

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 23 August 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Union Oil Company of CASE
10 California for compulsory pooling, Lea 9714
11 County, New Mexico.

12 BEFORE: David R. Catanach, Examiner
13
14

15 TRANSCRIPT OF HEARING
16
17

18 A P P E A R A N C E S

19 For the Division: Robert G. Stovall
20 Attorney at Law
21 Legal Counsel to the Division
22 State Land Office Building
23 Santa Fe, New Mexico

24 For Union Oil Company of William F. Carr
25 California: Attorney at Law
CAMPBELL and BLACK, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501

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1 MR. CATANACH: At this time
2 we'll call Case 9714, the application of Union Oil Com-
3 pany of California for compulsory pooling, Lea County, New
4 Mexico.

5 Are there appearances in this
6 case?

7 MR. CARR: May it please the
8 Examiner, my name is William F. Carr, with the law firm
9 Campbell & Black, P. A., of Santa Fe. We represent Union
10 Oil Company and I have two witnesses.

11 MR. CATANACH: Any other ap-
12 pearances?

13 Will the witnesses please
14 stand to be sworn.

15
16 (Witnesses sworn.)

17
18 LARRY MURPHY,
19 being called as a witness and being duly sworn upon his
20 oath, testified as follows, to-wit:

21
22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q Will you state your full name and place
25 of residence?

1 A Larry Murphy, Midland, Texas.

2 Q Mr. Murphy, by whom are you employed and
3 in what capacity?

4 A Union Oil Company of California as a
5 landman.

6 Q Have you previously testified before
7 this Division and had your credentials as a landman ac-
8 cepted and made a matter of record?

9 A Yes.

10 Q Are you familiar with the application
11 filed in this case on behalf of Union Oil Company?

12 A Yes, I am.

13 Q Are you familiar with the subject area?

14 A Yes, I am.

15 MR. CARR: Are the witness'
16 qualifications acceptable?

17 MR. CATANACH: They are.

18 Q Mr. Murphy, would you briefly state what
19 Union seeks in this hearing?

20 A Union Oil Company of California seeks
21 compulsory pooling for a standard proration unit for a
22 Morrow gas well in Lea County, New Mexico.

23 Q Have you prepared certain exhibits for
24 presentation here today?

25 A Yes, I have.

1 Q Would you refer to what has been marked
2 for identification as Union Exhibit Number One, identify
3 that, and review it for Mr. Catanach?

4 A Exhibit One is a land plat of the imme-
5 diate area. The acreage marked in yellow is Union's
6 partial -- has partial interest in this acreage.

7 The area outlined in blue is a proration
8 unit and the red dot is the well location.

9 Q And you indicated the primary objective
10 in this well is the Morrow formation?

11 A Yes, it is.

12 Q And what pool is this projected to?

13 A This is the Quail Ridge Gas Pool.

14 Q Would you identify now what has been
15 marked Union Exhibit Number Two?

16 A This is the working interest ownership
17 list. If you'll go to Exhibit B --

18 Q The first pages on this are ownership --

19 A Ownership.

20 Q -- broken out by tract, is that correct?

21 A Yes, sir, it is.

22 Q And what is Exhibit B?

23 A Exhibit B is the ownership of the well,
24 of the proration unit.

25 Q So this is a composite of the preceding

1 pages?

2 A Yes, it is.

3 Q Would you, using -- referring to that
4 exhibit, review the ownership in the tract and advise the
5 Examiner as to the percent that has voluntarily committed
6 to the well?

7 A We have, as of today, voluntary joinder
8 is Grace Petroleum, Edward R. Hudson Trust, William A. Hud-
9 son, and Union Oil Company of California, which gives us
10 an 84.62 percent voluntary.

11 Q What is the status of the other interest
12 owners who are listed on Exhibit B?

13 A We have made contact with them. We have
14 sent them letters. They are reviewing it.

15 Q Okay. Would you refer now to what has
16 been marked as Unocal Exhibit Number Three and identify
17 that, please?

18 A This is Union Oil Company of Califor-
19 nia's Authority for Expenditure.

20 Q Has it been provided to the other in-
21 terest owners in the north half of the section?

22 A Yes, it has.

23 Q What are the totals as reflected on this
24 AFE?

25 A A completed well cost is \$1,248,000; dry

1 hole cost is \$755,000.

2 Q Are these costs in line with what is
3 charged by other operators in the area for similar wells?

4 A Yes, they are.

5 Q Would you now identify what has been
6 marked as Exhibit Number Four?

7 A This is my letter that I mailed to all
8 the working interest owners in the proration unit, accom-
9 panied with an AFE.

10 Q Since mailing this letter to them have
11 you been in communication by telephone with each of the
12 interest owners whom you're seeking to pool today?

13 A Yes, I have.

14 Q Would you refer to what has been marked
15 for identification as Union Exhibit Number Five?

16 A This is an affidavit prepared by Camp-
17 bell & Black notifying all the owners in the pool of the --
18 of this hearing today.

19 Q Marked as Exhibit Six and Seven are
20 letters. Could you just identify those for Mr. Catanach?

21 A Exhibit Six is a letter from William A.
22 Hudson and Edward R. Hudson giving Union support for the
23 parallel application and the operator of the proposed well.

24 Q And Exhibit Number Seven?

25 A Exhibit Number Seven is a letter from

1 Grace Petroleum Company with a signed AFE stipulating that
2 a mutual agreement on a joint operating agreement is the
3 only thing holding them up.

4 Q In your opinion have you made a good
5 faith effort to locate and obtain the voluntary joinder
6 form all the interest owners in the north half of Section
7 6?

8 A Yes, I have.

9 Q Were Exhibits One through Six, or One
10 through Seven, either prepared by you or compiled under
11 your direction and supervision?

12 A Yes, they were.

13 MR. CARR: At this time we'd
14 move the admission of Union Exhibits One through Seven.

15 MR. CATANACH: Exhibits One
16 through Seven will be admitted as evidence.

17 MR. CARR: That concludes my
18 direct examination of this witness.

19

20 CROSS EXAMINATION

21 BY MR. CATANACH:

22 Q Mr. Murphy, have you been in contact
23 with the uncommitted parties?

24 A Yes, sir, I have.

25 Q And you -- you don't know at this point

1 what they're going to do?

2 A No, sir, I don't.

3 Q Has Union Oil Company drilled a Morrow
4 well in this area?

5 A Yes, we have.

6 Q Recently?

7 A I'd like to turn that over, that ques-
8 tion, to our geologist. He can give you more details on
9 that.

10 MR. CATANACH: That's all I
11 have of the witness. He may be excused.

12
13 ROBERT M. ALTANY,
14 being called as a witness and being duly sworn upon his
15 oath, testified as follows, to-wit:

16
17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q Will you state your full name for the
20 record, please?

21 A Robert Altany.

22 Q Mr. Altany, where do you reside?

23 A Midland, Texas.

24 Q By whom are you employed and in what
25 capacity?

1 A By Unocal as a geologist.

2 Q Have you previously testified before
3 this Division and had your credentials as a geologist ac-
4 cepted and made a matter of record?

5 A Yes.

6 Q Are you familiar with the application of
7 Unocal in this case?

8 A Yes.

9 Q Are you familiar with the subject area?

10 A Yes.

11 MR. CARR: Are the witness'
12 qualifications acceptable?

13 MR. CATANACH: They are.

14 Q Mr. Altany, are you prepared to make a
15 recommendation to the Examiner as to the risk penalty that
16 should be assessed against any nonparticipating interest
17 owner?

18 A Yes, we recommend 200 percent.

19 Q Would you refer to what has been marked
20 as Unocal Exhibit Number Eight, identify this, and then in
21 reviewing this exhibit explain your reasoning for this
22 recommended penalty?

23 A This is a montage of three geologic maps
24 and a type log of the primary objective Middle Morrow sand-
25 stone.

1 In the lower left, the type log shows
2 colored in red the porosity in several of the projected
3 sandstones in the area and indicated are two of them, the
4 ones I'm calling M2T and M1T, which we expect to be the two
5 principal objectives at the proposed location.

6 In the upper left is the structure map
7 on the -- on the Middle Morrow horizon as it's marked on
8 the type log. We don't expect structure to have too much
9 influence in the Middle Morrow in the subject area.

10 In the upper right we have the porosity
11 isopach of the M1T Zone. It produces in the -- immediate-
12 ly to the north of the proposed location in the Fasken
13 Wayne Federal No. 2 Well.

14 What is of note here is that these
15 channel sandstones and their associated beds are -- tend to
16 be limited in cross sectional area, long and linear, a
17 lenticular section. Sometimes they're difficult to pre-
18 dict, especially we have limited well control in the south-
19 east quadrant of the map, which introduces some factor of
20 risk.

21 Similarly the M2 to the lower right, the
22 M2T porosity isopach, also shows a curving, more or less
23 linear lenticular sand body. It also produces immediately
24 to the north of the -- of the proposed location and there
25 again, in some -- in some areas control, well control on

1 the geometry of this sand body is somewhat limited.

2 Also, I should point out that as you
3 proceed away from the center of these channel sandstones
4 the porosity becomes more broken up into individual beds.
5 The degree of porosity is often lower, and sometimes
6 there's interstitial clays which reduce your permeability.

7 And a third risk factor, actually, is
8 that the Morrow is an extremely sensitive formation to
9 drilling fluids, to completion practices, and you can often
10 create formation damage during either drilling or comple-
11 tion and that accounts for some variation in the producti-
12 vity of the well.

13 Q In constructing the isopach maps did you
14 have any data to rely on other than well control informa-
15 tion?

16 A No, sir.

17 Q And there's no well control in the Mor-
18 row south or east of the proposed location, is that cor-
19 rect?

20 A Not for several miles.

21 Q Do you believe there's a chance that
22 Union could drill a well at this location that would, in
23 fact, not be a commercial success?

24 A That is always a risk with the Morrow.

25 Q Have you made an estimate of the over-

1 head and administrative costs to be incurred while drilling
2 a well and also while producing it, if in fact it is a
3 successful well?

4 A Unocal has.

5 Q And what are those figures?

6 A The overhead while -- I can't -- can't
7 recall the overhead while drilling.

8 The overhead during production is ap-
9 proximately \$1200 a year.

10 Q Have these figures been agreed to in an
11 operating agreement between Union and Grace?

12 A Yes, sir.

13 MR. CARR: Mr. Catanach, I can
14 either call an engineering witness to testify as to those
15 exact numbers or I can submit those to you after the
16 hearing in writing.

17 MR. CATANACH: Let's get a
18 witness.

19 MR. CARR: Okay.

20 Q Does Union Oil Company of California
21 seek to be designated operator of the proposed well?

22 A Yes, we do.

23 Q In your opinion will granting this ap-
24 plication be in the best interest of conservation, the
25 prevention of waste, and the protection of correlative

1 rights?

2 A Yes.

3 Q And how soon does Union plan to go for-
4 ward and spud this well?

5 A In the first week of September we plan
6 to spud another well five miles to the west. When that
7 well is completed, in approximately 30 to 40 days, we plan
8 to proceed with this well.

9 Q And was Exhibit Eight prepared by you or
10 compiled under your direction and supervision?

11 A Yes.

12 MR. CARR: At this time we
13 would move the admission of Unocal Exhibit Number Eight.

14 MR. CATANACH: Exhibit Number
15 Eight will be admitted as evidence.

16 MR. CARR: I have nothing
17 further of this witness on direct.

18

19 CROSS EXAMINATION

20 BY MR. CATANACH:

21 Q Mr. Altany, is the -- is this basically
22 a step out from an existing Morrow gas well?

23 A Yes.

24 Q It is. There is nothing to the south
25 and east of this?

1 A Not for three miles.

2 Q Three miles?

3 A Yes, sir.

4 Q And then you get into another gas pool?

5 A There are different producing zones that
6 are not continuous with this.

7 Q Has Union drilled other Morrow wells in
8 this area?

9 A Yes, sir. Last year, in 1988, in Sec-
10 tion 20 of 19 South, 33 East, we drilled the North Madero
11 Federal Unit No. 1.

12 Q Where is that in relation to this --
13 this proposed well?

14 A That is to the northwest.

15 Q How far?

16 A That would be four miles.

17 Q So you've got a pretty good handle on
18 the drilling costs, or you should have a pretty good handle
19 on the drilling costs, is that correct?

20 A Yes.

21 MR. CATANACH: That's all I
22 have of the witness. He may be excused.

23 MR. CARR: At this time we'd
24 call Steve Trujillo, and Mr. Trujillo has not been sworn.
25

1
2 (Mr. Steve Trujillo sworn.)
3

4 MR. CATANACH: You may pro-
5 ceed.
6

7 STEVE TRUJILLO,
8 being called as a witness and being duly sworn upon his
9 oath, testified as follows, to-wit:
10

11 DIRECT EXAMINATION

12 BY MR. CARR:

13 Q Will you state your name for the record,
14 please?

15 A Steve Trujillo.

16 Q Mr. Trujillo, where do you reside?

17 A Midland, Texas.

18 Q By whom are you employed and in what
19 capacity?

20 A I'm employed with Union Oil of Califor-
21 nia as a reservoir engineer.

22 Q Have you previously testified before
23 this Division?

24 A No, I have not.

25 Q Would you summarize for Mr. Catanach

1 your educational background and then briefly review your
2 work experience?

3 A Okay. I graduated with a BS in petro-
4 leum engineering from New Mexico Tech in 1983 and where I
5 began working with Unocal, five years as a drilling en-
6 gineer and currently one year as a reservoir engineer.

7 Q Does your area of responsibility for
8 Unocal include that portion of southeastern New Mexico
9 which is involved in this case?

10 A Yes, it does.

11 Q Are you familiar with the application
12 filed on behalf of Unocal in this matter?

13 A Yes, I am.

14 Q Are you familiar with the subject area?

15 A Yes.

16 MR. CARR: Are the witness'
17 qualifications acceptable?

18 MR. CATANACH: They are.

19 Q Has Unocal made an estimate of overhead
20 and administrative costs to be incurred while drilling this
21 well and also while producing the well if in fact it is
22 successful?

23 A Yes, we have.

24 Q And what are those figures?

25 A The figures for drilling overhead would

1 be \$5,680 per month; producing well rate, \$620 a month.

2 Q Are these figures in line with what's
3 being charged by other operators in the area?

4 A Yes, they are.

5 Q And are these figures included in the
6 operating agreement which will govern the development of
7 this property between you and those interest owners like
8 Grace who are voluntarily participating?

9 A Yes, they are.

10 Q Do you recommend, if I didn't ask you,
11 that these figures be incorporated into the order which
12 results from this hearing?

13 A Yes.

14 MR. CARR: I have nothing
15 further of Mr. Trujillo.

16

17 CROSS EXAMINATION

18 BY MR. CATANACH:

19 Q Mr. Trujillo, what's the approximate
20 depth of this well, do you know?

21 A The proposed TD is around 13,700 feet.

22 MR. CATANACH: That's all I
23 have.

24 You may be excused.

25 MR. CARR: We have nothing

1 further.

2 MR. CATANACH: Being nothing
3 further in this case, Case 9714 will be taken under ad-
4 visement.

5

6 (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
transcript is a true and correct record of
the hearing and that the same was prepared
by me to the best of my ability.

Sally W. Boyd, Executive
Oil Conservation Division