

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:)	
)	
APPLICATION OF ARCH PETROLEUM, INC., AND)	CASE NOS. 13,274
WESTBROOK OIL CORPORATION FOR APPROVAL)	
OF TWO NONSTANDARD GAS SPACING AND)	
PRORATION UNITS IN THE JALMAT GAS POOL,)	
LEA COUNTY, NEW MEXICO)	
)	
APPLICATION OF ARCH PETROLEUM, INC., FOR)	and 13,275
APPROVAL OF A NONSTANDARD GAS SPACING)	
AND PRORATION UNIT IN THE JALMAT GAS)	
POOL, LEA COUNTY, NEW MEXICO)	
)	(Consolidated)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 27th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 27th, 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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A P P E A R A N C E S

FOR THE APPLICANT:

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Santa Fe, New Mexico 87505
By: J.E. GALLEGOS

* * *

1 WHEREUPON, the following proceedings were had at
2 1:25 p.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 13,274, which is the Application of Arch Petroleum,
5 Inc., and Westbrook Oil Corporation for approval of two
6 nonstandard gas spacing and proration units in the Jalmat
7 Gas Pool, Lea County, New Mexico.

8 At this time I'll call for appearances.

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

11 EXAMINER STOGNER: Three witnesses.

12 MR. GALLEGOS: Mr. Examiner, Gene Gallegos, Santa
13 Fe, representing Fulfer Oil and Cattle Company, and I have
14 one witness.

15 EXAMINER STOGNER: Any other appearances?

16 At this time I'd like to have all four witnesses
17 please stand to be sworn.

18 (Thereupon, the witnesses were sworn.)

19 EXAMINER STOGNER: Is there need at this point
20 for opening statements from the attorneys?

21 MR. BRUCE: I'm willing to waive them if Gene
22 will.

23 MR. GALLEGOS: Yeah.

24 EXAMINER STOGNER: Okay, Mr. Bruce? Now, I
25 understand there's another Arch Petroleum Case. Is it

1 necessary to call that one at this time, or will that be
2 separate?

3 MR. BRUCE: Yeah, basically, Mr. Examiner, at
4 least the testimony of our geologist and engineer will
5 apply to the second one, so if you'd like to, for purposes
6 of just incorporating the testimony, be glad to do so.

7 EXAMINER STOGNER: Mr. Gallegos, is there any
8 objection?

9 MR. GALLEGOS: No objection to that proceeding.

10 EXAMINER STOGNER: Okay, if I call that case, are
11 you going to enter an appearance in that one also?

12 MR. GALLEGOS: We hadn't filed anything but I'll
13 probably just enter an appearance, and since the testimony
14 is probably going to be very related, so I think I will
15 enter an appearance.

16 EXAMINER STOGNER: Mr. Bruce?

17 MR. GALLEGOS: If you don't have any objection?

18 MR. BRUCE: I don't have any objection.

19 EXAMINER STOGNER: Okay. In that case I will
20 call Case Number 12,375, which is also the Application of
21 Arch Petroleum, Inc., for approval of a nonstandard gas
22 spacing and proration unit in the Jalmat Gas Pool.

23 These two cases, 13,274 and 13,275, will be
24 consolidated for purposes of a hearing, and since there's
25 nobody else in the room other than Mr. Bruce and Mr.

1 Gallegos let the record show that Mr. Gallegos has entered
2 an appearance in this case also.

3 Mr. Bruce?

4 THOMAS LAND,

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

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

9 Q. Would you please state your name and city of
10 residence for the record?

11 A. Thomas Land, Midland, Texas.

12 Q. Who do you work for and in what capacity?

13 A. I work for Arch Petroleum under contract.

14 Q. And are you a landman by training and profession?

15 A. Yes, sir.

16 Q. Have you previously testified before the Division
17 as a landman?

18 A. Yes, sir.

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

21 A. Yes, sir.

22 Q. And are you familiar with the land matters
23 involved in these Applications?

24 A. Yes, sir.

25 MR. BRUCE: Mr. Examiner, I'd tender Mr. Land as

1 an expert petroleum landman.

2 EXAMINER STOGNER: Any objection?

3 MR. GALLEGOS: No objection.

4 EXAMINER STOGNER: Mr. -- How do you spell his
5 last name?

6 MR. BRUCE: L-a-n-d.

7 EXAMINER STOGNER: Okay, that's what I thought
8 you said. Mr. Land is so qualified as a landman.

9 THE WITNESS: Thank you, sir.

10 MR. GALLEGOS: He took the m-a-n off.

11 THE WITNESS: My dad's fault.

12 MR. BRUCE: Mr. Examiner, for the first part of
13 this testimony maybe it would simplify if you would get
14 Exhibit 1 and 6 in front of you. It might be a little
15 easier for certain purposes to look at Exhibit 6 than
16 Exhibit 1.

17 Q. (By Mr. Bruce) Mr. Land, we're here today
18 regarding forming two nonstandard spacing units in the
19 Jalmat Gas Pool in the south half of Section 20; is that
20 correct?

21 A. Yes, sir.

22 Q. Currently there is a single well unit covering
23 the south half?

24 A. Yes, sir.

25 Q. What is the land status in there? I mean

1 ownership. Is it all one tract, is it uniform ownership?

2 A. It's uniform ownership under the 320.

3 Q. Under the entire 320 acres. Now, perhaps looking
4 at Exhibit 6, in the northwest quarter of the southwest
5 quarter of Section 20 is a well. I believe it's the
6 Steeler A Number 1; is that correct?

7 A. Yes, sir.

8 Q. And who is that operated by?

9 A. Westbrook Oil Corporation.

10 Q. And what type of well is that?

11 A. It's a dual completion, the Langlie-Mattix and
12 the -- in the Jalmat.

13 Q. Okay. And until now the entire south half --
14 that well has been dedicated to the entire south half of
15 Section 20?

16 A. Yes, sir.

17 Q. And basically what is the purpose of this
18 Application?

19 A. To establish two producing units, two separate
20 units.

21 Q. Okay, one in the southwest quarter and one in the
22 southeast quarter?

23 A. Right.

24 Q. And the southeast quarter well unit would be
25 operated by --

1 A. -- Arch.

2 Q. -- Arch Petroleum. And Westbrook has no
3 opposition to that, do they?

4 A. No, sir.

5 Q. And the witnesses from Arch are here today on
6 behalf of both companies?

7 A. Yes, sir.

8 Q. Now, the specific well we're here for today is
9 noted with an arrow on Exhibit 1 -- Exhibit 6, excuse me.
10 What well is that?

11 A. That is the Resler B Number 1 well.

12 Q. And Arch proposes to complete that well in the
13 Jalmat Gas Pool; is that correct?

14 A. Yes, sir.

15 Q. What is the current status of the well?

16 A. The well is waiting on OCD approval for
17 completion.

18 Q. Okay, it hasn't been completed?

19 A. No, no.

20 Q. Now, looking at Exhibit 6 again, did Arch
21 recently acquire its interest in Section 20?

22 A. Yes, sir, we took a term assignment.

23 Q. Okay, you took a term assignment. And did that
24 require Arch to drill wells under a certain drilling
25 deadline?

1 A. Yes, sir.

2 Q. Okay. Looking at Exhibit 6, what wells has Arch
3 drilled in the south half of Section 20?

4 A. The Resler A Number 1 well is in the northeast of
5 the southwest, the Resler B Number 1 well is located in the
6 northwest of the southeast, the Resler B Number 2 well is
7 located in the southwest southeast, and the Resler B Number
8 3 well is located in the northeast northeast.

9 Q. Okay. Now, the Resler A Number 1, which is in
10 the southwest quarter, and the Resler B 2 and B 3, what
11 type of wells are those?

12 A. Those are Langlie-Mattix completions, oil wells.

13 Q. Okay. And are Exhibits 2 and 3 copies of the
14 completion reports for the Resler B 2 and B 3?

15 A. Yes, sir.

16 Q. And have those completion reports been filed with
17 the Division?

18 A. Yes, sir.

19 Q. Okay. Taking a step back with respect to
20 Westbrook, does Westbrook actually own a working interest
21 in the south half of Section --

22 MR. GALLEGOS: Well --

23 THE WITNESS: He's a contractor.

24 MR. GALLEGOS: -- I think the best evidence of
25 that would be the ownership documents, as far as ownership

1 by Westbrook. Object to the verbal testimony.

2 MR. BRUCE: Mr. Examiner, I'm merely trying to
3 establish that Westbrook is a contract operator. I've
4 furnished Mr. --

5 MR. GALLEGOS: I don't -- That's a different
6 question. If you're saying they're a contract operator,
7 I've seen some documents and I don't have an objection to
8 that. I thought the question, though, was ownership.

9 THE WITNESS: Oh, well, no, he is a contract
10 operator --

11 EXAMINER STOGNER: Hang on just a second.

12 THE WITNESS: I'm sorry.

13 EXAMINER STOGNER: You might restate the
14 question?

15 Q. (By Mr. Bruce) Is Westbrook Oil the contract
16 operator at this time of the south half of Section 20 in
17 the Jalmat Gas Pool?

18 A. Yes, sir.

19 MR. BRUCE: That's all I'm asking.

20 MR. GALLEGOS: The southwest quarter or the south
21 half?

22 MR. BRUCE: Well, at this point, until these
23 units are not approved, it would be the south half. There
24 is a C-102 filed -- or there is an approved NSP, Mr.
25 Examiner, on the south half.

1 EXAMINER STOGNER: Okay, the way I understand it,
2 the current well -- and that's in Unit L, the Number 1 --

3 MR. BRUCE: That's correct.

4 EXAMINER STOGNER: -- that is being operated --
5 the operator is shown to be Westbrook --

6 MR. BRUCE: Yes.

7 EXAMINER STOGNER: -- or Arch?

8 MR. BRUCE: The operator is Westbrook in the
9 Division's records.

10 EXAMINER STOGNER: In the Division records.

11 MR. BRUCE: And in the Division's records the
12 south half is dedicated to that well.

13 EXAMINER STOGNER: And Arch -- the way I
14 understand the questioning at this point is, Arch Petroleum
15 is the contract operator for Westbrook.

16 MR. BRUCE: No, no, no, no. Westbrook is a
17 contract operator of that well.

18 EXAMINER STOGNER: Okay.

19 MR. BRUCE: And because of the Division's policy
20 that you can't have two operators in a well unit, gas well
21 unit, Arch and Westbrook are seeking to split the south
22 half up into two quarter-section well units.

23 EXAMINER STOGNER: As opposed to a simultaneous
24 dedication with one operator?

25 MR. BRUCE: That is correct.

1 EXAMINER STOGNER: Okay.

2 Q. (By Mr. Bruce) Now, Mr. Land, under the Division
3 Rules notice had to be given to offset operators or
4 interest owners. If you'd look at Exhibit 20 [sic], and
5 let's run through this to identify the offset operators to
6 the south half of Section 20.

7 First of all, the north half -- in the Jalmat Gas
8 Pool, the north half of Section is Fulfer Oil and Cattle;
9 is that correct?

10 A. Yes, sir.

11 Q. And then moving to the west, BP America operates
12 Jalmat well units in the northeast quarter of Section 19
13 and the south half of Section 19?

14 A. Yes, sir.

15 Q. They also operate a Jalmat gas well unit in the
16 north half of Section 30?

17 A. Yes, sir.

18 Q. As opposed to Section 29 to the south, the
19 working interest owners there are Chevron, OXY and Arch; is
20 that correct?

21 A. Yes, sir.

22 Q. Moving over to Section 28, Arch Petroleum
23 requested a 160-acre nonstandard unit comprising the
24 northwest quarter of Section 28; is that correct?

25 A. Yes, sir.

1 Q. Then moving over to Section 21, there's some
2 cross-hatching there, so let's go through some of this. The
3 noncross-hatched acreage is all Arch's LaMunyon federal
4 lease?

5 A. Yes, sir.

6 Q. Okay, and Arch is 100-percent working interest
7 owner?

8 A. Yes, sir.

9 Q. Then there are two sets of cross-hatching. One
10 starts, say, northwest-to-southeast hachured marks, which
11 is the -- the acreage is the north half of the southeast
12 quarter. Who is the operator of that 80 acres?

13 A. That's Wynn Crosby.

14 Q. Okay. Now, the cross-hatched marks that go from
15 the northwest to the southeast, there are three tracts
16 cross-hatched. Those are all fee tracts, are the not?

17 A. Yes, sir.

18 Q. Now, Arch is designated just by the -- Does the
19 yellow indicate Arch acreage?

20 A. Yes, sir.

21 Q. So Arch would be a working interest owner, or
22 perhaps the operator of those leases?

23 A. Yes, sir.

24 Q. But they are fee leases. Are they all -- are
25 there a -- I want to say -- how to put this. Arch has

1 working interests, but there are a number of leased or
2 unleased mineral interest owners in the acreage; is that
3 correct?

4 A. Yes, sir.

5 Q. The white acreage, which is the northwest
6 quarter, southwest quarter, that is for the most part
7 unleased, is it not?

8 A. Yes, sir.

9 Q. Okay. Were all of the unleased mineral owners or
10 the royalty owners in those three 80-acre tracts also
11 notified of this hearing?

12 A. Yes, sir.

13 Q. And are they listed in Exhibit 4? Are all of
14 those interests listed in Exhibit 4?

15 A. Yes, sir, that's a list.

16 Q. So it lists those interest owners in those three
17 80-acre tracts, plus it lists all the working interest
18 owners or offset operators?

19 A. Yes, sir.

20 MR. BRUCE: Mr. Examiner, one thing is, due to
21 the press of time, I was not able to get all of the green
22 cards copied and submitted. I'd ask to be able to do that
23 tomorrow, and I would also submit a copy to the court
24 reporter and to Mr. Gallegos.

25 MR. GALLEGOS: No objection.

1 EXAMINER STOGNER: So be it.

2 Q. (By Mr. Bruce) And again, all of those interest
3 owners were notified as per the affidavit of notice marked
4 as Exhibit 4?

5 A. Yes, sir.

6 Q. Were Exhibits 1 through 4 prepared by you or
7 compiled from company business records, Mr. Land?

8 A. Yes, sir.

9 Q. And in your opinion is the granting of this
10 Application in the interests of conservation and the
11 prevention of waste?

12 A. Yes, sir.

13 MR. BRUCE: Mr. Examiner, I'd move the admission
14 of Exhibits -- Arch Exhibits 1 through 4.

15 EXAMINER STOGNER: Any objection?

16 MR. GALLEGOS: No objection.

17 EXAMINER STOGNER: Exhibits 1 through 4 will be
18 admitted into evidence. Thank you, Mr. Bruce.

19 Mr. Gallegos, your witness.

20 MR. GALLEGOS: If I might approach the witness
21 here -- our exhibits. Here's a set here.

22 MR. BRUCE: Mr. Examiner, if I could, just to
23 clarify, Westbrook will remain operator of that southwest
24 quarter well unit, and that is the intent of this
25 Application.

1 MR. GALLEGOS: Okay, we'll inquire into some of
2 that.

3 CROSS-EXAMINATION

4 BY MR. GALLEGOS:

5 Q. You recognize Fulfer Exhibit Number A, Mr.
6 Land --

7 A. Yes.

8 Q. -- generally what it shows?

9 A. Yes, sir.

10 Q. Okay. And I'd like for you to take a look at
11 Fulfer Exhibit B, which is an assignment of oil and gas
12 lease from Eagle Production Company to Arch Petroleum,
13 Inc.?

14 A. Yes, sir.

15 Q. You're familiar with that document, are you not?

16 A. Yes, sir.

17 Q. Okay. Is that the term assignment that you
18 referred to earlier in your direct testimony?

19 A. Yes, sir.

20 Q. Okay. Now, that assignment covers 200 acres,
21 does it not? The southeast quarter of Section 20 and the
22 northeast of the southwest?

23 A. Yes, sir.

24 Q. Okay. What ownership documentation do you have
25 for the balance of the south half?

1 A. As far as -- What do you mean?

2 Q. Well, you testified that the land under the 320
3 acres of the south half was in uniform ownership, your
4 testimony. So what I'm asking you is what you have to show
5 what the ownership status is for the --

6 A. We've had title opinion rendered on our 200
7 acres, which are the same individuals that we're dealing
8 with that are under Mr. Westbrook's well.

9 Q. So what you're saying is, you have a title
10 opinion --

11 A. Yes, sir.

12 Q. -- for your -- Arch's ownership of the 200 acres
13 that's reflected in Exhibit B?

14 A. Yes, sir.

15 Q. And that's the ownership that you're
16 knowledgeable of, correct?

17 A. Yes, sir.

18 Q. You are not a landman who provides -- who is
19 employed by Westbrook, are you?

20 A. Oh, no, sir.

21 Q. Nor are you employed by the owners of the
22 minerals on what I'll call the additional acreage in the
23 south half, outside of Arch's 200 acres?

24 A. No, sir.

25 Q. If you look at this map, Exhibit 1, and if the

1 Division were to allow configuration of the southeast 160
2 acres as a nonstandard proration unit, your testimony is
3 that that would be operated by Arch Petroleum; is that
4 correct?

5 A. Yes, sir.

6 Q. And what happens, then, to the 40 acres that Arch
7 Petroleum owns that's the northeast of the southwest?

8 A. That's operated on a Langlie-Mattix 40-acre
9 basis.

10 Q. Operated by who?

11 A. Arch.

12 Q. So you would -- that would be a separate spacing
13 unit --

14 A. Yes, sir.

15 Q. -- to be operated by Arch?

16 A. Yes, sir.

17 Q. And has there been an appropriate filing with the
18 Division to request recognition of Arch as the operator of
19 a 40-acre spacing unit?

20 A. The completion report, but I don't know if --

21 Q. So right now, as we stand here today, Westbrook
22 is the operator of that particular 40 acres?

23 A. No, Arch operates the A 1, and Westbrook operates
24 the Steeler A lease.

25 Q. So let's see, then, the -- Is there anybody here

1 of the witnesses who is a Westbrook employee or under
2 contract with Westbrook or can speak in behalf of
3 Westbrook, or the owner of the minerals underlying that
4 acreage operated by Westbrook, the southwest quarter, that
5 is?

6 A. Short of our contact with them and their having
7 no objection to the hearing or our situation at this point,
8 that's about it. But we're all Arch employees. Or they're
9 Arch employees on contract.

10 Q. Yes, sir. I take it that you do not intend to
11 present any kind of documentation such as Exhibit B that
12 goes to the status of the ownership of the working interest
13 under the south half of the southwest quarter or the
14 northwest of the southwest quarter?

15 A. It's up to Jim. I mean, if we need to, we can.

16 Q. Well, do you --

17 A. But I don't have anything available here today,
18 no, sir. But they all have had notice of the hearing
19 situation, there's been no objection.

20 Q. But sir, you're attempting to ask that that 160
21 acres be carved out as a nonstandard proration unit; isn't
22 that correct?

23 A. On the southeast quarter for the B 1.

24 Q. Well, that's fine. In other words, Arch is
25 appropriately asking that the southeast quarter be a 160-

1 acre Jalmat Gas Pool spacing pool --

2 A. Yes, sir.

3 Q. -- correct?

4 A. Right.

5 Q. All right. What I'm saying is, Westbrook --

6 There's nobody here for Westbrook regarding the southwest
7 quarter --

8 A. Uh-huh.

9 Q. -- isn't that true?

10 A. Yes, sir.

11 Q. Now, Mr. Land, you testified -- you said
12 something to the effect that the Resler A 1, the Resler B 2
13 and the Resler B 3 were Langlie-Mattix wells; is that your
14 testimony?

15 A. That's my understanding, yes, sir.

16 Q. All right. You're not stating that as an expert
17 geologist --

18 A. Oh, no.

19 Q. -- or engineer, are you?

20 A. No, I don't hold myself out like that.

21 Q. Okay, you're just saying that you've seen some
22 paperwork done by Arch Petroleum that uses that labeling --

23 A. Yes, sir.

24 Q. -- is that fair to say?

25 A. Sure.

1 Q. What happens as far as the underlying ownership
2 in that northeast quarter of the southwest quarter royalty
3 ownership in particular, in regard to production of Jalmat
4 gas from the nonstandard proration units that you're asking
5 the Division to approve?

6 A. It's my understanding it's paid on a 320-pooled
7 basis.

8 MR. BRUCE: Well, I'm --

9 MR. GALLEGOS: Okay, all right.

10 MR. BRUCE: Now, what was -- If I could just --

11 THE WITNESS: I mean, it's my understanding --
12 what you're asking --

13 MR. GALLEGOS: I'm just asking --

14 THE WITNESS: -- is saying, how is the royalty
15 being treated?

16 Q. (By Mr. Gallegos) What is going to happen as far
17 as royalty payment for the 40 acres that's being carved out
18 of your 200-acre lease? Because you say that's going to be
19 a Langlie-Mattix well, not part of the Jalmat Pool?

20 A. Well, my understanding, the only -- only the
21 Jalmat was pooled under the 320, and the Langlie-Mattix is
22 not. So it's based on statewide 40s.

23 Q. And on Jalmat gas production in the southeast
24 quarter, will the working interest and the royalty interest
25 share in that production --

1 A. Well, the working --

2 Q. -- revenue from that production, from Jalmat gas
3 production in the southeast quarter, in this 160-acre --

4 A. Are you asking me the ownership in the southwest
5 and the ownership in the southeast, these individuals will
6 be paid?

7 Q. Well, what I'm looking at is, you have a 200-acre
8 lease --

9 A. Uh-huh.

10 Q. --- but you're not asking that your nonstandard
11 proration unit be the 200 acres, correct?

12 A. Right.

13 Q. You're asking it only be 160 acres, which is the
14 southeast quarter?

15 A. Right.

16 Q. Okay. Well, why isn't Arch Petroleum asking for
17 a nonstandard proration unit of the 200 acres?

18 A. Well, it's my understanding the Jalmat -- the
19 southwest will be dedicated to the Steeler A Number 1, and
20 the southeast will be dedicated to the Resler B Number 1.
21 But you still have to pay royalty based on the 320-acre
22 pool basis; is that not correct?

23 Q. So --

24 A. In the Jalmat.

25 Q. So the 40 acres in your 200-acre lease that's in

1 the southwest quarter is going to share in the production
2 of the Jalmat gas?

3 MR. BRUCE: At this point, Mr. Examiner, I'd --
4 That's not what we're asking for. We're asking for two
5 160-acre units. The southeast quarter will share in
6 production only from the Resler B Number 1. The southwest
7 quarter will share in Jalmat production from the Steeler A
8 Number 1. That's what the Application asks for.

9 We are not seeking a 200-acre nonstandard unit
10 and a 120-acre nonstandard unit. We are seeking two 160-
11 acre units, and the working interest owner -- or the
12 royalty interests which are common, as Mr. Land testified,
13 throughout the south half, will share in each well as per
14 their interests.

15 I really object to this line of questioning.
16 What's the point?

17 MR. GALLEGOS: Well, the point is trying to
18 determine -- carving off this 40 acres, how that's going to
19 be treated.

20 MR. BRUCE: In what pool?

21 MR. GALLEGOS: In the Jalmat Gas Pool.

22 EXAMINER STOGNER: I think that's a fair question
23 and a fair line of questioning.

24 Q. (By Mr. Gallegos) Let me predicate my question.
25 Arch does not -- or I should ask, does Arch pay the working

1 interest owners and the royalty owners on production in the
2 southwest quarter of Section 20?

3 A. As to production from the Langlie-Mattix, they
4 do. But there is no Jalmat.

5 Q. But somebody else -- if there's Jalmat production
6 -- and I thought I understood you to say the Steeler A
7 Number 1 well was a Jalmat gas well. Did I misunderstand?

8 A. It's my understanding that the A Number 1 is a
9 dual completion out of the Langlie-Mattix and the Jalmat,
10 and distribution would be coming out of -- revenue
11 distribution would come out of Westbrook Oil Corporation.

12 Q. Out of somebody else, not Arch?

13 A. Right.

14 Q. And for the Langlie-Mattix production in the
15 southwest quarter, at least as to the 40 acres that's in
16 your lease, Arch will be paying the burdens on that?

17 A. Yes, sir.

18 MR. GALLEGOS: Okay, all right.

19 EXAMINER STOGNER: Any redirect? Okay.

20 MR. BRUCE: Are you through?

21 MR. GALLEGOS: Yes, that's all my questions.

22 REDIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. One question, Mr. Land. Did the title opinion --
25 the land examination that you had conducted, did it cover

1 the entire south half?

2 A. It covered Arch's 200 acres.

3 MR. BRUCE: Okay. That's all I have, Mr.
4 Examiner.

5 EXAMINER STOGNER: Any cross-examination --

6 MR. GALLEGOS: No.

7 EXAMINER STOGNER: -- on this?

8 MR. GALLEGOS: Not on that question, no. Thank
9 you.

10 EXAMINER STOGNER: I don't have any questions
11 yet. I'm going to --

12 MR. BRUCE: And I will recall him again for the
13 other case. I don't want to confuse it at this point.
14 It's already confused enough.

15 EXAMINER STOGNER: Yeah, I was going to say, what
16 else is confused? Okay, no other questions, but you may be
17 asked to recall, to answer some additional questions.

18 Mr. Bruce?

19 MR. BRUCE: Call Mr. Curry to the stand.

20 GLENN H. CURRY,

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?

2 A. Glenn Curry, Midland, Texas.

3 Q. Who do you work for and in what capacity?

4 A. Arch Petroleum, senior geologist.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes, I have.

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

10 A. Yes, they are.

11 Q. And are you familiar with the geology involved in
12 these Applications?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I tender Mr. Curry as
15 an expert petroleum geologist.

16 EXAMINER STOGNER: Any objection?

17 MR. GALLEGOS: No objection.

18 EXAMINER STOGNER: Mr. Curry is so qualified.

19 Q. (By Mr. Bruce) Mr. Curry, let's go through your
20 Exhibits. First off is Exhibit 5, which I believe is a
21 geologic write-up.

22 A. Okay.

23 Q. Did you prepare that write-up?

24 A. I did.

25 Q. Okay, and will you be going through the --

1 hitting those same items in your exhibits that you're about
2 to testify?

3 A. Yes, I will.

4 Q. Okay. Let's start with your Exhibit 6. Would
5 you identify that for the Examiner and discuss the Jalmat
6 production in this area?

7 A. Exhibit 6 is a map, and the map centers on the
8 Section 20 in question. The yellow indicates Arch
9 leasehold. I have blue dots which signify wellbores which
10 have produced from the Jalmat Gas Pool. I have numbers
11 posted adjacent to the blue dots. The top number is the
12 cumulative oil production in thousand barrels of oil, and
13 the lower number is cumulative production in the gas for
14 the Jalmat Gas Pool in million cubic feet.

15 I also have a structural contour which is a
16 structure of the top of the Yates formation. Generally it
17 shows an anticline centered in the yellow acreage and
18 dipping in four directions from that point. The acreage in
19 question in Section 20 is on the western flank of this
20 anticline.

21 I have two cross-sections annotated on the map.
22 Cross-section B-B, which is the larger section, which goes
23 through the specific wells in question, Resler B 1 and the
24 LaMunyon Federal Number 2, which are our proposed Jalmat
25 gas completions.

1 I also have a cross-section C-C', which is a
2 smaller cross-section. That cross-section shows the two
3 wells that Arch Petroleum recently drilled within that
4 southeast quarter of 20. It indicates the formation tops
5 and the perforated intervals.

6 Q. Okay. Now, in looking at this well data, you are
7 on the very eastern edge of the Jalmat Gas Pool, are you
8 not?

9 A. That's correct. We are attempting to extend the
10 limits of the Jalmat Gas Pool in an updip direction to the
11 east.

12 Q. Now, in looking at production there appears to be
13 little or virtually no oil production from the Jalmat in
14 this area of the pool?

15 A. Very little.

16 Q. Are all of the Jalmat wells, in your estimation,
17 on this plat Jalmat gas wells?

18 A. They are reported as Jalmat Pool wells in the OCD
19 records.

20 Q. Now, just a little bit, did Arch just recently
21 complete wells and see the Jalmat potential in this area?

22 A. Yes, sir, the Teague field has been a very
23 lucrative property for Arch Petroleum, and I've worked the
24 field since 1994. We've had considerable development,
25 infill drilling, Blinebry 20 acres, we've had Paddock

1 recompletions, did 40 of those, we did McKee recompletions
2 on 20-acre spacing.

3 Q. Now, when you say 20-acre spacing, you mean two
4 McKee wells on a 40-acre well unit?

5 A. Increased density in an abandoned field. In the
6 process of drilling wells within the Teague field area,
7 we've implemented modern logging tools, and we've mudlogged
8 as many wells as possible. Prior to Arch operating the
9 field, there were very few -- I think there was one mudlog
10 in the entire field, drilled by Gulf back in the 1960s.

11 Now, obviously you go anywhere in the platform
12 area, and you start drilling wells and running mudlogs,
13 you're going to find some shows that you didn't over there.
14 One in particular is the Yates-Seven Rivers gas shows that
15 were encountered while drilling. That's what drew my
16 interest to the Jalmat Pool.

17 On cross-section B-B --

18 Q. Exhibit 7.

19 A. -- Exhibit 7, I have this -- Would you like to go
20 in detail through this cross-section now?

21 Q. Yeah, why don't you --

22 A. Is that appropriate?

23 Q. -- start this one right now?

24 A. Okay. On the west end, which is the downdip end
25 of the section, I have the Westbrook Steeler A 1. It was

1 completed in 1957. I have a -- Within the depth track,
2 down the middle of the log, you can see the location of the
3 reported perforations. There's a few perforations in the
4 lower Yates, there's some perforations in the Seven Rivers.
5 That well has cum'd 1.6 BCF and is still producing at a
6 small, low rate.

7 Okay, the well number two, going to the right, is
8 the Arch Petroleum Resler A 1. I have a porosity log with
9 porosity indicated in red. And I have a mudlog, which is a
10 little difficult to read, but the reason I put it on the
11 cross-section is so you could see where the gas shows
12 occur, starting in the Tansil about 2600 feet, continuing
13 through the Tansil and the Yates, Seven Rivers. And I have
14 the large-scale mudlogs, if anyone would like to inspect
15 those. I brought those with me. But in order to keep this
16 display at a reasonable size, I had to use a small vertical
17 scale. But you're free to examine those mudlogs if you
18 would like.

19 But the point I'm trying to make here is that I
20 do have gas shows occurring from 2590 all the way to TD,
21 significant gas shows.

22 I also would call your attention to the lithology
23 track in the mudlog. Starting at the top of the mudlog,
24 the checks indicate anhydrite or evaporite. The diagonal
25 parallelograms are the dolomite. You can see that in this

1 Resler A Number 1 there's continuous dolomite from about
2 the middle of the Tansil through TD.

3 Moving to the next well, we have the proposed
4 Jalmat completion, which is the Resler B Number 1. We
5 chose this location for our Jalmat completion. We drilled
6 to 3100 feet with the intent of completing this well as a
7 Jalmat gas producer. The porosity is indicated in red. I
8 have a red bar in the depth track that shows the overall
9 interval that I would propose perforating, and then
10 fracturing and producing gas.

11 If I could go back to the last well, the Resler A
12 Number 1, I have the perforations indicated on this well in
13 the depth track. Let me get the exact perms on that.
14 Okay, the Resler A 1 was perforated from 3284 to 3556, and
15 that's indicated on the cross-section. That's Langlie-
16 Mattix oil. The initial production rate was 12 oil, 41
17 water and 94 MCF.

18 Okay --

19 MR. GALLEGOS: Sorry, what well were you
20 referring to? You were back to the --

21 THE WITNESS: Second well on the cross-section --

22 MR. GALLEGOS: Resler A 1.

23 THE WITNESS: -- second from the left. Arch
24 Resler A 1.

25 MR. GALLEGOS: Thank you.

1 THE WITNESS: Yes, sir.

2 MR. BRUCE: One thing --

3 MR. GALLEGOS: Would you restate -- I'm sorry.

4 MR. BRUCE: Go ahead.

5 MR. GALLEGOS: Would you restate -- we didn't
6 catch -- Would you restate the numbers that you gave?

7 THE WITNESS: The perforations? If you'll refer
8 to --

9 MR. GALLEGOS: The production, the production.

10 THE WITNESS: Oh, the production?

11 MR. GALLEGOS: Yes.

12 THE WITNESS: Initial production rate?

13 MR. GALLEGOS: Yes.

14 THE WITNESS: If you'll refer to Exhibit 8, I've
15 got a summary there for those three wells. It might save
16 you some note-taking. It's an 8-1/2-by-11 page, looks like
17 this, with three paragraphs on it. Okay, if you'll notice,
18 I have a small summary of the completion of the three wells
19 that Arch Petroleum has drilled out there to date.

20 MR. BRUCE: The three Langlie-Mattix wells?

21 THE WITNESS: That's correct. They're all three
22 perforated very similarly and completed as oil producers
23 with oil-type production.

24 Okay. So let's see, are you ready to continue?

25 MR. GALLEGOS: Yes, thank you.

1 THE WITNESS: I'll try to move along a little
2 faster. Don't want to get bogged down.

3 Okay, Resler B 1, if you'll notice on the mudlog,
4 it also has dolomite throughout the -- from the middle of
5 the Tansil down to the TD.

6 Okay, the next well is the Fulfer Oil and Cattle
7 Johnson J C 3. To my understanding, that is a recent
8 Jalmat pool completion. I was unable to get a completion
9 report off of the OCD website. The only document I found
10 related to this Jalmat Pool completion was a preliminary
11 sundry notice, and that's where I got the top and bottom
12 perms. So that is based on a preliminary sundry notice
13 filed with the Commission.

14 They may have perf'd it in a different manner,
15 but to my knowledge -- that's all I had to go on, so I
16 wanted to indicate the perforated interval as reported on
17 that sundry on the cross-section. I understand that it is
18 a commercial gas well, but I have no production rates.

19 Okay, the next well is the LaMunyon Federal
20 Number 2, and that well is currently completed in the
21 Langlie-Mattix, and we propose to plug that to the Jalmat
22 Gas Pool. I have the perforations noted as a red bar in
23 the depth track.

24 Okay, the next well, the last well to the right,
25 is a well that we drilled to test the Tubb. There is no

1 completion in this wellbore in the Jalmat Pool, nor are
2 there any completions in the Langlie-Mattix Pool. I put
3 that well on because I have a mudlog, and I also have a
4 modern cross-plot porosity, which is probably the only
5 accurate or quantitative measure of porosity on the cross-
6 section. Most of these are gamma-ray, neutron, cased-hole
7 logs.

8 But one thing to point out which is very
9 interesting to me as a geologist, if you take the Yates
10 formation from the west in the downdip position, and you
11 have dolomite and dolomite porosity, go updip, and it
12 pinches out into anhydrite to the east. So I think what we
13 have here is an example of the updip seal of the Yates Gas
14 Pool. And as a rule, having worked the logs in the Teague
15 field, you see a lot of this pinchout in the different
16 zones of the Yates, Seven Rivers, et cetera.

17 Fortunately, in the proposed completion, the
18 LaMunyon Federal Number 2, we still have some porosity.
19 Now, I'm accustomed to look at samples. I've been doing
20 that for a long time. All of the mudlog shows described on
21 this display are very fine crystalline dolomite micritic or
22 mudstone with mention of pinpoint vugular porosity.
23 There's no grainstones, there's no sands. We are in the
24 carbonate facies of the Jalmat Pool.

25 Q. (By Mr. Bruce) How does the porosity on the east

1 side of the pool, say the LaMunyon 72, compare with wells a
2 couple miles to the west?

3 A. Well, generally you have less net pay and lower
4 porosity in the dolomites, and in some cases you're
5 actually occluded or the facies changes from dolomite to
6 anhydrite.

7 So I would say in the local area, the southeast
8 quarter of Section 20, we're looking at porosity ranges
9 from 6 to 12 percent.

10 Now, if you just go half a mile to the west,
11 you'll find logs of porosity ranging from 12 to 20 percent.

12 Q. So you are getting near the edge of the
13 reservoir?

14 A. I believe that the two wells that are proposed,
15 if I were to describe the environment of deposition, I
16 would say it was back reef or lagoonal mudstone.

17 Q. Okay. But from a geologic standpoint, are
18 additional wells necessary to recover reserves in this
19 pool?

20 A. Yes, sir.

21 Q. Now, you mentioned Exhibit 8, which was simply
22 some brief well data on the three Langlie-Mattix wells that
23 Arch has drilled over in the south half of 20?

24 A. That's correct.

25 Q. And based on their production and the GOR, these

1 would be oil wells?

2 A. That's correct. I might refer to my engineer,
3 but --

4 Q. Okay.

5 A. -- to me they look like oil wells.

6 Q. Certainly they are producing oil, which, as you
7 said earlier, all of the Jalmat wells out here produce
8 little or zero oil?

9 A. Based on the historical cums that I see, yes.

10 Q. Okay. What is Exhibit 9?

11 A. Exhibit 9 is a small cross-section. It exhibits
12 the two wells in the southeast quarter of Section 20, the
13 Resler B Number 2 and the Resler B Number 3. It shows the
14 formation tops, and the location of perforations is drawn
15 in on the wells there. I have the exact depth of the
16 perforations on this summary sheet, Exhibit Number 8. Both
17 of those are drilled, completed and producing as Langlie-
18 Mattix oil producers.

19 Q. Now, what zone, either as the Jalmat or the
20 Langlie-Mattix, what is the cutoff point there?

21 A. The beginning of the Langlie-Mattix Pool is
22 reported as a hundred feet above the base of the Seven
23 Rivers.

24 Q. And based on your picks of the base of the Seven
25 Rivers, all of the perforations in the B 2 and B 3 and in

1 the Steeler A 1 would be within the defined Langlie-Mattix
2 Pool?

3 A. That is correct.

4 Q. Were Exhibits 5 through 9 prepared by you or
5 under your supervision?

6 A. Let's see, what is 5? Is that the geologic
7 report?

8 Q. 5 is your geologic write-up.

9 A. Yes, that's correct.

10 Q. And in your opinion is the granting of this
11 Application in the interests of conservation or the
12 prevention of waste?

13 A. Yes, it is.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Arch and Westbrook Exhibits 5 through 9.

16 MR. GALLEGOS: No objection.

17 EXAMINER STOGNER: 5 through 9 will be admitted
18 into evidence. Thank you, Mr. Bruce.

19 Mr. Gallegos, your witness.

20 CROSS-EXAMINATION

21 BY MR. GALLEGOS:

22 Q. In your opinion, Mr. Curry, is it -- wells in
23 this subject area that are completed in what is defined by
24 the Division as the Jalmat, would be gas wells?

25 A. Yes, sir.

1 Q. And as I look at -- down your cross-section B-B,
2 starting at the left, the Steeler A Number 1 was -- or is
3 -- a dual completion, correct?

4 A. That is correct.

5 Q. And the gas production is from what zones?

6 A. Well, sir, I see two groups of perforations.
7 There's one perforation group that begins at 3000 feet and
8 extends to about 3090 feet. In my opinion, that's where
9 the gas would be coming out of. There's also perforations
10 below approximately 3570 to 3620. I believe those
11 perforations would yield oil production. I've used the
12 perforations that were reported on the completion reports
13 filed with the OCD. I have no other personal knowledge
14 about this well or the way it's completed.

15 Q. And this is not a well operated by Arch?

16 A. No, sir.

17 Q. Okay. Do you know what effort, if any, the
18 operator as made to identify the gas production versus the
19 oil production?

20 A. I have no knowledge of that, sir. I'm strictly
21 reporting the cumulative production as reported to the OCD.
22 I assume the operator took necessary measures to
23 distinguish what production stream was reported as Jalmat
24 and what production stream was reported as Langlie-Mattix.
25 But I have no knowledge of the manner in which the operator

1 did that.

2 Q. Was it your testimony that this well is presently
3 producing?

4 A. Yes, sir.

5 Q. How do you know that?

6 A. I base that on the reported production rate from
7 the IHS database that is available to me through Arch
8 petroleum.

9 Q. And that is showing gas production?

10 A. Yes, sir, it is.

11 Q. The next -- As we move to the right or the east
12 on your Exhibit 7, cross-section, the Resler A 1 is a gas
13 producer, correct?

14 A. I'm sorry, are you talking about the second well?

15 Q. The second well. Excuse me, that's not the
16 Resler A 1, that's -- I'm sorry, that's the -- yes, it is,
17 it's the Resler A 1, yes.

18 A. Okay, you're talking about the Resler A 1 --

19 Q. Yes.

20 A. -- which is API Number 36570; is that correct?

21 Q. Second from the left on your cross-section.

22 A. Okay, so that's an oil producer, and I've
23 reported it as such in Exhibit Number 8.

24 Q. All right.

25 A. And Exhibit Number 8, first paragraph, it shows

1 the initial production rate as 12 barrels of oil, 41 water
2 and 94 MCF. That's in Exhibit Number 8, first paragraph.

3 Q. I'm trying to locate -- The perforations are here
4 at about 32-something?

5 A. Yes, sir --

6 Q. Okay.

7 A. -- right there and right there.

8 EXAMINER STOGNER: Okay, I'm going to have to ask
9 you to step back down, and when you say "right here" and
10 "right here", that does not come across on the transcript
11 and --

12 THE WITNESS: I apologize.

13 EXAMINER STOGNER: -- when you stepped over there
14 for Mr. Gallegos, what two points is the first "here" and
15 what other point is the other "here"?

16 THE WITNESS: I'm not accustomed to hearings, so
17 I apologize.

18 EXAMINER STOGNER: Oh, no problem.

19 THE WITNESS: Okay, what I have reported on this
20 is the Queen -- let's see, the perforation top is 3284 --

21 EXAMINER STOGNER: So that would have been the
22 first "here", and the other "here" --

23 THE WITNESS: That would be the top of the first
24 set. And the bottom of the bottom set is 3556.

25 EXAMINER STOGNER: Okay. Does that concur, Mr.

1 Gallegos?

2 MR. GALLEGOS: Yes, Mr. Examiner, thank you.

3 THE WITNESS: Okay.

4 Q. (By Mr. Gallegos) The Resler B Number 1, your
5 next well going from the left, which would be third from
6 the left, is a Jalmat gas producer?

7 A. No, sir.

8 Q. No? I -- My notes are incorrect, then.

9 A. That well is not completed.

10 Q. Oh, I'm sorry, it's intended to be -- it is
11 projected to be a Jalmat gas producer?

12 A. Well, sir, we're applying for permission to do
13 that, yes, sir. But we haven't received permission to do
14 that. It's a drilled well, encased.

15 Q. Is it a completed well?

16 A. No, sir, there are no perforations. The well is
17 drilled and cased, but there are no perforations.

18 Q. And at what depth do you plan to perforate it?

19 A. Okay, what exhibit is this, Jim?

20 Q. It's 8, I believe.

21 MR. BRUCE: Exhibit 5.

22 THE WITNESS: 5? If you refer to Exhibit Number
23 5, I have on the first paragraph, "Arch
24 Petroleum...proposes to complete the Resler B #1 in the
25 Jalmat (Tansil-Yates-Seven Rivers) Field. The proposed

1 perforation interval is...2513'-3004'..." , and I have that
2 interval indicated as a red mark in the depth column on
3 that cross-section, B-B, Exhibit 7.

4 Q. (By Mr. Gallegos) So in your opinion you would
5 be -- if I'm following your line across here, you would be
6 perforating in the Yates and in the Seven Rivers?

7 A. And the Tansil.

8 Q. And the Tansil.

9 A. That's correct.

10 Q. Okay. And you would expect that completion to
11 yield a Jalmat gas well?

12 A. Yes, sir, that's my expectation.

13 Q. The Fulfer Johnson Number 3 well is a Jalmat gas
14 well?

15 A. I'm not sure.

16 Q. Okay.

17 A. There's been no reported completion that I can
18 find on the Internet. It may be on the office, but I don't
19 have a copy of the completion in my hand.

20 Q. All right. And the LaMunyon Federal, that's an
21 Arch well?

22 A. That is correct.

23 Q. And it is now in the Langlie-Mattix, but you
24 propose to plug back, and it will be a Jalmat gas producer?

25 A. That's correct.

1 Q. That's in Section 21?

2 A. Let's see. Yes, sir, it's in the -- Section 21.

3 Q. And where -- at what depth will you plan to
4 perforate that well?

5 A. Okay, let's see. Do you have that? Okay, this
6 has not been submitted as evidence.

7 MR. BRUCE: It has not yet been submitted as
8 evidence.

9 THE WITNESS: That will be the next -- Okay, I'm
10 referring to a document that has not been submitted as
11 evidence yet, but in that document I propose perforating
12 from 2558 to 3091. And that interval is also indicated on
13 the cross-section as a red bar.

14 Q. (By Mr. Gallegos) So of the wells shown on your
15 cross-section, then, is it correct to state that one of
16 those, only the Resler B Number 1, is a new drill, as far
17 as Arch is concerned?

18 A. No, sir, that's incorrect.

19 Q. All right, what --

20 A. The question was on cross-section B-B', which --

21 Q. Yes, cross-section B'.

22 A. On that cross-section there are two wells
23 recently drilled by Arch Petroleum. That would be the
24 second well, the Arch Petroleum Resler A 1, is a new-
25 drilled well completed in the Langlie-Mattix.

1 Q. Okay.

2 A. The Arch Petroleum Resler B 1, which is the third
3 well, is a newly drilled but not completed well.

4 Q. Okay, all right.

5 A. The last well on the cross-section, in the far
6 right side, is also a well that was drilled by Arch
7 Petroleum, and it has not been completed in the Jalmat or
8 the Langlie-Mattix. Those three wells were drilled by Arch
9 Petroleum.

10 Q. What information can you give us about production
11 from the Resler A 1, which you say is a new-drilled
12 Langlie-Mattix well?

13 A. I would refer that question to my engineer, who
14 has some --

15 Q. All right.

16 A. -- production information.

17 Q. Okay, fair enough.

18 A. I did report the initial completion for that well
19 on Exhibit -- help me out there, Jim. 8?

20 MR. BRUCE: Exhibit 8.

21 THE WITNESS: All I reported was the initial
22 completion, Exhibit 8.

23 Q. (By Mr. Gallegos) The initial production was on
24 -- according to Exhibit 8, was on April 21st, 2004?

25 A. I'm not saying that's the official completion

1 date. I have chosen a well test here that corresponds to
2 that date. In my work I don't keep up with that. But on
3 this Exhibit 8, which I prepared, I put in the perforation,
4 the stimulation and an early well test. I don't know if
5 it's the very first day or if it's the 10th day, but I just
6 glanced at my drilling report and chose a well test.

7 But it's not the official completion date. I
8 don't know if it's the official IP date. It's simply an
9 early production-rate test.

10 Q. But another witness will be able to give us
11 information on gas production versus oil production from
12 that well; is that your testimony?

13 A. I'll refer that to my engineer.

14 Q. Then the other new-drilled wells in the south
15 half of Section 20 are the Resler B 2 and the Resler B 3?

16 A. That's correct.

17 Q. And they were drilled -- completed some time last
18 year; is that correct?

19 A. Again, I'll refer to Exhibit 8, which indicates
20 the wells were perforated and stimulated, and I have 8 and
21 an initial rate reported, which is an early well test, with
22 a date corresponding to that well test. I could say it's
23 within the first 10 days of production, okay? So plus or
24 minus 10 days on that.

25 Q. For purposes of my question, would you look, Mr.

1 Curry, at our Exhibit A? It's probably under your cross-
2 -- there it is.

3 A. Okay, I have it.

4 Q. Okay. The lower right hand of Exhibit A shows
5 the northwest quarter of Section 28 and illustrates the
6 LaMunyon 78 and the LaMunyon 32 wells. You're familiar
7 with those wells, are you not?

8 A. Yes, sir, I am.

9 Q. Okay. And are you acquainted with the fact that
10 the paperwork submitted to the Division represented that
11 these were Langlie-Mattix wells, to which 40-acre spacing
12 was dedicated?

13 A. Is this -- Okay, we're talking about Section 28
14 now; is that correct?

15 Q. Northwest quarter of Section 28.

16 A. We're not talking about the southeast of Section
17 20?

18 Q. No, I just asked you about the northwest -- the
19 LaMunyon 78 and LaMunyon 32, and my question was, the
20 paperwork submitted to the Division on those wells
21 represented that they were Langlie-Mattix wells with a 40-
22 acre dedication; isn't that true?

23 A. Yes, sir, I drilled those two wells as Langlie-
24 Mattix producers. They were completed initially as
25 Langlie-Mattix producers.

1 Q. But in fact, they are Jalmat gas wells; isn't
2 that true?

3 A. They are both. They have Langlie-Mattix
4 production, and they have Jalmat production. Two
5 separate --

6 Q. Jalmat oil production, Jalmat gas production?

7 A. Jalmat gas, yes, sir.

8 Q. And the completion into the Jalmat Gas Pool was
9 not reported, was it?

10 A. That's --

11 MR. BRUCE: If you don't know, you don't know,
12 Mr. Curry.

13 THE WITNESS: I'm not sure about the timing or
14 the -- I know that we were told to shut the wells in, and
15 that may be the reason. And they are shut in currently,
16 these two wells are shut in.

17 Q. (By Mr. Gallegos) Shut in under an order from
18 Chris Williams, the District 1 Supervisor for the Division?

19 A. That is correct, that is correct.

20 Q. That also applied to your LaMunyon 23 well. That
21 also was represented to be a Langlie-Mattix well but in
22 fact was a Jalmat gas producer; isn't that true?

23 A. That well was also originally completed as a
24 Langlie-Mattix well and subsequently recompleted to the
25 Jalmat gas.

1 Q. Okay. Well, the LaMunyon 78 was a new drill?

2 A. That's correct.

3 Q. And the LaMunyon 32 was an existing well?

4 A. Yes, sir, that was a plugback workover.

5 Q. And then you came uphole and completed in the gas
6 zone --

7 A. That's correct.

8 Q. -- Jalmat?

9 A. That's correct.

10 MR. GALLEGOS: No further questions, thank you.

11 EXAMINER STOGNER: Any redirect?

12 MR. BRUCE: I don't think so, Mr. Examiner.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Are you familiar with the C.E. LaMunyon Well
16 Number 2, the proposed well to be dedicated to the 160
17 acres in that northwest quarter of 21?

18 A. Yes, sir, I am.

19 Q. Okay, is that one complete -- Is that a new drill
20 or an old producer?

21 A. That's an old producer. The current completion
22 is in the Langlie-Mattix.

23 Q. Okay, so this one will be a recompletion
24 uphole --

25 A. That's correct.

1 Q. -- into the Jalmat?

2 A. That's correct.

3 Q. Now, what will be done with the Langlie-Mattix in
4 that well?

5 A. It will be abandoned.

6 Q. Abandoned, okay. Do you know the perforations or
7 proposed perfs in that well?

8 A. Yes, sir, I do. And that particular exhibit has
9 not been submitted yet.

10 MR. BRUCE: The Examiner doesn't have it yet,
11 but --

12 Q. (By Examiner Stogner) Okay, but you have another
13 witness that will testify to that?

14 A. I have the perfs.

15 Q. Well, if you've got the perfs, just give me the
16 perfs.

17 A. The proposed perforation interval on the LaMunyon
18 Federal Number 2 is from 2558 to 3091.

19 Q. Okay.

20 MR. BRUCE: Mr. Examiner, if I could, just --
21 just so you have it all in front of you, this is a package
22 of exhibits I prepared for the second hearing.

23 EXAMINER STOGNER: Okay. Yeah, I need more stuff
24 in front of me.

25 MR. BRUCE: Yeah, that's what I thought.

1 EXAMINER STOGNER: Still have some room there.

2 MR. BRUCE: What is the case number, 12- --

3 EXAMINER STOGNER: 13,275.

4 MR. BRUCE: And that was specific to the LaMunyon
5 Number 2 case, but there is a land plat, and the write-up
6 that Mr. Curry is referring to, I think, is marked as
7 Exhibit 3.

8 EXAMINER STOGNER: It may be necessary at the end
9 of the hearing to just go back and just identify --

10 MR. BRUCE: Yes, sir.

11 EXAMINER STOGNER: -- for identification
12 purposes --

13 MR. BRUCE: Yes, sir.

14 EXAMINER STOGNER: -- these exhibits.

15 Q. (By Examiner Stogner) Okay, back to where we
16 were. Now, how long have you been working in the Langlie-
17 Mattix-Jalmat area of southeast New Mexico, roughly?

18 A. Well, specifically, I haven't done a lot of
19 Jalmat completions. Arch operates Jalmat wells.

20 Q. Okay, how about you personally?

21 A. Personally, okay. I have completed -- We drilled
22 three wells farther west in the Jalmat, completed those
23 this year. And then I've done these workovers here, and
24 that's the extent of my Jalmat experience.

25 Q. Okay. When did you find out, roughly, before or

1 after you were working in here, what the base of the Jalmat
2 Gas Pool was and the top of the Langlie-Mattix in those two
3 pools? When were you made aware of it, or when did you
4 research it out?

5 A. My landman, Tom Land, gave me a document that
6 stated that the Jalmat was 100 feet above -- the bottom of
7 the Jalmat gas was 100 feet above the base of the Seven
8 Rivers, and that's what I used to determine my completion.

9 Q. And when did you see that piece of paper?

10 A. Before the drilling of the wells.

11 Q. Which one?

12 A. All the wells shown in these exhibits.

13 Q. Okay, so you were essentially aware whenever you
14 first came out here in this area?

15 A. That's correct.

16 EXAMINER STOGNER: Okay. I have no other
17 questions of this witness at this time.

18 MARK KELLEY,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name for the record?

24 A. Mark Kelley.

25 Q. How do you spell your last name?

1 A. K-e-l-l-e-y.

2 Q. Where do you reside?

3 A. Midland, Texas.

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

5 A. Arch Petroleum, petroleum engineer.

6 Q. Have you previously testified before the

7 Division?

8 A. Yes, I have.

9 Q. And were your credentials as an expert engineer
10 accepted as a matter of record?

11 A. Yes, they were.

12 Q. And are you familiar with engineering matters
13 related to these Applications?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I'd tender Mr. Kelley
16 as an expert petroleum engineer.

17 MR. GALLEGOS: No objection.

18 EXAMINER STOGNER: So qualified.

19 MR. GALLEGOS: I'm sorry, though, I didn't get --
20 what is your firm?

21 THE WITNESS: Arch Petroleum.

22 MR. GALLEGOS: Oh, that was mentioned.

23 EXAMINER STOGNER: Do you need to spell that, Mr.
24 Gallegos?

25 MR. GALLEGOS: No, I thought he identified some

1 other firm he worked with.

2 Q. (By Mr. Bruce) Now, Mr. Kelley, you're going to
3 be operating off the exhibits already submitted; is that
4 correct?

5 A. Yes, that's right.

6 Q. Okay. And what exhibits do you have in front of
7 you, just so we can make sure we're all operating off the
8 same exhibit?

9 A. Looking at Exhibit 6 that has the map and the
10 cross-section outlined on it.

11 Q. Okay.

12 A. And then the exhibits -- let's see -- Number 8 --

13 Q. 5 and 8?

14 A. 5 and 8, yes.

15 Q. Now, again, we want to reiterate, Mr. Kelley, the
16 well we're -- the new well we're here for today, the Resler
17 B 1, form a 160-acre unit, that well has not been completed
18 yet?

19 A. That is correct --

20 Q. So you have --

21 A. -- we have casing set, and that's it.

22 Q. So you have no production data from that well?

23 A. No production data.

24 Q. And again, when you're talking Jalmat gas wells,
25 just looking at the production, again, there is little to

1 no oil production in the Jalmat in this area; is that
2 correct?

3 A. That is correct.

4 Q. Now, Mr. Gallegos referenced some other wells,
5 the LaMunyon Number 2, which again has not been completed
6 in the Jalmat; is that correct?

7 A. That's correct.

8 Q. And then down to the south in the northwest
9 quarter of Section 28, the LaMunyon 78 and 32. Is there at
10 least some well tests from those wells?

11 A. I do have some well tests on the Number 78 well,
12 when it was tested in the Jalmat formation.

13 Q. And what do those tests show?

14 A. The initial production rate was 1188 MCF per day.
15 The casing pressure was 650 pounds, and the tubing pressure
16 varied from 300 to 500 pounds.

17 Q. Was there any oil produced in association with
18 that gas?

19 A. Zero oil.

20 Q. Okay. So it is definitely a gas well?

21 A. That's correct.

22 Q. Now, let's talk about -- again, Mr. Gallegos
23 asked about the Resler A 1, B 2 and B 3, and that data,
24 there is some data summarized on Exhibit 8. These were all
25 completed just in April; is that correct?

1 A. That is correct, at the end of April, yes.

2 Q. So there is not a lot of production data?

3 A. That is correct.

4 Q. But what does that data show?

5 A. On the Resler A 1 I do not have with me any
6 additional information from the test that's shown on the
7 exhibit here. We have not been able to increase the
8 volumes, though, that are shown on that rate, as far as the
9 12 barrels of oil per day.

10 On the B 2 well, the initial rate was 24 oil, 37
11 water and 128 MCF per day. In the -- about -- I think it
12 was May 10th of this month, the test was 25 barrels of oil
13 per day, 85 MCF per day and 50 barrels of water per day.

14 And the Resler B 3, the initial test on the
15 exhibit was 29 barrels of oil, 34 water, and 112 MCF per
16 day. And at about that same time, the 10th of May, the
17 test was 22 oil, 78 MCF per day and 30 water per day.

18 Q. Based on those producing rates, those would
19 definitely be oil wells and not gas wells under Division
20 regulations?

21 A. Yes, sir.

22 Q. Now, just looking at Exhibit 6, would you expect
23 -- looking at the LaMunyon 78, which is definitely a gas
24 well, and all of the surrounding blue dots on Exhibit 6,
25 those are definitely gas wells, are they not?

1 A. That is correct.

2 Q. Just based on that, would you expect the Resler B
3 2 and B 3 to be producing oil if they were Jalmat oil
4 wells?

5 A. No, sir, I would assume they would be primarily
6 gas production.

7 Q. Okay. And I think the GORs on those -- Resler
8 B 2 and B 3 are in the range of what? 3000 to 5000 or
9 something like that?

10 A. Yes, and they say they were in the 4000 and 5000
11 range, now they're down in the 3000 range, 3200.

12 Q. Okay. One other thing regarding drilling or
13 recompleting wells on the eastern edge of this field, you
14 mentioned the pressures. How do the pressures in the
15 LaMunyon 78 compare to the Jalmat gas well pressures
16 further to the west?

17 A. Well, with the initial rate of that slightly over
18 a million a day, the 650 pounds casing pressure and the
19 flowing tubing pressure of between 300 and 500 pounds, it's
20 not located in the area of any major depletion in the
21 Jalmat Pool.

22 Q. Okay. Over to the west, along the western edge
23 of Section 19, do those wells appear to be depleted at this
24 point?

25 A. The majority of those wells are at very minimum

1 rates right now, probably less than 300 MCF a day.

2 Q. Okay. And again, it is Arch's intent to continue
3 either drilling or recompleting wells in this area to test
4 additional Jalmat zones, is it not?

5 A. That is right, to try and find the extent of the
6 limits of the Jalmat Gas Pool.

7 Q. And in your opinion would that be in the
8 interests of conservation and the prevention of waste?

9 A. Yes, sir.

10 Q. In your opinion, is the granting of this
11 Application in the interests of conservation and the
12 prevention of waste?

13 A. Yes.

14 Q. Or these Applications, I should say?

15 A. Yes.

16 Q. Do you have anything further, Mr. Kelley?

17 A. Well, just to, I think, reiterate what Mr. Curry
18 said, that we are trying to find the -- extend the limits
19 of the Jalmat Gas Pool, and as we are going to the east
20 upon the Arch acreage, it is getting tighter, less
21 porosity. I mentioned the first test on the Number 78
22 well, but it did start to draw down rather rapidly,
23 indicating it's a very tight reservoir. And with the
24 density of completions to the west shown on his exhibit
25 here, for the better part of the Jalmat Gas Pool, I think

1 we were -- That's why we're asking for the pool rules that
2 we're looking for now, to extend the limits of the Jalmat.

3 MR. BRUCE: I have nothing further, Mr. Examiner.

4 EXAMINER STOGNER: Thank you, Mr. Bruce.

5 Mr. Gallegos, your witness.

6 CROSS-EXAMINATION

7 BY MR. GALLEGOS:

8 Q. Mr. Kelley, under the large cross-section there,
9 would you see if you can find the Fulfer Exhibit D. It's
10 an APD for the LaMunyon 78.

11 EXAMINER STOGNER: Did you say B as in bravo or D
12 as in dog?

13 MR. GALLEGOS: No, D. D as in dog.

14 Q. (By Mr. Gallegos) This is an application for a
15 permit to drill, submitted by Arch Petroleum to the Bureau
16 of Land Management for the C.E. LaMunyon Number 78 well, is
17 it not, Mr. Kelley?

18 A. Yes, sir.

19 Q. And as petroleum engineer for Arch, you had
20 certain responsibility for the drilling of this well and
21 the application to drill, did you not?

22 A. Not directly.

23 Q. Well, were you familiar with --

24 A. Yes, sir.

25 Q. -- with the project?

1 A. Yes, sir.

2 Q. Okay. And the APD represents that this is to be
3 a Langlie-Mattix-Seven Rivers-Queen well which will have 40
4 acres assigned to it; isn't that --

5 A. That's correct.

6 Q. Okay. Now, that turned out to be the gas well
7 that you just said was making, I think, 1188 MCF a day?

8 A. That's correct, after being completed in the
9 Langlie-Mattix.

10 Q. After completed in the Langlie-Mattix?

11 A. Yes.

12 Q. But then coming uphole and completed in the
13 Jalmat Gas Pool?

14 A. That's correct.

15 Q. Are you aware of how the District Supervisor for
16 the Division discovered that contrary to what the permit
17 said, that the well was completed in the Jalmat Gas Pool?

18 A. I'm not aware as how I discovered that, no.

19 Q. But that was not reported to the Division, was
20 it? I mean not reported by Arch to the Division?

21 A. I do not know that.

22 Q. Okay. What happened to the Langlie-Mattix on
23 this particular well?

24 A. It would be under a bridge plug.

25 Q. And why was that? Did you find the Langlie-

1 Mattix was not commercially productive?

2 A. This was a well that indicated it would be in
3 good position to test the Jalmat, to find out what the
4 extent of the limits are.

5 Q. And what's the answer to my question concerning
6 the productivity of the Langlie-Mattix, the LaMunyon 78?

7 A. The Langlie-Mattix was a production rate for 15
8 barrels a day and 110, 115 MCF a day.

9 Q. So Arch on that basis opted to plug that zone
10 off?

11 A. Not permanently abandon, just to set a plug to
12 test the Jalmat.

13 Q. Put it this way, there's no commercial production
14 from that -- from the Langlie-Mattix --

15 A. That is correct.

16 Q. -- based on the election of Arch Petroleum?

17 A. Not at this time.

18 Q. And that was with -- What was it? 15 barrels a
19 day? Excuse me --

20 A. That's --

21 Q. Yeah, 15 barrels a day --

22 A. 115, 120 MCF a day.

23 Q. All right. And as I understand your testimony,
24 as you would move to the east you would expect that the
25 productive zones are tighter, less permeability?

1 A. That's correct.

2 Q. And then if you're further to the west, like say
3 over in Section 19, you're probably in an essentially
4 depleted area as far as the Jalmat gas zone?

5 A. At this time, yes.

6 Q. Okay, so this -- the area then from the LaMunyon
7 78 back to the west, to Section 19, would be the ideal
8 target for the Jalmat gas zone? Do you agree?

9 A. I think we'll be able to find Jalmat gas there,
10 yes.

11 Q. Okay. So if in the case of the LaMunyon, which
12 was first targeted as an oil well and you came uphole to
13 the Jalmat gas pool, you had the success that you've
14 already described and those kind of pressures, then it
15 would be prudent to do exactly the same with the Resler B
16 Number 2 and the Resler B Number 3, wouldn't it?

17 A. If you had the proper spacing.

18 Q. All right. I mean, in the option for Arch
19 Petroleum between making 20 barrels a day and 78, 85 MCF of
20 gas, the company certainly would see much better economics
21 if it came uphole and was making 1000 MCF a day; isn't that
22 true?

23 A. That's true, but we don't have enough production
24 data to know how long that 1000 or million a day is going
25 to last. I mean, the short test we had on the Number 78,

1 the well was declining pretty rapidly, indicating it is a
2 -- probably a tighter reservoir, and we don't know what
3 type of drainage pattern that well would have.

4 Q. Well, if the flow rate settles down to 500 a day,
5 let's say, that's still a very attractive and successful
6 natural gas well, isn't it, Mr. Kelley?

7 A. If it stayed there, yes. But if it kept falling,
8 that's -- That's what we don't know.

9 Q. Now, you say, I think your testimony was, or
10 maybe the leading question was, the Resler B Number 2 and
11 the Resler B Number 3 are definitely oil wells?

12 A. Versus the Jalmat gas wells out there, yes.

13 Q. And is that based on a steady production, or are
14 you talking about two tests?

15 A. No, we have about -- Those were just tests, yes,
16 but the wells have been continuously on production.

17 Q. Since when?

18 A. Completion date which was the end of April. I'm
19 not sure exactly -- probably the last week of April.

20 Q. And do you have that cumulative production?
21 Because my notes indicated just specific test dates, two
22 specific test dates.

23 A. That's correct, I do not have the cumulative
24 production at this time.

25 Q. As far as you're representing here, your target

1 for your gas well for the dedication of 160 acres is the
2 not-yet-completed Resler B Number 1?

3 A. That's correct.

4 Q. Would you see that there would be a likely
5 advantage to have your gas well be one that was a closer
6 offset to what appears to be the highly successful LaMunyon
7 Number 78 well?

8 A. I'm not sure how to answer that one. I mean,
9 obviously the area around the 78 well has not been produced
10 as much, there has not been as much gas taken out of the
11 reservoir in that area, so you would expect some higher
12 initial rates there.

13 Q. So for example, the Resler B Number 3 should be a
14 good prospect as a Jalmat gas well then?

15 A. It could be if the spacing were correct, yes.

16 Q. How long has the LaMunyon 78 been producing, Mr.
17 Kelley?

18 A. I don't know the initial completion date in the
19 Langlie-Mattix. It was in -- sometime in November, mid-
20 November, when the recompletion was done, and it shut in
21 shortly thereafter in the Jalmat.

22 Q. Okay, that's what I'm interested in, and I should
23 have phrased my question that as far as producing gas from
24 the Jalmat, how long has that been?

25 A. I don't know the exact date. It was mid-

1 November, I believe.

2 Q. Okay. So you have approximately six months --

3 A. Two months, something like -- of total
4 production?

5 Q. Yes.

6 A. From the Jalmat?

7 Q. Yes, sir.

8 A. Approximately three months, I think, is when it
9 was shut in.

10 Q. Until it was shut in by order of --

11 A. That's correct.

12 Q. -- the District Supervisor?

13 For that three months can you give the Examiner
14 the cumulative gas production?

15 A. I basically have tests. I don't have the cum gas
16 production. It went from a million a day. The last test
17 rate that I've seen was 400 a day. Pretty much looks like
18 an exponential decline there.

19 Q. Was that -- That test was before the shut-in
20 order, or --

21 A. Correct.

22 Q. -- you haven't tested it --

23 A. No.

24 Q. -- since that time?

25 Have there been discussions in your company

1 concerning having a well density of more than one Jalmat
2 gas well on the southeast quarter, which you're asking --

3 A. Well, that's what we're attempting --

4 Q. -- be allowed as a nonstandard proration unit?

5 A. On the southeast quarter of 28?

6 Q. On the southeast quarter of 20, sir.

7 A. 20? No, we're only assuming we're going to use
8 160 at that point.

9 Q. With one well?

10 A. With one well, right.

11 Q. With one Jalmat gas well?

12 A. That's correct.

13 MR. GALLEGOS: No further questions.

14 EXAMINER STOGNER: Any redirect?

15 MR. BRUCE: No, sir.

16 EXAMINER STOGNER: I have no questions. You may
17 be excused.

18 Any reason for recalling any of your witnesses?

19 MR. BRUCE: Let me ask Mr. Gallegos how he wants
20 to proceed. I do have that other set of exhibits, which is
21 very -- all I really want to do on that for the other
22 hearing is read Mr. Land's notice exhibit.

23 EXAMINER STOGNER: I have some questions for Mr.
24 Land then. Why don't you go ahead and recall him and just
25 go through that and then just introduce those exhibits,

1 i.e., explain what they are, and if we need to stop and go
2 over any particular one of them. Would that be okay with
3 you, Mr. Gallegos?

4 MR. GALLEGOS: Yes, sure.

5 THOMAS LAND (Recalled),
6 the witness herein, after having been first duly sworn upon
7 his oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Land, I've handed you a set of exhibits
11 regarding the LaMunyon Well Number 2.

12 A. Yes, sir.

13 Q. Now, first of all, Mr. Land, the LaMunyon lease,
14 the LaMunyon federal lease, covers the entire northwest
15 quarter of Section 21, does it not?

16 A. Yes, sir.

17 Q. Okay. So it is a single federal lease, and
18 you're just seeking a nonstandard 160-acre unit for the
19 LaMunyon Federal Number 2 well in the Jalmat Gas Pool?

20 A. Yes, sir.

21 Q. Okay. Insofar as notice goes, again, you had to
22 give notice to the offsets, and I've tried to highlight
23 them in my own crude fashion on this plat, but starting to
24 the north, there are no Jalmat gas wells up there; is that
25 correct?

1 A. North of --

2 Q. North of Section 21. In Section 16, is what I'm
3 saying.

4 A. Not that I'm aware of.

5 Q. Okay. And I kind of put in brackets the working
6 interest owners over in the east half, southeast quarter.

7 That is Kaiser-Francis, is the working interest owner
8 there?

9 A. Yes, sir.

10 Q. Then in the southwest quarter that is Arch
11 acreage?

12 A. Yes, sir.

13 Q. Arch is the working interest owner. Then in the
14 remainder of the section Apache is the working interest
15 owner?

16 A. Right, yes, sir.

17 Q. Now, in the -- an odd-shaped unit in the
18 southeast quarter, part of the southeast quarter of Section
19 17 and the southeast southwest of Section 17, who is the
20 operator of that Jalmat gas well? Is that Samedan Oil
21 Corporation?

22 A. There's Samedan and also Yarbrough, Yarbrough Oil
23 and Gas.

24 Q. Then again, over to the west, Fulfer Oil and
25 Cattle Company?

1 A. Yes, sir.

2 Q. And then in the southeast quarter Arch and at
3 this time Westbrook. And then with respect to Section 21,
4 we had gone through that in the prior hearing, but --

5 A. Basically the same notice.

6 Q. Same notice to everyone. In other words, if
7 there was a fee lease that was operated by Arch, all of the
8 royalty owners in that lease were notified of --

9 A. Yes, sir.

10 Q. Okay. And the notice letter and certified return
11 receipt are marked as Exhibit 2?

12 A. Yes, sir.

13 MR. BRUCE: And again, Mr. Examiner, due to my
14 sloth I did not get all of the green cards. I will submit
15 those tomorrow to you.

16 EXAMINER STOGNER: Okay.

17 MR. BRUCE: And Mr. Examiner, Exhibit 3 was the
18 geologic writeup testified to by Mr. Curry with respect to
19 the LaMunyon Number 2. And Exhibits 4 and 5 are the
20 identical exhibits to Exhibits 6 and 7 from the first case.
21 They're just submitted so there will be a complete set of
22 those exhibits in this matter.

23 Q. (By Mr. Bruce) And Mr. Land, were Exhibits 1 and
24 2 prepared by you or under your supervision or compiled
25 from company business records?

1 A. Yes, sir.

2 MR. BRUCE: Mr. Examiner, I'd move in Case
3 12,375 --

4 EXAMINER STOGNER: 13,275.

5 MR. BRUCE: -- 13,275 the admission of Arch
6 Exhibits 1 through 5.

7 EXAMINER STOGNER: Any objections?

8 MR. GALLEGOS: No objection.

9 EXAMINER STOGNER: Exhibits 1 through 5 in Case
10 13,275 will be admitted into evidence.

11 Your witness, Mr. Gallegos.

12 MR. GALLEGOS: No questions.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Okay, I'm going to go back to your Exhibits 1 and
16 2 from the first case -- I'm sorry, 1 and 6. Okay, looking
17 at Exhibit Number 6, and the south half of Section 20, and
18 there's 200 acres in there that's shown in yellow. Is that
19 depicting a separate fee lease, as opposed to the 120 acres
20 of the white color, which would be the west half of the
21 southwest and the southeast of the southwest quarter? Are
22 those two different leases?

23 A. No, sir.

24 Q. It's one common lease?

25 A. Well, the title is very, very torn up. There's a

1 bunch -- there's quite a few -- there's a number of mineral
2 interest owners, including some majors back in the 1950s
3 and 1960s that there were some operating agreements
4 involved, there were some leases cut after the fact. But
5 as far as being one base lease, no, sir. But the common
6 interest owners under the 320.

7 Q. Okay.

8 A. The majors handled the southeast a little
9 different than the southwest, but the fee ownership, the
10 actual individual mineral ownerships, were under base
11 leases.

12 Q. Okay, explain that to me a little bit more,
13 because that's where I was going. I was looking strictly
14 just at the royalty interest underneath the south half.

15 A. Okay. The Steeler A lease, which is under the
16 southwest quarter, has got the -- There are fee leases that
17 cover the entire 320 acres under the south half of Section
18 20. That is not a hundred percent of the minerals.

19 Individual interest owners such as Cities Service
20 Oil Company, Amerada Petroleum, they handle those quarter
21 sections differently. So that's basically why the
22 southwest and the southeast have been -- the title varies.
23 The title varies from the 160 to the 160, but you have the
24 same players.

25 Q. When you said the two quarter sections were

1 handled differently, are you talking about bookkeeping?

2 A. No, Amerada would cut a mineral lease under the
3 southwest quarter and an operating agreement in the
4 southeast quarter. Then they would come back and issue an
5 oil and gas lease under the southeast quarter as to Jalmat
6 gas or from surface to 3100 foot. So it's a real complex
7 title, depending which location you go to.

8 But as far as when you're talking about common
9 ownership, the players were the same, the actual owners
10 were the same, but they all did not handle their mineral
11 interests equally.

12 So the fee owners -- Let's just say
13 unsophisticated mineral interest owners, they would execute
14 a lease back in 1954 and 1956 that covered the whole 320
15 acres, while the majors, Cities Service Company, Amerada
16 Petroleum Corporation, they would handle the southwest and
17 the southeast differently, depending on the development and
18 how it was farmed out under their terms.

19 So you have fee title under the south half, the
20 320, but you have nonprofessionals with oil and gas leases
21 and then professionals in title that handled, depending on
22 the situation at that point in time, whether Cities farmed
23 out for the Steeler A Number 1 to be drilled, Resler and
24 Shelton was back in title and they were farmed out and they
25 had so much time to drill under their farmout agreement,

1 but in the meantime Resler and Shelton also took those fee
2 leases from the Jones and Saunders, other mineral interest
3 owners that I would call nonprofessionals, nonindustrial
4 interest owners.

5 Q. Okay, the Number 1 well, the current holder of
6 that 320-acre Jalmat south half --

7 A. That's Steeler A Number 1.

8 Q. And that is operated by --

9 A. -- Westbrook Oil Corporation.

10 Q. Now, have you looked at that agreement or the
11 payout or the distribution of funds on that 320-acre unit?

12 A. No, sir, I haven't.

13 Q. Once this is cut up into two equal spacing units,
14 will they have the same payout, or do you know if they will
15 have the same payout from the Arch southeast quarter and
16 the Westbrook southwest quarter?

17 A. No, it will be different, because the interest
18 owners under the Westbrook well are working interest
19 owners, and they contract with Westbrook to operate the
20 well. And they issued a term assignment into Arch and kept
21 an override so they would not have to have any type of
22 expense working interest under drilling those wells that
23 Arch proposed.

24 Q. How about the royalty owners?

25 A. As far as -- I did not look -- I have not looked

1 at the 120 acres on the royalty base, under Westbrook --
2 under the Steeler A Number 1 lease.

3 Q. Do you know who they are, by chance?

4 A. Yeah, well, we can find out. I mean, I can get a
5 pay sheet from Buddy Westbrook.

6 Q. Are they the same as the 200 that are shown in
7 yellow?

8 A. That's what has been said to me verbally. The
9 title opinion -- it's a 45-page title opinion issued by
10 Bill Burford that covered our 200 acres down to 3750, and
11 those are the same interest owners that we have been
12 dealing with, that Buddy has indicated -- Buddy Westbrook,
13 I'm sorry. But as to actually seeing a list, a payee sheet
14 list, no, sir, I have not.

15 Q. Do you know how long that south half has been
16 dedicated to that Steeler Number 1 well?

17 A. The pooling -- declaration pooling agreement was
18 dated February 7th, 1958.

19 Q. Okay. So was there a possibility that somebody,
20 a non-cost-bearing royalty owner, has been enjoying some
21 production interest from that well, and once this is cut
22 out, would they be taken out from underneath that?

23 A. Personally, I don't think so. I mean, without
24 having comparative title, I mean apples and apples, I can't
25 say for sure. But it has been my understanding that the

1 interest under the south half has been undivided over time.

2 I did not see any indication from past takeoff
3 work that interest owners were assigning under the
4 southwest and interest owners were assigning under the
5 southeast. It was always referred to as the south half of
6 Section 20. The only time we start seeing the southeast
7 quarter is when Amerada start cutting -- issuing oil and
8 gas leases or a farmout agreement or an operating
9 agreement.

10 EXAMINER STOGNER: Any questions?

11 EXAMINATION

12 BY MR. BRUCE:

13 Q. Just to clarify, Mr. Land, what you're saying is
14 that the people that you refer to as nonprofessionals, they
15 executed oil and gas leases covering the entire south half?

16 A. Yes, sir, in 1956, 1954, back in there.

17 Q. And then there were people like the old Cities
18 Service and Amerada Hess that in certain instances leased
19 their interest and in certain interests participated as
20 working interest owners?

21 A. Yes, sir, depending on circumstances.

22 Q. Okay.

23 A. But the Cities Service and Amerada own the
24 minerals. They were mineral owners.

25 Q. They were mineral owner and not a lessee?

1 A. Right.

2 MR. GALLEGOS: Exhibit B -- Exhibit A to our
3 Exhibit B has a list of the leases, lessor and lessee.

4 EXAMINER STOGNER: Okay, I might have jumped
5 ahead, but I just wanted --

6 MR. GALLEGOS: Were you finished?

7 MR. BRUCE: Yeah.

8 MR. GALLEGOS: I have a few questions now.

9 EXAMINER STOGNER: Okay.

10 EXAMINATION

11 BY MR. GALLEGOS:

12 Q. Okay, I may have misunderstood you, but did you
13 testify that Arch has a term assignment in the south half,
14 other than its 200 acres that's shown on the -- on our
15 Exhibit B?

16 A. No, sir, the term assignment covers only 200
17 acres.

18 Q. Not the whole south half?

19 A. No, sir.

20 Q. All right. You have no assignment, no interest
21 in the other 120 acres?

22 A. That's correct.

23 Q. Okay. And on your 200 acres, isn't it true that
24 it's subject to an overriding royalty reservation for
25 Gretchen Nearburg that's 25 percent of 8/8 of all

1 hydrocarbons produced, except any gas from the Yates
2 formation there's reserved an override of 28.5 percent of
3 8/8?

4 A. I'd have to have title opinion from you. Mr.
5 Burford took several months to get this together, and I can
6 find out that information but I need the title opinion to
7 take a look at it. I do know she reserved the basic
8 agreement out there, because everybody had a different NRI,
9 was -- Thank you, sir.

10 Q. Let me hand you Exhibit L, and if you check that,
11 see that's -- was reserved in the assignment from Nearburg
12 to Arch's predecessor in interest; isn't that correct? In
13 other words, Nearburg to Eagle-K Production reserved the
14 override that I referenced, and Eagle-K Production then
15 made the term assignment, effective August 15th, 2003, to
16 Arch Petroleum, which is Fulfer Exhibit B?

17 A. That sounds correct.

18 Q. So Arch has an obligation, as a result, to some
19 way segregate production from the Yates formation as
20 opposed production from any other formation, because
21 there's a different override.

22 A. Sure.

23 Q. Were you aware of that?

24 A. I knew there was a variance, but I didn't know
25 exactly which individual.

1 MR. GALLEGOS: That's all.

2 EXAMINER STOGNER: Okay, any other questions of
3 Mr. Land?

4 MR. BRUCE: No, sir.

5 EXAMINER STOGNER: You may be excused. Do you
6 have anything further on your testimony?

7 MR. BRUCE: No, sir.

8 EXAMINER STOGNER: Okay, let's take a 10-minute
9 recess, then we'll come back and resume the case.

10 (Thereupon, a recess was taken at 3:10 p.m.)

11 (The following proceedings had at 3:20 p.m.)

12 EXAMINER STOGNER: Okay, hearing will come to
13 order.

14 Mr. Gallegos?

15 MR. GALLEGOS: Yes, we call Norman Nuss.

16 EXAMINER STOGNER: N-u-s-s?

17 MR. GALLEGOS: That's correct.

18 NORMAN NUSS,

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

21 DIRECT EXAMINATION

22 BY MR. GALLEGOS:

23 Q. Would you state your name, please?

24 A. Norman Nuss.

25 Q. Where do you live?

1 A. I live in Centennial, Colorado.

2 Q. What is your business or profession?

3 A. I am a petroleum engineer.

4 Q. You have not previously testified before the New
5 Mexico Oil Conservation Division, have you?

6 A. No, I have not.

7 Q. In that case, I'd like to ask you to kind of go
8 through your qualifications, starting with your degree that
9 you received and --

10 A. Okay, January of 1968, I received a BS in
11 petroleum engineering from Missouri School of Mines, which
12 became University of Missouri at Rolla.

13 I spent approximately six months in Denver
14 working for Shell Oil as a field exploitation engineer and
15 got drafted and spent two years in the service. I came
16 back out of the service and went back to work for Shell,
17 and that was approximately in mid-1970. Worked for Shell
18 until 1975 when they moved to Houston. I stayed in Denver.
19 Jobs with Shell in Denver included exploitation engineer
20 for a short time and then petrophysical engineer, did a lot
21 of drilling in the Uintah Basin at that time, did a lot of
22 log work.

23 And then when I left Shell I spent one year at
24 the USGS doing applied research and left them and went to
25 work for Scientific Software Corporation, which at that

1 time was an international oil and gas consultant that had
2 proprietary software, primarily log analysis and reservoir
3 simulation and with them involved in a lot of reservoir
4 studies, both as a petrophysical-type person and as a
5 reservoir engineer doing reservoir studies and in
6 conjunction with simulation studies, even some pipeline
7 studies.

8 Left there -- I can't remember what I wrote down;
9 it's like 1980, '81 -- went to work for Barfield Oil
10 Corporation, which was a small startup company that was
11 trying to acquire production and, you know, produce
12 properties, drill new wells, try to find recompletions, and
13 I was an operations engineer but got involved in all the
14 curriculums of petroleum engineering because we just didn't
15 have that many people to go around.

16 Did that, and then they split off a company
17 called Arapahoe Operating, which basically did the same
18 thing as Barfield, tried to find producing properties, buy
19 them, sell them, whatever, try to enhance production.

20 After that I went basically on my own, but I
21 worked with -- primarily with Dr. Van Kirk out at the
22 School of Mines. He's the head of the petroleum
23 engineering department, which he also did consulting on the
24 side. And we had a small group consisting of primarily
25 three to four people at most times. We had a geologist and

1 a couple of engineers, and every now and then we'd bring in
2 a geophysicist to work on various projects. And with Dr.
3 Van Kirk we did a lot of projects, varying projects, some
4 of which were with Doyle Hartman down here in the Jalmat
5 and Eumont pools. We looked at a lot of his wells from a
6 program and valued them in some of his litigation. We
7 looked at a -- we also had a litigation that involved a
8 waterflood with some of his Jalmat production, and that
9 incorporated a very large area to look at, as far as Jalmat
10 wells go. But I've also done -- We've done international
11 studies and simulation studies, general reservoir
12 engineering.

13 Q. About how many years would your experience span
14 as concerns the Jalmat and Eumont pools?

15 A. Say two to three years, off and on. It wasn't
16 continuous, but during a two- or three-year period. And I
17 even talked with Steve Hartman and we looked at few logs
18 together, oh, it was recently, I'd say that was about a
19 year ago.

20 Q. Do you have any idea how many wells, Eumont,
21 Jalmat wells, that you've had occasion to work with, look
22 at, analyze?

23 A. It would be hard to estimate, but I'm sure it's
24 well over a hundred if it's not 500.

25 MR. GALLEGOS: I ask that Mr. Nuss be permitted

1 to testify as an expert petroleum geologist.

2 MR. BRUCE: Geologist or engineer?

3 MR. GALLEGOS: I'm sorry, engineer, thanks.

4 EXAMINER STOGNER: Mr. Bruce?

5 MR. GALLEGOS: Might have an objection.

6 MR. BRUCE: No objection.

7 EXAMINER STOGNER: Mr. Nuss, when did you say you
8 graduated from Missouri?

9 THE WITNESS: 1968, January of 1968.

10 EXAMINER STOGNER: Did you have a Lang Taylor as
11 a professor?

12 THE WITNESS: Who?

13 EXAMINER STOGNER: Lang Taylor.

14 THE WITNESS: In petroleum engineering --

15 EXAMINER STOGNER: Yeah.

16 THE WITNESS: -- or -- no.

17 EXAMINER STOGNER: No.

18 THE WITNESS: Goviar was there, Vaughan was
19 there. That was the two primary people when I was there.

20 EXAMINER STOGNER: No, he would have been at
21 Soccoro at that time. I think he arrived there after --

22 THE WITNESS: Yeah, and Carlisle, Dr. Carlisle.
23 He was there also.

24 EXAMINER STOGNER: Go to school with a W.A. Baker
25 by chance?

1 THE WITNESS: Oh, boy. Man, I don't remember.

2 EXAMINER STOGNER: It's been a long time.

3 THE WITNESS: Been a long time, sorry.

4 EXAMINER STOGNER: Okay, so qualified. Thank
5 you.

6 THE WITNESS: Thanks.

7 EXAMINER STOGNER: Mr. Gallegos?

8 Q. (By Mr. Gallegos) Thank you. I would like to
9 focus your attention on a couple of the special pool rules
10 for the Jalmat Gas Pool and ask if you are familiar with
11 those rules and have taken them into consideration in
12 preparing your testimony for this case.

13 The first is Rule 1 concerning the vertical
14 limits that define the Jalmat Gas Pool as extending from
15 the top of the Tansil formation to the point 100 feet above
16 the base of the Seven Rivers formation? Are you familiar
17 with that?

18 A. Yes, I'm familiar with that.

19 Q. Are you also familiar with the acreage density
20 Rule 2 that specifies that acreage dedicated to gas well in
21 the Jalmat gas pool shall not be simultaneously dedicated
22 to an oil well in the Jalmat gas pool, and the dual
23 completion of a well so as to produce oil from the Yates
24 formation and oil from the Seven Rivers or Queen formation
25 is prohibited?

1 A. Yes.

2 Q. Okay. First of all, as far as exhibits are
3 concerned, I'd like to ask you to give your attention to
4 Fulfer Exhibit Number E. It's sort of a packet.

5 A. I don't have their exhibits with me.

6 Q. No, it's --

7 A. Oh, our exhibits, I'm sorry. Our exhibits, our
8 exhibits. Yes.

9 Q. Okay. Now, there's been some testimony
10 concerning the LaMunyon 78 well, and if I can direct your
11 attention to Oil Well Test Summary, there's actually three
12 sheets regarding three wells.

13 A. Yes, that's correct.

14 Q. Do you find those?

15 A. Yes.

16 Q. Okay, and do you find the test summary that's
17 specific to the Number 78 C.E. LaMunyon well?

18 A. Yes, I have it.

19 Q. Okay. From the reported production and the dates
20 of those tests, do you form any opinion as to what occurred
21 concerning the completion or recompletion of that well?

22 A. Yes, well, the first test, being on the 29th day
23 of October in 2003, it produced a volume of 11 barrels of
24 oil, 10 barrels of water and 100 MCF of gas. That tells
25 me, or I -- when you correlate that with the completion

1 report on that well, that looks like a typical Langlie-
2 Mattix oil well.

3 But the next test, there's no oil and there is --
4 the gas rate is obviously almost 10 times higher than the
5 previous test, and that is a period of approximately 12, 13
6 days. And prior to Mr. Kelley's testimony, I did not know
7 or had no reason to believe that the well had been
8 recompleted. But now that I see this data and tie in what
9 he says, I can believe that the well was recompleted into
10 the Jalmat gas zone.

11 Q. And would this indicate to you that recompletion
12 came relatively rapidly after completion in the Langlie-
13 Mattix?

14 A. I would say that's true, yes.

15 Q. And did you hear the testimony of Mr. Kelley that
16 as far as Arch Petroleum was concerned, that Langlie-Mattix
17 production rate was probably not a commercial -- or
18 acceptable from an economic standpoint?

19 A. That is correct. I think he stated under today's
20 conditions or whatever, that it would be an uneconomic
21 well.

22 Q. If you flip over two pages to the same kind of
23 data Summary Report on the Number 32 C.E. LaMunyon, do you
24 find that?

25 A. Yes, I do.

1 Q. Are there also test dates and the same kind of
2 information provided there?

3 A. Yes, there is.

4 Q. And do you make any observation -- does that
5 information lead you to any observation as to what was done
6 concerning the completion of that well?

7 A. Well, after listening again to the testimony, I
8 mean, I did have a completion report on the Number 78. I
9 have not found a completion report on this Number 32
10 LaMunyon well, but basically the first test indicates that
11 it's a small oil volume with a small gas volume, and then
12 within, say, 15, 20 days, 20, 21 days, the rate changes
13 significantly to a highly productive gas well, which
14 indicates, based upon the Number 78, that this well also
15 has been recompleted in the Jalmat Gas Pool, but there is
16 no indication of that in the records.

17 Q. And for the record, would you state what the gas
18 rates were after what was evidently the prompt
19 recompletion?

20 A. Right, on the 21st of October in 2003 the test
21 rate was 2 barrels of oil, 5 barrels of water and 45 MCF of
22 gas.

23 On January 15th of 2004 the test rates were zero
24 oil, 148 water and 1219 MCF a day, which -- again, very,
25 very significant increase in gas rates.

1 Q. And in your opinion, would a prudent operator,
2 finding those kind of production rates in the Langlie-
3 Mattix with availability of Jalmat gas, follow the
4 procedures of recompleting in the Jalmat Gas Pool?

5 A. Yes, under today's pricing scenario, I would say
6 you should do that. I mean, it's very economic to do that.

7 Q. Are the rates found in those two LaMunyon wells,
8 in the Langlie-Mattix completions, fairly analogous to the
9 rates that Mr. Kelley said were being reflected in the
10 Resler B Number 2 and the Resler B Number 3 wells that are
11 said to be Langlie-Mattix wells?

12 A. The Number 78 well is closer to the Resler A
13 Number 1 than the Reslers B 2 and 3. The other two wells,
14 the 23 and 32, had even much lower rates than the 78, as
15 far as the Langlie-Mattix completion is concerned. But
16 those numbers of the Number 78 LaMunyon are similar to --
17 are very close to the rates demonstrated by the Resler A
18 Number 1, the Resler B Number 2 and the Resler B Number 3
19 out of the Langlie-Mattix.

20 Q. Let me direct your attention to Fulfer Exhibit D,
21 which is the APD for the LaMunyon Number 78 well.

22 A. I'm sorry, which exhibit again?

23 Q. It's Exhibit D --

24 A. D, okay.

25 Q. -- Fulfer Exhibit D.

1 A. Okay.

2 Q. Okay, there's just one entry that I wanted to ask
3 you to bring to the Examiner's attention, and that's the
4 third page entitled Well Logs.

5 A. Yes.

6 Q. Now, to state the obvious, the area that we're
7 talking about in southeast New Mexico has been heavily
8 developed in the known productive area for 50 years or so,
9 would you agree?

10 A. Yes.

11 Q. Did you notice here that Arch Petroleum asked
12 that the logs on the LaMunyon 78 well be held confidential
13 for one year?

14 A. Yes.

15 Q. And did you consider that to be unusual for a
16 well in this --

17 A. Well, yes, I would because I've seen
18 confidentiality requested before, but it's been primarily
19 in wildcat areas, and obviously there's just a tremendous
20 number of penetrations down through the Yates -- or Tansil,
21 Yates and Seven Rivers and Queen, so I would not consider
22 this to be a normal practice, no.

23 Q. What I'd like for you to do now, Mr. Nuss, is to
24 take Fulfer Exhibit H, Fulfer Exhibit I and Fulfer Exhibit
25 J and lay out the logs that are contained with each of

1 those exhibits.

2 A. May I use mine that I have cut up? Because
3 they're easier to put together.

4 Q. Sure, yeah, you use yours, your notes, but be
5 sure not to just say "here" or "there" or --

6 A. I will try to remember that, I will definitely
7 try to remember that.

8 Q. Okay.

9 A. Well, the first thing I would like --

10 Q. Yeah, just go ahead, bearing in mind the
11 definition that I pointed out to you before concerning the
12 Jalmat Pool --

13 A. Right.

14 Q. -- tells what observations you make concerning
15 these -- but first of all, identify the wells --

16 A. Okay --

17 Q. -- you have logs of here.

18 A. -- I have three wells, the first two of which ar
19 the Resler B Number 2 and the Resler B Number 3.

20 Q. Okay, now those two wells are in the southeast
21 quarter and are proposed to be wells that are within the
22 requested nonstandard proration unit; is that correct?

23 A. That is correct.

24 Q. All right. And what other log do you have?

25 A. I have the J.C. Johnson Number 4 log, which is

1 the well located in the northwest of the northwest of
2 Section 20.

3 Q. All right. Would you then make observations as
4 to the -- in particular, I would like your observation to
5 point out to the Examiner the -- what I call the picks or
6 the tops of the various formations.

7 A. Okay, right. The second page of Exhibit H and I
8 contain documents -- it's a document submitted to the OCD,
9 and it contains at the bottom of the page, under Lithology
10 Record, tops listed for the Resler, the top of the salt,
11 the Yates, Seven Rivers, Queen, Penrose, Grayburg, in each
12 well.

13 Q. Okay, this is the lithology record on the filing
14 well-completion record submitted by Arch --

15 A. That is correct, that is correct.

16 Q. -- which is the second page of each exhibit?

17 A. Yeah, second page. I'm sure it's on the back of
18 the original document.

19 Q. Okay. And what does the lithology purport to
20 show?

21 A. Well, the lithology record is obviously -- in
22 this case you need to understand or designate tops and
23 bottoms of formations in order for it to be placed within
24 the Jalmat pool under that rule of 100 feet above the base
25 of the Seven Rivers. So these are useful in trying to

1 identify where certain zones would be located. So --

2 Q. Let me ask you just -- How is the lithology
3 record compiled, in the process of drilling the well?

4 A. Well, I would -- to the best of my knowledge, I
5 would say a geologist looked at the logs, and if you had
6 samples, maybe looked at the samples, and decided -- and
7 picked these tops.

8 Q. Okay.

9 A. Now, the third well, the Johnson Number 4, I went
10 back into the OCD well file and found records of tops for
11 three formations, the Yates, the Seven Rivers and the
12 Queen. I didn't find anything for the Penrose. So what I
13 did is, then, I tried to correlate these zones between
14 these three wells, to see where something stood.

15 And so the interesting -- there some things that
16 are interesting. Obviously the Johnson Number 4 is an
17 older well. It's an old gamma ray/neutron where you have a
18 slightly -- not slightly, a much newer log in the Resler B
19 Number 2 and Number 3.

20 But I think -- I want to point out -- the first
21 thing I want to point out is, the Resler B Number 2. If
22 you'll go down, you'll notice near the bottom the Penrose
23 is marked. Now, that is not my writing, that is writing
24 that was on the log as it was sent to us. So that Penrose
25 marker of approximately -- I'm going to say 3500 should be

1 approximately the record of the Resler B 2, but I can see
2 it might be -- well, I -- But I didn't put that down there,
3 because it's not the most important thing to me. But I'm
4 just trying to equate you from the -- what is submitted to
5 the OCD and what are on these logs.

6 The most important thing, though, is the next
7 zone up, which is the Queen. If you'll notice, in the
8 gamma-ray column, I'll call it, there's some more markings,
9 and it's called -- there's a Queen and then there's a
10 Langlie-Mattix with an arrow and there's a straight line,
11 and then above that there's an arrow pointing up, and then
12 it says Jalmat.

13 Q. That is not -- that was --

14 A. That was submitted on the logs that were given to
15 us.

16 Q. All right.

17 A. Now, on the -- There's an additional Q that's in
18 the depth column, and notice that that Q is deeper than the
19 Queen marker that was on the log. Now that Q should
20 correspond to the depth given on the OCD completion report,
21 34-10.

22 So if in essence what was submitted to the OCD is
23 the base of the Queen, or the top of the Queen, which is
24 the base of the Seven Rivers, then the zone that is
25 perforated at approximately 3260 would be in the Jalmat Gas

1 Pool, because it's more than 100 feet above the base of the
2 Queen.

3 Q. The base of the Seven Rivers?

4 A. I'm sorry, the base of the Seven Rivers, that is
5 correct.

6 Q. Okay.

7 A. But obviously there's a discrepancy between the
8 Queen that's marked on the logs and the Queen that was
9 written down on the submission of the completion report.

10 Q. This exhibit shows -- has an arrow, and it says
11 3310, 100 feet above the base of the Seven Rivers. Is the
12 arrow pointing to that location? In other words --

13 A. Yes, that is correct, that is correct.

14 Q. So according to the definition by the Division,
15 anything above that would be in the Jalmat Gas Pool?

16 A. That is correct, that is correct.

17 Q. All right.

18 A. Now, I marked the other Resler well in much the
19 same manner. But then I couldn't resolve the conflict
20 between these two wells, so I went to the Johnson Number 4.
21 And the Johnson Number 4 -- again, I say it's an older
22 well, but their pick in the files was 3370.

23 Q. Have you marked that on the exhibit?

24 A. Yes, that should be marked on the exhibit on the
25 Johnson well.

1 Q. All right.

2 A. So I tried to do some correlation between these
3 wells to try to figure out where the discrepancy might lie.
4 And basically, what I have concluded is that the Queen of
5 the Resler B Number 2, when you match it with the Johnson
6 Number 4, matches more closely to the Seven Rivers picks.
7 That way, they line up, they're more in line. They have the
8 same general thickness.

9 If I use the Queen that was previously marked on
10 the log, that moves the Seven Rivers down much deeper in
11 relation to the Johnson Number 4, and I don't think on a
12 structural basis that should happen.

13 So I'm more inclined at this point in time to
14 believe that the Q that was submitted on the completion
15 form is closer to the Queen marker, the true Queen marker.

16 Q. And what does that do as to the --

17 A. That puts the zone in the Resler B Number 2, the
18 upper perfs, in the Jalmat Gas Pool.

19 Q. Can you correlate across the top of the Seven
20 Rivers on these logs so that you see that you've got a --

21 A. Yes, you can correlate very well the two newer
22 wells, obviously, if you put the -- starting with the
23 Penrose. They correlate extremely well. I mean, even the
24 completion zones are exactly the same, or very close to the
25 same.

1 And the Queen in the -- the zone -- Let's just
2 take the zone in the Resler B Number 2. There's an area
3 from approximately 3340 to 3420 that correlates between all
4 three wells. And that's why I just -- at this point I say
5 that, you know, the Queen is at the marker in the depth
6 column, versus what's marked on the logs.

7 And that would make, in my opinion, the Queen
8 deeper in the Resler Number 3 also, because then the Seven
9 Rivers correlates again better than if you -- If you move
10 the Queen down, that puts the Seven Rivers at a lower
11 position. And I haven't figured out the true vertical
12 depth or anything like that, but out here I wouldn't
13 imagine there's much of a difference in ground elevation.
14 And so that would put the Seven Rivers slightly deeper,
15 which I don't think it is at this location.

16 Q. So your conclusion would be, then, that the
17 Resler B Number 2 and the Resler B Number 3 are completed
18 in zones that more than a hundred feet above the base of
19 the Seven Rivers?

20 A. That is correct.

21 Q. Okay. Let me ask you if you made any
22 observations concerning the Steeler A Number 1 well, which
23 is supposed to be the Jalmat Gas well that will be
24 dedicated to a new 160-acre southwest-quarter nonstandard
25 spacing unit.

1 MR. BRUCE: Which well did you say, Mr. Gallegos?

2 MR. GALLEGOS: I said the Steeler A 1, didn't I?

3 Did I --

4 MR. BRUCE: Yeah, okay. I just wanted to make
5 sure. Yeah.

6 MR. GALLEGOS: I may have misstated, but I meant
7 to say the Steeler A 1. If I didn't --

8 MR. BRUCE: You did, I just wanted to be clear.

9 MR. GALLEGOS: Okay.

10 THE WITNESS: Yes, I looked through the well file
11 on that well, and it's an old well initially completed in
12 1956. It's a dual producer out of the Penrose, Queen,
13 Seven Rivers and Yates. And they basically -- my
14 understanding is, they set a packer and they produced the
15 deeper zones through the tubing and the -- the upper zones
16 through the tubing casing annulus.

17 In 1965 they added additional zones to the Yates,
18 but they still kept it as a dual completion. And in 1971
19 they pulled the packer and they commingled everything. So
20 to the best of my knowledge, that is the same completion
21 that exists today, it's commingled, everything is
22 commingled.

23 And so I -- the production -- oh, one thing
24 that's important. In 1998, even though there's no record
25 in the well file, the production data shows that there must

1 have been some kind of rework somewhere. I don't know if
2 it was a new frac job or what it was, but the oil rate
3 significantly increased.

4 But then I started looking at the Jalmat gas that
5 was reported in relationship to the Langlie-Mattix oil and
6 gas production, and because it's commingled I always
7 suspect that they aren't -- they're not monitored
8 separately. Obviously, it's very difficult to do. So I
9 started looking at the gas production from each zone.

10 Well, it turns out that in 2003, the Jalmat gas
11 is always a constant ratio to the total gas of about 52
12 percent. Well, we know that that can't happen. So in
13 essence, I don't think we know exactly what's coming from
14 where. It's a practice that they get the total gas
15 production and they assign it a -- they allocate it
16 sometimes. Now, usually you have to test them, but I found
17 no evidence of any kind of test that would say how you
18 would allocate that. I mean, normally it's done at least
19 once a year, if not more than that.

20 So I don't know in this well right now where the
21 production is truly coming from. I assume that the oil is
22 coming from the deeper zones -- that's probably true -- and
23 that, you know, it's not a Jalmat gas well entirely because
24 the GOR would be higher. The total GOR is significantly
25 under the 10,000 ratio limit.

1 Q. (By Mr. Gallegos) One other well I want to ask
2 you a few questions about is the Resler B Number 1, which
3 we understand from the Arch evidence is not yet completed.

4 A. Yes.

5 Q. Would you take a look, please, at Fulfer Exhibit
6 Number G?

7 A. Okay, yes.

8 Q. Do you understand the Application of Arch is that
9 the -- if permitted, the 160-acre nonstandard spacing unit
10 consisting of the southeast quarter of Section 20 would be
11 dedicated to the Resler B Number 1 well as a Jalmat gas
12 well?

13 A. Yes, I understand that, yes.

14 Q. Do you recognize Fulfer Exhibit Number G as an
15 APD filed by Arch February, 2004, this year, for the well
16 in question, the Resler B Number 1?

17 A. Yes, I do.

18 Q. And does it indicate on the proposed pool that it
19 would be an oil well?

20 A. Yes, that is true.

21 Q. And does it indicate that the dedicated acreage
22 will be 40 acres, not 160 acres?

23 A. That is correct.

24 Q. Now, we understand you have no information as to
25 the completion of that. We assume it has not been

1 completed.

2 A. That is correct.

3 Q. Okay. Given the investigation you made of the
4 wells in this particular area, in terms of prudence and
5 commerciality, would the target for a new well or a
6 recompletion be the Langlie-Mattix or the Jalmat Gas Pool?

7 A. It would definitely be the Jalmat Gas Pool.

8 MR. GALLEGOS: That's all the questions I have.

9 EXAMINER STOGNER: Thank you, Mr. Gallegos.

10 Mr. Bruce, your witness.

11 CROSS-EXAMINATION

12 BY MR. BRUCE:

13 Q. Mr. Nuss, your Exhibit A --

14 A. Yes.

15 Q. -- in the north half of Section 20, have you
16 reviewed the files on the wells in the north half of
17 Section 20?

18 A. I reviewed the Johnson, let's see, Number 4 this
19 morning, quickly, briefly, and I did not have a log on that
20 until today.

21 Q. Do you know if that is a Jalmat gas well?

22 A. I believe it is.

23 Q. Okay. And what else -- what other logs did you
24 review?

25 A. Just the other two, the B 2 and the B 3. I tried

1 to find logs on --

2 Q. In the north --

3 A. Oh, I'm sorry.

4 Q. In the north half of Section 20.

5 A. I did not look at the Johnson Number 5, no.

6 Q. Okay. What about the Johnson Number 3? What do
7 you know about that one?

8 A. I know basically what Mr. Curry testified to,
9 that it's a recent completion, at least I've seen a sundry
10 notice in the documents that it has a significant gas rate.

11 Q. It has been completed in the Jalmat?

12 A. Yes, it has.

13 Q. Do you know what the rate is?

14 A. It's over a million a day, or at least was
15 reported over a million a day.

16 Q. Any oil production?

17 A. Not that I know of.

18 Q. Okay. But you have not looked at the file on the
19 Johnson Number 1 well in the southwest quarter, northwest
20 quarter of Section 20?

21 A. Southwest quarter of the northwest? No, I have
22 not.

23 Q. Are you aware of any Langlie-Mattix wells that
24 Fulfer operates in the north half of Section 20?

25 A. I assume that the Johnson Number 5 is a Langlie-

1 Mattix well.

2 Q. You don't know if the Johnson Number 1 is a
3 Langlie-Mattix well?

4 A. No, I do not.

5 Q. Do you know if the Johnson Number 3 -- did that
6 used to be a Langlie-Mattix well?

7 A. To the best of my knowledge, it was, yes.

8 Q. Okay. Johnson Number 4 is a Jalmat gas well?

9 A. (Nods)

10 MR. GALLEGOS: You have to answer audibly.

11 THE WITNESS: Oh, I'm sorry, yeah.

12 Q. (By Mr. Bruce) Okay, and the Johnson Number 4 is
13 a Jalmat gas well?

14 A. Correct.

15 Q. Okay. And the Johnson Number 5 is a Jalmat well?

16 A. Johnson Number 5? No, I think it's a Langlie-
17 Mattix.

18 Q. You haven't looked at the file?

19 A. No, I have not.

20 MR. GALLEGOS: It's a Jalmat oil well, but I
21 don't have any objection if you want to --

22 Q. (By Mr. Bruce) I'm just going to hand you -- and
23 I'm sorry, Mr. Examiner, I only have one copy of a Form
24 C-104 for the Johnson Well Number 5, and what does that
25 indicate, insofar as what pool it is completed in?

1 A. The pool name is the Jalmat-Tansil-Yates-Seven
2 Rivers-Queen.

3 Q. Is that what we normally refer to as the Jalmat
4 Gas Pool?

5 A. Yes. Well, I don't know where the perforations,
6 so I don't know if it's perforated in the Tansil or the
7 Yates or -- I don't know where it's perforated.

8 Q. Okay. And the second page of that exhibit shows
9 that the north half is dedicated to both those wells, the
10 Number 4 and the Number 5, does it not?

11 A. Yes.

12 Q. Okay.

13 A. To the north half of that section.

14 Q. Okay. So what you're saying is, you can't have
15 oil and gas Jalmat wells dedicated to the same unit; is
16 that your understanding?

17 A. I'm sorry, would you say that question again,
18 please?

19 Q. You can't have Jalmat oil wells and Jalmat gas
20 wells dedicated to the same unit; do you know?

21 A. You can have them in the same unit, but only -- I
22 mean, the Jalmat oil well will only -- as far as I know,
23 will only have a certain dedication of 40 acres, unless
24 it's stipulated otherwise.

25 MR. GALLEGOS: Well, Mr. Examiner, I didn't know

1 we were trying the north half, but the administrative order
2 on this carves out the 40 acres for the Jalmat oil well and
3 makes it a 280-acre nonstandard spacing unit. You get the
4 order out --

5 MR. BRUCE: Well, I'm just --

6 MR. GALLEGOS: -- and my understanding is that
7 it's a Jalmat oil well, and that's why that 40 acres is in
8 white there.

9 Q. (By Mr. Bruce) But you have no data on where
10 that well was completed, on what the perforations are?

11 A. I have not seen any, no.

12 Q. You didn't look at anything?

13 A. No, I did not.

14 Q. And then finally, do you have any data on the
15 Johnson Number 6 well in the northeast quarter, northeast
16 quarter?

17 A. No, I do not.

18 Q. Your Exhibit J, just a few more questions, Mr.
19 Nuss. That is from the Johnson Number 4, correct?

20 A. Yes, that is correct.

21 Q. And if I understand correctly, what you are
22 saying is that the Queen -- that would be the top of the
23 Queen formation -- would be at approximately 3370 feet --

24 A. That is correct.

25 Q. In this well.

1 A. And I took that data from the well file.

2 Q. Okay. Now, what about the Arch B 2 and B 3
3 wells. Are they updip or downdip from that well?

4 A. They should be slightly updip.

5 Q. Okay.

6 A. I think. If I could look at the structure map,
7 I'll do that. Or they could be even.

8 Q. I've handed you Arch Exhibit 6, and what does
9 that indicate with respect to structure?

10 A. From the Johnson Number 4 --

11 Q. Yes, sir.

12 A. -- to the Resler --

13 Q. Resler B 2 --

14 A. -- B 2 --

15 Q. -- and B 3.

16 A. -- and B 3. Well, the B 2 and B 3 should be --
17 I'm sorry, I don't know what the structure map is on.

18 MR. CURRY: Top of the Yates.

19 MR. BRUCE: If I could --

20 THE WITNESS: Yeah, okay.

21 MR. BRUCE: -- have Mr. Curry just answer, what
22 is the structure map on?

23 MR. CURRY: The structure map is on the top of
24 the Yates. However, the measured depth is supersea, not
25 subsea.

1 THE WITNESS: Right.

2 MR. CURRY: And the contour interval is 50 feet.

3 THE WITNESS: It's not subsea?

4 MR. CURRY: The ground elevation is around 3300,
5 so if the top -- It's near sea level in most cases, but it
6 can be plus or minus, depending on where you are on the
7 map.

8 Q. (By Mr. Bruce) Did that help, Mr. Nuss, in
9 understanding the map slightly?

10 A. Well, I guess -- yes, in some ways it does. This
11 is the Teague anticline, isn't it?

12 MR. CURRY: That's correct.

13 Q. (By Mr. Bruce) Now, my question, Mr. Nuss, is
14 this. You picked, based on your review of the well log,
15 the top of the Queen at 3370 feet, and assuming there's a
16 general trend between the top of the Seven Rivers and the
17 top of the Queen --

18 A. Right.

19 Q. -- at what depth would you anticipate finding the
20 top of the Queen in the Resler B 2 and B 3 wells?

21 A. Well, I think I explained that. I had
22 conflicting information on the B 2 well. There were two
23 depths listed, one on the log and one on the completion
24 report. And so I tried to figure out, how do you resolve
25 that problem? And so I tried to compare with the log of

1 the 3, based upon the data that I took from the well file,
2 and if I put the lower Queen depth, the one reported on the
3 OCD, that gives me a more consistent Seven Rivers interval.

4 Q. And my question, though, is, assuming you have
5 the top of the Queen at 3370 feet in the Johnson well and
6 you're moving updip 50 to 70 feet, wouldn't the top of the
7 Queen in the Resler B 2 and/or B 3 be more at the level of
8 3300 feet?

9 A. I can't answer that. I don't know. I'm trying
10 to compare -- I didn't try to do subsea work or try to --
11 all I tried to do was compare gross intervals.

12 Q. Okay.

13 A. That's what I did --

14 Q. Okay.

15 A. -- because -

16 Q. You didn't put as much time into it as Mr. Curry,
17 is what you're --

18 A. Absolutely not, no, sir.

19 Q. And I think what you're saying is, if you look at
20 your exhibit --

21 MR. GALLEGOS: -- Mr. Curry -- we don't know
22 that.

23 Q. (By Mr. Bruce) -- your Exhibit I, which is for
24 the Resler B 3 --

25 A. Yes.

1 Q. -- the lithology and the log pick for the top of
2 the Queen are consistent?

3 A. Yes, they are. Yes. they are.

4 Q. And as a matter of fact, they would be consistent
5 with moving updip from 3370 feet in the --

6 A. I can't --

7 Q. -- in the --

8 A. I don't -- I don't know for sure, no. I do not
9 know that.

10 Q. One final question -- or -- go ahead.

11 (Off the record)

12 Q. (By Mr. Bruce) Just a couple final questions.
13 You looked at the logs on -- well, you -- the cross-section
14 had the log on the Steeler A 1 and then the Resler --
15 you've seen the logs on the Resler B 2 and B 3?

16 A. Yes, I have.

17 Q. And in each of those wells, there were a couple
18 of sets of perforations --

19 A. Yes.

20 Q. -- in what Arch claims is the Langlie-Mattix, and
21 you don't have to --

22 A. Yes.

23 Q. -- concede that, but in what they say is the
24 Langlie-Mattix?

25 A. Right.

1 Q. But there are two sets of perforations in each of
2 those wells?

3 A. That is correct.

4 Q. And what you are saying is that the upper set of
5 perfs is in the Jalmat Gas Pool; is that --

6 A. Based upon the correlation that I did with the
7 Johnson Number 3 --

8 Q. Okay.

9 A. -- and --

10 Q. Johnson Number 4.

11 A. I'm sorry, Johnson Number 4. -- and the data
12 submitted on the Resler B Number 2.

13 Q. Okay, by the same token the bottom perforations,
14 would you say they are definitely in the Langlie-Mattix?

15 A. Yes.

16 Q. Then just one final question. Do you know
17 whether the lower Queen porosity thickens as you move to
18 the west in this area?

19 A. At this point in time, I don't. I know that we
20 looked at a lot of that, and honestly I don't -- I didn't
21 review a lot of my old notes, my old things that I did in
22 the past.

23 Q. Now, from what you know, the Johnson Number 3 is
24 a gas well with no oil? That's the newly completed --

25 A. Yes, the new recompletion. As far as I know,

1 yes.

2 Q. And then the LaMunyon wells to the southeast are
3 gas with no oil?

4 A. Well, I only have test data to support that. I
5 do not -- There's been nothing reported to the OCD in the
6 way of production data, so I have -- I mean, I'm basing
7 that on the test data.

8 Q. Do you know what the perforations are in the
9 Johnson Number 3?

10 A. Just from what you showed on your cross-section.

11 Q. You have no other --

12 A. No, I have no other data on that well.

13 Q. Mr. Fulfer has volunteered no data to you on
14 that?

15 A. Not at this time, no.

16 Q. Do you know if a completion report has been
17 prepared?

18 A. If it has, I have not seen it.

19 Q. And do you have any information on the formation
20 tops?

21 A. No, I do not, at this time.

22 MR. BRUCE: Thank you, Mr. Nuss.

23 EXAMINER STOGNER: Any redirect?

24 MR. GALLEGOS: No, no redirect.

25 EXAMINER STOGNER: Did we admit your exhibits,

1 Mr. --

2 MR. GALLEGOS: No, I move Exhibits A through L.

3 EXAMINER STOGNER: Any objection?

4 MR. BRUCE: No, sir.

5 EXAMINER STOGNER: Fulfer's Exhibits A through L
6 in Case 13,274 will be admitted into evidence at this time.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Referring to Exhibit Number A, if I may -- I'm
10 sorry, letter A, and if we look at the well that's in the
11 -- the Resler B Well Number 1 that you're showing in the
12 northwest quarter of the southeast quarter --

13 A. Yes.

14 Q. -- you have that marked "Jalmat Oil". What does
15 that denote?

16 A. In the -- I'm sorry, would you --

17 Q. Okay, if you look at Exhibit A --

18 A. Right.

19 Q. -- and referring to the northwest quarter of the
20 southeast quarter of Section 20, the well -- the gas well
21 symbol for the Resler B Number 1, Unit J --

22 A. Right.

23 Q. -- and right underneath it shows "Jalmat Oil".
24 What is that "Jalmat Oil" referring to?

25 A. Well, that basically -- I would assume that that

1 means there will be Jalmat production, but it will be oil.

2 Q. Okay. What would lead you to believe that that
3 is going to be a Jalmat oil well and not a gas well?

4 A. I would not -- I don't necessarily believe that.

5 Q. Oh, okay. I was just wondering how that got
6 there and how that's denoted and what I should make of that
7 in today's hearing.

8 A. I mean, in essence, I mean, that's supposed to be
9 the gas, according to Arch --

10 Q. Okay, so you're not referring to any old --

11 A. No, no, no. I'm sorry, I did not prepare this
12 document, but I have reviewed it and obviously I didn't
13 catch that.

14 MR. GALLEGOS: That was entered that way on the
15 basis of Arch's APD, which is Exhibit G, which denotes it
16 as an oil well and a 40-acre dedication, Exhibit G.

17 EXAMINER STOGNER: Okay, so we've got some
18 reasoning why it's there now.

19 MR. GALLEGOS: Yes.

20 EXAMINER STOGNER: Okay, thank you. "See Unit
21 G", I'll just make a little notation to myself, "See
22 Exhibit G."

23 I have no other questions of this witness at this
24 time. I'm sure you'd like to make some -- Or is there any
25 reason to bring back any of your witnesses?

1 MR. BRUCE: Not that I can think of, Mr.
2 Examiner.

3 EXAMINER STOGNER: Okay. Would you like a few
4 minutes to prepare for some closing statements?

5 MR. GALLEGOS: Yes, I think so.

6 EXAMINER STOGNER: Okay, let's take about a five-
7 minute recess, and we'll come back and close those down
8 and --

9 MR. GALLEGOS: Could we perhaps submitted
10 proposed form of order as --

11 EXAMINER STOGNER: Well, I'd like to hear some
12 verbal statements from you --

13 MR. GALLEGOS: Okay, all right.

14 EXAMINER STOGNER: -- because I've got some
15 things that I think --

16 MR. GALLEGOS: Okay.

17 EXAMINER STOGNER: -- you may need to address.

18 MR. GALLEGOS: Okay.

19 EXAMINER STOGNER: So...

20 MR. GALLEGOS: If we could just have a few
21 minutes.

22 EXAMINER STOGNER: Yeah. Go off the record for
23 about five minutes. I'm just going to put my stacks
24 together, and then I'm going to step out just for a sec.

25 (Thereupon, a recess was taken at 4:11 p.m.)

1 (The following proceedings had at 4:20 p.m.)

2 EXAMINER STOGNER: Okay, we can go back on the
3 record at this time.

4 Before I ask for closing statements, I'd like to
5 address Case 13,275 and ask Mr. Gallegos at this time -- I
6 know he entered an appearance -- your statements today or
7 afterwards, how is that going to affect -275, or do you
8 have an opinion in that one?

9 MR. GALLEGOS: I don't have an opinion in that,
10 because I really haven't analyzed the -275 case. But I
11 think what we have to say, Mr. Examiner, should be taken
12 into account in the Division's decision on that case,
13 Case -275.

14 EXAMINER STOGNER: Okay, so take them together.
15 You're not seeing them as two separate issues, *per se*;
16 you're taking them still as --

17 MR. GALLEGOS: There is a distinct issue to -274
18 concerning the configuration which I'll speak to. But the
19 other points that I wish to make would apply equally to
20 Case -275.

21 EXAMINER STOGNER: Okay, that's what I was
22 asking.

23 Okay, well, I'm ready for some closing
24 statements, and then I'll act accordingly on that of how we
25 proceed from here.

1 So Mr. Gallegos?

2 MR. GALLEGOS: Go first?

3 EXAMINER STOGNER: Yes.

4 MR. GALLEGOS: Okay. Mr. Examiner, we believe
5 that both Applications should be denied for various reasons
6 which I'll state. Basically three or four points.

7 The first point applies specifically to the -274
8 case, and that has to do with the spacing-unit authority --
9 that's stated rather awkwardly, but the authority or
10 standing of Arch to come before this Division and call for
11 the south half of Section 20 to be divided into two 160-
12 acre spacing units. Rule 104 F of the Commission says that
13 such applications will be brought by an owner or operator.
14 Arch is neither as to 120 acres in the southwest quarter.
15 It has really no standing -- there's no standing on the
16 part of Arch to cause a 160-acre spacing unit to be created
17 in the southwest quarter, as only the owner of 40 acres,
18 the northeast of the southwest.

19 It was left to Fulfer, the Objector, to actually
20 bring before the Examiner the evidence of what is the
21 ownership rights of Arch in this particular section, and
22 that, we demonstrated, was the 200 acres. So it raises
23 serious questions as to what would happen concerning the
24 rights of working interest owners, royalty owners in that
25 southwest quarter, and it appears that it probably leaves

1 the southwest quarter, if it were to be carved out as a
2 single spacing unit without actually a producing Jalmat gas
3 well since the Steeler A Number 1 is basically a depleted,
4 though commingled, well.

5 So I think that really the objective here of
6 creating two 160 nonstandard spacing units has to do with
7 what I see as an overall strategy of Arch to basically
8 create a well density in this area, in the Jalmat Gas Pool,
9 of a well for every 40 acres.

10 Which brings me to the circumstances that we've
11 already seen concerning the tendency of Arch to circumvent
12 the rules and regulations of this Division. I point to the
13 -- what happened with the LaMunyon wells, which would not
14 be known to the Division, were it not just for just a lucky
15 happenstance that discovered what Arch Petroleum was
16 actually doing. They illegally completed the 78 and the
17 Number 32 wells on 40-acre spacing in the Jalmat Pool. For
18 all purposes to the Commission they represented that these
19 were Langlie-Mattix wells, they reported nothing to the
20 contrary. It was illegal conduct.

21 That conduct was finally recognized, as I say,
22 just by sheer fluke, that found out what was actually going
23 on, and Arch Petroleum was ordered to shut in these wells,
24 and any production of gas would be illegal.

25 Now they come before the Commission, they have

1 another Application before the Commission to try and wire
2 over or patch up what they've already done illegally. But
3 that kind of conduct should not be rewarded.

4 And I think exactly what -- this same strategy,
5 the Examiner, can find, is being directed toward the
6 southeast quarter of Section 20. The Resler B Number 1
7 well has been filed before this Commission, the paperwork
8 filed before this Commission says that this is an oil well
9 and it's to have dedication of 40 acres as a Jalmat oil
10 well. That's what they have said on a sworn document filed
11 before the Commission.

12 Now they come in this case and say, Oh, that's
13 going to be a gas well, we haven't completed it yet. Where
14 does that leave us, then, with the Resler B 2 and the B
15 Number 3, which are purportedly Langlie-Mattix wells?

16 I submit, Mr. Examiner, if they're Langlie-Mattix
17 wells, they're not going to be Langlie-Mattix wells very
18 long, because the same procedure that was followed with the
19 Lamunyon well is going to be followed with the Resler B
20 Number 2 and B Number 3, which is to say, it only makes
21 economic sense, as it did in the case of the northwest
22 quarter of Section 28, instead of 20 barrels, 15 barrels of
23 oil a day and 50, 80 MCF, you come uphole and you have
24 gangbuster Jalmat gas well production in an area that just
25 happens to have been found out by Fulfer and others to have

1 not been depleted, as has been the pool to the west of
2 Section 20.

3 So that really what we're uncovering here and
4 what should not be rewarded, should not be allowed by this
5 Division, is a strategy to circumvent the Jalmat Pool
6 Rules, the density requirements and to basically produce
7 gas, given the present market environment on a 40-acre
8 spacing basis.

9 For all of those reasons, we think the
10 Application in Case Number 13,274 should be denied, and we
11 think for the reasons other than that concerning standing
12 to create the spacing unit, those reasons apply equally to
13 Case Number 13,275 and that Application should be denied.

14 Thank you.

15 EXAMINER STOGNER: Mr. Bruce?

16 MR. BRUCE: I'm kind of confused a little bit,
17 Mr. Examiner, but I'll go into this.

18 Mr. Gallegos says you need to be an owner or an
19 operator to file an application. In the Division's
20 records, Westbrook is an operator. It has the right to
21 file an application.

22 Mr. Gallegos says that he's submitted as part of
23 Fulfer's case the land testimony, but a certified -- an
24 expert landman got up and testified that Arch owns an
25 interest, not only in the southeast quarter of Section 20,

1 but in the southwest quarter of Section 20. You don't need
2 100 percent interest to file an application, you just need
3 an interest to file a section -- to file an application.

4 In the northwest quarter of Section 21, which is
5 Case 13,275, Arch is the working interest owner in the
6 Jalmat. Now, I fail to see Fulfer's objection. That well
7 is an old well. It's not, and has not been, completed in
8 the Jalmat. They are looking at it pursuant to the rules,
9 pursuant to the strict letter of the Jalmat Gas Pool Rules,
10 they have filed for a nonstandard 160-acre gas well unit to
11 have one Jalmat gas well on the quarter section.

12 Now, apparently it's okay for Fulfer to have two,
13 three, four Jalmat wells on its half section, but it's not
14 okay for anybody else. That's wrong.

15 The LaMunyon wells that Mr. Gallegos mentioned,
16 the 32 and the 78, were originally completed as Langlie-
17 Mattix wells. That's because Arch went out and recompleted
18 or drilled those wells as Langlie-Mattix wells to test the
19 Langlie-Mattix. It's that simple. There's no evil intent
20 here. They did produce from the Jalmat, they shouldn't
21 have, they got caught. Who's suffering now? Arch is
22 suffering because they can't produce the wells at \$6.50
23 gas.

24 They are simply extending the Jalmat Gas Pool to
25 the east. They're increasing production and they're

1 protecting the correlative rights of their interest owners.
2 As Mr. Land testified, there is some complicated title, but
3 the royalty ownership under those leases is uniform under
4 the south half of Section 20. There may be some slightly
5 varying working interests, but who's harmed? Obviously,
6 the people who were sharing in production from the Steeler
7 A Number 1 are still sharing in that production if it's a
8 southwest-quarter unit, and if Arch is granted permission
9 to complete the Resler B Number 1, the people in the
10 southeast quarter, who are the same people, will be getting
11 production from that well. I do not see where there is an
12 issue.

13 The final matter is the question of where are the
14 Resler A 1, B 2 and B 3 wells completed? Clearly the
15 bottom perforations, as admitted by Mr. Nuss, are Langlie-
16 Mattix perforations.

17 Mr. Curry has gotten up and showed his picks.
18 They are consistent, and we believe that based on
19 production everything else out there in the Jalmat,
20 including the new Fulfer well, producing nothing but gas,
21 exclusively gas, these are clearly Langlie-Mattix oil
22 wells.

23 I will say this, Mr. Examiner. As Mr. Curry
24 explained, there are -- when you get on the fringes of the
25 reservoir it may be hard to pick the top of the Queen or

1 top of some other formations.

2 If the Division determines that the top
3 perforations are not Langlie-Mattix perforations, Arch is
4 willing to squeeze those perforations off and simply
5 produce out of the bottom perforations as to the Langlie-
6 Mattix. They do not wish to violate Division Rules. The
7 operated in good faith, made their picks based on what they
8 thought was the top of the Queen. Why someone should be
9 penalized for good faith efforts to expand production from
10 these leases is beyond me.

11 As to the Resler B Number 2, someone in the
12 production department filed a C-102 showing a 40-acre unit.
13 That was filed in February with the Division. The well was
14 drilled shortly thereafter, and shortly thereafter an
15 application was filed with the Division for a 160-acre
16 nonstandard gas spacing unit for the Resler B Number 2.
17 Again, I fail to see any impropriety in filing for the 160-
18 acre gas spacing unit, correcting -- if this was an error
19 -- correcting the error.

20 I would ask that both cases be approved and that
21 Arch be allowed to complete the Resler B Number 2 in the
22 Jalmat Gas Pool. And by the well [sic], that well is not
23 deep enough to even get near the Langlie-Mattix, so that is
24 clearly only a Jalmat gas/oil producer. Thank you.

25 EXAMINER STOGNER: Anything further in either

1 Case 13,275 or 13,274?

2 MR. GALLEGOS: Yes, Mr. Examiner, I do want to
3 respond to one thing because the implication seems to be
4 that if Fulfer is doing something that's improper or
5 illegal, then that excuses Arch's conduct.

6 I would ask the Examiner to take notice of NSP
7 File 559 where Penroc, who was then the operator of the
8 north half, requested the conversion of the Johnson lease
9 from 320 acres into 280-acre NSP for two Jalmat wells so
10 that 40 acres could be removed for the Jalmat oil well,
11 which is the Johnson 5. The approval of that was assigned
12 Administrative Order Number NSP 1556 and was issued
13 February 10th, 1989. Fulfer's production in that north
14 half is entirely legal and in conformance with all
15 requirements of the Division.

16 MR. BRUCE: Mr. Examiner, I was not stating that
17 Fulfer was in violation of any Division Rules. I was
18 merely stating that he has several Jalmat wells in his half
19 section, and he apparently wants to prevent Arch from
20 having two gas wells in the south half, Arch and Westbrook.

21 EXAMINER STOGNER: Anything further?

22 MR. GALLEGOS: No, thank you, Mr. Examiner.

23 EXAMINER STOGNER: Okay. With that, at this time
24 I will take Cases 13,275 and 13,274 under advisement, and
25 would welcome rough drafts within the next couple weeks

1 from either of you. Fourteen days, would that be adequate,
2 or do you wish more time?

3 MR. GALLEGOS: Fourteen days would be fine.

4 MR. BRUCE: (Nods)

5 EXAMINER STOGNER: Okay. With that, I believe
6 today's hearing is adjourned. Thank you, gentlemen.

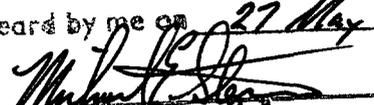
7 MR. GALLEGOS: Thank you.

8 EXAMINER STOGNER: And again, thank you for your
9 patience earlier today.

10 (Thereupon, these proceedings were concluded at
11 4:36 p.m.)

12 * * *

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14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case Nos. 13274 and 13275
18 heard by me on 27 May 2004

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26 _____, Examiner
27 Oil Conservation Division

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 June 3rd, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006