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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

Case No. 10267

IN THE MATTER OF CASE NUMBER 10267 )  
APPLICATION OF PACIFIC ENTERPRISES )  
OIL COMPANY (U.S.A.) FOR COMPULSORY )  
POOLING, LEA COUNTY, NEW MEXICO. )

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING  
BEFORE: JIM MORROW, HEARING EXAMINER

Thursday, April 18, 1991  
8:15 a.m.  
Santa Fe, New Mexico

This matter came on for hearing before  
the Oil Conservation Division on April 18, 1991, at  
a hearing beginning at 8:15 a.m., at Morgan Hall,  
State Land Office Building, 310 Old Santa Fe Trail,  
Santa Fe, New Mexico, before: Gail D. Vinson, CCR,  
Certified Court Reporter Number 297, for the State  
of New Mexico.

FOR: OIL CONSERVATION	BY: GAIL D. VINSON, CCR
DIVISION	Certified Court Reporter
	CCR No. 297

## I N D E X

April 18, 1991  
Examiner Hearing  
Case No. 10267

PAGE

## APPEARANCES

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## WITNESSES:

M. CRAIG CLARK

Examination by Mr. Pearce

5

JAMES L. BREZINA

Examination by Mr. Pearce

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Reporter's Certificate

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## E X H I B I T S

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Exhibits 1 through 5

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## A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.  
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Oil Conservation Commission  
State Land Office Bldg.  
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Santa Fe, New Mexico 87501

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FOR PACIFIC ENTERPRISES: MONTGOMERY & ANDREWS, P.A.  
Attorneys at Law  
BY: W. PERRY PEARCE, ESQ.  
325 Paseo de Peralta  
Santa Fe, New Mexico

1 MR. STOVALL: Application of Pacific  
2 Enterprise Oil Company (USA) for compulsory pooling,  
3 Lea County, New Mexico.

4 EXAMINER MORROW: Appearances?

5 MR. PEARCE: May it please the Examiner,  
6 I am W. Perry Pearce of the Santa Fe office of the  
7 law firm of Montgomery & Andrews, appearing in this  
8 matter on behalf of Pacific Enterprises Oil Company  
9 U.S.A. I have two witnesses who need to be sworn.

10 EXAMINER MORROW: They're already  
11 standing to be sworn.

12 MR. PEARCE: They are and there's a --

13 MR. STOVALL: We have got more  
14 appearances.

15 MR. KULSETH: I'm John Kulseth with the  
16 Hinkle Law Firm representing Santa Fe Energy  
17 Operating Partners. We have no witnesses.

18 EXAMINER MORROW: All right. Thank you.

19 MR. STOVALL: Mr. Carr, are you entering  
20 an appearance in this?

21 MR. CARR: May it please the Examiner, I  
22 had previously filed a written opinion -- a written  
23 appearance. I'll give you my opinions -- a written  
24 appearance in this case for Enron Oil and Gas. At  
25 this point in time we do not intend to participate

1 in this proceeding.

2 (Mr. Stovall thereupon swore the  
3 witnesses.)

4 MR. PEARCE: Thank you, sir

5

6 M. CRAIG CLARK,  
7 was called as a witness and, having first been duly  
8 sworn, was examined and testified as follows:

9 EXAMINATION:

10 BY MR. PEARCE:

11 Q. Would you please take a seat and give us  
12 your name and place of residence?

13 A. My name is Craig Clark. I live in  
14 Midland, Texas.

15 Q. With regard to the proceeding filed by  
16 Pacific Enterprises today are you retained by  
17 Pacific?

18 A. Yes, I am.

19 Q. And in what capacity?

20 A. Petroleum landman.

21 Q. Have you previously appeared before the  
22 Division or one of its examiners and had your  
23 qualifications as an expert in the field of  
24 petroleum land matters accepted and made a matter of  
25 record?

1           A.     Yes, I have.

2           Q.     And are you familiar with this  
3 application?

4           A.     Yes, I am.

5           MR. PEARCE: Mr. Examiner, at this time I  
6 would ask the recognition of Mr. Clark as an expert  
7 in the field of petroleum land matters.

8           EXAMINER MORROW: We accept his  
9 qualifications.

10          Q.     Mr. Clark, at this time I would ask you,  
11 please, to look at what we've marked as Exhibit  
12 Number 1 to this proceeding. Could you highlight  
13 the data reflected on that exhibit that relates to  
14 this proceeding?

15          A.     This is the land ownership, more  
16 particularly in Section 4 has the individual  
17 leasehold ownership. This is -- these are federal  
18 tracts.

19          Q.     Let's take a break. We're addressing  
20 our attention to Section 4, approximately in the  
21 middle of the section shown, that has the working  
22 interest ownership reflected; is that right?

23          A.     That is correct.

24          Q.     All right.

25          A.     This section is outlined with the hash

1 marks --

2 Q. Thank you.

3 A. The inside shows the leasehold ownership  
4 and then off to the left, in Section 5, it has an  
5 arrow pointing over -- is the working interest  
6 ownership based on a 640 acre unit.

7 Q. All right, sir. Over the course of time  
8 has Pacific Enterprise attempted to get voluntary  
9 cooperation in the drilling of a well within  
10 Section 4?

11 A. Yes, we have.

12 Q. And I'd ask you to direct your attention  
13 to what we've marked as Exhibit Number 2 to this  
14 proceeding. And very briefly would you go through  
15 that set of correspondence to highlight Pacific's  
16 efforts to get cooperation?

17 A. The first page here is a letter that we  
18 -- Pacific wrote back in September to Enron  
19 requesting a farmout of their leasehold acreage in  
20 this area. They owned -- they were -- Pacific was a  
21 fifty-fifty partner with them in this federal lease  
22 covering the northeast quarter and the southwest  
23 quarter.

24 Q. The second letter in --

25 A. The second letter is dated October 1st

1 to Exxon. And it was also a farm out request.  
2 And it covered their interest in the south half of  
3 the northwest quarter of Section 4.

4 The letter dated December 31st was a  
5 proposal of a -- some type of working interest  
6 unit. We have acreage to the south and we had tried  
7 that proposal, trying to get the people -- various  
8 parties to see if they would want to join in a  
9 bigger thing instead of just this one section,  
10 working interest unit.

11 Q. And to whom was the letter of  
12 December 31, 1990, sent?

13 A. This letter was sent to all the working  
14 interest owners in Section 4.

15 Q. All right sir. There are, I believe,  
16 four of those letters. The next letter appears to  
17 be addressed February 22, 1991. Would you describe  
18 that?

19 A. The lettered in February was a proposal  
20 again to all the working interest owners in  
21 Section 4, that actually proposed the drilling of  
22 the Antelope Ridge well. It's a 15,000 foot  
23 Devonian test. And the spacing was 640 acres and  
24 it had the AFE attached to it. And that was, again,  
25 sent to all the working interest owners in this



1 section.

2 Q. All right, sir. Then at the end of  
3 Exhibit Number 2 there are letters returned by some  
4 of these companies to Pacific Enterprises; could you  
5 describe those to us, please?

6 A. The first letter is from Exxon where  
7 they have declined to farm out their interests. We  
8 had no response from Exxon. On our letter -- this  
9 was from the October 1st letter, where they declined  
10 to farm out. We had no response from Exxon on the  
11 December 31st or February 22nd letter.

12 Q. Okay.

13 A. The second letter is from Santa Fe to  
14 Pacific.

15 EXAMINER MORROW: Excuse me, just a  
16 minute. Where are the letters? I'm not --

17 MR. PEARCE: At the very back -- the  
18 back three pages of Exhibit Number 2, Mr. Examiner,  
19 are the -- I apologize.

20 EXAMINER MORROW: All right.

21 A. The second letter is from Santa Fe when  
22 we -- it was in response to our December 31st  
23 letter, and they had indicated at that point that  
24 they were probably going to be farming out and at  
25 such time as we proposed the well, they would be

1 making that recommendation.

2           And then there's another letter from  
3 Santa Fe where we had proposed the well and they --  
4 they indicated that they would farm out or join in  
5 the drilling of the well. They just wanted to look  
6 at our data and from -- that is all the  
7 correspondence we've had from any of the other  
8 parties.

9           Q. At this time, the current status is that  
10 we do not have firm agreement with any of these  
11 parties, but we expect at least to enter into an  
12 agreement with Santa Fe; is that correct?

13           A. That is correct. Enron has made an  
14 offer to sell their interest in this. We are  
15 currently evaluating that. However, it was just a  
16 verbal offer and we have had no agreement on that  
17 yet.

18           Santa Fe, as I said, they had indicated  
19 that they will join or farm out. However, there  
20 have been no formal contracts entered into as of  
21 yet. And we are currently in the process of trying  
22 to get our geologists together so that we can review  
23 the data. Exxon we've had no response at all and  
24 Amaco we've had no response at all.

25           Q. All right. With regard to the

1 application being considered this morning, Pacific  
2 Enterprises Oil Company seeks to be made the  
3 operator of this well; is that correct?

4 A. That is correct.

5 Q. And have you conducted a study to  
6 determine reasonable administrative and overhead  
7 reimbursement rates during the drilling and  
8 operation of this well?

9 A. I have.

10 Q. And what do you believe those reasonable  
11 rates to be?

12 A. Six thousand dollars for a drilling well  
13 and \$600 for a producing well.

14 Q. And do you believe that the drilling  
15 rates of \$6,000 and \$600, respectively, during  
16 drilling and producing, reasonably reflect the cost  
17 of operations of a well to this depth and this  
18 general vicinity?

19 A. Yes, I do.

20 Q. All right, sir. Is there anything else  
21 that you'd like to highlight for the Examiner this  
22 morning?

23 A. No, sir.

24 MR. PEARCE: I have nothing further of  
25 this witness, Mr. Examiner.

1 EXAMINER MORROW: The overhead rates, do  
2 those conform to the 1990 Ernst Young survey?

3 THE WITNESS: Well, I do not have the  
4 1990 figures. They were taken from the 1989  
5 figures.

6 However, wells we have drilled in this  
7 area, we have -- wells that we have not operated,  
8 that we've been participated in, to a depth of --  
9 especially at 15,000 foot Devonian tests, they have  
10 been in this general vicinity. Most of the wells we  
11 have drilled in this area have been Morrow tests  
12 that are 13,000 foot tests, and we are still paying  
13 that type of overhead rates.

14 EXAMINER MORROW: Okay. Bob, do you  
15 have anything?

16 MR. STOVALL: At this time you're  
17 seeking to force pool all four of the other parties;  
18 is that correct?

19 THE WITNESS: That's correct.

20 EXAMINER MORROW: All right. You may  
21 be excused. Thank you.

22 ///

23

24

25

1 JAMES L. BREZINA

2 was called as a witness and, having been previously  
3 duly sworn, was examined and testified as follows:

4  
5 EXAMINATION

6 BY MR. PEARCE:

7 Q. Thank you sir. Would you please state  
8 your name and place of residence for the record?

9 A. My name is James L. Brezina, and I live  
10 in Midland, Texas.

11 Q. Could you spell your last name for the  
12 record, please?

13 A. B as in boy -- B-R-E-Z-I-N-A.

14 Q. Mr. Brezina, have you previously  
15 appeared before the New Mexico Oil Conservation  
16 Division?

17 A. No, I haven't.

18 Q. Could you please relate for the Examiner  
19 and those in attendance your educational and work  
20 experience?

21 A. I graduated with a Bachelor of Science  
22 Degree from the University of Texas at Arlington in  
23 1971. I obtained a Master of Science degree in  
24 geology from the University of Texas at Arlington in  
25 1974.

1 I moved to Midland, Texas, in 1974,  
2 started working with Shapiro Oil Company, worked  
3 with various other companies, and -- do you need me  
4 to name the companies? Jake L. Hammond, and Clayton  
5 Williams, Wisor Oil Company, all located in Midland,  
6 Texas.

7 Q. And Mr. Brezina, are you familiar with  
8 the application being considered this morning?

9 A. Yes, I am.

10 MR. PEARCE: Mr. Examiner, at this time  
11 I would ask that Mr. Brezina be recognized as an  
12 expert in the field of petroleum geology.

13 EXAMINER MORROW: Your BS degree from  
14 UTA, was that in geology?

15 A. Yes, it was in geology.

16 EXAMINER MORROW: We accept Mr.  
17 Brezina's qualifications.

18 MR. PEARCE: Thank you.

19 Q. Mr. Brezina, I would ask you to direct  
20 your attention, please, to what we've marked as  
21 Exhibit Number 3 to this proceeding. And could you  
22 describe that for the Examiner and those in  
23 attendance?

24 A. This is a subsurface map, mapped on top  
25 of the Devonian formation and incorporated in this

1 was both subsurface known Devonian points and also  
2 seismic data. And as you indicated, the seismic  
3 data are the little dash -- dots, and their  
4 approximate bodies for the top of the Devonian.

5 Q. All right, sir. I notice that along the  
6 southern and western edge of this there are four  
7 wells showing red well spots. What do those wells  
8 reflect?

9 A. Those reflect actual or -- either  
10 presently or past producing Devonian wells.

11 Q. All right, sir. And the well that  
12 Pacific is proposing to drill in Section 4 is  
13 proposed to be drilled where in that section?

14 A. In a northwest quarter at approximately  
15 1980 feet from the west line, 1980 feet from the  
16 north line.

17 Q. Okay.

18 A. Excuse me, I take that back. It's 1980  
19 from the south and west not the north and west.

20 EXAMINER MORROW: There's not a spot on  
21 here, is there?

22 THE WITNESS: No.

23 MR. PEARCE: I apologize, Mr. Examiner,  
24 there is not.

25 EXAMINER MORROW: South and west.

1 MR. PEARCE: South and West, yes, sir.

2 EXAMINER MORROW: -- of Section 4.

3 THE WITNESS: Right.

4 EXAMINER MORROW: Okay.

5 Q. (By Mr. Pearce) After reviewing the  
6 information that you've described for us, you've  
7 constructed a structure map. Could you highlight  
8 the items of interest to us on this map?

9 A. Basically it's a -- notice that the red  
10 dots where you have the sub-C points on the Devonian  
11 and, again, there's another sub-C point,  
12 Section 22. And it's a dry hole in the Devonian.  
13 And you see that on the southern part of the map.  
14 Section 22 we have a sub-C value of 11254.

15 Well, also, if you go north about six or  
16 seven miles in Section 23, there's another Devonian  
17 dry hole even though it shows it as a producing gas  
18 well. It was dry in the Devonian and they came  
19 back and produced it out of the -- I think the  
20 Morrow or Atoka section. And basically that is the  
21 geological control for any sub-C points for the  
22 Devonian arising.

23 Q. Okay, describe for the record, please,  
24 what this geological structure looks like?

25 A. Basically, this structure is inferred



1 from the seismic data that we purchased and also  
2 shot in the area. We have no other control in the  
3 area to substantiate this structure other than  
4 seismic.

5 Q. Could you give us some indication of the  
6 quality of the data you had available to you?

7 A. Generally speaking, the data was very  
8 poor around the north half of Section 4, and that is  
9 based on the presence of the Capitan Reef. The  
10 Capitan Reef, on the subsurface, comes across  
11 Section 4 and there is some poor quality data  
12 associated with this prospect due to the  
13 interference of the velocity -- I mean the sound  
14 waves going through the Capitan Bridge.

15 Q. Mr. Brezina, in this case we are seeking  
16 the pooling of a couple of other formations and, in  
17 fact, we're seeking the pooling of acreage for any  
18 production that we might encounter. Let's look at  
19 some of the those other zones briefly, if we can.

20 Could you describe the Atoka and Morrow  
21 production in this area?

22 MR. PEARCE: And, Mr. Examiner, with  
23 regard to the Atoka and Morrow formations, they  
24 would be spaced on 320 acres.

25 A. Basically to the east of our prospect or

1 proposed site, along this trend, say section 2 and  
2 3, and going north and south from that, most of that  
3 production is out of the Atoka and some Morrow  
4 production.

5           Back to the west of us, especially like  
6 in Section 8, there's a well that went down to the  
7 Morrow --

8           Q.     Sorry, let's slow down enough --

9           A.     Okay.

10          Q.     -- to find that well.     That's the  
11 well--

12          A.     -- in Section 8 --

13          Q.     Showing subsurface 11300, estimated?

14          A.     Yes.

15          Q.     All right, sir.

16          A.     That was projected down from the Morrow  
17 formation.     And that is a Morrow well that made  
18 approximately 20 million cubic feet of gas and has  
19 been abandoned.     If we go across and just talk about  
20 some of the -- do you want to talk about some of the  
21 production in the area.

22          Q.     Please.

23          A.     If we go east of that to Section 10,  
24 there's a well in the northwest quarter, it's a  
25 Wolfcamp well.     It's made about 2 million cubic feet

1 of gas, total, and it's a very marginal well with a  
2 recompletion.

3 EXAMINER MORROW: It made how much?

4 THE WITNESS: About a couple million out  
5 of the Wolfcamp. And it was just a recompletion  
6 from another zone. It was originally a dry hole  
7 and they recompleted it.

8 A. Then in Section 10, if you go to the  
9 northwest of the southeast quarter there's a little  
10 Cherry Canyon well and it's one well. And it's  
11 made approximately 168,000 barrels--

12 EXAMINER MORROW: What section was  
13 that?

14 THE WITNESS: Section 10. We're still in  
15 the same section.

16 Q. The northwest of the southeast?

17 A. Northwest of the southeast.

18 EXAMINER MORROW: How much did it --

19 THE WITNESS: Made about 168,000 barrels  
20 of oil. It's still producing about 35 to 35 barrels  
21 of oil a day.

22 A. Back in the southeast of the southeast  
23 of section 10 says an Atoka well. It's made  
24 approximately 4.2 billion cubic feet of gas and it's  
25 still currently producing.

1 EXAMINER MORROW: What was the bcf?

2 A. 4.2 billion cubic feet of gas.

3 Typically, Atoka out here will make three to five  
4 bcf; some will make a little more.

5 If we go, say, south in Section 15, which  
6 is another well, it's the northeast quarter which is  
7 -- would be the southwest of the northeast, there's  
8 an abandoned -- there's a Morrow well. It's a dual  
9 completion. The Morrow made 241 million. It's been  
10 abandoned. Currently there is a strong well there,  
11 it's made 6.9 billion cubic feet of gas.

12 Q. Okay, with regard to those -- to the  
13 Atoka and Morrow formations, do those wells lead you  
14 to the conclusion that there is a possibility that a  
15 well in Section 4 will encounter production in those  
16 zones?

17 A. Yes.

18 Q. And on that basis are you seeking the  
19 pooling of the west half of Section 4 for those  
20 formations?

21 A. Yes.

22 Q. All right, sir, let's look now if we can  
23 at Wolfcamp completions in the vicinity. Could you  
24 describe those for us, please?

25 A. Basically, you just have one of them --

1 Q. And where is that?

2 A. That is in the Section 10, and it's in  
3 the northwest quarter, and that's the one I  
4 mentioned earlier made a -- it's making less than  
5 2 mcf a day right now. It's made a couple -- 2,  
6 2.5 million, total, cumulative gas.

7 EXAMINER MORROW: It's still producing.

8 THE WITNESS: Yes, THE last records we  
9 had.

10 Q. Cherry Canyon producers in the vicinity?

11 A. Again, we mentioned that one in  
12 Section 10, which is the northwest of the southeast  
13 quarter, and that's the one that made a significant  
14 amount of oil, 168,000 barrels.

15 Q. And is there any Bone Spring completion  
16 in the vicinity of Section 4?

17 A. In Section 9 there's a Bone Springs  
18 well. It's been abandoned. And that's immediately  
19 to the west of that, and it looks like it's the  
20 northwest of the southeast quarter. It made  
21 approximately 3,000 to 4,000 barrels of oil.

22 EXAMINER MORROW: Tell me again where  
23 that one is? I'm sorry.

24 THE WITNESS: Section 9, immediately to  
25 the west, and it's the northwest of the southeast

1 quarter of Section 9.

2 EXAMINER MORROW: You made how much?

3 THE WITNESS: Three to four thousand  
4 barrels. I don't know exactly. I can get that  
5 figure for you, if you need it.

6 EXAMINER MORROW: That's all right. Go  
7 ahead.

8 Q. (By Mr. Pearce) Mr. Brezina, we've  
9 discussed a number of other producing formations but  
10 am I correct that the primary objective of the  
11 proposed well in Section 4 is the Devonian?

12 A. Yes, that's correct.

13 Q. And with regard to the Devonian,  
14 Pacific Enterprises is seeking 640 acre spacing; is  
15 that correct?

16 A. Yes.

17 Q. All right, sir. After reviewing the  
18 data you had available to you, do you have an  
19 opinion on the risk of -- Pacific Enterprises is  
20 taking in drilling a well to the Devonian in  
21 Section 4. Is that a high risk venture in your  
22 opinion?

23 A. It is very high risk, because you don't  
24 have enough well control in the area. You're  
25 basically strictly on the seismic in an area where

1 you have poor seismic area. And if we had more  
2 geological control -- and I think that's probably  
3 the overriding factor out here, we just don't have  
4 the geological well control.

5 Q. Is it fair to say, Mr. Brezina, that  
6 Pacific sure hopes you're right about this?

7 A. Yes.

8 Q. With regard to that risk, is Pacific  
9 Enterprise seeking the statutory maximum of 200  
10 percent risk penalty for parties in interest who do  
11 not participate in the drilling of this well?

12 A. Yes.

13 Q. Let's turn now, please, to what we've  
14 marked as Exhibit Number 4. And I'd ask you to  
15 highlight the pertinent data reflected on that  
16 exhibit for us.

17 MR. PEARCE: And, Mr. Examiner, I want  
18 to go a little slowly. The line of cross sections,  
19 at least when I looked at these exhibits, was not  
20 where I expected it to be. So let's look at  
21 Exhibits Number 3 and 4 at the same time and locate  
22 the cross section on Exhibit 3.

23 Q. The well to the left of the cross  
24 section (indicating). Shell Oil, Antelope Ridge,  
25 thirty-four, one. Where is that well?

1           A.     That's basically off the map.

2           Q.     Just below Section 27. Then the second  
3 well on the cross section is which well on  
4 Exhibit 3?

5           A.     It's the well in Section 27 outlined,  
6 and --

7           Q.     With the red spot?

8           A.     With the red spot.

9           Q.     All right, sir. Then the third well on  
10 the four well cross section?

11          A.     As you go north of the well in  
12 Section 27 to -- the section immediately above that,  
13 in Section 22, you have a dry hole in the southwest  
14 of the northeast quarter. And you have a sub-C  
15 Devonian point.

16          Q.     And that is the well annotated Shell Oil  
17 Number 1, North Antelope Ridge unit?

18          A.     That is correct.

19          Q.     All right, sir. That's the third well  
20 on the cross section. And where is the fourth well  
21 on this cross section?

22          A.     The fourth well is the well in Section 6  
23 outlined in red.

24          Q.     All right, sir. You mentioned during  
25 your testimony previously that you did not have



1 nearly as much well control as you would like. It  
2 appears, however, that's about as close you could  
3 get with a cross section?

4 A. That is correct.

5 Q. All right. And what conclusions do you  
6 draw after constructing and reviewing the cross  
7 section before us?

8 A. If you look, especially on the well in  
9 Section 22, which is a dry hole, it's the Shell Oil  
10 Company north -- Number 1 North Antelope Ridge.  
11 When you get off this structural position or  
12 structure you recover salt water. So what controls  
13 the trap out here is an anticlinal closure.

14 And if you don't have this closure in all  
15 directions or some sort of trap, you will get salt  
16 water. Looks like it's predominantly a water-drive  
17 reservoir. Or I should say sulphur water, excuse  
18 me, not salt water. That's sulfur water.

19 Q. All right, sir. Let's -- I want you  
20 now to look back at what we've previously marked as  
21 Exhibit Number 2 to this proceeding, that was  
22 discussed by Mr. Clark.

23 MR. PEARCE: Mr. Examiner, several pages  
24 into that Exhibit there is a Pacific Enterprises  
25 authority for expenditure, a little more than half

1 way through that document.

2 Q. And I'd ask you, Mr. Brezina, to look at  
3 the first page of that exhibit. And what is the  
4 estimated cost to drill and test a well in Section 4  
5 to the Devonian formation?

6 A. As indicated here on the sheet, it's  
7 \$1.786 million. I'm not -- rounded off to  
8 \$1.8 million.

9 Q. And the additional cost expected to  
10 complete a well in the Devonian?

11 A. \$396,000, approximately.

12 Q. And therefore you believe that the total  
13 cost of a completed Devonian producer in Section 4  
14 is how much?

15 A. Approximately \$2.2 million.

16 Q. Okay. And the numbers reflected on  
17 that first summary page are detailed on the two  
18 following pages; is that correct?

19 A. Yes.

20 Q. And that AFE is an attachment to  
21 letters sent to other interest owners; is that  
22 correct?

23 A. That would not be handled by my  
24 department, but I assume that's correct. It's  
25 stated here --

1           Q.     It's attached to the February 22, 1991,  
2 letter.

3                     And do you believe, Mr. Brezina, that the  
4 costs reflected in that AFE are reasonable costs for  
5 drilling and completing a Devonian well in this  
6 area?

7           A.     Yes, I do.

8           Q.     Mr. Brezina, in your opinion will the  
9 pooling of this acreage of Section 4, for the  
10 formations lifted, and the drilling of a Devonian  
11 producer in that section, operate to prevent waste  
12 of natural resources, because it will recover  
13 additional hydrocarbons that would otherwise not be  
14 recovered?

15          A.     Yes, I do.

16          Q.     And do you believe that the pooling of  
17 this acreage under the terms proposed adequately  
18 protects the correlative rights of other interest  
19 owners in Section 4?

20          A.     Yes, I do.

21          Q.     Do you have anything else you'd like to  
22 highlight for us, Mr. Brezina?

23          A.     The only other thing.     If you look up  
24 here on this AFE on Page 3 of 3, and you'll notice  
25 on the top part of the AFE, we're talking about our

1 casing program. And notice here we got to have  
2 11,700 feet of 7 and 5/8 inch casing at \$21 a  
3 foot.

4 That's probably extraordinary cost  
5 involved in this AFE, because typically of all the  
6 wells out here, and especially back to the east, the  
7 Atoka is very high pressured. You have to run this  
8 seven inch or seven and a half inch liner -- casing  
9 above it, so you can mud up and so you have control  
10 of the well.

11 And that's probably the only ordinary  
12 extra cost in this AFE is this additional casing  
13 program.

14 Q. And although with regard to other  
15 producing areas of the state, that is an unusual  
16 cost, it's your understanding that that is a cost  
17 which is ordinarily incurred in drilling wells to  
18 this depth in this area?

19 A. Yes, it is.

20 Q. All right, sir. Anything else?

21 A. The Devonian also produces H<sub>2</sub>S gas. It's  
22 very sour. And so you're looking, if we're  
23 successful out here that we have to eventually maybe  
24 build a plant to treat this gas. You know, we have  
25 some rough approximate figures, but you're looking

1 at a couple of million dollars. The H<sub>2</sub>S out here is  
2 additional 8 parts per million and it's lethal.

3 Q. Anything else?

4 A. No, sir.

5 MR. PEARCE: Mr. Examiner, I have  
6 nothing further of the witness at this time.

7 I would like to introduce for the record  
8 what is marked as Exhibit Number 5 to this  
9 proceeding, which is an Affidavit of Service to the  
10 other interest owners in this tract prepared by my  
11 office. And I would move the admission of Pacific  
12 Exhibits 1 through 5.

13 EXAMINER MORROW: Exhibits 1 through 5  
14 are admitted into the record

15 (Pacific Exhibits 1 through 5 were  
16 admitted into the record.)

17 MR. PEARCE: I have nothing further of  
18 this witness at this time, Mr. Examiner.

19 EXAMINER MORROW: Are there any state or  
20 federal lands involved here, or is there --

21 THE WITNESS: Is this in Section 4  
22 you're talking about?

23 EXAMINER MORROW: Section 4.

24 THE WITNESS: I think -- I'm not sure.  
25 I could ask Craig here. I think it's all federal;

1 is that correct?

2 MR. CLARK: That's correct.

3 THE WITNESS: All federal.

4 EXAMINER MORROW: All federal. Did you  
5 at the same time do any pay-out calculations on  
6 this, or is this just an exploratory well?

7 THE WITNESS: The engineers might have  
8 done it. I didn't do it. It was just strictly an  
9 exploratory well.

10 EXAMINER MORROW: If you got back three  
11 to one on this thing it would \$6 million before  
12 anybody else got any money. How many bcf's of gas  
13 would that represent.

14 THE WITNESS: It could be more than  
15 that. Are you including the price of the gas plant  
16 to treat the sour gas. That's an extra \$2 million.  
17 That wasn't even mentioned in the AFE.

18 EXAMINER MORROW: So, it's going to be  
19 \$2 million more, then?

20 A. Yes, if we're successful in making a  
21 well for the project base.

22 MR. PEARCE: And I think that "if we're  
23 successful," is the reason everybody is not jumping  
24 on board, Mr. Chairman.

25 EXAMINER MORROW: What about that other

1 \$2 million, would it be included as part of a  
2 production cost, or would it give these guys another  
3 opportunity to participate in that, if you made a  
4 well?

5 A. I'm sure they'll work out something  
6 that's fair and equitable, because you'll have other  
7 interest owners in there, too. Ideally, it would be  
8 nice to form a four section unit and everybody join  
9 and everybody participate, but that isn't what  
10 happens.

11 MR. STOVALL: The \$2 million treating  
12 plant, would that -- presumably you're not going to  
13 <sup>build</sup>~~drill~~ that unless you got a pretty good well out  
14 there.

15 THE WITNESS: That is correct.

16 MR. STOVALL: Does Pacific have any  
17 other acreage out there where they could go drill  
18 another well, if it looks like a good prospect.

19 THE WITNESS: You mean within the  
20 prospect outline?

21 MR. STOVALL: Within the area that would  
22 be served by a treating plant like that.

23 THE WITNESS: We have some additional  
24 acres to the south.

25 MR. STOVALL: So there would actually,

1 if a treating plant were built, there's a likelihood  
2 that at least Pacific and some of the others might  
3 go and drill additional wells to run through that  
4 plant; is that correct?

5 THE WITNESS: Yes, that's correct.

6 EXAMINER MORROW: Okay. Thank you  
7 sir. You may be excused.

8 MR. PEARCE: Mr. Examiner, I have  
9 nothing further at this time.

10 MR. STOVALL: I have got one more  
11 question.

12 With respect to that treating plant, that  
13 essentially is a no-risk item, isn't it? That's not  
14 done until you have a known feasibility factor.

15 THE WITNESS: Well, yes, one of the  
16 factors you're having here is that the well don't  
17 poop out, too.

18 MR. STOVALL: There's always that.

19 THE WITNESS: But that cost will not  
20 come into it until you know that you have got a  
21 commercial well. And maybe that's more than the  
22 engineering part; that's correct.

23 MR. STOVALL: I understand. Thank you.

24 EXAMINER MORROW: Case 10267 will be  
25 taken under advisement.



1 And that concludes the hearing for today,  
2 and we are adjourned.

3 (The hearing was adjourned at 12:20 p.m.)

4 \* \* \* \* \*

5  
6 STATE OF NEW MEXICO )  
7 ) ss.  
8 COUNTY OF SANTA FE )

9 REPORTER'S CERTIFICATE

10 I, GAIL D. VINSON, CCR, a Certified Court  
11 Reporter and Notary Public, DO HEREBY CERTIFY that I  
12 stenographically reported these proceedings before  
13 the Oil Conservation Division; that the foregoing is  
14 a true, complete and accurate transcript of the  
15 proceedings of said hearing so taken and transcribed  
16 under my personal supervision.

17 I FURTHER CERTIFY that I am not related to  
18 nor employed by any of the parties hereto, and have  
19 no interest in the outcome hereof.

20 DATED at Santa Fe this 20th day of May, 1991.

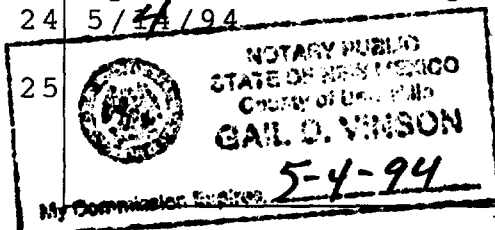
21

22

23

24 My commission expires:  
5/24/94

25



*Gail D. Vinson*

GAIL D. VINSON, CCR  
Certified Court Reporter  
CCR 297, Notary Public

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 10267,  
heard by me on April 18, 1991.

HUNNICUTT REPORTING  
GAIL D. VINSON, CCR Examiner  
Oil Conservation Division