic feet of gas per day plus 31 barrels of
3 oil per day on a half-inch choke. It has a cumulative pro-
4 duction of 753-million plus 52,000 barrels of oil.

5 The next well to the north is the TXO
6 Production Corporation No. 1 Delta Phi, also perforated in
7 this zone, flowing 1.569-million cubic feet of gas per day
8 plus 146 barrels of oil per day on a 14/64ths choke. It
9 has cum production of 599-million cubic feet of gas and
10 35,000 barrels of oil.

11 The west offset to that well, Santa Fe
12 Energy No. 1 Chase State 2, was completed also in that zone
13 and the potential was omitted by mistake on the bottom of
14 the log here. That calculated open flow CAOF was 889,000
15 cubic feet of gas a day. It had a cum production of
16 38-million and 2000 barrels of oil.

17 Now this is significant in that our
18 well, the Chase State 2 encountered an equivalent thickness
19 of porosity to that of the Delta Phi and these other indi-
20 cated producing wells, but we didn't have the permeability
21 or deliverability that the other wells had. It was signi-
22 ficantly tighter.

23 We are now getting ready to stimulate
24 this well, which will require frac treatment. The bottom
25 hole pressure build-ups are similar to the other field

1 wells; just the deliverability is down.

2 The last well on the cross section was
3 this, the North Champlin No. 1 Nix Yates, which is in the
4 northeast quarter of Section 2. It potentialized for 1.326-
5 million a day. It had cumulative production of 443-million
6 and 36,000 barrels of oil.

7 Q Will you please now refer to your Exhi-
8 bit Eight and discuss it?

9 A Exhibit Number Eight is an isopach map
10 of the porosity within the Wolfcamp -- Lower Wolfcamp A pay
11 zone that's greater than or equal to 3 percent.

12 Also indicated on this map is the cumu-
13 lative production for the various productive wells within
14 this field.

15 This geological interpretation of this
16 particular zone is that this is a detrital limestone that
17 was deposited to the east off of the Lower Wolfcamp Shelf,
18 which is adjacent and to the west.

19 Q Do you have an opinion regarding this
20 penalty which should be assessed in this case?

21 A Well, based on -- on what we've found
22 out in our No. 1 Chase State 2, located in Section 2, that
23 we encountered an equivalent thickness of porosity that
24 should be a commercial well within the field. We found
25 that the deliverability was down. It was tighter than the

1 other field wells.

2 I feel that this is the primary risk
3 involved in drilling within this -- this -- for this parti-
4 cular objective and it could get the thickest porosity but
5 it can also be tight and that's something that's difficult
6 to predict.

7 Q And so you recommend the 200 percent
8 penalty?

9 A Yes.

10 Q Were Exhibits Six, Seven and Eight pre-
11 pared by you?

12 A Yes.

13 Q And in your opinion will the granting of
14 this application be in the interests of conservation and
15 the prevention of waste?

16 A Yes.

17 Q Okay.

18 MR. BRUCE: At this time I
19 move the admission of Exhibits Six through Eight, Mr. Exa-
20 miner.

21 MR. STOGNER: Exhibits Six
22 through Eight will be admitted into evidence at this time.

23 MR. BRUCE: No further ques-
24 tions at this time.

25 MR. STOGNER: Are there any

1 other witnesses (sic) for Mr. Anderson?

2 If not, he may be excused.

3 Mr. Bruce, do you have any-
4 thing further in this case?

5 MR. BRUCE: Nothing further.

6 MR. STOGNER: Does anybody
7 else have anything further in Case Number 9480?

8 This case will be taken under
9 advisement.

10

11 (Hearing concluded.)

12

13

14

15

16

17

18

19

20

21

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 (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. 9480,
heard by me on 28 September 1988.

Michael S. Hagan, Examiner
Oil Conservation Division

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

12 October 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Energy Oper- CASE
ating Partners, L. P., for compulsory 9480
pooling Eddy County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

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 Bldg.
Santa Fe, New Mexico

For the Applicant:

1 MR. CATANACH: The next case
2 on the docket, 9480, was inadvertently placed on the docket
3 so it's already been heard. There is an order out on the
4 case, and we'll just ignore it.

5
6 (Hearing concluded.)
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
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 (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. 9480,
heard by me on October 12, 1988.

David R. Catana, Examiner
Oil Conservation Division

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date SEPTEMBER 28, 1988 Time: 8:15 A.M.

| NAME | REPRESENTING | LOCATION |
|----------------|---------------------------|-------------|
| William Clark | Blackwood: Nichols | Durango Co |
| Bob Hulse | Bryman | Santa Fe |
| William L. Day | Tamphelt & Black | Santa Fe |
| W. T. Holloman | Keller & Keller in Albany | Albany |
| J. Bruce | Hinkle Law Firm | Albuquerque |
| Patrick Tower | SANTA FE ENERGY | MIDLAND |
| CURT ANDERSON | " | " |
| KEVIN PFISTER | TERRA RESOURCES, INC | MIDLAND |
| ROD THOMPSON | " | " |
| M. P. GADDIS | " | " |

