

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE 9926

EXAMINER HEARING

IN THE MATTER OF:

Application of Mewbourne Oil Company for
Compulsory Pooling and an Unorthodox Gas Well
Location, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

May 30, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
Attorneys at Law
By: JAMES BRUCE
500 Marquette, N.W.
Albuquerque, New Mexico

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1 WHEREUPON, the following proceedings were had
2 at 8:21 a.m.:

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4
5 EXAMINER CATANACH: At this time we'll call
6 Case 9926.

7 MR. STOVALL: Application of Mewbourne Oil
8 Company for compulsory pooling and an unorthodox gas
9 well location, Eddy County, New Mexico.

10 Let the record reflect that the docket, as
11 printed, today's sheet shows this case as 9925. It is
12 correctly numbered 9926.

13 EXAMINER CATANACH: Are there appearances in
14 this case?

15 MR. BRUCE: Mr. Examiner, my name is Jim
16 Bruce from the Hinkle Law Firm in Albuquerque
17 representing the Applicant, and I have three witnesses
18 to be sworn.

19 EXAMINER CATANACH: Are there any other
20 appearances?

21 Will the witnesses please stand to be sworn
22 in?

23 (Thereupon, the witnesses were sworn.)
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PAUL HADEN,

the witness herein, after having been first duly sworn
upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. BRUCE:

Q. Could you please state your name and where
you reside?

A. My name is Paul Haden, H-a-d-e-n. I'm from
Midland, Texas.

Q. And who are you employed by and in what
capacity?

A. I am employed with Mewbourne Oil Company in
the capacity of a petroleum landman.

Q. And have you previously testified before the
OCD --

A. Yes, I have.

Q. -- as a petroleum landman?

And are you familiar with the land matters
involved in this case?

A. Yes, I am.

MR. BRUCE: Are the witness's credentials
acceptable, Mr. Examiner?

EXAMINER CATANACH: They are.

Q. (By Mr. Bruce) Mr. Haden, please state
briefly what Mewbourne seeks in this case.

1 A. Mewbourne Oil Company seeks an order pooling
2 all mineral interests from the surface to the base of
3 the Morrow Formation, underlying the north half of
4 Section 21, Township 18 South, Range 27 East, in Eddy
5 County, New Mexico, to form the following well units:

6 The northeast quarter of the northeast
7 quarter of Section 21 for all pools or formations
8 spaced on 40 acres.

9 The northeast quarter of Section 21 for all
10 pools or formations spaced on 160 acres.

11 The north half of Section 21 for all pools or
12 formations spaced on 320 acres.

13 The units are to be dedicated to Mewbourne's
14 Federal S Number 1 Well, which will be drilled at a
15 nonstandard location 710 feet from the north line and
16 660 from the east line of said Section 21.

17 Mewbourne requests consideration of the cost
18 of drilling and completing the well, allocation of
19 those costs and approval of actual operating costs and
20 charges for supervision.

21 Mewbourne asks that it be designated as
22 operator of the well and that a charge for the risk
23 involved in the drilling will be assessed.

24 Q. Now, the location you gave for that well is a
25 change from the original location, is it not?

1 A. Yes, it has. It's moved 50 feet to the south
2 of the original location, due to the proximity to the
3 Scoggin Draw.

4 Q. Okay. And that is -- that does not affect
5 the -- It is not more unorthodox, is it?

6 A. No, it is not more unorthodox.

7 Q. Okay. Would you please refer to Exhibits 1
8 and 2, describe their contents and identify the
9 interest owners you seek to force-pool.

10 A. Exhibit 1 is a land plat that shows our
11 proposed proration unit and well location in the
12 northeast northeast quarter.

13 Exhibit 2 refers to the interests of
14 Mewbourne and the other interest owners within the
15 northeast quarter of the northeast quarter, the east
16 half of the northeast quarter, the northeast quarter
17 and the north half. It describes the percentage
18 ownership of the interests committed to the wells and
19 those that are not.

20 Q. And who are the parties that you seek to
21 force-pool?

22 A. The parties that we seek to force-pool, they
23 are:

24 Amoco, who owns rights from the surface to
25 the base of the Abo Formation in the east half,

1 northeast quarter;

2 Rio Pecos Corporation, they own a full
3 interest in the southeast of northwest quarter, the
4 southwest of the northeast quarter;

5 and an individual, Mark D. Wilson, who owns a
6 small interest in the east half, northeast quarter, for
7 rights from the base of the Abo Formation to the base
8 of the Morrow Formation;

9 also three other individuals: J. Hiram
10 Moore, Hiram spelled H-i-r-a-m; Betty Jane Moore; and
11 Michael Harrison Moore, who own a very small percentage
12 interest in the east half, northeast quarter, below the
13 base of the Abo Formation to the base of the Morrow.

14 Q. Okay. Would you please now refer to Exhibits
15 3A through 3E and describe your efforts to get these
16 noncommitted parties to join in the well?

17 A. Exhibit 3A are copies of the correspondence
18 to these individuals, asking them to either farm out or
19 join in the drilling of the well.

20 The first correspondence was with Amoco
21 Production Company who at that time we thought owned a
22 full -- a half-interest in the east half, northeast
23 quarter for all rights. That was -- That letter was
24 back in October, 1989.

25 They responded by saying that when we

1 acquired the other interest owners in the unit, that
2 they would do something. However, they letter -- later
3 -- elected not to farm out as on reasonable terms.
4 They proposed drilling us -- delivering us a 70-percent
5 net revenue interest, which was unacceptable to
6 Mewbourne.

7 So they said, Well, we prefer to be force-
8 pooled.

9 Q. And what about Rio Pecos Corporation?

10 A. Rio Pecos Corporation was contacted first in
11 November, 1989, asking them to farm out their interests
12 delivering Mewbourne a 75-percent net revenue interest
13 with the option to convert the retained override to a
14 25-percent working interest after payout, also
15 requesting them to join in the well that they desired
16 not to farm out to us. An AFE was submitted to them.

17 Q. And how about Mark Wilson?

18 A. Mark Wilson has associated with Rio Pecos
19 Corporation. He owns a very small interest in the east
20 half, northeast quarter. Same terms were given to him
21 as Rio Pecos Corporation.

22 Q. And Exhibits 3A, 3B and 3C are copies of your
23 correspondence to those parties, are they not?

24 A. Right.

25 Q. And would you please identify Exhibit 3D?

1 A. 3D is a copy of my telephone conversations
2 with the various interest owners within the north half
3 of Section 21.

4 Q. And have all of your conversations or, I
5 should say, your contacts with the Moores been by
6 telephone?

7 A. Yes, for the most part they have.

8 Q. Now, would you please refer to Exhibit Number
9 4 and identify that for the Examiner?

10 A. Exhibit Number 4 is a copy of our proposed
11 AFE. It describes the prospect, which is Red Lake
12 Prospect. It gives the location of 710 from the north
13 and 660 from the east, Section 21, 18 South, Range 27
14 East.

15 The proposed depth is to 9900 feet.

16 It gives a dryhole cost estimate of \$409,100
17 and a completed well cost of \$611,400.

18 Q. Is this proposed well cost in line with those
19 normally encountered in drilling wells to this depth in
20 Eddy County?

21 A. Yes, they are.

22 Q. And do you have a recommendation as to the
23 amount which Mewbourne should be paid for supervision
24 and administrative charges?

25 A. We are recommending that \$5500 per month be

1 allowed for a drilling well and \$500 per month be
2 allowed for a producing well.

3 Q. And are these amounts in line with those
4 normally charged by Mewbourne and other operators for
5 wells of this type in Eddy County?

6 A. Yes, they are.

7 Q. What penalty do you recommend against
8 nonconsenting interest owners?

9 A. We are recommending the well cost, plus a
10 200-percent risk factor. This is the figure used in
11 operating agreements in this area of New Mexico.

12 Our geologist will also discuss the
13 reasonableness of the proposed penalty.

14 Q. With respect to the unorthodox location
15 portion of this Application, who are the offset owners
16 or operators? And I refer you to Exhibits 5A and 5B.

17 A. Exhibit 5A is a plat showing the affected
18 offset operators.

19 Exhibit 5B is a listing of those offset
20 operators, including in Section 15, south half, Oryx
21 Energy; Section 22, Oryx Energy; Tract 5 is listed as
22 also Oryx Energy.

23 Q. And those would be the primary tracts, in
24 your opinion, affected by any unorthodox locations?

25 A. Yes, they would be.

1 Q. Regarding, again, the unorthodox location
2 aspect, did you submit letters to the offset operators
3 or interest owners requesting waivers?

4 A. Yes, I did, by letters dated April 6th.

5 Q. And are those submitted as Exhibit 6A?

6 A. Yes, they are.

7 Q. And did you receive waivers from any parties?

8 A. Yes, I did. This is exhibited as Exhibit 6B
9 from Amoco, dated April 27th.

10 Great Western Drilling Company, dated April
11 6th -- Excuse me, it was executed May 2nd.

12 Bonneville Fuels Corporation was executed
13 April 18th.

14 Myco Industries, which is a Yates entity,
15 executed April 26th.

16 James L. Alford, Jr., who will be
17 participating in the well with us, his waiver letter
18 was dated April 20th.

19 Chevron, USA, dated April 24th.

20 Yates Petroleum Corporation, who will be
21 joining in the well with us, dated April 19th.

22 Yates Drilling Company, April 19th.

23 Abo Petroleum Corporation, April 19th.

24 DeKalb Energy Company, April 16th.

25 Read and Stevens, Inc., who will be

1 participating with us, their waiver letter is April
2 10th.

3 Q. And now you have reached an agreement with
4 Oryx regarding the unorthodox location, have you not?

5 A. Yes, we have.

6 Q. And our third witness, Mr. Ryan, will discuss
7 that agreement; is that correct?

8 A. Yes, he will.

9 Q. Were all interested parties notified of this
10 hearing?

11 A. Yes, they were.

12 Q. And are copies of the notice letter and of
13 the certified return receipt submitted as Exhibit
14 Number 7?

15 A. Yes, sir, they are.

16 Q. Mr. Haden, were Exhibits 1 through 7 prepared
17 by you or compiled from company records?

18 A. They were prepared by me.

19 Q. And in your opinion, will the granting of
20 this Application be in the interests of conservation,
21 the prevention of waste and the protection of
22 correlative rights?

23 A. Yes.

24 MR. BRUCE: At this time, Mr. Examiner, I
25 move the admission of Exhibits 1 through 7.

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

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Haden, can you explain the procedure used
6 to try and obtain voluntary agreement from the Moores?

7 A. They were contacted by telephone and by
8 written letters. In fact, they first said that they
9 probably would farm out. I had sent them a farmout
10 agreement, which they requested me to prepare for them.

11 I called -- My last conversation with them
12 was last Friday. I left a -- Mr. Richard Moore, who is
13 apparently handling the Moore interests, was on the
14 telephone. I left a message for him to call me. He
15 did not do it. I stressed the urgency of the phone
16 call with his secretary, that I would be leaving to go
17 to Santa Fe Tuesday morning early, that I would
18 appreciate him contacting me prior to then.

19 Q. You don't have any written correspondence
20 with the Moores that you submitted as evidence?

21 A. I believe I did. I did not? That must be in
22 our files in Midland, apparently. I could get copies
23 for the Commission.

24 Q. Okay, why don't we do that?

25 But they were first contacted on -- When?

1 A. There's a telephone conversation dated -- as
2 to Exhibit 3B -- March 5th, requesting them to farm
3 out.

4 EXAMINATION

5 BY MR. STOVALL:

6 Q. Mr. Haden, let me interrupt you and ask you
7 if, looking at your Exhibit 3D, that's your handwritten
8 notes regarding your phone conversations; is that
9 correct?

10 A. Yes, sir.

11 Q. If I read you -- first you sent out -- It
12 starts with a notation, you sent out proposal letters
13 on 2-27-90.

14 A. Right --

15 Q. Did that --

16 A. -- to all interest owners.

17 Q. -- go to the Moores?

18 A. Uh-huh.

19 Q. And then is that correct that your first
20 entry was actually a conversation with this Cindy
21 Bennett associated with the Moores?

22 A. Correct.

23 Q. Would that be the first conversations you've
24 had with -- or communication you've had with the
25 Moores?

1 A. Yes, sir, that would be, correct. Since they
2 own such a small interest, we thought it would be best
3 to get the major interest owners to agree to something
4 first.

5 Q. And you had ongoing communication with them
6 since that time?

7 A. Yes, yes.

8 Q. That's not the last communication; is that
9 correct?

10 A. No, sir. February 28th, March 5th.

11 Q. That's all reflected in 3D?

12 A. Yes, sir.

13 MR. STOVALL: Okay, we can review that.

14 Q. (By Examiner Catanach) Okay, if you could
15 just submit the written correspondence that you had
16 with the Moores, that would be fine.

17 A. Okay.

18 EXAMINER CATANACH: That's all the questions
19 I have of the witness at this time.

20 MR. STOVALL: I do have one request, Mr.
21 Bruce, or Mr. Haden, one or the other.

22 Would you provide us with an affidavit of
23 service listing the names of the people who are shown
24 on Exhibit 7? If you'll look at that sample order I
25 gave you, Mr. Bruce, you'll see what I need it for.

1 MR. BRUCE: Yes, sir.

2 MR. STOVALL: I appreciate it.

3 EXAMINER CATANACH: That's all we have of
4 the witness.

5 J. DAVID OVERTON,
6 the witness herein, after having been first duly sworn
7 upon his oath, was examined and testified as follows:

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you please state your full name and
11 city of residence?

12 A. J. David Overton, I reside in Midland, Texas.

13 Q. And who do you work for and in what capacity?

14 A. I work as a geologist for Mewbourne Oil
15 Company.

16 Q. And have you previously testified as a
17 geologist before the OCD?

18 A. Yes, sir, I have.

19 Q. And were your credentials accepted as a
20 matter of record?

21 A. Yes, sir, they were.

22 Q. And are you familiar with the geological
23 matters involved in Case 9926?

24 A. Yes, sir, I am.

25 MR. BRUCE: Mr. Examiner, is the witness

1 acceptable?

2 EXAMINER CATANACH: He is.

3 Q. (By Mr. Bruce) Mr. Overton, would you please
4 refer to Exhibit 8 and describe its contents?

5 A. Exhibit 8 is a Pennsylvanian gas production
6 study of the area of the Red Lake Prospect and the
7 Federal S Number 1 Well, proposed location.

8 The shallow oil wells were not given
9 production, because there's several on here.

10 The field to the north and west on the map is
11 the Arco-Empire-Abo Field.

12 The field on the eastern side of the map is
13 the Artesia-Queen-Grayburg-San Andres field.

14 And the oil production in the southwest
15 corner of the map is from the Dayton-Grayburg East
16 Field.

17 The Pennsylvanian gas wells are color-coded
18 as to what intervals are perforated in each well.
19 There's a minor Strawn well in the section, which was
20 P-and-A'd in 1986.

21 The other production in the area is from the
22 Morrow Formation, green being a Middle Morrow, orange
23 being a Lower Morrow sand, and brown being another
24 Lower Morrow sand.

25 Q. And what is the primary target of Mewbourne's

1 proposed well?

2 A. Our proposed well, the primary target would
3 be the orange and brown sands of the Lower Morrow.

4 Q. Okay. Would you please move on to Exhibit 9
5 and discuss its contents?

6 A. Exhibit 9 is a structure contour and Lower
7 Morrow "A" Sand isopach map.

8 The structure contours are on the base of the
9 Lower Morrow Shale and show regional dip, generally to
10 the southeast.

11 The isopach map shows a Lower Morrow channel
12 deposit trending across our proposed location in which
13 we would expect to encounter approximately twelve foot
14 of this sand.

15 Q. And would you also describe Exhibit 10?

16 A. Exhibit 10 is a Lower Morrow -- or base-of-
17 the-Morrow-shale structure map, again with the Lower
18 Morrow B sand isopach.

19 Again, it shows the same regional dip and the
20 channel sand deposited running -- trending across our
21 proposed location where we would expect to encounter
22 approximately ten foot of the sand.

23 Q. And in your opinion, is encountering
24 approximately 10 feet of the sand necessary in order
25 for Mewbourne to make an economic well?

1 A. Ten foot is getting toward the minimum amount
2 for us to make an economic well.

3 Q. And based on Exhibits 9 and 10 and the
4 geology reflected therein, in your opinion, is this
5 unorthodox location necessary for Mewbourne to have a
6 good chance of drilling a decent well?

7 A. Yes, sir, encountering ten foot would give us
8 an adequate chance of making an economic well.

9 Q. Would you please now move on to Exhibit 11
10 and describe its contents for the Examiner?

11 A. Exhibit 11 is a cross-section, A to A prime,
12 across the area of the prospect.

13 The cross-section trends from the northwest
14 to the east.

15 The significant wells are the Oryx -- or it's
16 listed as Sun Scoggins Draw "A" Federal, which is the
17 second from the left-hand side.

18 It shows there are perforations in the Middle
19 Morrow green, the Lower Morrow B, no perforation in the
20 Lower Morrow A, which is tight in that well, and a
21 small sand underneath there, which is colored gray.

22 The next well on that cross-section is the
23 Yates Petroleum Rio Pecos RS Federal Number 1, which
24 was drilled in an orthodox location in Section 21.

25 This well did not encounter appreciable

1 amounts of sand. However, we feel it's right on the
2 edge of the channel, and moving away from it to our
3 proposed location would give us a chance of running
4 into a reasonable amount of sand.

5 The fourth well on the cross-section, which
6 is the Sun Scoggins Draw Federal Com Number 1, is the
7 well directly offsetting us to the east, which
8 encountered both the brown and the orange sand.
9 However, only a minor amount -- Excuse me, the brown
10 color is the A sand and the orange is what we have
11 designated the B sand. It encountered only a minor
12 amount of B sand and a fairly significant section of A
13 sand.

14 Q. Based on your testimony and your review of
15 the geology, do you have an opinion regarding the
16 penalty which should be assessed against the
17 nonconsenting interest owners with respect to the
18 force-pooling portion of the Application?

19 A. Yes, sir, we recommend cost plus 200 percent.

20 Q. And what do you base this on?

21 A. On the risk of drilling a well --
22 approximately 9900-foot well from a mechanical
23 standpoint, and also on the risk of encountering these
24 sands.

25 As you can see, the offset well we're -- or

1 the Yates well we're offsetting did not encounter any,
2 and these others tend to be perforated in several
3 different intervals. So there is a risk of
4 encountering an economic amount of sand.

5 Q. And in your opinion, is the granting of this
6 Application in the interests of conservation, the
7 prevention of waste and the protection of correlative
8 rights?

9 A. Yes, sir, it is.

10 Q. And were Exhibits 8 through 11 prepared by
11 you?

12 A. Yes, sir, they were.

13 MR. BRUCE: Mr. Examiner, I move the
14 admission of Exhibits 8 through 11.

15 EXAMINER CATANACH: Exhibits 8 through 11
16 will be admitted as evidence.

17 (Off the record)

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Overton, when was that Yates well
21 drilled, the one in Section 21?

22 A. In 1984.

23 Q. And that penetrated all -- that penetrated
24 the Morrow?

25 A. We're talking about the dryhole or the

1 producing well?

2 Q. Right, the Rio Pecos RS Federal Number 1.

3 A. Yes, sir, that penetrated the Morrow.

4 Q. And did it encounter -- Well, that was
5 subsequently plugged and abandoned, or was it produced?

6 A. It never was produced.

7 Q. Never was produced. Just tested uneconomic
8 in the Morrow?

9 A. It did not encounter an economic amount of
10 sand. There's no reservoir in it.

11 Q. How do you arrive at the conclusion that you
12 need at least 10 feet of sand to make a good well in
13 this area?

14 A. In general, in the Morrow, 10 foot is a
15 minimum for an economic well. You get much more than
16 that, and the risk goes way up as to being able to
17 produce -- make an economic completion.

18 As an example, if you'll look at the well in
19 Section 23, it encountered four foot of porosity in the
20 Morrow, and it's made approximately 358 million.

21 Q. On your Exhibit Number 10, you've got -- Next
22 to the well symbols, you've got the footage marked.
23 What does that represent? You've got 3 on top -- Like
24 for the well in Section 22, you've got three feet and
25 then -- over seven feet?

1 A. That's three foot of porosity greater than
2 eight percent, over seven foot of net clean interval,
3 net clean sand, which uses a 60-percent line on the
4 gamma ray for clean interval. 60-percent cutoff.

5 Q. The well in Section 22, is that producing
6 from the B sand?

7 A. That's producing both from the B and the A.
8 It's perforated in both intervals.

9 Q. So they only -- in that well, there's only
10 three feet of porosity greater than eight percent in
11 the B sand, but they still --

12 A. If you combine the two sands, they actually
13 have 21 feet of porosity.

14 They perforated both sands at the same time,
15 so it would be hard to determine which sand gave how
16 much gas.

17 Q. And that's a pretty good well?

18 A. Yes, sir, that's a fair well. It had
19 produced -- As of June of last year, it had produced .9
20 of a BCF in 18 months.

21 Q. What about the well in Section 15? Is that a
22 pretty good well?

23 A. Yes, sir, it is.

24 Q. That well has only got six feet?

25 A. That is correct.

1 There are times when you can complete less
2 than ten foot, but it's our opinion that it's -- the
3 risk is too great to drill for less than 10 foot on a
4 projection.

5 Q. Mr. Overton, what's the potential for
6 completing in any other zone besides the Morrow, at
7 this location?

8 A. It doesn't appear like there's much potential
9 to me. I think the Morrow is pretty much what we're
10 drilling for. There's not much chance of hitting
11 anything else.

12 There were no shallow shows in the Yates or
13 RS, which was plugged and abandoned, and to my
14 knowledge the Oryx wells in 15 and 21 -- and 22 -- did
15 not have any shallower shows.

16 Q. Any Strawn potential?

17 A. The one Strawn well in the area is also in
18 Section 21 and 27 million and plugged and abandoned;
19 it's not going to make us any money.

20 Q. Any of these other offsetting wells been
21 tested in the Strawn?

22 A. Not to my knowledge.

23 Q. Well, does Mewbourne propose the risk penalty
24 of 200 percent apply to all zones?

25 A. Yes, sir, I don't feel like any of the other

1 zones have a chance.

2 EXAMINER CATANACH: That's all the questions
3 I have of the witness for now.

4 You may be excused.

5 KELLY RYAN,
6 the witness herein, after having been first duly sworn
7 upon his oath, was examined and testified as follows:

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Will you please state your full name and city
11 of residence?

12 A. My name is Kelly Ryan, and I live in Tyler,
13 Texas.

14 Q. And who do you work for and what is your job?

15 A. I'm a petroleum engineer for Mewbourne Oil
16 Company.

17 Q. And have you previously testified before the
18 OCD as an engineer?

19 A. Yes, I have.

20 Q. And were your credentials accepted as a
21 matter of record?

22 A. Yes they were.

23 Q. And are you familiar with the engineering
24 matters involved in Case 9926?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, is the witness
2 acceptable?

3 EXAMINER CATANACH: He is.

4 Q. (By Mr. Bruce) Mr. Ryan, I refer you to
5 Exhibit Number 12. Would you please identify that for
6 the Examiner?

7 A. This is an agreement entered with Mewbourne
8 Oil Company, Oryx Energy Company, which we are
9 voluntary submitting to a 35-percent penalty with our
10 unorthodox location, with a minimum of 1 million cubic
11 feet of gas per day.

12 Q. And do you recommend that the Division accept
13 this agreement between Oryx and Mewbourne for this
14 case, for the unorthodox location?

15 A. Yes, I do.

16 Q. And in your opinion, is it fair and
17 reasonable under the circumstances?

18 A. Yes, it is.

19 Q. To get into that a little more, Mr. Ryan,
20 would you please refer to Exhibits 13 and 14 first of
21 all, and describe them for the Examiner and what kind
22 of reserve calculations you made for Mewbourne's
23 proposed well?

24 A. These are the offsets in Section 22 and
25 Section 15, the decline curve.

1 The well in Section 15, which is perforated
2 in the B sand, initialed at approximately 2 million
3 cubic feet per day, initial production.

4 The well in Section 22, which perforated in A
5 and B sand, initialed for almost 3 million a day.

6 Based on this production and the declines we
7 see, we've estimated cumulative recovery of 2.2 BCF and
8 1.8 BCF.

9 Q. For the Oryx wells?

10 A. For these two wells.

11 Q. Okay. And based on those, have you made an
12 estimate of ultimate recovery for Mewbourne's proposed
13 well?

14 A. Yes, we have.

15 Q. And what is that? I refer you to Exhibit 15.

16 A. That's approximately 1.8 BCF to be recovered
17 by our well in Section 21.

18 Q. Now, if there was no penalty, what greater
19 return would Mewbourne have on that well?

20 A. We would have a very high rate of return with
21 a discounted return of 3.31 and at payout a little over
22 a year, which would be very -- which would be
23 acceptable to us.

24 Q. Okay. Now, would you please move on to
25 Exhibits 16 and 17 and discuss the proposed 35-percent

1 penalty on this well?

2 A. These are the same reserves that assessed the
3 two penalties, either the 35- or 40-percent.

4 And as you can see, it extends your payout,
5 of course, but it also brings your return under three.
6 Your 35-percent penalty gets it down to around two.
7 The 40-percent even gets it below two, which would be
8 unacceptable to Mewbourne Oil Company's guidelines.

9 Q. But the 35-percent penalty would be in the
10 acceptable range?

11 A. that's -- It's just barely over.

12 Q. Okay. In your opinion, will the granting of
13 the unorthodox location portion of this case, with the
14 penalty, be in the interest of conservation, the
15 prevention of waste and the protection of correlative
16 rights?

17 A. Yes, it will.

18 Q. And were Exhibits 13 through 17 prepared by
19 you?

20 A. Yes, they were.

21 Q. And is Exhibit 12 compiled from company
22 records?

23 A. That's correct.

24 MR. BRUCE: Mr. Examiner, I at this time move
25 the admission of Exhibits 12 through 17.

1 EXAMINER CATANACH: Exhibits 12 through 17
2 will be admitted as evidence.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Ryan, this is in a nonprorated gas pool;
6 is that correct?

7 A. That's correct.

8 Q. So how would Mewbourne -- Would Mewbourne
9 just simply curtail the well, 35 percent?

10 A. It would be based on a deliverability test,
11 yes, sir.

12 Q. Conducted annually?

13 A. That's correct.

14 Q. And how was the 35 percent arrived at again?

15 A. It was proposed by Mewbourne to Oryx, who
16 accepted.

17 Q. But as far as the actual figure, how was that
18 arrived at?

19 A. We did some preliminary calculations using
20 the twin-circle rule, which is, I believe, by the
21 Commission, and it came out to about 35 percent.

22 Q. How would the -- How would the 35-percent
23 penalty be policed, or who would see to it that you
24 were doing that, that you were curtailing that
25 production?

1 A. Well, we could very easily take care of that
2 ourselves with -- I'm sure Oryx is going to be --

3 Q. -- keeping it in mind?

4 A. I mean, their interest is going to be
5 involved too. They're going to be checking up on
6 things.

7 Q. I'm curious about -- How was the one-million-
8 a-day minimum arrived at?

9 A. It's -- Anything less, we feel like would be
10 unfair to us, in that if we don't encounter a well that
11 is going to test high to where our -- we can get some
12 good rates out of it, we're going to be stuck with a
13 well that basically does a little bit better than cover
14 your operating expenses and will never, ever get to
15 recure a drilling cost.

16 Q. So a million a day is more or less like the
17 economic limit, or --

18 A. Well, no, it's -- That would be a little bit
19 high for an economic limit. But --

20 Q. Okay. But you have run economics on that,
21 and it will give you a decent rate of return?

22 A. That's correct.

23 Q. Okay. Now, this penalty is only applicable
24 as to the Morrow; is that correct?

25 A. Yes.

EXAMINATION

BY MR. STOVALL:

Q. If this penalty agreement that you've made with Oryx were not incorporated into the Order, as I read the thing, do you feel you would continue to be bound by it? Is that correct?

A. That's correct.

Q. Is there any remedy for Oryx if you should violate it?

A. It's an agreement made in good faith.

Q. In other words, no. Right?

A. Yeah -- I'm not sure.

MR. STOVALL: Perhaps Mr. Bruce is looking like he wants to chomp at the bit on that one?

MR. BRUCE: Well, it looks to me like a contract signed by both parties, Mr. Stovall.

MR. STOVALL: You would anticipate the normal breach-of-contract remedies available if it were not a --

MR. BRUCE: Yes, sir.

MR. STOVALL: I was just curious.

EXAMINER CATANACH: No further questions.
The witness may be excused.

Anything further in this case?

If not, Case 9926 will be taken under

1 advisement.

2 (Thereupon, these proceedings were concluded
3 at 9:07 a.m.)

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL June 9, 1990.



STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 726, heard by me on May 30 19 90.


_____, Examiner
Oil Conservation Division

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MAY 30, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Mickey Wartick	Chevron U.S.A. Inc.	Hobbs, NM
Richard Jones	Chevron USA Inc.	Hobbs, NM.
Alan W. Bohling	Chevron U.S.A. INC	Hobbs, NM
William J. San	Campbell and Black, P.A.	Santa Fe
Maurice Brimmer	Byram Co.	Santa Fe
Paul Haden	Newbourne Oil Co.	Midland, TX.
Harold Gorton	Newbourne Oil Co.	Midland, TX
Kelly Ryan	Newbourne Oil Co.	Huylee TX
James Bruce	Amble Law Firm	Albuquerque
Bonnie Wilson	Oryx	MIDLAND TX
Thurman R. Holden	"	Midland, TX
David P. Rojas	Oryx	Midland TX
Charles W. Gray	Oryx Energy Co.	Dallas, TX.
Lonnie Whitfield	Pennzoil Company	Houston, TX
Bill Hollingshead	"	" "
Harry J. Mutter	Doyle Hartman	Midland, TX

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MAY 30, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Greg Hinterlong	OXY USA Inc	Mid Land TX
Rick Foppiano	" " "	" "
W. T. Zellbach	Zellbach Zellbach Arkley	Santa Fe
Eric D. Carlson	Marathon Oil Company	Midland, TX
Craig J. Reed	MARATHON O. & C. Co.	M. D. LAND, TX
Don Miller	CONS. Engr	Santa Fe
Lawrence D. Hamer	MARATHON OIL CO.	HOUSTON

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9923, CASE 9924, CASE 9926,

CASE 9927, CASE 9911, CASE 9930,

CASE 9931, CASE 9918, CASE 9919,

CASE 9907, CASE 9898

EXAMINER HEARING

IN THE MATTER OF:

Continued Cases

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

May 2, 1990

1 WHEREUPON, the following proceedings were had
2 at 8:20 a.m.:

3 EXAMINER CATANACH: Call the hearing to order
4 this morning for Docket Number 12-90.

5 At this time we'll call the continuances.

6 At this time I'll call Case 9923, the
7 Application of Santa Fe Energy Operating Partners,
8 L.P., for surface commingling, Lea County, New Mexico.

9 At the Applicant's request, this case will be
10 continued to the May 16th, 1990, docket.

11 * * *

12 EXAMINER CATANACH: Call Case 9924, the
13 Application of Strata Production Company to amend
14 Division Order No. 9097, Eddy County, New Mexico.

15 At the Applicant's request, this case will be
16 continued to the May 16th, 1990, docket.

17 * * *

18 EXAMINER CATANACH: Call Case 9926, the
19 Application of Mewborn Oil Company for compulsory
20 pooling and an unorthodox gas well location, Eddy
21 County, New Mexico.

22 At the Applicant's request, this case will be
23 continued to May 30th, 1990.

24 * * *

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1 EXAMINER CATANACH: Call Case 9927, the
2 Application of Pacific Enterprises Oil Company (USA)
3 for compulsory pooling, Eddy County, New Mexico.

4 At the Applicant's request, this case will be
5 continued to the May 16th, 1990, docket.

6 * * *

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8 EXAMINER CATANACH: At this time we'll call
9 Case 9911, Application of Union Oil Company of
10 California for a highly deviated directional drilling
11 pilot project and unorthodox coal gas well location,
12 Rio Arriba County, New Mexico.

13 At the Applicant's request, this case will be
14 continued to the May 16th, 1990, docket.

15 * * *

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17 EXAMINER CATANACH: Case 9930, the
18 Application of Union Oil Company of California to amend
19 Division Order Number R-6375, as amended, Rio Arriba
20 County, New Mexico.

21 At the Applicant's request, this case will be
22 continued to the May 16th, 1990, docket.

23 * * *

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1 EXAMINER CATANACH: Case 9931, Application of
2 Arco Oil and Gas Company for a pressure maintenance
3 expansion, Eddy County, New Mexico.

4 At the Applicant's request, this case will be
5 continued to the May 16th, 1990, docket.

6 * * *

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8 EXAMINER CATANACH: Case 9918, Application of
9 Mesa Operating Limited Partnership for compulsory
10 pooling, San Juan County, New Mexico.

11 At the Applicant's request, this case will be
12 continued to the May 16th, 1990, docket.

13 * * *

14
15 EXAMINER CATANACH: Case 9919, Application of
16 Mesa Operating Limited Partnership for compulsory
17 pooling, San Juan County, New Mexico.

18 At the Applicant's request, this case will be
19 continued to the May 16th, 1990, docket.

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1 EXAMINER CATANACH: Case 9907, Application of
2 Enron Oil and Gas Company for compulsory pooling and an
3 unorthodox location, Eddy County, New Mexico.

4 At the Applicant's request, this case will be
5 continued to the May 16th, 1990, docket.

6 * * *

7
8 EXAMINER CATANACH: And Case 9898,
9 Application of Doyle Hartman for compulsory pooling, a
10 non-standard gas proration unit and simultaneous
11 dedication, Lea County, New Mexico.

12 At the Applicant's request, this case will be
13 continued to the May 16th, 1990, docket.

14 * * *


1 CERTIFICATE OF REPORTER

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

5
6 I, Steven T. Brenner, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that the
8 foregoing transcript of proceedings before the Oil
9 Conservation Division was reported by me; that I
10 transcribed my notes; and that the foregoing is a true
11 and accurate record of the proceedings.

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

16 WITNESS MY HAND AND SEAL May 24, 1990.

17 

18 STEVEN T. BRENNER
19 CSR No. 106

20 My commission expires: October 14, 1990
21

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
the Examiner hearing of Case No. 9826,
heard by me on May 2 1990.

24 David R. Colant, Examiner
25 Oil Conservation Division