

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO 87501

3 December 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Energy Oper- CASE
ating Partners, L.P., for compul- 9046
sory pooling, Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: James G. Bruce
Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87501

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PATRICK J. TOWER

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CURTIS ANDERSON

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MR. STOGNER: Call next Case
Number 9046.

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

MR. STOGNER: Call for
appearances.

MR. BRUCE: Mr. Examiner, my
name is Jim Bruce, representing the applicant and I have two
witnesses, one of whom was previously sworn.

MR. STOGNER: Which one?

MR. BRUCE: Mr. Anderson.

MR. STOGNER: Okay, let the
record show that Mr. Anderson has been previously sworn and
his qualifications were accepted at that time.

Are there any other
appearances?

Will the remaining witness
please stand at this time and be sworn.

(Witness sworn.)

MR. STOGNER: Please continue,
Mr. Bruce.

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

5
6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q Mr. Tower, would you please state your
9 full name and your city of residence?

10 A It's Patrick Tower and I live in Midland,
11 Texas.

12 Q And who is your employer and what is your
13 occupation?

14 A I'm a petroleum landman with Santa Energy
15 Company; Santa Fe Energy Operating Partners, L.P.

16 Q Have you previously testified before the
17 OCD as an expert and as a petroleum landman?

18 A Yes, I have.

19 Q And are you familiar with the land mat-
20 ters involved in this case?

21 A Yes, I am.

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

24 MR. STOGNER: Mr. Tower's cre-
25 dentials are acceptable.

1 One, describe its contents and also the interest owners in
2 the proposed unit?

3 A Okay. Exhibit One is a land plat with
4 the yellow outline indicating the proration unit for the
5 Sprinkle Federal No. 4.

6 The working interest ownership involved
7 there includes Santa Fe, TXO Production Corporation, Frank
8 Shogrin, PetroAtlas Corporation, J. Cecil Rhodes, Lewis Bur-
9 leson, and O. H. Berry.

10 Q Has Santa Fe made a good faith effort to
11 get these parties to commit their interest to the well?

12 A Yes, we have.

13 Q And which parties do you seek to force
14 pool?

15 A At this time we're going to name TXO Pro-
16 duction Corporation, well, all the parties that we named
17 previously.

18 Q In other words, no formal agreements have
19 been signed with any of these --

20 A Not at this time, no.

21 Q Was notice of this hearing sent by certi-
22 fied mail to the interested parties?

23 A Yes, it was.

24 Q And is that submitted as Exhibit Number
25 Two?

1 A Yes, it is.

2 Q Would you please refer to Exhibit Number
3 Three and discuss the projected well costs?

4 A Exhibit Three is our original proposal
5 letter to the other working interest owners. Attached to it
6 as the back page is the well cost estimate, which prescribes
7 an estimated dry hole cost of \$255,962 and an estimate if we
8 drill a producer of \$509,297.

9 Q Are these well costs in line with other
10 Bone Spring wells drilled in this area?

11 A Yes.

12 Q And what charges for supervision do you
13 request?

14 A We would request a drilling well rate of
15 \$4100 and a producing well rate of \$410.

16 Q What penalty does Santa Fe seek against
17 the nonconsenting owners?

18 A We seek the 200 percent.

19 Q Is this a figure commonly used in Santa
20 Fe's operating agreements in southeastern New Mexico?

21 A Yes, it is.

22 Q Were Exhibits One, Two, and Three pre-
23 pared by you or under your direction?

24 A Yes, they were.

25 Q And in your opinion will granting of this

1 application be in the interest of conservation and the pre-
2 vention of waste?

3 A Yes, it will.

4 MR. BRUCE: Mr. Examiner, at
5 this time I move the admission of Exhibits One through
6 Three.

7 MR. STOGNER: Exhibits One
8 through Three will be admitted into evidence.

9 MR. BRUCE: And I have no fur-
10 ther questions of the witness at this time.

11

12 CROSS EXAMINATION

13 BY MR. STOGNER:

14 Q Mr. Tower, what mineral interests are we
15 here today to consider, from what --

16 A From what depths?

17 Q Yeah.

18 A From 4825 feet beneath the surface to the
19 base of the Bone Spring, which is estimated to be approxi-
20 mately 9700 feet.

21 Q My advertisement showed from the surface
22 to the base of the Bone Spring; however, this amendment
23 won't affect that since we advertised for more --

24 A Okay.

25 Q -- than what we're asking for. Mr.

1 Tower, could you briefly kind of walk me through what was
2 going on with this particular piece of property when Santa
3 Fe Energy acquired it?

4 A Yes. We earlier in this year, approxi-
5 mately March, April, May, acquired Joseph Sprinkle's inter-
6 est in the lease involved in this hearing, including this
7 well and also several of the other wells in this area.

8 At the time we acquired it Joseph
9 Sprinkle had been force pooled, was under a forced pooling
10 order that I believe they filed de novo, and we took his po-
11 sition and were subject to the forced pooling and required
12 to make an election shortly after we acquired the property.

13 We agreed with TXO, who was the operator
14 at that time, that we would waive -- we would join the well
15 and that we preferred to go on an operating agreement and do
16 away -insofar as the hearing was concerned. They agreed and
17 we mutually entered into a join operating agreement.

18 They extended, they had some farmouts and
19 also extended that pooling insofar as it concerned some of
20 these other working interest owners until October 7th of this
21 year, and at that time, or shortly thereafter, they advised
22 us that they did not plan to continue with the well.

23 We had also granted them an extension on
24 the operating agreement and, as we have advised them, and as
25 it was the plans of the other parties to drill it this year,

1 we decided to go ahead and proceed and try to get that ac-
2 complished.

3 Q So Santa Fe and TXO and essentially
4 everybody was the notification that something was going to
5 be done or drilled on there --

6 A Probably since January of this year.

7 Q Okay.

8 MR. STOGNER: I have no further
9 questions of Mr. Tower.

10 Are there any other questions
11 of this witness?

12 He may be excused.

13 Mr. Bruce.

14 MR. BRUCE: Mr. Anderson has
15 been previously sworn and qualified.

16 MR. STOGNER: Let the record so
17 show.

18

19 CURTIS ANDERSON,

20 being called as a witness and being previously sworn upon
21 his oath, and remaining under oath, testified as follows,
22 to-wit:

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DIRECT EXAMINATION

BY MR. BRUCE:

Q Mr. Anderson, would you refer to Santa Fe's Exhibit Number Four and discuss the geology in this area?

A This is a structure map on a marker within the First Bone Springs formation. This marker is immediately above the main pay zone of the Querecho Plains Upper Bone Springs Field.

It is at a scale of one inch equals 1000 feet. The proposed No. 4 Sprinkle is indicated in the red square.

Q Do you have an opinion as to a penalty which should be assessed against nonconsenting interest owners in this case?

A Yes. I think we ought -- the requested 200 percent penalty.

Q And what do you base this on, Mr. Anderson?

A This -- this map, of course, shows the green colored wells, in this case the medium green is our wells that are producing from the main pay sand within this field. You can see that our proposed location is well within the limits of the field, yet offsets a well which is the

1 No. 1 -- No. 3 Sprinkle. It is an immediate west offset.
2 This is a good well for the field. It's producing at a
3 reasonable rate.

4 The well immediately to the east is a
5 well completed in 4-86. It is the No. 3 Burleson, drilled
6 by TXO. It is a very marginal producer.

7 As is the case in many of these wells,
8 they also produce a lot of water with -- with the oil that
9 they do produce.

10 I think the risk involves the elusive
11 nature of different sand that we're looking for in this --
12 in this field.

13 Q Was Exhibit Four prepared by you?

14 A Yes.

15 Q And in your opinion will the granting of
16 the application be in the interest of conservation and the
17 prevention of waste?

18 A Yes, I do.

19 MR. BRUCE: I have -- move the
20 admission of Exhibit Number Four, Mr. Examiner.

21 MR. STOGNER: Exhibit Number
22 Four will be admitted into evidence.

23 MR. BRUCE: I have no further
24 questions of the witness at this time.

25

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Anderson, you seem to be offsetting producing wells on almost all sides except for perhaps the southwest quarter of this particular well.

Did you take that into account whenever you were thinking about asking for the 200 percent risk penalty?

A Yes, sir. Again, I try to refer to the two wells located on either side of the proposed location that were completed in the same month of this year, and the production information that's written by those, you notice on top the date 4-86, that's the completion date.

The number underneath that date is the cumulative production and that in this case is to the date of 7-1-86, and you can see that the well to the west has produced considerably more oil than the well to the east and in general this is what we're encountering in this particular Bone Spring formation. It's really difficult to predict from one location to the next whether you're going to get a well that -- that is commercial or is going to be marginal.

Q Are those two wells that you referred to, the Sprinkle No. 3 and then the well immediately to the east, are they on pump?

1 A Those two wells, the No. 3 Sprinkle is a
2 flowing well and the No. 3 Burleson, which is the well to
3 the east, is on pump.

4 Approximately half of the wells in the
5 field are on pump.

6 Q How about the well to the south, the one
7 that's completed in the Second Bone Springs production?
8 What it tested in the First Bone Springs?

9 A That well was tested in the First Bone
10 Spring in this field pay. The production tests indicated
11 more water production than oil production, an unbalanced
12 amount. It would just -- it would just require too much of
13 disposing of this water to make it a commercial well. So
14 they did complete in the lower interval in the Second Bone
15 Spring Sand.

16 Q How are these wells usually completed as
17 far as stimulation techniques?

18 A Okay, they are, of course, drilled. They
19 don't set any intermediate casing. They set the surface
20 pipe, drill down, set their casing, perforate, and in order
21 to establish production it requires a sand frac.

22 Q Has Santa Fe Drilling -- I'm sorry --
23 Santa Fe Energy drilled any wells within this particular
24 area or this particular pool?

25 A We have not operated any of these wells.

1 Q Are you aware of any unique drilling
2 problems, situations that one encounters drilling to this
3 depth?

4 A Relatively trouble-free area as far as
5 drilling problems.

6 Q I'm going to touch on that dry hole well
7 -- that dry hole, which is shown to be in the -- oh, it
8 shows to be in the southwest of your proposed well.

9 A Yes, sir.

10 Q It's just due south of the Sprinkle No.
11 3.

12 A Yes, sir.

13 Q Could you tell me about that well?

14 A This was a Queen formation test and it
15 did not reach the objective of this -- of this proposed lo-
16 cation.

17 And that just means that it was shallower
18 than -- that what -- the depth we're going to.

19 All the deep control that wells that have
20 penetrated our proposed formation have been circled on this
21 map.

22 The rest of them are all shallow pro-
23 ducers or dry holes.

24 Q Mr. Anderson, did you have anything to do
25 with the original compulsory pooling orders or cases back

1 about a year, year and a half, two years ago in this parti-
2 cular area?

3 A No, sir.

4 MR. ANDERSON: I have no
5 further questions of Mr. Anderson.

6 MR. BRUCE: I have one.

7

8 REDIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q Mr. Anderson, in the previous forced
11 pooling case do you recall what the penalty, the risk
12 penalty was in the order?

13 A 180 percent.

14 MR. BRUCE: Nothing further,
15 Mr. Examiner.

16 MR. STOGNER: That brings --
17 that was 180 percent and do you have that order number?

18 MR. BRUCE: Just a second and
19 I'll get it for you.

20 MR. TOWER: I believe it's
21 8783, or excuse me, Case No. 8783, Order No. R-8136-A.

22 MR. STOGNER: Thank you, Mr.
23 Tower.

24 Mr. Bruce, do you have anything
25 further in this?

1

MR. BRUCE: No, sir.

2

MR. STOGNER: We accepted

3

Exhibit Number Four, didn't we?

4

If I haven't done so, Mr.

5

Anderson may step down and Case Number 9046 will be taken

6

under advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9046,
heard by me on 3 December 19 86.

Michael P. Rogers, Examiner
Oil Conservation Division