

NEW MEXICO OIL CONSERVATION DIVISION

STATE LAND OFFICE BUILDING

STATE OF NEW MEXICO

CASE NO. 10694

IN THE MATTER OF:

The Application of Santa Fe Energy
Operating Partners, L.P., for
Compulsory Pooling, Lea County,
New Mexico.

BEFORE:

DAVID R. CATANACH

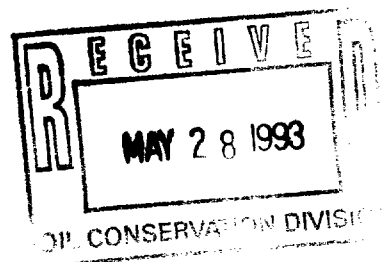
Hearing Examiner

State Land Office Building

May 20, 1993

REPORTED BY:

CARLA DIANE RODRIGUEZ
Certified Court Reporter
for the State of New Mexico

**ORIGINAL**

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
Post Office Box 2068

Santa Fe, New Mexico 87504-2068

BY: **JAMES BRUCE, ESQ.**

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1 EXAMINER CATANACH: At this time we'll
2 call Case 10694.

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

6 EXAMINER CATANACH: Appearances in this
7 case?

8 MR. BRUCE: Mr. Examiner, Jim Bruce
9 from the Hinkle Law Firm in Santa Fe,
10 representing the Applicant, and I have two
11 witnesses to be sworn.

12 EXAMINER CATANACH: Any other
13 appearances? Will the witnesses please stand to
14 be sworn in.

15 [The witnesses were duly sworn.]

16 **CURTIS D. SMITH**

17 Having been first duly sworn upon his oath, was
18 examined and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name and
22 city of residence for the record?

23 A. My name is Curtis Smith. I live in
24 Midland, Texas.

25 Q. Who are you employed by and in what

1 capacity?

2 A. I'm employed with Santa Fe Energy as a
3 landman.

4 Q. Have you previously testified before
5 the Division as a petroleum landman?

6 A. Yes, I have.

7 Q. And your credentials were accepted as a
8 matter of record?

9 A. Yes.

10 Q. Are you familiar with the land matters
11 involved in this case?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I tender Mr.
14 Smith as an expert petroleum landman.

15 EXAMINER CATANACH: Mr. Smith is so
16 qualified.

17 Q. Mr. Smith, would you state briefly what
18 Santa Fe seeks in this case?

19 A. Santa Fe seeks an order pooling all
20 mineral interests, from the surface to the base
21 of the Morrow formation, underlying the north
22 half of Section 18, Township 20 South, Range 34
23 East, in Lea County, New Mexico, for all pools or
24 formations spaced on 40, 160 and 320 acres.

25 MR. BRUCE: Mr. Examiner, we did apply

1 for pooling 40, 160, and 320-acre units. As to
2 160-acre spacing, as our geologist will testify,
3 he doesn't believe there's anything prospective
4 at 160 acres. And, furthermore, this location
5 would be unorthodox, this well location that
6 Santa Fe is drilling would be unorthodox as to
7 160-acre pools.

8 So, we will leave it up to you as to
9 whether we could just--we are satisfied with
10 either dismissing the 160-acre portion or, if it
11 is granted, obviously there would have to be a
12 subsequent unorthodox well location approval if
13 there was any 160-acre zones.

14 Q. Mr. Smith, referring to Exhibit No. 1,
15 would you identify it and discuss its contents
16 for the Examiner?

17 A. Exhibit 1 is the land plat showing the
18 proposed proration unit, north half of Section
19 18, 320-acre proration unit, and the proposed
20 well location.

21 Q. And what is the footage location?

22 A. The footage location is 2130 feet from
23 the east line and 660 feet from the north line,
24 for the Sinagua 18 Fed Com No. 1 well.

25 Q. Who does Santa Fe seek to force pool?

1 A. Doyle Hartman and Larry Nermyr. That's
2 N-E-R-M-Y-R.

3 Q. What percentage interests do they own
4 in the entire north half?

5 A. Hartman owns a .7110 percent, not
6 decimal interest. Larry Nermyr owns a .0156
7 percent, not decimal interest. A total of .7266
8 percent.

9 Q. Okay. Would you please describe your
10 efforts to obtain the voluntary joinder of these
11 two persons?

12 A. Yes. I sent AFEs on February 25,
13 1993. Also, more recently, I called Carolyn
14 Sebastian of Doyle Hartman's office on April 28,
15 1993. She advised me to call Alan Smith, the
16 landman in Hartman's Dallas office. I talked to
17 him on May 11, 1993.

18 Larry Nermyr, I've been told, is
19 retired and he lives on a ranch in Montana. I
20 tried numerous times to contact him on the
21 telephone, and he never answered his telephone
22 and never answered any of my correspondence
23 through the mail.

24 Q. What did Alan Smith tell you with
25 respect to the Doyle Hartman interest?

1 A. Well, I told Mr. Smith that we really
2 didn't want to have to force pool such a small
3 interest, and he said that this was such a small
4 interest that they didn't really have the time to
5 even consider it. And they even asked me which
6 would be better, for them to farm out to us or
7 for us to force pool them, and of course I told
8 him that was their call. And he said, well, our
9 interest is so small, we'll probably have you
10 force pool us.

11 Q. Is Exhibit 2 a copy of the proposal
12 letter you sent a few months back to those two
13 parties?

14 A. Yes. Exhibit 2 is my letter dated
15 February 25, 1993, proposing a well, with the
16 well cost estimate, giving them the opportunity
17 to participate or farm out.

18 Q. And actually the working interest
19 owners you listed are the 14 parties; the other
20 persons have all joined in the well?

21 A. Yes. We have 99.3, roughly, percent
22 joinder, signed the AFEs and the operating
23 agreement.

24 Q. Of the total, what does Santa Fe own in
25 this well?

1 A. We have 49 percent working interest.

2 Q. Santa Fe requests that it be named
3 operator?

4 A. Yes, that's correct.

5 Q. In your opinion, have you made a good
6 faith effort to obtain the voluntary joinder of
7 Mr. Hartman and Mr. Nermyr?

8 A. Yes.

9 Q. Referring to Exhibit No. 3, would you
10 identify that for the examiner?

11 A. Exhibit 3 is the AFE with the dry hole
12 cost, AFE for the Sinagua 18 Fed Com No. 1 well,
13 a 13,700-foot Morrow gas. Well, dry hole cost is
14 \$648,000, and completed well cost of \$1,024,000.

15 Q. Is this proposed well cost in line with
16 those normally encountered in drilling wells to
17 this depth in this part of Lea County?

18 A. Yes, it is.

19 Q. Do you have a recommendation as to the
20 amounts which Santa Fe should be paid for
21 supervision and administrative expenses?

22 A. Yes. We would like \$5,200 per month
23 for drilling overhead rate, and \$520 per month
24 for producing well rate, and this is in line with
25 the Ernst & Young 1992 survey.

1 Q. Do you request that operating charges
2 be escalated annually?

3 A. Yes, and we would like for them to be
4 escalated pursuant to the COPAS procedures. And
5 Exhibit 4 is the 1984 on-shore COPAS; also, an
6 escalation adjustment attached.

7 MR. STOVALL: Mr. Bruce, may I
8 interrupt you for a second? Let's clarify
9 terminology. Actually, I believe the COPAS
10 procedure is "adjust" rather than "escalate."

11 MR. BRUCE: That's correct, Mr.
12 Stovall. I'm a little loose with my verbiage,
13 perhaps.

14 MR. STOVALL: Most of the time it's an
15 increase, but I think for the language of the
16 order, I think it should say it can be adjusted
17 up or down.

18 MR. BRUCE: Yes. It could be
19 decreased.

20 Q. And Exhibit 4, which contains the COPAS
21 1984, that is what the consenting parties have
22 agreed to on your operating agreement?

23 A. That's correct. For the most part,
24 that's the COPAS that I attached to the operating
25 agreement, with the same overhead rates and 99.3

1 percent of the parties have agreed to this.

2 Q. The first sheet of Exhibit 4 is just a
3 listing of the annual adjustments?

4 A. That's correct.

5 Q. And are the overhead charges that you
6 have recommended, in line with amounts normally
7 charged by Santa Fe in this area?

8 A. Yes, they are.

9 Q. Is Exhibit 5 your affidavit regarding
10 notice to Mr. Hartman and Mr. Nermyr?

11 A. Yes, it is, with letters attached and
12 also copies of the green cards attached.

13 Q. What penalty do you recommend against
14 the nonconsenting interest owners?

15 A. Cost plus 200 percent, which is in line
16 with the industry standard, and also in line with
17 our operating agreement which the other partners
18 have signed.

19 Q. Will the geologist also discuss this
20 issue?

21 A. Yes, he will.

22 Q. In your opinion, is the granting of
23 this application in the interest of conservation
24 and the prevention of waste?

25 A. Yes, it is.

1 Q. Were Exhibits 1 through 5 prepared by
2 you or under your direction?

3 A. That's correct.

4 MR. BRUCE: Mr. Examiner, I move the
5 admission of Exhibits 1 through 5.

6 EXAMINER CATANACH: Exhibits 1 through
7 5 will be admitted as evidence.

8 EXAMINATION

9 BY MR. STOVALL:

10 Q. A couple of questions, Mr. Smith.
11 Looking at your working owners list on your
12 letter you sent out?

13 A. Uh-huh.

14 Q. You have several of them where you say,
15 "force pool," where you've made a note.

16 A. These are erratic phone conversation
17 notes. I mean, it's not a complete record of all
18 my notes that I took during phone conversations.

19 The parties 1 through 6, on my working
20 interest owner list, we signed operating
21 agreements as early as December, January. And
22 these other, 7 through 14, those are the parties
23 that did not sign the operating agreement and AFE
24 back in December, so those were the parties that
25 I thought that I might have to force pool.

1 And over telephone conversations in the
2 last few months, all but the two, Doyle Hartman
3 and Larry Nermyr, have elected to participate,
4 and they eventually signed the AFEs and the
5 operating agreement.

6 Q. So, they have actually signed, so
7 you're--

8 A. Yes.

9 Q. --you're not concerned about a change
10 of heart or anything in this case?

11 A. Oh, no. I have signed AFEs from
12 everybody, and signed operating agreements from
13 everyone except Doyle Hartman and Larry Nermyr.

14 Q. As far as the risk penalty, you've
15 stated, from a landman standpoint, that 200
16 percent is in the operating agreement. Are you
17 aware that the operating agreement refers to the
18 penalty as a nonconsent penalty, and the statute
19 has a charge for risk, and there is a
20 distinction?

21 A. I've never looked at it in that light.

22 Q. But you have testified that the
23 geologist is going to explain the risk factors to
24 be included in that?

25 A. That's correct.

1 MR. STOVALL: I don't have any other
2 questions.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Nermyr did receive your
6 correspondence, is that correct?

7 A. Yes. In Exhibit 5, I have copies of
8 the green card that he signed.

9 MR. BRUCE: And on Exhibit 2, Mr.
10 Examiner.

11 A. He signed May 7th for the letter with
12 the application attached, and he signed March
13 10th for my February 25th letter in which we
14 proposed the well and asked them to participate
15 or farm out.

16 MR. STOVALL: Mr. Smith, were these
17 letters actually mailed on the 29th, April 29th?
18 because the receipt dates are within the 20 days,
19 and I just need your testimony--

20 THE WITNESS: If it was not April 29th,
21 it was the day after.

22 MR. STOVALL: April 30th?

23 THE WITNESS: Uh-huh.

24 EXAMINER CATANACH: I have nothing
25 further. The witness may be excused.

1 MR. BRUCE: I would call Mr. White to
2 the stand.

3 DAVID L. WHITE

4 Having been first duly sworn upon his oath, was
5 examined and testified as follows:

6 EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your full name
9 and city of residence for the record?

10 A. David L. White. Midland, Texas.

11 Q. Who do you work for and in what
12 capacity?

13 A. I'm a senior geologist with Santa Fe
14 Energy Resources.

15 Q. Have you previously testified before
16 the Division?

17 A. No, I have not.

18 Q. Would you please outline your
19 educational and work background?

20 A. Certainly. I received by B.S. degree
21 in geology in 1977 from Indiana University. From
22 77 to 79 I did graduate work in geology at
23 Western Michigan University.

24 In 1979, I accepted a position as a
25 petroleum geologist with Phillips Petroleum.

1 From 1984 to 1991, I was employed by Phillips
2 Petroleum in the Odessa office, working
3 exploration exploitation projects in the Permian
4 Basin, largely in New Mexico.

5 In 1991, I left Phillips and accepted
6 my present position with Santa Fe, working New
7 Mexico.

8 Q. And so your area of responsibility does
9 include Southeast New Mexico?

10 A. Yes.

11 Q. Have you conducted a geological
12 examination of the area involved in this
13 application?

14 A. I have.

15 Q. Have you prepared some exhibits which
16 will be submitted today?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I tender Mr.
19 White as an expert petroleum geologist.

20 EXAMINER CATANACH: Mr. White is so
21 qualified.

22 Q. Mr. White, referring to Exhibit 6,
23 would you identify that for the Examiner and
24 discuss its contents?

25 A. Certainly. Exhibit 6 is a production

1 map for a portion of Township 20 South, Range 34
2 East. On there, the hatched pattern indicates
3 the acreage that Santa Fe Energy controls. The
4 red square indicates our proposed location for
5 the Sinagua 18 Fed Com No. 1.

6 The other wells are colored and labeled
7 according to their producing horizons.

8 Q. What are the main zones of interest in
9 this area?

10 A. The main zone of interest is the Lower
11 Morrow sands.

12 Q. And, based on this map, what other two
13 or three zones--

14 A. Secondary potential exists in the
15 Middle Morrow, as well as in the Bone Spring and
16 the Delaware.

17 Q. Would you please move on to Exhibit 7
18 and discuss the target zone.

19 A. Exhibit 7 is an isopach map of the net
20 porosity in the Lower Morrow, porosity of eight
21 percent or better in those Lower Morrow sands.

22 The trend of this porosity is basically
23 north/south. It corresponds with the interpreted
24 deposition of the Lower Morrow, that being
25 channelized sands that prograded from the north

1 to the south.

2 As mapped, our well has the potential
3 for 25 feet of clean, porous sand, and A - A' is
4 a cross-section through that location.

5 Q. Now, looking at this map, it appears
6 that moving to a standard location 1980 from the
7 east line of the section might even be better.
8 Why are you moving to the west?

9 A. There's a north/south pipeline through
10 the standard location, and we've moved to the
11 west to avoid that.

12 Q. Would you please then move on to your
13 cross-section and discuss what it shows?

14 A. Certainly. This cross-section is a
15 stratigraphic cross-section. The datum is the
16 top of the Lower Morrow.

17 This cross-section shows the inherent
18 potential as well as risks in the Lower Morrow.
19 Because of the lenticular nature of these sands
20 and the way they were deposited as channel sands,
21 we have the positive potential of encountering
22 the 25 feet I had mentioned.

23 We also, unfortunately, have the risk
24 of being in a position where the channel may be
25 either to the east of us or west, but most likely

1 to the east, in which case we can encounter
2 anywhere from zero to a minimum amount of porous
3 sand.

4 Q. Looking back at your Exhibit 6, you are
5 stepping out from those producers to the north,
6 are you not?

7 A. That's correct.

8 Q. There's really nothing, very little to
9 the south or to the east which would be of
10 assistance to you?

11 A. That's correct.

12 Q. In your opinion, what risk penalty
13 would you recommend against any nonconsenting
14 interest owners?

15 A. Cost plus 200 percent.

16 Q. This is a fairly deep well, too, isn't
17 it?

18 A. Yes, 13,700 feet.

19 Q. There's always a chance of a mechanical
20 risk involved in drilling a deep well?

21 A. That's true.

22 Q. In your opinion, is the granting of
23 this application in the interest of conservation,
24 the prevention of waste and the protection of
25 correlative rights?

1 A. Yes.

2 Q. Were Exhibits 6 through 8 prepared by
3 you or under your direction?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I move the
6 admission of Santa Fe Exhibits 6 through 8.

7 EXAMINER CATANACH: Exhibits 6 through
8 8 will be admitted as evidence.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. White, the primary objective would
12 be the Lower Morrow zone?

13 A. Yes.

14 Q. Is there potential in the Middle
15 Morrow?

16 A. Yes, there is. However, the nearest
17 offset, that's that Hamon Federal "A" No. 1, was
18 tested in the Middle Morrow, and they even
19 acidized. It proved nonproductive, and they went
20 back down and recompleted in the Lower Morrow.

21 The Hamon Fed No. 1 is completed in
22 both the Lower and Middle Morrow.

23 Q. You said the potential productive zones
24 are Morrow, Bone Spring and Delaware, is that
25 correct?

1 A. Yes.

2 Q. Nothing really in between there?

3 A. Nothing really in between. I haven't
4 seen anything that looks potential in the Hamon
5 well to the north, or any of the other wells in
6 the immediate area.

7 EXAMINER CATANACH: I don't have
8 anything else. The witness may be excused.

9 Anything further, Mr. Bruce?

10 MR. BRUCE: No, sir.

11 EXAMINER CATANACH: There being nothing
12 further, Case 10694 will be taken under
13 advisement. And the hearing is adjourned.

14 (And the proceedings concluded.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10694,
heard by me on May 20 1993.
David R. Catanch, Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
5 COUNTY OF SANTA FE)

6 I, Carla Diane Rodriguez, Certified
7 Court Reporter and Notary Public, HEREBY CERTIFY
8 that the foregoing transcript of proceedings
9 before the Oil Conservation Division was reported
10 by me; that I caused my notes to be transcribed
11 under my personal supervision; and that the
12 foregoing is a true and accurate record of the
13 proceedings.

14 I FURTHER CERTIFY that I am not a
15 relative or employee of any of the parties or
16 attorneys involved in this matter and that I have
17 no personal interest in the final disposition of
18 this matter.

19 WITNESS MY HAND AND SEAL May 21, 1993.
20

21
22 
23 CARLA DIANE RODRIGUEZ, RPR
24 CCR No. 4
25