

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
) CASE NO. 13,255
APPLICATION OF JTD RESOURCES, L.L.C.,)
FOR COMPULSORY POOLING AND UNORTHODOX)
OIL WELL LOCATIONS, LEA COUNTY,)
NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

April 29th, 2004

Santa Fe, New Mexico

RECEIVED

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Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, April 29th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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April 29th, 2004
Examiner Hearing
CASE NO. 13,255

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A P P E A R A N C E S

FOR THE DIVISION:

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 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
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* * *

1 WHEREUPON, the following proceedings were had at
2 9:55 a.m.:

3 EXAMINER JONES: At this time we'll call Case
4 13,255, Application of JTD Resources, L.L.C., for
5 compulsory pooling and unorthodox oil well locations, Lea
6 County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have three potential
10 witnesses.

11 EXAMINER JONES: Any other appearances in this
12 case?

13 Will the witnesses please stand to be sworn?

14 (Thereupon, the witnesses were sworn.)

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and residence
21 for the record?

22 A. Dan Leonard from Midland, Texas.

23 Q. What is your relationship to JTD Resources?

24 A. I manage that company.

25 Q. And by trade are you a landman?

1 A. I am.

2 Q. Have you previously testified before the
3 Division?

4 A. I have.

5 Q. And were your credentials as an expert accepted
6 as a matter of record?

7 A. Yes.

8 Q. And are you familiar with the land matters
9 involved in this case?

10 A. I am indeed.

11 MR. BRUCE: Mr. Examiner, I move the admission of
12 Mr. Leonard as an expert petroleum engineer -- I mean,
13 excuse me, landman.

14 EXAMINER JONES: Mr. Leonard is qualified as an
15 expert landman.

16 THE WITNESS: My two technical partners back
17 there about fell out of their chairs. Be careful what you
18 do.

19 MR. BRUCE: I'm making sure they're awake.

20 Q. (By Mr. Bruce) Mr. Leonard, could you identify
21 Exhibit 1 and describe briefly what JTD seeks in this case?

22 A. Exhibit 1 is a Midland Map Company land plat
23 highlighting the northwest quarter, northwest quarter,
24 Section 2, Township 20 South, Range 38 East in Lea County.
25 We seek an order pooling the northwest quarter, northwest

1 quarter of Section 2 from the surface to the base of the
2 Abo, and we will dedicate this unit to the drilling of the
3 White Owl Number 1 well at that location.

4 Q. What is the well's location?

5 A. Surface location for this well is 500 feet from
6 the north line and 330 feet from the west line of Section
7 2. We will directionally drill this hole to a bottomhole
8 location that will be approximately 1300 feet from the
9 north line and 330 feet from the west line of that Section
10 2.

11 Q. And will our next witness discuss the reason for
12 that in part?

13 A. Yes, he will.

14 Q. Now, insofar as the directional drilling, is
15 there a surface reason for that directional drilling? Are
16 there any surface --

17 A. Surface is not the primary issue here.

18 Q. Okay. It's mainly geologic?

19 A. Yes, we've got some seismic information that
20 indicates that we will penetrate our two primary
21 objectives, which are the Blinebry and the Tubb formations,
22 at locations that will be structurally high and have
23 reservoir porosity developed, and that's the primary reason
24 for this directionally drilled hole.

25 Q. Now, in general what is the ownership of this

1 well unit? Is it a fee tract?

2 A. It is a fee tract. The northwest quarter of
3 Section 2 is common. There are approximately 72 mineral
4 owners in the tract. JTD has acquired leases from 49 of
5 these owners, representing about 74 1/4 percent of the
6 ownership.

7 Q. Now one thing, even though on Exhibit 1 it looks
8 like the northwest quarter is split up into tracts, mineral
9 ownership is actually common, is it not?

10 A. Yes, that's a --

11 Q. Throughout the quarter section?

12 A. Yes.

13 Q. Okay.

14 A. That division is all surface stuff.

15 Q. Okay. Now, who do you seek to pool? And I would
16 refer you to Exhibits 2 and 3.

17 A. Exhibits 2 and 3 list the unleased mineral owners
18 that we have in this quarter quarter.

19 Exhibit 2 is a -- lists 12 locatable owners,
20 known addresses of these. Coates Energy Trust owns a
21 quarter mineral interest. The remaining 11 locatable
22 owners own just in excess of a half a percent mineral
23 interest. The interests are really quite small.

24 Exhibit 3 lists the unlocatable owners. There
25 are 11 of these people, and combined they own just a little

1 bit in excess of 27/100 of a percent mineral interest.

2 Q. One thing, looking at Exhibit 2, Mr. Leonard, the
3 Coates Energy Trust interest is the only substantial
4 outstanding interest; is that right?

5 A. Yes.

6 Q. Have you been informed recently that this
7 interest may be leased?

8 A. Yes, day before yesterday.

9 Q. Okay, and it was leased, apparently, to who?

10 A. Chesapeake.

11 Q. And that lease was taken after this Application
12 was filed and the force pooling notice went out?

13 A. Oh, yes, the lease was taken, I think, in the
14 last 10 days.

15 Q. Okay. And at this point you seek to pool all of
16 the people listed on Exhibits 2 and 3?

17 A. Yes, we do.

18 Q. Okay. Let's discuss your efforts to obtain the
19 voluntary joinder of the locatable interest owners in the
20 well, and I'd refer you to Exhibit 4.

21 And before you start testifying, Mr. Leonard, Mr.
22 Examiner, we had a little trouble with some lost Federal
23 Express package. We did make a full set of, this morning,
24 exhibits for you, but when I receive the package I will
25 submit additional sets to the Division and to the court

1 reporter of Exhibit 4, but we only have that one set at
2 this time.

3 EXAMINER JONES: Okay.

4 THE WITNESS: They're here in Santa Fe someplace,
5 I'm confident.

6 EXAMINER JONES: Okay.

7 THE WITNESS: We'll find them.

8 Q. (By Mr. Bruce) Anyway, in general, Mr. Leonard,
9 without going through every detail, there was substantial
10 correspondence with the interest owners, was there not?
11 And perhaps you can start by saying, how long have you been
12 working on this well?

13 A. Well, we force-pooled it several years ago and
14 then got some additional information, changed the location
15 several times and have arrived at where we are today. So
16 we let that pooling order go, and we've been after this
17 thing for the last two and a half years now. We've written
18 multiple lease proposals to the locatable owners. They've
19 either not responded at all, or we've been able to come to
20 terms with them on the oil and gas leases that they want to
21 use.

22 Q. And Mr. Leonard, all of that leasing acquisition
23 correspondence is not in Exhibit 4, is it not? It is not
24 in Exhibit 4, the prior years?

25 A. No, just for the past --

1 Q. -- several months?

2 A. No, some of those -- the top letter here to
3 Coates goes back to May of 2002.

4 Q. Okay. But there has been substantial
5 correspondence involving these mineral interests?

6 A. Correspondence and telephone calls and -- you
7 know, a lot of these people, the owners are -- we've
8 located some since -- some family since the first of the
9 year that the interests are just tiny, and we've got a
10 couple of family members that would sign leases, and the
11 others don't even talk to you, they don't pay any
12 attention. They don't know anything about the oil and gas
13 business, don't know anything about the minerals. You
14 know, and they're just not familiar.

15 Q. Okay. So in general, you have submitted as
16 Exhibit 4 copies of correspondence, either lease proposals
17 or, since you could not obtain leases from them, you did
18 send well proposals to them?

19 A. We did.

20 Q. And the well proposals contain the AFE?

21 A. Yes.

22 Q. And ask them to join in the well?

23 A. Yes, sir.

24 Q. Now, with respect to the unlocatable people, what
25 records were examined to try to locate these people?

1 A. We made a very diligent search in the Lea County
2 courthouse, the county clerk's records, the tax offices.
3 If we had any prior addresses of any kind, we would go back
4 to those addresses, to the tax records in those locales or
5 counties, to see if we could turn up any leads.

6 Then we -- on the Internet today there are
7 multiple engines that you can use to search for people.
8 One is called *whitepages.com*, which we typically have --
9 It's very reliable, and we typically have success with it.

10 If we fail there, we've got another engine called
11 *deluxesearch.com* where you have the name and any portion of
12 the address, you can feed that in, and it cross-references
13 five different search engines, one of which is
14 *whitepages.com*. None of these efforts turned up any leads
15 on these -- on the people that are on the unlocatable list.

16 Q. Okay. And one thing I did forget to mention with
17 respect to the letters that went out. Some of the
18 correspondence may be in the name of Leonard Resource
19 Investment Corporation. Is that the predecessor entity to
20 JTD?

21 A. Yes, I had two companies for a long time, JTD
22 Resources and Leonard Resource, and we merged Leonard
23 Resource into JTD last October.

24 Q. And secondly, some of the correspondence may have
25 been sent out by a gentleman named Glenn Farmer. Who is

1 he?

2 A. He's a lease broker in Midland that does quite a
3 bit of work for me.

4 Q. Okay, so he was acting on your behalf?

5 A. Yes.

6 Q. In your opinion, have you made a good-faith
7 effort to obtain the voluntary joinder of the interest
8 owners in the well?

9 A. I think we have.

10 Q. Would you Exhibit 5 and discuss the cost of the
11 proposed well?

12 A. Exhibit 5 is an AFE that's been prepared by Scott
13 Davis of Capataz Operating for the drilling of this well.
14 It's a 7800-foot test. The estimated dryhole cost is
15 \$368,352, the total completed well cost is \$832,137.

16 Q. Is this cost in line with the cost of other wells
17 drilled to this depth in this area of New Mexico?

18 A. Yes, and less than some in our experience.

19 Q. Okay, and who do you request be named operator of
20 the well?

21 A. Capataz.

22 Q. Capataz Operating, Inc.?

23 A. Yes.

24 Q. Do you have a recommendation for the amounts
25 which the operator should be paid for supervision and

1 administrative expenses?

2 A. We do. We request that \$4500 per month be
3 allowed for drilling the well and \$450 a month for
4 operating it.

5 Q. And are these costs in line with the costs of
6 other operators for wells of this depth in this part of New
7 Mexico?

8 A. In our experience, yes.

9 Q. Do you request that the overhead rates be
10 adjusted periodically as provided by the COPAS accounting
11 procedure?

12 A. We do.

13 Q. And do you request that the maximum cost-plus-
14 200-percent risk charge be assessed against nonconsenting
15 owners?

16 A. We do.

17 Q. Were the interest owners notified of this
18 hearing?

19 A. They were.

20 Q. And is that reflected in Exhibit 6?

21 A. Yes, it is.

22 Q. Finally with respect to the unorthodox locations,
23 was notice given to anyone regarding the unorthodox
24 locations?

25 A. No, the well encroaches only on the southwest

1 quarter of the northwest quarter, and the title is common
2 in the whole northwest quarter, so it wasn't necessary.

3 Q. Okay. Were Exhibits 1 through 6 prepared by you
4 or under your supervision or compiled from company business
5 records?

6 A. They were.

7 Q. And is the granting of this Application in the
8 interest of conservation and the prevention of waste?

9 A. It is.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Exhibits 1 through 6.

12 EXAMINER JONES: Exhibits 1 through 6 will be
13 admitted.

14 EXAMINATION

15 BY EXAMINER JONES:

16 Q. Mr. Leonard, before I forget to ask, you just
17 mentioned the title. The ownership is common in the
18 northwest quarter; is that right?

19 A. Yes, sir.

20 Q. So on the Tubb, Drinkard and Abo, as you complete
21 those, those will be unorthodox, so there's no -- and this
22 is all --

23 A. Our leases are undivided under the whole
24 northwest quarter.

25 Q. Leases.

1 A. And all of the mineral ownership is.

2 Q. Okay, okay.

3 A. And it will only encroach on the 40 acres which
4 is the southwest of the northwest, which we also own.

5 Q. Okay, which you also own, okay. Do you have the
6 size of this 40 acres that you're drilling in? In other
7 words, is it -- I pulled that up and it said 39.73; is that
8 right?

9 A. Yes. Well, it depends on what record you look
10 at, but in some of the county records it reflects it's 159
11 1/2, and some it reflects it's 160. The survey plat --
12 Scott, do you know -- we've got a survey plat of it, but
13 I'm not sure that that reflects the --

14 MR. DAVIS: The survey plat won't reflect it.

15 MR. BRUCE: It doesn't show it, yeah.

16 Q. (By Examiner Jones) Okay, but is this Lot 4,
17 right?

18 A. It's Lot 3 and 4. Yeah, this is Lot 4 that we've
19 drawn on, yes, sir.

20 Q. Okay. And that's -- that Lot 4 is the --

21 A. -- is the northwest northwest.

22 Q. And that's the subject of this compulsory
23 pooling, right?

24 A. Yes, sir.

25 Q. And it is fee-owned?

1 A. It is.

2 Q. I guess I pulled up the wrong section here.

3 Okay. Now, you're --

4 A. If it hasn't, we've sure gone to a lot of
5 trouble.

6 Q. Yeah, I'm not going to -- yeah, you're obviously
7 right on that, so...

8 The pool names you're going into, I couldn't find
9 the House-Yates-Seven Rivers. It looked to me like that's
10 a gas pool.

11 A. It is.

12 Q. Okay, so basically the pool names are the San
13 Andres, the Blinebry, the Tubb, Drinkard and Abo?

14 A. Yes, sir.

15 EXAMINER JONES: Okay. And Mr. Brooks?

16 MR. BROOKS: No, nothing.

17 EXAMINER JONES: Okay, thanks very much, Mr.
18 Leonard.

19 THE WITNESS: Thank you.

20 JOHN WORRALL,

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 residence for the record?

2 A. My name is John Worrall, and I'm from Roswell,
3 New Mexico.

4 Q. Who do you work for?

5 A. I'm a consultant working here for Capataz
6 Operating.

7 Q. Are you a geologist by training?

8 A. I am.

9 Q. Have you previously testified before the
10 Division?

11 A. Yes, several times.

12 Q. And were your credentials as an expert petroleum
13 geologist accepted as a matter of record?

14 A. Yes, they were.

15 Q. And are you familiar with the geology involved in
16 the drilling of this well?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I tender Mr. Worrall as
19 an expert petroleum geologist.

20 EXAMINER JONES: Mr. Worrall is qualified as an
21 expert petroleum geologist.

22 Q. (By Mr. Bruce) Mr. Worrall, let's go to your
23 second exhibit, the cross-section, and why don't you
24 discuss for the Examiner the primary zones of interest in
25 the proposed White Owl Well Number 1?

1 A. Okay, this cross-section, it's also shown on
2 Exhibit 7, and that's the red line which passes through the
3 White Owl location. And there are six other wells nearby
4 that are shown, and both on the maps and on the cross-
5 section, the color yellow is for the Blinebry producers,
6 the color green is for the Tubb and the color blue is for
7 the Drinkard.

8 The primary objective of this cross-section is
9 just to show you the relationships, that the Blinebry is
10 800 feet above the Tubb. It's at 6000 feet, approximately,
11 and there's a pay zone there about 10 feet thick at the top
12 of the Blinebry that is one of our two primary objectives.
13 The second primary objective is in the Tubb, looking at the
14 second well. It's generally about that 70-foot interval
15 below the top of the Tubb-Dolomite.

16 And we've drilled 22 deep wells out in this area
17 now that we have covered with 3-D seismic, and that seismic
18 helps us to find the best places to encounter porosity in
19 these two intervals. In this particular location it's not
20 the same place. Hence, we're doing a slant well to
21 encounter the best porosity and achieve the most effective
22 way of recovering the oil.

23 Q. Now, the -- again, the two main zones of interest
24 are the Blinebry and the Tubb?

25 A. Yes, sir.

1 Q. And what other zones are there of interest in
2 this well?

3 A. The two secondary objectives will be the
4 Drinkard, which is down at 6800 feet -- it is productive on
5 the fourth and fifth wells on the cross-section -- and then
6 the fourth objective is the Abo, which is down at 7400 feet
7 in the Coll Number 1, and exhibits indications of
8 permeability and porosity. So our total depth will be 7800
9 feet.

10 Q. Let's move on to your Exhibit 7 and describe why
11 the well is being directionally drilled and what zones --
12 how you hope to get these zones -- or maximize these zones
13 in the proposed well?

14 A. Okay, Exhibit 7 is actually five separate maps.
15 The first map is a production map. In yellow there's four
16 different wells in the section that produce from the
17 blinebry. The most economic one is the Red Tag Number 2 in
18 the Northeast of the southwest, and it has appreciably more
19 gas. It's made 530 million cubic feet.

20 The second map is a structure map on top of the
21 Blinebry, and what it shows is that that well is
22 structurally higher than the other wells. And we think
23 structure is important in the storage of gas relative to
24 oil at the top of the structure.

25 The third map is a Blinebry porosity isopach map,

1 and this is based on the seismic amplitude at the top of
2 the Blinebry. What we have seen from our history is that
3 the areas that have lower amplitude, they are associated
4 with porosity, and areas of higher amplitude are associated
5 with areas that are tight. We've drilled several wells
6 that are tight, and just south of the White Owl we find one
7 of those tight areas that's colored purple. So we want to
8 stay north of that in our location. So our location shown
9 on the White Owl in the northwest northwest is shown where
10 there should still be 9 to 10 feet of porosity.

11 Then you go to the next two maps, and it's
12 slightly different, the top of the Tubb Dolomite. We're
13 now encountering the top of the Tubb at 1000 feet from the
14 north line, whereas at the Blinebry we were 800 feet from
15 the north line.

16 And at the Tubb, the second map, the Tubb
17 dolomite porosity map, that's where we would encounter the
18 best porosity. Were we to encounter it at the same
19 location as the Blinebry, we would be tight in the Blinebry
20 and vice-versa, a little bit further south of the Blinebry
21 we'd be tight in the Tubb.

22 Q. Okay. So in other words, it's kind of a
23 compromise. You're trying to hit both the Tubb and the
24 Blinebry at good positions, but those positions are
25 different from each other?

1 A. They're 200 feet offset, yes.

2 Q. Okay. Because of the geology that you've just
3 discussed, especially in the Tubb, is it necessary to be
4 slightly unorthodox in the Tubb?

5 A. Yes, we'll be encountering the top of the Tubb
6 1000 feet from the north line, which -- This is just barely
7 unorthodox.

8 Q. Okay. Now, at the base of the Tubb it might be
9 even more unorthodox; is that correct?

10 A. Probably closer to 1100 feet.

11 Q. Okay. And with the well proposal, which -- or
12 the directional drilling plan, the wellbore will keep
13 heading south; is that correct? So you will get the -- say
14 the Abo -- or is it the -- the Abo, at also an unorthodox
15 location?

16 A. Yeah, the bottom of the well is planned for 1300
17 feet. That's using a 16-degree angle starting at a kickoff
18 point of 4500 feet.

19 Q. Okay, and is Exhibit 9 simply a copy of the C-102
20 with the drilling prognosis attached?

21 A. Yes, it is.

22 Q. Mr. Worrall, were Exhibits 7, 8 and 9 prepared by
23 you or compiled from company business records?

24 A. I prepared Exhibits 7 and 8, and Exhibit 9 was
25 prepared by Capataz Operating.

1 Q. Okay. And in your opinion, is the granting of
2 this Application in the interests of conservation and the
3 prevention of waste?

4 A. Yes, it is.

5 MR. BRUCE: Mr. Examiner, I'd move the admission
6 of Exhibits 7 through 9.

7 EXAMINER JONES: Exhibits 7 through 9 will be
8 admitted to evidence.

9 EXAMINATION

10 BY EXAMINER JONES:

11 Q. Mr. Worrall, where did you say your kickoff would
12 be? 4200?

13 A. 4500 feet.

14 Q. 4500 feet? Okay, you're getting pretty close to
15 the -- to being unorthodox to the west there also. What,
16 are you trying to stay at 330 the whole way down?

17 A. Yes, and they'll have a drilling motor.

18 Q. Okay.

19 A. And Scott Davis can speak more --

20 MR. BRUCE: Mr. Examiner, although I wasn't
21 planning on bringing him up, the operator is here and could
22 discuss the drilling --

23 EXAMINER JONES: Good.

24 MR. BRUCE: -- plan.

25 Q. (By Examiner Jones) Okay. So you plan on --

1 Now, you didn't say much about the San Andres, but you want
2 it included in this compulsory pooling?

3 A. San Andres is a zone in our 22 wells. It's been
4 productive in a couple of wells. It kind of comes and goes
5 with the presence of porosity. So it's a possibility.

6 Q. Okay.

7 A. It's not a primary objective.

8 Q. And as far as the Abo goes, you're going way on
9 down to where -- your final location, 1310 from the north
10 line?

11 A. 1300.

12 Q. 1300, okay. And the Abo -- That's the bottom of
13 the well, or the bottom of the Abo?

14 A. It is both.

15 Q. Both, okay. And if you complete the Abo, would
16 that be completed at 1300?

17 A. The perforations, you know, usually have an extra
18 100 feet of rathole --

19 Q. Okay.

20 A. -- so it would probably be around 1250 --

21 Q. Okay.

22 A. -- back to 1200 feet from north.

23 Q. Okay, so 1250 would be your nonstandard location
24 depth, maximum nonstandard location --

25 A. Yes, sir, somewhere in that range.

1 Q. And you're encroaching on the 40 acres to the
2 south, which Mr. Leonard said was owned by you guys?

3 A. Yes.

4 Q. And it's common ownership, as far as -- drilling.
5 So actually -- so this whole thing is being driven by
6 geology, and -- You located these structures by -- and the
7 porosity and everything, with well control; is that right?
8 Or seismic and well control?

9 A. Yes, we have seismic, 3-D seismic, that's 110-
10 foot lines each direction.

11 Q. Okay.

12 A. And then we've tied that with 22 wells that we've
13 drilled, as well as other wells that have been drilled on
14 the survey.

15 Q. So you're really focusing in on this area?

16 A. Yes, we've been drilling here for seven years.

17 EXAMINER JONES: Okay, okay. It looks like
18 that's about all I have to ask at this time.

19 Mr. Brooks?

20 MR. BROOKS: Nothing, thank you.

21 EXAMINER JONES: Okay, thanks a lot, Mr. Worrall.

22 MR. BRUCE: Mr. Examiner, if you have some
23 questions, Mr. Scott Davis of Capataz Operating is here,
24 and --

25 EXAMINER JONES: Yes.

1 MR. BRUCE: -- we can put him on the stand and
2 you can ask him questions of the drilling of the well.

3 EXAMINER JONES: Yeah, Mr. Davis. Was he sworn
4 in earlier?

5 MR. DAVIS: Yes.

6 EXAMINER JONES: Okay.

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Davis, if you could state your name and city
13 of residence.

14 A. Scott Davis, Midland, Texas.

15 Q. And who do you work for and --

16 A. I work for Capataz Operating, Inc., a licensed
17 oil and gas operator in the State of New Mexico. We're a
18 small operation. I'm the president, chief cook and bottle
19 washer.

20 Q. And was Exhibit 9 prepared at your request?

21 A. Yes, it was.

22 MR. BRUCE: Okay. Mr. Examiner?

23 EXAMINATION

24 BY EXAMINER JONES:

25 Q. Okay, Mr. Davis, this well location 330 from the

1 west line, if it deviates from that, it will require a
2 nonstandard location to the west?

3 A. Well, at 4500 feet we will go in the hole with an
4 MWD tool and a gyro and determine exactly where we are at
5 that point. And we will then steer that tool, to the best
6 of our ability, to the locations that we have stipulated
7 here.

8 There may be some variation, clearly. I can't
9 say that when we get to 4500 feet that we're going to be
10 not 329 feet. I would expect us to be very much on target,
11 and we will steer the tool to ensure that we are not
12 encroaching on that 330 foot. If we're going to err, we're
13 going to err in the other direction. And we'll have the
14 gyro in the hole, so we'll have the ability to monitor that
15 on a constant basis.

16 Q. Okay, so it's not -- you don't do it like in the
17 old days with a percentage --

18 A. No, and you don't stick a whipstock in the hole
19 and just take off with a whipstock angle. We have a
20 steering capability --

21 Q. Okay.

22 A. -- on the tool, so we will be able to pretty well
23 be where we want to be.

24 Q. Okay. So you're using a directional compass?

25 A. That's correct, we're using pathfinder

1 directional.

2 Q. Okay, and you're going to be turning and sliding
3 the whole way then?

4 A. Correct, that's correct.

5 Q. Okay. And you drill with regular mud? I mean --

6 A. We drill with a brine system. Typically we'll
7 keep a water loss below 10. We have a viscosity of 28 to
8 32 vis. We don't put a lot of mudlog --

9 Q. Okay.

10 A. -- it's unnecessary. There are very few drilling
11 problems in this area that require mudding up.

12 Q. Okay. And have you guys drilled other
13 directional wells out here?

14 A. Not out here, no. We have recently re-entered a
15 directional well that Exxon drilled some years ago just to
16 the south of us here, and they drilled pretty much in the
17 same angle orientation and kickoff point that we did.

18 The reason they were doing it was because of
19 surface problems. That had to get up underneath some
20 effluent water ponds that the City of Hobbs had out there,
21 so they started at the south side of those ponds and
22 drilled up underneath to their objective in the Devonian
23 formation.

24 It was a dry hole. They plugged and abandoned
25 the well. We came back in with a drilling rig and re-

1 entered it, followed their old wellbore right to TD, and we
2 have recompleted that well as a Tubb producer.

3 Q. Okay. The degree will be 16 degrees?

4 A. Approximately, yes.

5 Q. Pretty much consistently on down there?

6 A. Yes. Yeah, we're trying to keep a smooth angle
7 to minimize our production difficulties in the future.

8 Q. Speaking of that -- speaking of before that, the
9 completion, is it a problem to frac a 16-degree --

10 A. No, we frac'd the L&M well to the south with no
11 difficulty whatsoever. The difficulty really occurs in the
12 rod pumping --

13 Q. Okay.

14 A. -- and that becomes expensive, some -- very
15 expensive.

16 Q. So you're not real happy about this thing, is
17 what --

18 A. Well, I will be happy when we have a successful
19 completion.

20 Q. Right, right, yeah. Lots of rod guides out
21 there.

22 A. Lots of rod guides.

23 EXAMINER JONES: Okay, well thanks very much for
24 coming up today and answering questions.

25 MR. BRUCE: I have nothing further in this

1 matter, Mr. Examiner.

2 EXAMINER JONES: Okay. With that, we'll take
3 Case 13,255 under advisement.

4 (Thereupon, these proceedings were concluded at
5 10:25 a.m.)

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11 I do hereby certify that the foregoing is
12 a complete record of the proceedings in
13 the Examiner hearing of Case No. _____
14 heard by me on 5/13/54 ✓
15 _____, Examiner
16 Oil Conservation Division

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CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court 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 May 6th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006