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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
) CASE NO. 10314
APPLICATION OF COLLINS & WARE,)
INCORPORATED, FOR COMPULSORY)
POOLING AND AN UNORTHODOX GAS WELL)
LOCATION, LEA COUNTY, NEW MEXICO.)
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

May 30, 1991

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on May 30, 1991, at 9:30 a.m. at Oil Conservation Division Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Freda Donica, RPR, Certified Court Reporter No. 417, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION BY: FREDA DONICA, RPR
Certified Court Reporter
CCR No. 417

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I N D E X

May 30, 1991
Examiner Hearing
CASE NO. 10314

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APPEARANCES

COLLINS & WARE'S WITNESSES:

ROGER ELLIOTT 4
Direct Examination by Mr. Carr

TODD WILSON 14
Direct Examination by Mr. Carr

REPORTER 'CERTIFICATE 22

* * *

E X H I B I T S

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT: CAMPBELL & BLACK, P.A.
Attorneys at Law
BY: WILLIAM F. CARR, ESQ.
110 North Guadalupe
Santa Fe, New Mexico 87501

FOR OXY USA: KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
BY: THOMAS KELLAHIN, ESQ.
117 North Guadalupe
Santa Fe, New Mexico 87501

1 HEARING EXAMINER: Call case 10314. This is
2 application of Collins & Ware, Incorporated, for compulsory
3 pooling and an unorthodox gas well location, Lea County, New
4 Mexico. Call for appearances.

5 MR. CARR: May it please the Examiner, my name is
6 William F. Carr with the law firm Campbell and Black, P.A.,
7 of Santa Fe. I represent Collins & Ware, Inc., and I have
8 two witnesses.

9 HEARING EXAMINER: Other appearances.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the
11 Santa Fe law firm of Kellahin, Kellahin & Aubrey. I'm
12 appearing on behalf of Oxy USA. We are an interested
13 offsetting operator. We do not appear in opposition to the
14 applicant.

15 HEARING EXAMINER: Witnesses please stand and be sworn

16 (Witnesses sworn.)

17 ROGER ELLIOTT

18 the witness herein, having been first duly sworn, was
19 examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

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

23 A. My name is Roger Elliott.

24 Q. Where do you reside?

25 A. Midland, Texas.

1 Q. By whom are you employed and in what capacity?

2 A. I'm a consulting landman, representing Collins &
3 Ware in this matter.

4 Q. Have you previously testified before this
5 division and had your credentials as a landman accepted and
6 made a matter of record?

7 A. Yes, I have.

8 Q. Are you familiar with the application filed in
9 this case?

10 A. Yes, I am.

11 Q. Are you familiar with the subject proration unit
12 and the proposed well?

13 A. Yes, I am.

14 MR. CARR: Are the witness' qualifications acceptable?

15 HEARING EXAMINER: His qualifications are acceptable.

16 Q. (By Mr. Carr) Mr. Elliott, would you briefly
17 state what Collins & Ware seeks with this application?

18 A. We seek compulsory pooling and an unorthodox gas
19 well location for the drilling of a 13,900-foot Morrow test
20 with Section 13, south half, comprising 320-acre proration
21 unit. We're also seeking the support and joinder of
22 leasehold owners located in the south half of Section 13.

23 Q. Have you prepared certain exhibits for
24 presentation in this case?

25 A. Yes, I have.

1 Q. Could you identify what has been marked as
2 Collins & Ware Exhibit Number 1? Identify that and then
3 review it for Mr. Morrow.

4 A. All right. There's three parts of Exhibit 1.
5 The first exhibit is a land map which shows the proration
6 unit covering the south half of Section 13. The red dot
7 represents our well location, and the lease plat shows the
8 leasehold ownership of Section 13.

9 Q. Let's go to page two of that exhibit.

10 A. Page two is the LMR, which is Noranda
11 Exploration's mine reserves potash in this area. This
12 location with the -- represented by the red dot is necessary
13 and unorthodox because of the imposed stipulations on us by
14 the BLM and Noranda, which is requiring us to drill our
15 particular well 100 feet within preexisting well bores.

16 Q. So you are within a hundred feet of a preexisting
17 well bore in the potash area?

18 A. Yes, we are.

19 Q. Let's go to Exhibit Number 3. Would you identify
20 that, please?

21 A. Exhibit Number 3 is a working interest owner --
22 ownership breakdown. There's three colored outlines I want
23 to describe for you. The black outline is a deep working
24 interest unit outline that is operated by Hondo Oil & Gas,
25 and the ownership under that black outline is described on

1 the bottom with the plat itself and the ownership.

2 The purple outline is Collins & Ware's Teas deep
3 working interest unit that they have formed, and we have the
4 names and percentages of the ownership in that particular
5 unit. And the red outline is the proposed 320-acre drilling
6 unit which represents -- which is a combination of all the
7 owners in the black outline and the purple outline.

8 Q. Mr. Elliott, Collins & Ware sought an order force
9 pooling the north half of Section 13 on May 2nd, did they
10 not?

11 A. Yes, we did.

12 Q. What is the status of that application?

13 A. That application has been approved, and the --
14 it's basically a companion case in this matter.

15 HEARING EXAMINER: North half of 13?

16 MR. CARR: Yes, sir.

17 Q. (By Mr. Carr) At that time were you seeking an
18 order approving the very same interest that you're seeking
19 be pooled in this case here today?

20 A. Yes, we are.

21 Q. The original well shown on the third page of
22 Exhibit Number 1, was that well originally drilled at a
23 standard location?

24 A. Yes, it was.

25 Q. Let's move now to Exhibit Number 2.

1 A. Exhibit Number 2 is the summary of the ownership
2 of the south half of Section 13. Again, it's a combination
3 of the Teas working interest unit interest and parties in a
4 combination of Mahaffey deep work interest unit ownership
5 and, again, it's a combination both in the percentages and
6 the tubbles.

7 Q. What percentage of the working interest has been
8 voluntarily committed to this unit?

9 A. We have either verbally or in writing 94.143
10 percent.

11 Q. Perhaps you should go through Exhibit Number 2
12 and just briefly indicate those interest owners who have
13 agreed to partnership, and therefore not subject to the
14 pooling order, and those from whom you have a verbal or some
15 other arrangement.

16 A. Let me go down the list. Starting with Scope
17 Energy, we do have a written response from them.

18 Q. They're joining?

19 A. They're joining. Anadarko, we have a verbal
20 commitment. Todd Wilson, written response. Myself, Roger
21 Elliott, written response. Scott Wilson, Richard Barr,
22 written response. We have from Mitchell Energy and Santa Fe
23 Energy farmouts covering Section 13.

24 Q. Those have been signed?

25 A. Yes, they have. Hondo Oil & Gas, we have a

1 letter written from them that they will either participate
2 or farmout to the well proposal.

3 Q. So they are actually committed to the well?

4 A. Yes.

5 Q. Okay.

6 A. We have AFE from Culbertson Management, A.W.
7 Dugan. Of course, Collins & Ware is the operator, has
8 agreed to participate. And we have farmouts from Carol Day,
9 Barbara Hart, Fred Newcomb and Grace Eads.

10 Q. The remaining parties can be only brought in by
11 virtue of the pooling order; is that correct?

12 A. At this point in time we're waiting for
13 decisions.

14 Q. Let's move now to your Exhibit Number 3, which is
15 the AFE. I'd ask you to review the totals on this AFE for
16 the Examiner.

17 A. The dry hole cost to casing point is
18 \$772,510.00. The completed cost is \$1,173.760.00.

19 Q. Are those costs in line with what's being charged
20 by other operators in the area for similar wells?

21 A. Yes, they are.

22 Q. Could you briefly summarize for Mr. Morrow your
23 efforts to obtain voluntary joinder in this well?

24 A. Based upon federal and county record checks and
25 drilling title opinion covering a portion of -- south half

1 of Section 13, I determined the ownership covering the south
2 half of Section 13. Based on that, I sent out certified
3 letters dated May 6th, 1991, requesting the parties to
4 either participate, sell their interest or farmout to our
5 proposed well location. In addition, I had followup with
6 telephone calls to the parties who haven't responded to our
7 proposal.

8 Q. In your opinion, have you made a good faith
9 effort to identify and obtain the voluntary joinder of all
10 interest owners in the south half of Section 13?

11 A. Yes, I do.

12 Q. Would you identify Exhibit Number 4, please?

13 A. Exhibit Number 4 is our certified letter to the
14 working interest owners in the south half of Section 13
15 whereby, again, requesting either participation, selling
16 their interests or farming out to us for our proposed well.

17 Q. Attached to that are return receipts that you've
18 received back on that letter?

19 A. Yes, they are.

20 Q. What is the last document contained in Exhibit
21 Number 4, a letter dated August 27th, 1990?

22 A. That letter is a letter from Noranda Exploration
23 who owns the potash leases in this LMR, granting us waiver
24 to objection to drill within their -- on their potash
25 leases.

1 Q. Behind that is a letter from Rio Pecos?

2 A. Wilson & Elliott.

3 Q. That's all related to the Noranda waiver?

4 A. Yes, it is.

5 Q. Is Exhibit Number 5 a copy of an affidavit from
6 Campbell & Black confirming that notice of this hearing has
7 been provided in accordance with Oil Conservation Division
8 rules and regulations?

9 A. Yes, it is.

10 Q. Were Exhibits 1 through 5 either prepared by you
11 or compiled under your direction and supervision?

12 A. Yes, they were.

13 MR. CARR: At this time, Mr. Morrow, we would move the
14 admission of Collins & Ware Exhibits 1 through 5.

15 HEARING EXAMINER: 1 through 5 are admitted.

16 MR. CARR: That concludes my direct examination of Mr.
17 Elliott.

18 HEARING EXAMINER: On the potash area, Mr. Elliott,
19 what was the testimony concerning the requirement to drill a
20 well within a certain distance of another well?

21 THE WITNESS: This being LMR Noranda, of course, they
22 do have, in their opinion, a mineable ore body. And we had
23 a meeting with the BLM in Carlsbad, New Mexico, asking for
24 their support in drilling this well. And they determined by
25 virtue of us drilling within a hundred-foot radius of

1 preexisting well bores, we would prevent waste of their ore
2 body, being Noranda.

3 HEARING EXAMINER: Is that well within a hundred feet,
4 is it identified anywhere on any of these exhibits?

5 THE WITNESS: That -- well, of course, the red dot is a
6 landman's location. That is supposed to be within a
7 100-foot radius of preexisting well bore.

8 HEARING EXAMINER: I meant the preexisting well bore,
9 is it identified anywhere?

10 Q. (By Mr. Carr) Do you know the exact location of
11 the preexisting well bore?

12 A. Our geologist does.

13 MR. CARR: I will have the geologist cover that area.

14 HEARING EXAMINER: On the Exhibit Number 2, could you,
15 for me, identify those who have not agreed to participate?
16 I believe I can mark those easier.

17 THE WITNESS: We'll waiting on decisions from William
18 Saunders, Grace Petroleum Corporation, Glenna Anderson.

19 HEARING EXAMINER: G-r-a-c-e?

20 THE WITNESS: Yes, sir.

21 HEARING EXAMINER: Okay.

22 THE WITNESS: Glenna Anderson, Betty Hays.

23 HEARING EXAMINER: Betty Hays?

24 THE WITNESS: Yes, sir. Ellwood Oil Company and Judy
25 Flick.

1 HEARING EXAMINER: How about Collins & Ware?

2 THE WITNESS: Well, they are the operator of this
3 particular well, and they have agreed to participate.
4 Anadarko, we have formed that 560-acre working interest
5 unit. They have agreed to join that unit. And, again, they
6 have -- we have it in writing and a verbal to participate in
7 this well.

8 HEARING EXAMINER: On the third part of Exhibit 1, the
9 red outlined area, which area -- is that area one of these
10 Teas or Mahaffey areas that are identified on Exhibit 2?

11 THE WITNESS: The Teas' working interest outlined is
12 depicted in purple; that's the working interest unit that
13 Collins & Ware has formed. The black outline, again, is
14 another working interest unit that is operated by Hondo Oil
15 & Gas. It's the northwest of the southwest quarter. And
16 the the red outline encompasses both of those outlines.

17 HEARING EXAMINER: So the Mahaffey part of it is the 40
18 acres that's part of the black --

19 THE WITNESS: Yes, sir.

20 HEARING EXAMINER: -- portion. And Richard Barr, did
21 he -- I've got him checked off as agreeing to participate.

22 THE WITNESS: Right.

23 HEARING EXAMINER: Any questions, Mr. Stovall?

24 MR. STOVALL: No questions.

25 HEARING EXAMINER: Tom, did you have any questions?

1 MR. KELLAHIN: No, sir. Thank you.

2 HEARING EXAMINER: Witness may be excused.

3 MR. CARR: At this time we call Todd Wilson.

4 TODD WILSON

5 the witness herein, having been first duly sworn, was
6 examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. CARR:

9 Q. Will you state your full name for the record,
10 please?

11 A. Todd Wilson.

12 Q. Where do you reside?

13 A. Midland, Texas.

14 Q. By whom are you employed and in what capacity?

15 A. I'm employed by Collins & Ware as the consultant
16 for this case.

17 Q. Have you previously testified before the Oil
18 Conservation Division and had your credentials accepted and
19 made a matter of record?

20 A. Yes.

21 Q. How were you qualified at that time, as a
22 petroleum geologist?

23 A. Yes.

24 Q. Are you familiar with the application filed in
25 this case on behalf of Collins & Ware?

1 A. Yes.

2 Q. Are you familiar with the subject proration unit
3 and the proposed unorthodox well location?

4 A. Yes.

5 Q. Mr. Wilson, before we begin, could you provide
6 the Examiner with the exact location of the original well in
7 the south half of Section 13?

8 A. The original well is the shallow oil well. It
9 was drilled in a legal location 2,310 feet from the south
10 line, 1,980 feet from the east line, Section 13, Township 20
11 South, Range 33 East.

12 Q. Mr. Wilson, you've prepared certain exhibits for
13 presentation in this hearing?

14 A. Yes, I have two exhibits.

15 Q. They're displayed on the wall?

16 A. Yes, they are.

17 Q. Would you go to the exhibits and first identify
18 Exhibit Number 6 and review that for Mr. Morrow?

19 A. Exhibit Number 6 is a cross-section. It's a
20 stratigraphic cross-section hung on a datum. On this
21 cross-section, there are three sand systems that are
22 displayed. Two of them are productive in the area. The
23 first one, the lowermost one, was in the Lower Morrow. It's
24 a confined, entrenched-type sand system. It's a very
25 difficult target to find. The second producing zone is in

1 the Middle Morrow. The Middle Morrow has been divided into
2 two zones; the lower zone which I've termed the Saffire
3 System, and the upper zone which I've termed the Laguna
4 System, which is the primary pay zone in this area.

5 The Saffire System is a deep water, low
6 energy-type of delta environment that led to the development
7 of the low porosity, permeability-type reservoirs, has poor
8 quality -- very poor qualities for production.

9 The upper part of it is the high energy part, or
10 the Laguna System, is the high energy part of the delta
11 complex. And that's the main pay zone. And it is capped by
12 a fluvial system that migrates outward into a baseboard
13 direction.

14 Q. Your primary objective is the Laguna System?

15 A. Yes.

16 Q. Let's go to Exhibit Number 7, the structure map.
17 Would you review that for the Examiner?

18 A. Exhibit Number 7 is a structure map. The
19 cross-section that I have displayed to you is CC prime. It
20 starts here in Section 31, goes down to Section 6 and
21 traverses in a southwesterly direction into 23 and into 26.
22 Basically, it's a cross-section to define the strike of the
23 system. The structure in area that we're proposing to
24 drill, our proposed drill site is here in green. The dry
25 hole, or the old abandoned well, in the area that we're

1 offsetting is immediately to the north 100 feet. The
2 structure area is dominated by a northwest-southeast
3 trending nose, drop off into an inclinal trough to the
4 northeast and to the southwest.

5 In the area that we're going to drill, what I
6 have done on here is superimpose the 60-foot net sand
7 isopach of just strictly the Laguna sand system. This
8 displays a distributary-type delta forming in the area. In
9 the upper reaches of area, the sand is relatively confined.

10 In the 7 section area here, there are ten
11 penetrations that went from the Laguna System. Two of them
12 encountered gas production that is considered economic.
13 It's a 20 percent success ratio, so it's a pretty relatively
14 narrowly defined system in the upper regions on it. As you
15 go basinward, the system starts bifurcating outward in a
16 delta-type pattern, and you encounter sands that are in the
17 structure in low position, that are water wet with gas and
18 condensate shoals. And as you go further south, the sands
19 become tight.

20 So the risk in the area, as I see it, are the
21 matter that you have to stay within a minimum subsurface
22 structural position of about minus 9,900 feet to maintain
23 what we consider economical gas production. The drill site
24 in here should fall within a minus 9,900-foot area, but it
25 does not allow much room for air. So there's a pretty high

1 risk on the aspects that the sands are relatively narrow and
2 confined. There's an 80 percent ratio of misses in here.
3 As you go down a bit below this minus 9,900-foot structure
4 position, you're going to encounter water.

5 Q. Basically, what conclusions can you reach from
6 your geologic study of the area?

7 A. Basic conclusions are that I think it's a
8 worthwhile prospect to drill, but it does have high risks.

9 Q. Mr. Wilson, are you prepared to make a
10 recommendation to the Examiner concerning the risk that
11 should be assessed against any nonparticipating interest
12 owner?

13 A. Yes, I am.

14 Q. What would that penalty be?

15 A. I would like to recommend a 200 percent penalty,
16 the maximum.

17 Q. And you believe that there is a chance that at
18 this location you could drill a well that would not be a
19 commercial success?

20 A. Yes, there's a high probability of that.

21 Q. Have you made an estimate of the overhead and
22 administrative costs to be incurred while drilling the well
23 and also while producing it, if it is a successful well?

24 A. Yes, I have.

25 Q. What are those figures?

1 A. \$6,300.00 a month while drilling operations are
2 under way, and \$630.00 a month after the well is completed.

3 Q. Were these figures drawn from the Ernst & Young
4 figures for wells in this area at this depth?

5 A. Yes, they were.

6 Q. And these costs are in line with what's being
7 charged by other operators in the area?

8 A. Yes, they are.

9 Q. Do you recommend that these figures be
10 incorporated into any order which results from this hearing?

11 A. Yes.

12 Q. Does Collins & Ware, Inc. seek to be designated
13 operator of the well?

14 A. Yes.

15 Q. In your opinion, will granting this application
16 be in the best interest of conservation, the prevention of
17 waste and the protection of correlative rights?

18 A. Yes.

19 Q. How soon do you propose to actually commence
20 drilling?

21 A. As quickly as possible.

22 Q. What do you mean by that?

23 A. We would like to have the order expedited and a
24 ruling made as quickly as possible.

25 Q. Were Exhibits 6 and 7 prepared by you?

1 A. Yes, they were.

2 MR. CARR: Mr. Morrow, at this time we would move the
3 admission of Collins & Ware Exhibits 6 and 7.

4 HEARING EXAMINER: Exhibits 6 and 7 are admitted.

5 MR. CARR: That concludes my direct examination of Mr.
6 Wilson.

7 HEARING EXAMINER: Tom, do you have any questions?

8 MR. KELLAHIN: No, sir. Thank you.

9 HEARING EXAMINER: The overhead, fixed overhead
10 charges, were they from the 1990 Ernst & Young survey?

11 THE WITNESS: I believe so, yes.

12 HEARING EXAMINER: What date would you like to spud the
13 well?

14 THE WITNESS: Well, we have a lease that's going to
15 expire on July 31st, and in order to save that lease, we
16 need to have operations under way by July 30th.

17 MR. STOVALL: You don't have a rig standing by or
18 anything like that that you're paying a day rate on, do you?

19 THE WITNESS: I'm not real sure what Collins & Ware has
20 done on that. We do have APD approved on the north half
21 location, and APD is in Carlsbad waiting approval on the
22 south half location right now. And I'm sure that a rig will
23 be readily available when APD is approved.

24 HEARING EXAMINER: What is TD of the well again?

25 THE WITNESS: Approximately 13,900 feet.

1 HEARING EXAMINER: You propose to pool just the Morrow;
2 is that correct?

3 THE WITNESS: Yes.

4 HEARING EXAMINER: In reading the notice, it says more
5 than that.

6 THE WITNESS: It would be all formations based upon
7 320-acre proration unit, which would include the Atoka and
8 the Morrow.

9 HEARING EXAMINER: From the surface down, everything is
10 based on 320.

11 THE WITNESS: Yes.

12 HEARING EXAMINER: Any questions, Bob?

13 MR. STOVALL: No.

14 HEARING EXAMINER: The witness may be excused.

15 MR. CARR: May it please the Examiner, I have the
16 original notice letters with the return receipts that I'd
17 like to provide for your files. We have nothing further in
18 this case.

19 HEARING EXAMINER: Case 10314 will be taken under
20 advisement.

21 (The foregoing hearing was adjourned at the
22 approximate hour of 9:50 a.m.)

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STATE OF NEW MEXICO)
:
COUNTY OF SANTA FE)

I, FREDA DONICA, RPR, a Certified Court Reporter, DO
HEREBY CERTIFY that I stenographically reported these
proceedings before the Oil Conservation Division; and that
the foregoing is a true, complete and accurate transcript of
the proceedings of said hearing as appears from my
stenographic notes so taken and transcribed under my
personal supervision.

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

DATED at Santa Fe, New Mexico, this 30th day of
June, 1991.

Freda Donica
Freda Donica
Certified Court Reporter
CCR No. 417

Reported by Freda Donica, RPR
a Certified Court Reporter, No. 417
the exact transcription of Case No. 10314,
heard by the Oil Conservation Division
[Signature]
Oil Conservation Division