

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MAY 25, 1988 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Bruce Huber	Byrnum	Santa Fe
Tommy Roberts	Tansey Law Firm	Farmington
John C. Corbett	HIXON DEVELOPMENT CO.	FARMINGTON
W. Perry Pearce	Montgomery & Andrews	Santa Fe
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Red Emberton	Dickman, Fack & Vondra	Santa Fe

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NAME	REPRESENTING	LOCATION
Leslie Benty Bill Duncan	GPC Exxon Co. USA	Certina Midland, TX
Mike Decker	Tenneco	Denver
Tim Hower	Tenneco	Denver
David Motloch	Tenneco	Denver
Lawrence Schaney	Eppon	MIDLAND, TX
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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

25 May 1988

EXAMINER HEARING

IN THE MATTER OF:

In the matter of the hearing called CASE
by the Oil Conservation Division on 9379
its own motion to consider the amend-
ment of Division Order No. R-6469-B
by deleting the restriction of the
special rules for the West Puerto
Chiquito-Mancos Oil Pool, Rio Arriba
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:	Charles E. Roybal Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
For Mobil Oil Company:	W. Perry Pearce Attorney at Law MONTGOMERY & ANDREWS Post Office Box 2307 Santa Fe, New Mexico 87504-2307
For Amoco Production Company	Kent J. Lund Attorney Amoco Production Company P.O. Box 800 Denver, Colorado 80201

I N D E X

FRANK CHAVEZ

Direct Examination by Mr. Roybal	5
Cross Examination by Mr. Stogner	10
Cross Examination by Mr. Pearce	11
Cross Examination by Mr. Lund	16

STATEMENT BY MR. PEARCE	20
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STATEMENT BY MR. LUND	22
-----------------------	----

STATEMENT BY MR. ROYBAL	22
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E X H I B I T S

Division Exhibit One, Documents	5
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MR. STOGNER: This hearing will come to order for Docket No. 16-88. Today is May 25th, 1988, and I'm Michael E. Stogner, appointed Hearing Officer for today.

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The first case we'll call is Case Number 9379, which is in the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of Division Order R-6469-B by deleting the restriction of the special rules for the West Puerto Chiquito Mancos Oil Pool, Rio Arriba County, New Mexico.

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Call for appearances.

MR. ROYBAL: I'm Charles Roybal for the Oil Conservation Division.

15

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MR. STOGNER: Are there any other appearances?

17

18

19

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MR. PEARCE: May it please the Examiner, I am W. Perry Pearce of the Santa Fe law firm of Montgomery & Andrews, appearing in this matter on behalf of Mobil Exploration and Producing, Inc.

21

22

MR. STOGNER: Mr. Pearce, do you have any witnesses?

23

24

MR. PEARCE: I do not have, Mr. Examiner.

25

MR. STOGNER: Any additional

1 appearances?

2 MR. LUND: I'm Kent Lund on be-
3 half of Amoco Production Company, and depending on what the
4 Division's case is, we may have a witness.

5 MR. STOGNER: And you're with
6 Amoco, did you say?

7 MR. LUND: Yes, sir.

8 MR. STOGNER: Any other appear-
9 ances in this matter?

10 Will the witness for the OCD
11 please stand and raise your right hand?

12
13 (Witness sworn.)

14
15 You may be seated.

16 Mr. Roybal?

17 MR. ROYBAL: Thank you, Mr.
18 Hearing Examiner.

19
20 FRANK CHAVEZ,
21 being called as a witness and being duly sworn upon his
22 oath, testified as follows, to-wit:

23

24

25

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DIRECT EXAMINATION

3

BY MR. ROYBAL:

4

Q

Would you please state your name, your place of employment, and your job for the record?

6

A

My name is Frank Chavez. I'm employed as District Supervisor for the Oil Conservation Division in the Aztec District Office.

9

Q

Have you previously testified before the Commission or its examiners and had your credentials accepted?

11

12

A

Yes, I have.

13

14

MR. ROYBAL: Mr. Hearing Examiner, are the witness' qualifications acceptable?

15

MR. STOGNER: They are.

16

Q

Mr. Chavez, have you prepared an exhibit in this case?

18

A

Yes, I have.

19

Q

Would you explain what that exhibit is, please?

21

A

Exhibit Number One is the short history of the cases and orders for the rules for the West Puerto Chiquito Mancos Pool.

24

25

It also contains copies of the return receipts for the notices for this case and the very last page

1 is a copy of the map showing the West Puerto Chiquito Mancos
2 Pool and the adjacent pools that produce from the same for-
3 mation.

4 The purpose of this case is to delete the
5 restriction that exists within the West Puerto Chiquito Man-
6 cos rules that allow the rules to be applied only within the
7 limits of the pool.

8 In the development of the fractured Man-
9 cos shale in the San Juan Basin in this area, the -- this
10 rule is too restrictive in allowing for the spacing of wells
11 to be drilled within a mile of the boundary of the pool.

12 The Oil Conservation Division has formed
13 a small study committee to look at fractured shale rules for
14 this area and during that meeting we determined that this
15 rule should be -- or this provision should be deleted from
16 the West Puerto Chiquito rules.

17 On page -- I'll go through the history of
18 this rule briefly.

19 On page one of the exhibit I show first a
20 portion -- or refer to Case Number 2881, which resulted in
21 Commission Order R-2565 --

22 MR. PEARCE: Excuse me, can I
23 break in for just a second. Do we have any more copies of
24 that exhibit, Frank? Kent and I are sort of working in the
25 blind here.

1 MR. CHAVEZ: No, I don't, sorry
2 about that.

3 MR. STOGNER: Okay, let's go
4 off the record for a second. I can get you some.

5 MR. CHAVEZ: We can get some
6 made.

7

8 (Thereupon a short recess was taken.)

9

10 Q Mr. Chavez, could you continue with your
11 explanation of Exhibit Number One, please?

12 A Okay. Case Number 2881 resulted in Order
13 R-2565. The case was an application by Benson-Montin-Greer
14 Drilling Corporation for 160-acre spacing in Rio Arriba
15 County for this pool.

16 The special pool rules were promulgated
17 by that order and on the next page I show a portion of that
18 order and I want to draw your attention to Paragraph Number
19 Five and I'll just go ahead and read what it says there.

20 "That notwithstanding any of the
21 provisions of Rule 104-A of the Commission rules and
22 regulations, the special rules and regulations of the Puerto
23 Chiquito Gallup Oil Pool shall not be applicable outside of
24 the limits of said pool as hereinabove defined or as
25 hereafter extended."

1 On the first page I refer to following
2 cases and orders which continue to these provisions in ef-
3 fect and never -- or never change them, so that currently
4 the 640-acre spacing, the spacing rules, GOR limitations,
5 and other special pool rules for the West Puerto Chiquito
6 Mancos Pool are applicable only within the boundary of the
7 pool.

8 This does create a problem in that we
9 have received and approved an application of Nassau Resour-
10 ces to drill the Laguna Colorado 2 No. 6 Well in Unit Letter
11 G of Section 2, Township 23 North, 1 West. That well is
12 within a mile of the West Puerto Chiquito Mancos Pool but
13 according to the pool rules, the State rules, has to be
14 spaced on 40-acre spacing at this time.

15 I was by the well yesterday and it ap-
16 pears that the well has been drilled and some preliminary
17 testing has been done showing that it is oil productive.
18 There was oil in the tanks.

19 This type of revision was installed --
20 I'll refer to a personal conversation I've had with Mr.
21 Greer, who was the applicant, or the witness for the appli-
22 cant in these cases, is understanding. When he first re-
23 quested these special rules, the -- that limiting provision
24 was that the pool was large enough that they didn't expect
25 the production would extend much beyond or to the boundaries

1 of the pool; however, historically we find that's quite a
2 bit different and therefore he has told me personally that
3 he's not in opposition to this application, and he sees that
4 it has -- has some merit.

5 The deletion of this provision will not
6 affect any existing pools that are being developed in this
7 area.

8 That -- that is all that I have on this
9 case.

10 Q Mr. Chavez, you referred to a study
11 committee, could you tell the Hearing Examiner the number of
12 people on the study committee and who is represented?

13 A Okay. The study committee is looking at
14 drawing up some generic rules for fractured shale on the
15 east side of the San Juan Basin. It is made up of
16 representatives from Mesa Grande, Mallon Oil Company,
17 Benson-Montin-Greer, Mobil Oil Corporation, and Amoco Pro-
18 duction, and, of course, our office.

19 Q And this application is a product of that
20 study -- that study committee?

21 A Yes, it's a product of our discussions on
22 the idea of developing rules for the fractured shale.

23 Q Mr. Chavez, do you have any other
24 testimony you have prepared in this matter?

25 A No, I don't.

1 MR. ROYBAL: Mr. Hearing Exam-
2 iner, I move the admission of Exhibit Number One in this
3 case.

4 MR. STOGNER: Exhibit Number
5 One will be admitted in this case.

6 MR. ROYBAL: That's all we
7 have, Mr. Hearing Examiner.

8

9 CROSS EXAMINATION

10 BY MR. STOGNER:

11 Q Mr. Chavez, in looking at your notifica-
12 tions, are these people the operators and the unknown -- I
13 mean the unleased mineral interest owners in the pool boun-
14 daries at this time?

15 A These are -- these are the operators
16 within the pool and within one mile of the pool.

17 Q Are there any unleased mineral interests
18 out there?

19 A I don't know.

20 Q Do you feel the notification given is
21 adequate to cover Rule No. 1206, SubParagraph (4)?

22 A Yes, I do.

23 Q In looking at your map, at the Exhibit
24 Number One, do the other pools that you show on here, being
25 the Boulder Mancos, the East Puerto Chiquito Mancos, the

1 Gavilan Mancos, and the Regina Gallup, do they have a one
2 mile limitation ruling?

3 A They follow the provisions of Rule 104
4 which do require the one mile -- which do have the one mile
5 provision in there for extensions.

6 Q Okay. You referred to a well that is --
7 that has been drilled in Unit G of Section 1 of 23 North,
8 what was the range?

9 A I'm sorry, it's in Section -- Unit Letter
10 G of Section 2 --

11 Q 2.

12 A -- of 23 North, 1 West.

13 MR. STOGNER: Okay, I have no
14 further questions of this witness.

15 Mr. Pearce?

16

17 CROSS EXAMINATION

18 BY MR. PEARCE:

19 Q Frank, you -- excuse me, Mr. Chavez, we
20 were just talking about the well in Section 2, can I look
21 over your shoulder and --

22 A Yes.

23 Q -- see where that well is?

24 A Okay, and the Regina Gallup shown on this
25 exhibit is a small oil pool, is that correct?

1 A That's correct.

2 Q How many wells in that pool? I'm sorry,
3 are there any wells presently producing in the Regina Gallup
4 Pool?

5 A Yes, there is one well operated by South-
6 ern Union Exploration.

7 Q It's a 40-acre oil pool?

8 A Yes, it is.

9 Q The committee that you talked about, am I
10 correct that that committee has not yet concluded its work?

11 A That's correct.

12 Q At this time the present draft suggests
13 that 640-acre spacing in this formation may be appropriate,
14 is that --

15 A That's correct.

16 Q -- really what we're saying? I'm a lit-
17 tle concerned, if we could start flipping through some of
18 the orders, the page of the Order 2565-C, down at the bottom
19 is that the paragraph which continues that particular pool
20 rule in effect?

21 A Yes.

22 Q Okay, and then when I look at the next
23 page, 6469, R-6469.

24 A Yes.

25 Q That says that it rescinds ordering Para-

1 graphs 2, 3 and 5 of 6525-B.

2 A Yes, 2565-B, not 2565-C.

3 Q B as in boy.

4 A That's correct.

5 Q I understand that, but it may be a small
6 matter, Mr. Chavez, but I understand that 6565-B, Paragraph
7 4, is still in effect because of 65 -- 2565-C, Paragraph
8 5.2.

9 If you're convinced that rule is still in
10 effect, I'm willing to believe it.

11 A Yes, the rule is still in effect.

12 Q Or at least it's still enforced.

13 A It's -- it's still enforced and in ef-
14 fect.

15 Q Okay.

16 A The Page 6 of R-6469 refers to it; did
17 not refer to R-2565-C. It referred only to Paragraphs 2, 3
18 and 5 of R-2565-B, and specifically does not mention Para-
19 graph 4 of 2565-B, which continues the provision in effect.

20 Q Okay. Looking at the map attached to
21 your exhibit, what information do you have about the well in
22 the Regina Gallup Oil Pool?

23 A That well had originally been drilled
24 within the limits of the West Puerto Chiquito Mancos Pool.
25 The pool limits extended to include that section.

1 Q Yes.

2 A Upon investigation of our records, we
3 discovered that that well had only a 40-acre dedication.
4 When we had -- when we notified the operator that they
5 needed to file a 640-acre plat, they at that time preferred
6 to petition the Commission to contract the pool boundaries
7 of the West Puerto Chiquito Mancos Pool and create a new
8 pool.

9 The well itself is a low productivity
10 well averaging between 2 and 3 barrels a day of oil and I
11 don't recall the gas figures now.

12 But because of that testimony apparently
13 they determined that -- or they felt at that time it wasn't
14 draining enough acreage to -- to require 640-acre spacing.
15 So the pool rules, the pool boundaries were contracted on
16 the West Puerto Chiquito Mancos and a new pool created.

17 Q Okay, and we have the well in Section 2,
18 which we discussed. Are there -- what's the next closest
19 well to the south of the West Puerto Chiquito Mancos Pool?

20 A Within the pool boundaries?

21 Q No, south of the pool; south of the West
22 Puerto Chiquito Pool boundary.

23 A The next closest, I don't know. I don't
24 think there is another one productive further south of that.

25 Q Looking to the southeast of the Gavilan

1 Mancos Pool I see a small square that appears to be labeled
2 Lindrith.

3 A Yes.

4 Q I've just lost -- I don't recall what that
5 is. Can you tell me what's going on out there?

6 A Lindrith is a small community.

7 Q That's the city?

8 A It's -- I don't know if it's a city or
9 not. I think it's just an unincorporated village.

10 Q Okay, there's no pool down there so far
11 as you know.

12 A No, no, that's not a pool indication.
13 That's just an indication of the community of Lindrith.

14 Q What's the current spacing on the Boulder
15 Mancos Pool?

16 A Boulder Mancos Pool is on 80 acres.

17 Q East Puerto Chiquito?

18 A East Puerto Chiquito is 160-acre spacing.

19 MR. PEARCE: Okay, that's all
20 the questions I have, Mr. Examiner. Thank you. Thank you,
21 Mr. Chavez.

22 MR. STOGNER: Mr. Lund?

23

24

25

CROSS EXAMINATION

BY MR. LUND:

Q Mr. Chavez, I'm not going to ask you a bunch of those questions about the order.

I think Mr. Pearce asked you where the nearest producing well south of the West Puerto Chiquito Mancos boundary, where that nearest producing well to that Nassau Well is, and you said you didn't know of any. Is that correct?

A Well, I don't recall it. I'm not saying that there aren't any. I didn't look at the records to look for the furthest -- the nearest well further south.

Q How about the nearest well in the pool boundary of West Puerto Chiquito?

A The nearest well within the pool boundaries is the -- another well that's operated by Nassau Resources, Incorporated, the Wishing Well 35 No. 7. It's located in Unit Letter G of Section 35 of 20, 1, which is directly one mile north of this Laguna Colorado 2 No. 6.

Q So how far north is it from that new Nassau well, if you know?

A One mile.

Q One mile, and then are there any other wells in the southern portion of West Puerto Chiquito that are nearby the new Nassau well?

1 A Yes. The Amoco Production Corporation
2 State CC No. 1 in Unit Letter J of Section 26, Township 24
3 North, 1 West. It is a mile north of the Laguna -- I'm sor-
4 ry, of the Wishing Well 35 No. 7.

5 Q So the Wishing Well is a mile north of
6 the Nassau well and then the Amoco well is a mile north of
7 that.

8 A That's correct.

9 Q Any other wells in that southern area
10 within the pool boundary of West Puerto Chiquito?

11 A Not that close. There's an injection
12 well, I don't recall the number of it, that is four miles
13 further north of the Amoco State CC No. 1, but that is more
14 towards the center of the township and closer to the inter-
15 ior pool -- interior of the pool.

16 Q Is it fair to say that the southern area
17 of West Puerto Chiquito is pretty undeveloped?

18 A Yes, it is. This was, I think, part of
19 the anticipation in promulgating rules with this restric-
20 tion, was that production really wasn't anticipated in
21 there, but now we have two producing wells, the Amoco State
22 CC and the Nassau Wishing Well, that indicate that that area
23 is productive, and that these rules, especially in this
24 area, this restricted provision, won't be helpful in devel-
25 oping the oil and gas further south.

1 Q Particularly in the southwest portion of
2 West Puerto Chiquito, there are no wells, are there?

3 A That's correct.

4 Q And what about the development to the
5 north of West Puerto Chiquito, in particular in the
6 northwest portions of that pool? Is it fair to say that
7 that area of the pool is also undeveloped?

8 A Yes.

9 Q How are the Gavilan rules different than
10 the West Puerto Chiquito rules?

11 A There isn't a big difference in the pools
12 -- in the two pool rules, except for this one provision
13 about the one mile limitation and a buffer zone provision
14 within those rules between the pools.

15 Q Is it fair to say that the Gavilan Pool
16 is quite well developed up to its eastern border?

17 A Yes.

18 Q If there's a conflict in the -- either
19 the Gavilan rules or the West Puerto Chiquito rules or the
20 statewide rules, which rules would apply for lands within
21 the buffer area, the proposed buffer area in your
22 application?

23 A I guess I don't understand the question.
24 I don't have a proposed buffer area in my application. Do
25 you refer to the one mile limitation?

1 Q Yes.

2 A Right now we are, within our office, we
3 are using the township dividing line between Range 1 West
4 and 2 West to determine whether a well would be developed on
5 Gavilan Mancos rules or West Puerto Chiquito Mancos Pool
6 rule.

7 Q Okay, for example, you're familiar with
8 the Bear Canyon Unit?

9 A Yes, I am.

10 Q And it's my understanding that the wells
11 permitted in the Bear Canyon Unit have been permitted under
12 the Gavilan rules, is that correct?

13 A That's correct. They are on the west
14 side of the dividing line between Range 1 West and 2 West.

15 Q And if your application is granted now,
16 which rules would apply?

17 A For those particular wells in the Bear
18 Canyon Unit?

19 Q Yes.

20 A The Gavilan rules.

21 Q Even though you want to extend that one
22 mile area further to the west than West Puerto Chiquito?

23 A It's not that we're extending the buffer
24 area on the West Puerto Chiquito. Both pools would then
25 operate under the one mile provision; however, since the

1 rules are bordering that area, and the rules are similar, we
2 can use the dividing line, a township line in this case, to
3 require the drilling and spacing of wells under certain pool
4 rules and that will be our policy.

5 Q So. I'm sorry, you would continue to
6 apply the Gavilan rules to the Bear Canyon Unit?

7 A Yes.

8 MR. LUND: Nothing further, Mr.
9 Examiner, thank you.

10 MR. STOGNER: Thank you, Mr.
11 Lund.

12 Are there any other questions
13 of this witness?

14 If not, he may be excused.

15 Does anybody have anything
16 further in Case Number 9379?

17 MR. PEARCE: May I briefly say
18 a few things, Mr. Examiner?

19 MR. STOGNER: Mr. Pearce.

20 MR. PEARCE: I appear in this
21 matter on behalf of Mobil Exploration and Producing, who
22 appears in opposition to this application because we believe
23 it's premature.

24 Mr. Chavez indicated that there
25 is an on-going study committee reviewing what rules are

1 appropriate for a fractured Mancos shale.

2 Looking at Mr. Chavez' exhibit,
3 the Boulder Mancos Pool, less than a mile to the north of
4 the West Puerto Chiquito Pool is spaced on 80 acres.

5 The East Puerto Chiquito Mancos
6 Pool to the east of the West Puerto Chiquito Mancos Pool is
7 spaced on 160.

8 The Regina Gallup Oil Pool is a
9 one pool -- one well, 40-acre oil pool to the south of the
10 West Puerto Chiquito.

11 The remaining acreage, particu-
12 larly to the south and north, are not in a pool and that
13 acreage is not presently developed.

14 Looking at Mr. Chavez' exhibit,
15 it doesn't seem to me that we know what spacing is going to
16 be appropriate for that acreage and Mobil fears that ap-
17 plying the rules to that one mile area will restrict explor-
18 ation in the area and will further limit the knowledge we
19 have available to us.

20 If it develops that the Nassau
21 well to the south of the West Puerto Chiquito. the new well,
22 is appropriately spaced on 640, we believe that by a nomen-
23 clature that well can be included within the West Puerto
24 Chiquito Mancos Pool without a wholesale change of the
25 rules, which as I indicated, we fear will slow exploration

1 and eventual development.

2 Thank you.

3 MR. STOGNER: Thank you, Mr.
4 Pearce.

5 Mr. Lund?

6 MR. LUND: I join in Mr.
7 Pearce's comments and would just briefly add that the prob-
8 lem is that the application, if granted, would expand the
9 boundary to include, as Mr. Pearce said, really the buffer,
10 excuse me, would include some rank wildcat acreage, and
11 there's really no evidence that the additionally included
12 acreage would include the same common source of supply. It
13 is premature, and if the buffer is imposed, we would sug-
14 gest, excuse me, that it be imposed only within one mile of
15 any developed proration unit rather than the existing boun-
16 dary because we think that would be much fairer.

17 Thank you.

18 MR. STOGNER: Thank you, Mr.
19 Lund.

20 Mr. Roybal?

21 MR. ROYBAL: Mr. Chairman, Mr.
22 Hearing Examiner, excuse me, the staff and the Division's
23 proposed rule, we still feel will assist in the proper
24 development of these pools. We feel that there's a reason-
25 able basis for the application and would urge the Hearing

1 Examiner to favorably look on the application and adopt this
2 rule.

3 MR. STOGNER: Thank you.

4 Is there anything further by
5 anybody in Case Number 9379?

6 If not, this case will be taken
7 under advisement.

8

9 (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 and correct transcript of the hearing
the Examiner heard by me. 35 May 1988
Michael Rogers, Examiner
Oil Conservation Division