

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

2 December, 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Randall L. Capps for CASE
compulsory pooling, Lea County, New 9255
Mexico.

BEFORE: Michael R. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For Randall Capps: Peter N. Ives
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RANDALL CAPPS

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MR. STOGNER: Call next Case
Number 9255.

MR. TAYLOR: Application of
Randall L. Capps for compulsory pooling, Lea County, New
Mexico.

MR. STOGNER: Call for
appearances in this case.

MR. IVES: May it please the
Examiner, I am Peter N. Ives from the law firm Campbell &
Black, P. A., of Santa Fe, appearing on behalf of applicant.

MR. STOGNER: Are there any
other appearances in this matter?

Mr. Ives, do you have any
witnesses today?

MR. IVES? I have one, possibly
two witnesses, and would ask that they both be sworn in.

MR. STOGNER: We'll swear them
both in.

(Witnesses sworn.)

MR. STOGNER: You may proceed,
Mr. Ives.

1

2

RANDALL CAPPS,

3

being called as witness and being duly sworn upon his oath,

4

testified as follows, to-wit:

5

6

DIRECT EXAMINATION

7

BY MR. IVES:

8

Q

Could you please state your name and

9

place of residence?

10

A

My name is Randall Capps. I live in Lub-

11

bock, Texas.

12

Q

And by whom are you employed and in what

13

capacity?

14

A

I am an independent petroleum landman.

15

Q

And have you previously testified before

16

this Commission or one of its examiners?

17

A

Yes.

18

Q

And have you had your qualifications as a

19

professional landman accepted as a matter of record?

20

A

Yes.

21

Q

And are you familiar with the application

22

which has been filed on behalf of Randall capps in this

23

case?

24

A

Yes.

25

Q

And are you familiar with the subject

1 area?

2 A Yes.

3 MR. IVES: Mr. Examiner, are
4 the witness' qualifications acceptable?

5 MR. STOGNER: Mr. Capps is so
6 qualified.

7 Q Could you briefly state what you seek in
8 this case?

9 A I seek compulsory pooling for the
10 Wolfcamp formation under 40 acres, being the northwest
11 quarter of the southwest quarter, Section 18, Township 12
12 South, Range 38 East.

13 Q And have you prepared certain exhibits
14 for introduction in this case?

15 A Yes, I have.

16 Q Could I ask you please to turn to Exhibit
17 One and explain what it is and what it shows?

18 A Exhibit One is a land plat. It shows
19 ownership. It shows the 40-acre proration unit, and it
20 shows the well location.

21 Q And could you identify specifically the
22 proration unit on Exhibit One?

23 A Yes. It's outlined in a square as the
24 northwest quarter, southwest quarter of Section 18.

25 Q And what is the primary objective in the

1 proposed well?

2 A The Wolfcamp formation.

3 Q And have you prepared an exhibit relating
4 to an ownership breakdown in the proration unit?

5 A Yes, Exhibit Two.

6 Q And could you please run through that
7 briefly for the Examiner?

8 A Exhibit Two gives a complete list of all
9 ownership, both working interest and mineral; also shows the
10 lease status, whether it is under lease, unleased, or leased
11 to others.

12 Q And at the present time what percentage
13 of the acreage is voluntarily committed to the well?

14 A Approximately 77 percent.

15 Q If I could ask you to turn to Exhibit
16 Number Three and identify what it is and what it shows.

17 A Exhibit Three is an Authority for Expen-
18 diture, or AFE. It gives a breakdown of the anticipated
19 costs for re-entering the well and completing it.

20 Q You mentioned re-entering the well.
21 Could you elaborate on that?

22 A We plan to re-enter a well that was
23 drilled by Cavalcade Oil in 1985. The well is presently
24 abandoned as a dry hole but it has not been plugged.

25 Our plan is to go in and squeeze off an

1 interval in the Wolfcamp that Cavalcade previously opened
2 and obtained nothing but water.

3 We will then, if successful in the
4 squeeze, perforate a lower interval in the Wolfcamp and try
5 to produce it.

6 Q And what is the total for the completed
7 well?

8 A \$216,564.

9 Q And are these costs in line with what has
10 been charged by other operators in the area for similar
11 wells?

12 A Yes, they are. I worked for Cavalcade
13 when this well was drilled and five other operations under-
14 taken in this area. I also have personal knowledge of the
15 re-entry operation that Skelton Oil had recently done and
16 Permian Resources.

17 Q Could you please summarize the efforts
18 that you have made to obtain the voluntary joinder of all
19 working units and interests, and mineral interests in the
20 proposed spacing unit?

21 A Yes. I began trying to put the leases
22 together in August. I had an old title opinion, which I
23 took and went to the courthouse in Lea County and updated;
24 then contacted all of the parties by phone and followed up
25 with a letter.

1 The first contact was on August the 27th.

2 Q In your opinion have you made a good
3 faith effort to locate all individuals and obtain their vol-
4 untary joinder?

5 A Yes.

6 Q And if I could ask you to turn now to Ex-
7 hibit Number Four and identify what that is and what it
8 shows?

9 A Exhibit Number Four contains copies of
10 all correspondence with the various parties to be pooled.

11 Q And if could ask you now to turn to Exhi-
12 bit Number Five and I'll ask you what that is and what it
13 shows.

14 A Exhibit Number Five contains an affidavit
15 saying that I have notified all of the parties to be pooled.

16 It also contains copies of the -- of each
17 letter mailed out, complete with a return receipt showing
18 that they did receive it certified mail.

19 MR. IVES: And, Mr. Examiner,
20 your copy should have the originals of those receipts.

21 Q And are you prepared to make a recommen-
22 dation to the Examiner as to the risk penalty that should be
23 assessed against the nonconsenting working interest owners or
24 mineral interest owners?

25 A Yes. I recommended 200 percent penalty.

1 Q And upon what do you base that 200 per-
2 cent recommendation?

3 A It's based on the mechanical and geologi-
4 cal risk involved with the operation. There is a well im-
5 mediately offsetting to the north operated by Gary Bennett,
6 which shows that there has been severe drainage in this area
7 from the Wolfcamp due to past producers.

8 The well to the north has cumed approxi-
9 mately 20,000 barrels. The well north of it cumed almost
10 200,000, showing that a well does in fact drain in some
11 cases more than 40 acres, so there is a high risk that we
12 have already been drained.

13 There's also a mechanical risk any time
14 you re-enter a well and especially when you're squeezing off
15 open perforations.

16 Q Do you believe that there is a chance
17 that you could drill a well at the proposed location that
18 would not be a commercial success?

19 A I would say there's a very high risk.
20 Cavalcade attempted six operations out here and only one was
21 successful.

22 Q And have you made an estimate of overhead
23 and administrative costs while drilling this well and also
24 while producing this well if it is a successful well?

25 A Yes. I would ask for \$4000 per month

1 drilling rate and \$400 per month producing rate. This is
2 based on offset operating charges that I know are presently
3 being charged.

4 Q So you are aware that these costs are in
5 line with what is being charged by operators in the area?

6 A Yes, I am.

7 Q And do you recommend that these figures
8 be incorporated into any order that results from this hear-
9 ing?

10 A Yes, I do.

11 Q Do you seek -- or who do you seek to be
12 designated as operator of the proposed well?

13 A I ask that Gary Bennett be designated
14 operator.

15 Q And was that request made in the
16 application that was filed with the Commission?

17 A Yes, it was.

18 Q And upon what do you base that
19 recommendation?

20 A Gary operates the well immediately to the
21 north, as well as a second well to the northeast. I think
22 that he can operate it more efficiently and economically.

23 Q And is Mr. Bennett willing to be the
24 designated operator of the proposed well?

25 A Yes, he is.

1 Q In your opinion will granting this
2 application be in the best interests of conservation, the
3 prevention of waste, and the protection of correlative
4 rights?

5 A Yes, it will.

6 Q And were Exhibits One through Five pre-
7 pared by you or compiled under your direction?

8 A They were all prepared by me.

9 MR. IVES: Mr. Examiner, at
10 this time I would offer Exhibits One through Five into evi-
11 dence in this hearing.

12 MR. STOGNER: Exhibits One
13 through Five will be admitted into evidence at this time.

14 Q Let me ask, Mr. Capps, do you seek an ex-
15 pedited order in connection with this hearing?

16 A Yes. We seek an expedited order for
17 three reasons. One is we would like to get out there as
18 soon as possible before the bad winter weather sets in.

19 We also have other leases that will be
20 expiring shortly and it would be advantageous to us to start
21 the well before January 1 for tax reasons.

22 Q And is there a possiblity that the well
23 would not be drilled if you were unable to get an expedited
24 order authorizing you to proceed with the well -- let me try
25 that question again.

1 Is there a possibility that the well will
2 not be drilled if you can't get an expedited order before
3 the beginning of the new year?

4 A Yes, that is possible.

5 MR. IVES: Mr. Examiner, those
6 are all the questions I have at the moment for this witness.

7 MR. STOGNER: Thank you, Mr.
8 Ives.

9
10 CROSS EXAMINATION

11 BY MR. STOGNER:

12 Q Mr. Capps, you were the applicant in this
13 case. What relationship do you have with Gary Bennett?

14 A Gary Bennett is a working -- or will be a
15 working interest owner in the well. He will be the majority
16 owner.

17 At present I own the leases and he and I
18 will be partners in the well.

19 Q So it will be a partnership with him as
20 the operator.

21 A Yes.

22 Q And as the major working interest owner.

23 A Yes, sir.

24 Q Let's take a look at this well. Do you
25 know when it was drilled, and I'm referring to the Pearl

1 Western Well No. 1-Y. That's the one that you're referring
2 to re-enter at this time, is that correct?

3 A Yes, sir. It was drilled in September of
4 1985.

5 Q '85?

6 A Yes, if I'm not --

7 Q When was it abandoned?

8 A Within sixty days after it was drilled.
9 It produced nothing but water.

10 Q Okay, I thought you said that it was
11 abandoned in '81. But anyway, it was drilled in '85.

12 A Yes, sir.

13 Q Do you know if there was production cas-
14 ing set?

15 A Yes. Production casing was set.

16 Q And at what depth?

17 A Approximately 9800 feet.

18 Q Now the interval that you're planning to
19 test down by the Wolfcamp, it will be entirely encased with
20 the --

21 A Yes, sir, it will.

22 Q -- plugging string?

23 A Now I notice this is a 1-Y well. That
24 usually signifies that this was a replacement well.

25 A A replacement.

1 Q Do you know what happened to the original
2 well?

3 A Yes. Cavalcade attempted to re-enter the
4 Sinclair No. 4 Shultz Well, which you'll notice on the plat
5 is -- shows to be plugged.

6 They were unable to get in that as a re-
7 entry but they had named -- they had renamed it the Pearl
8 Western No. 1, so they scooted over approximately 50 feet
9 and drilled a replacement, calling it the Pearl Western No.
10 1-Y.

11 Q What kind of problems was encountered in
12 the No. 1 Well?

13 A There was no problems encountered. It
14 just didn't produce from the interval that was perforated.

15 It was tight and when it was treated, we
16 think that the treatment went behind pipe and broke down a
17 cement and went into a water producing formation.

18 We, after -- after treating it, we fol-
19 lowed with I believe it was 150 barrels of load oil and we
20 never even got our load back.

21 Q Now was this original well plugged and
22 abandoned properly?

23 A No. It was temporarily abandoned in --
24 in May. Gary Bennett bought the pump jack that was located
25 on the well in return for agreeing to plug the well.

1 Q But it has not been plugged yet.

2 A It has not been pluggedf.

3 Q Okay. Do you know if there's immediate
4 plans to be doing that before you all re-enter this well?

5 A No, the well that we're re-entering is
6 the open well.

7 In other words, in --

8 Q Well, I'm talking about -- I'm talking
9 about the original well, the No. 1 --

10 A Oh, the No. 1 has been plugged, yes, sir.

11 Q Oh, it has been plugged.

12 A Yes.

13 Q Okay. Now, what kind of problems were
14 encountered in that well that it could not be -- that it was
15 plugged?

16 A Oh, the No. 1?

17 Q Yes.

18 A Well, the casing was shot off and we
19 never could get inside it.

20 The 8-5/8ths was shot off and you may
21 need to talk to -- to Mike Mooney to get -- he's an engine-
22 er. He'll know more about it, but as I recall, we just got
23 outside the casing and couldn't get back in.

24 Q All right. What I'm trying to get at,
25 was there sufficient problems encountered in that original

1 well that caused its premature abandonment that was caused
2 by a higher pressure zone? After all, you are surrounded by
3 producing wells and I'm trying to establish a reason for the
4 200 percent risk penalty.

5 A Okay. The -- the wells on this map, the
6 majority of them were drilled to the Devonian formation, and
7 we're going to the Wolfcamp.

8 Cavalcade's original plans out here was
9 to go in these old Devonian wells because they were already
10 drilled, and perforate them in the Wolfcamp to save money.

11 Well, when they couldn't get in them,
12 they drilled new wells. They felt the reserves warranted
13 drilling a new well.

14 When they drilled their first new well,
15 they discovered that they'd spent half a million dollars to
16 drill a well that was depleted. In other words, we did a
17 bottom hole pressure test and it showed that that location
18 was basically depleted. We -- we were offsetting a well
19 that had made over 200,000 barrels out of the Wolfcamp and
20 yet our well was only making 14 barrels a day.

21 Q Which well?

22 A Well, the Gary Bennett operates the Gol-
23 den Gate 1-Y, which is immediately north of the subject
24 well, and that well's making -- it cumed 20,000 barrels.
25 It's making 14 barrels a day, and if it had -- if had hadn't

1 been drained, we think it would have done as good as the
2 well that was offsetting it to the north, which produced in
3 excess of 200 barrels a day for several years before it
4 started declining.

5 Q Let's refer to Exhibit Number One, which
6 is your land plat.

7 A Okay.

8 Q Are there any other Wolfcamp wells
9 offsetting directly to your proposed proration unit?

10 A The only --

11 Q Other than the ones --

12 A The only direct offset is the one to the
13 north.

14 Q Oh, okay. How about to the south? Do
15 you know what the nearest Wolfcamp produce would be?

16 A Yes, it would be in the next section, in
17 Section 19. It would be the Gulf No. 1 Shultz.

18 Q And that would -- that appears to be in
19 the northwest quarter northwest quarter.

20 A Right, and that well is presently
21 producing 4 barrels a day.

22 Q Marginal and (unclear). All right. Do
23 you know if there's been any Wolfcamp tests between your
24 proposed well or your proposed re-entry in that Gulf well?

25 A There has not.

1 Q Okay. How about going to the east.

2 A Going to the east there is nothing, no --

3 Q There is --

4 A The well immediately east was a Devonian
5 well and it has not been tested in the Wolfcamp and it has
6 recently been plugged.

7 Q And how about going further to the east,
8 do you know --

9 A Nothing in the east half of Section 18.

10 Q Okay, how about west, going west of your
11 proration unit?

12 A In the west the southeast of the south-
13 east of 13, Tom Ingram operates a Wolfcamp well there called
14 the No. 2 Shultz.

15 Q Do you know what its present production
16 rate is?

17 A It -- they've had a workover unit on it
18 off and on for the last two years, and it has fluctuated
19 anywhere from 7 to 20 barrels a day.

20 Q Now you said they had a workover a couple
21 of times within the last couple of years. Do you know what
22 kind of work they did? What -- what they had to do to it?

23 A Well, there are -- there are approxi-
24 mately six different zones in this Wolfcamp and I think what
25 they've been doing is selectively perforating those zones.

1 You know, when one depletes they'll go to another one.

2 Q Do you know any other Wolfcamp wells in
3 Section 13?

4 A That is the only Wolfcamp well in Section
5 13.

6 Q Okay. Oh, in Exhibit Number Four, which
7 is your correspondence, did you send written correspondence
8 to all the people that you list in Exhibit Number Two?

9 A Yes.

10 Q All right, was this the first correspon-
11 dence you had with any of them?

12 A The exhibit?

13 Q Yes. The October 27th, '87, letter, and
14 it looks like all of them are dated sometime in October, is
15 that correct? No, there's some in September, too, isn't
16 there?

17 A Some in September, some -- the first con-
18 tact was August the 27th and that's the third -- the third
19 sheet back from the top, was with Union Texas. I had dealt
20 with them before and knew that it would take them longer
21 than anyone else, so I contacted them first.

22 Q But for the most part was this first cor-
23 respondence with each party?

24 A Yes. Most of them are in September.

25 Q And in a bunch of these letters I see

1 that you refer back to a telephone conversation, so you
2 tried --

3 A Yes, sir.

4 Q -- verbal communication with them first.

5 A Yes, sir, the first contact was by phone
6 with all of them.

7 If you'll notice from the ownership
8 report, there are 24 separate leases and 14 farmouts that
9 were to be had, and most of those people own both the
10 mineral interest and a working interest.

11 MR. STOGNER: Are there any
12 other questions of Mr. Capps?

13 If not, he may be excused.

14 Mr. Ives?

15 MR. IVES: Mr. Examiner, I was
16 only going to call my second witness if you desired
17 additional information that a petroleum engineer might be
18 able to provide.

19 The only area in which it seems
20 he might be able to provide testimony with regards to the
21 reasons for the plugging and abandonment of the original
22 well, we covered that with Mr. Capps. I'm not sure it's
23 necessary to call him at this time.

24 MR. STOGNER: What's his name?

25 MR. IVES: Michael Mooney.

1 MR. STOGNER: Mr. Ives, do you
2 -- do you know of any specifics that Mr. Moon (sic) might be
3 able to enlighten us with other than what Mr. Capps has
4 covered?

5 MR. IVES: I'm not aware of
6 anything. I believe Mr. Capps has adequately covered it.

7 MR. STOGNER: All right, I have
8 no -- I don't see any need to call Mr. Moon at this time.

9 THE REPORTER: I understood
10 your name to be Mr. Mooney.

11 MR. MOONEY: It is.

12 MR. STOGNER: I'm sorry, my
13 apologies.

14 Are there any -- is there
15 anything else in Case Number 9255?

16 If not, this case will be taken
17 under advisement.

18

19 (Hearing concluded.)

20

21

22

23

24

25

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

Witnessed and attested my hand and the seal of the
Oil Conservation Division at the County of _____
State of California, this _____ day of _____, 1987.
Notary Public for Case No. 92559
Michael J. [Signature], Examiner
Oil Conservation Division

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

6 18 November 1987

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Randall L. Capps for CASE
10 compulsory pooling, Lea County, New 9255
11 Mexico.

12 BEFORE: David R. Catanach, Examiner

13
14
15 TRANSCRIPT OF HEARING

16
17 A P P E A R A N C E S

18
19 For the Division: Jeff Taylor
20 Attorney at Law
21 Legal Counsel to the Division
22 State Land Office Bldg.
23 Santa Fe, New Mexico 87501

24 For the Applicant:
25

MR. CATANACH: Call next Case
9255.

MR. TAYLOR: The application of
Randall L. Capps for compulsory pooling, Lea County, New
Mexico.

The applicant has requested
that this case be continued.

MR. CATANACH: Case 9255 will
be continued to December 2nd.

(Hearing concluded.)

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 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 hereby certify that the foregoing is
a true and correct transcript of the proceedings in
a hearing of Case No. 9255,
held by me on November 18, 1987.

David R. Catamb, Examiner
Of Conservation Division