

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

IN THE MATTER OF THE HEARING CALLED BY )  
 THE OIL CONSERVATION DIVISION FOR THE )  
 PURPOSE OF CONSIDERING: )

CASE NO. 13,305

APPLICATION OF MEWBOURNE OIL COMPANY )  
 FOR AN EXCEPTION TO DIVISION RULE )  
 104.C.(2).(c), EDDY COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 5th, 2004

Santa Fe, New Mexico

2004 AUG 19 AM 10 27

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 5th, 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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## I N D E X

August 5th, 2004  
 Examiner Hearing  
 CASE NO. 13,305

## PAGE

## APPLICANT'S WITNESS:

D. PAUL HADEN (Landman)

Direct Examination by Mr. Carr

3

Examination by Examiner Catanach

15

## REPORTER'S CERTIFICATE

29

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	15
Exhibit 2	10	15
Exhibit 3	11	15
Exhibit 4	12	15
Exhibit 5	13	15
Exhibit 6	14	15

\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
 110 N. Guadalupe, Suite 1  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:10 a.m.:

3 EXAMINER CATANACH: All right, at this time I'll  
4 call Case 13,305, the Application of Mewbourne Oil Company  
5 for an exception to Division Rule 104.C.(2).(c), Eddy  
6 County, New Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is  
9 William F. Carr with the Santa Fe office of Holland and  
10 Hart, L.L.P. We represent Mewbourne Oil Company in this  
11 matter, and I have one witness.

12 EXAMINER CATANACH: Okay, any additional  
13 appearances?

14 All right, will the witness please stand to be  
15 sworn in?

16 (Thereupon, the witness was sworn.)

17 D. PAUL HADEN,  
18 the witness herein, after having been first duly sworn upon  
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Will you state your name for the record, please?

23 A. Mr. Haden, where do you reside?

24 A. I reside in Midland, Texas.

25 Q. By whom are you employed?

1 A. Mewbourne Oil Company.

2 Q. And what is your position with Mewbourne Oil  
3 Company?

4 A. Petroleum landman.

5 Q. Mr. Haden, have you previously testified before  
6 this Division and had your credentials as an expert in  
7 petroleum land matters accepted and made a matter of  
8 record?

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in  
11 this case?

12 A. Yes, I am.

13 Q. Are you familiar with the Esperanza 19 Federal  
14 Com Well Number 1 proposal and the status of the lands on  
15 which this well will be located?

16 A. Yes, sir, it's the Esperanza 19 Federal Com Well  
17 Number 2 well.

18 MR. CARR: Okay. Mr. Catanach, are the witness's  
19 qualifications acceptable?

20 EXAMINER CATANACH: Mr. Haden is so qualified.

21 Q. (By Mr. Carr) Mr. Haden, would you summarize for  
22 Mr. Catanach what it is that Mewbourne seeks with this  
23 Application?

24 A. Mewbourne Oil Company seeks the granting of an  
25 exception to Division Rule 104.C.(2).(c) to allow two

1 operators in all formations developed on 320-acre spacing  
2 for this north-half equivalent of irregular Section 19,  
3 which is in Township 21 South, Range 27 East, Eddy County,  
4 to form a standard 320-acre gas spacing and proration unit  
5 in the Burton Flat-Morrow Gas Pool, the Undesignated La  
6 Huerta-Strawn Gas Pool, and the Undesignated La Huerta-  
7 Atoka Gas Pool, and any other pool in this 314.84-acre  
8 spacing unit which is developed on 320-acre spacing.

9 Q. To what well do you propose to dedicate this  
10 spacing unit?

11 A. We propose to dedicate this Esperanza 19 Federal  
12 Com Well Number 2 for a nonstandard surface location which  
13 is 599 feet from the north line and 2043 feet from the east  
14 line to a standard bottomhole location of 780 feet from the  
15 north line and 1463 feet from the west line, which is in  
16 the northwest quarter of this section.

17 Q. Is the well going to be at a standard location in  
18 the Wolfcamp, Strawn, Atoka and Morrow formations?

19 A. Yes, sir.

20 Q. And is Mewbourne also seeking authority to  
21 simultaneously dedicate the north half of this section to  
22 its Esperanza well and the current wells located in the  
23 northeast quarter of the section?

24 A. Yes, we are.

25 Q. Mr. Haden, what is going to be the primary target

1 in this well?

2 A. The primary objective for this well is the Morrow  
3 formation.

4 Q. Let's go to what has been marked as Mewbourne  
5 Exhibit Number 1. Would you identify that and review the  
6 information on this exhibit for Mr. Catanach?

7 A. Yes, sir. Exhibit Number 1 is a landplat of the  
8 area. It indicates our proposed spacing unit, outlined in  
9 red. It also indicates current producing wells. Also  
10 indicates the existence of a road, which is actually North  
11 Canal Street, which runs in a northerly -- north-south  
12 direction. Also indicates the existence of a railroad,  
13 which runs generally north to south.

14 Q. What we have here is, we have two lots on the  
15 western edge of the spacing unit, correct?

16 A. That's correct, that's lots 1 and 2, which is  
17 also the west half of the northwest quarter. It is a  
18 separate federal lease. The balance of the spacing unit is  
19 another federal lease.

20 Q. In this spacing unit there currently are two  
21 communitization agreements; is that correct?

22 A. Yes, sir, that's correct.

23 Q. One is for the Morrow formation alone?

24 A. Yes, sir, that com agreement is dated May 1st,  
25 1998, which bears contract number NMNM-100728. The other

1 com agreement currently in existence for this north-half  
2 unit is dated August 14th, 1991, bearing contract number  
3 NMNM-85343, which covers the Strawn and Atoka formations.

4 Q. Mr. Haden, Mewbourne is going to directionally  
5 drill the well; is that correct?

6 A. That's correct.

7 Q. And why is that?

8 A. The BLM required us to do so. There was a -- Our  
9 initial location was in the northwest quarter, but it was  
10 in close proximity to a subdivision of Carlsbad. It was  
11 known as the Robertson subdivision.

12 Q. Did the residents in that subdivision raise  
13 concern about the drilling of a well in close proximity to  
14 their homes?

15 A. Yes, they were concerned about the location of  
16 our proposed initial well.

17 We then moved our location at their request, east  
18 of the highway which I've described and east of the  
19 railroad, so we're quite far from the subdivision.

20 Q. Mr. Haden, let's review the current status of the  
21 development of this spacing unit, because it is the current  
22 development status that, in fact, is dictating your request  
23 here today; is that not right?

24 A. That's correct.

25 Q. All right. Would you review the current

1 development in the north half of this section?

2 A. Yes, I would. The well located in Unit A is the  
3 currently producing Morrow well which is operated by Wynn-  
4 Crosby Energy, Inc. It's known as the RGD Federal Well  
5 Number 1 well. It's located 660 from the north and 840  
6 from the east line.

7 Also within the section, in Unit G, there's a  
8 well currently operated by Vernon E. Faulconer, Inc., which  
9 is known as the Pioneer Federal Com Well Number 1 well.  
10 That's in Unit G at a location 1980 feet from the north and  
11 east line.

12 Q. If we look at the Wynn-Crosby well, the Morrow  
13 well, what interest does Wynn-Crosby own in this spacing  
14 unit?

15 A. Wynn-Crosby owns approximately 61.22 percent as  
16 to the Morrow formation, as to that wellbore. Originally  
17 the well was drilled by KCS Medallion, of which they  
18 obtained a wellbore farmout from Marathon Oil Company and  
19 others in which to drill their RGD well.

20 Q. The operating rights held by Wynn-Crosby Energy  
21 are limited, in fact, to the Morrow zone; isn't that  
22 correct?

23 A. That's correct.

24 Q. And that well is producing from the Burton Flat-  
25 Morrow Gas Pool?



1 A. That's what I understand.

2 Q. Wynn-Crosby does not desire to drill an  
3 additional well on the north half of this section?

4 A. No, sir, they do not as operator.

5 Q. They own only the Morrow rights?

6 A. They own only the Morrow rights.

7 Q. And they would not have any secondary objectives  
8 available to them?

9 A. That's correct.

10 Q. As to the Vernon Faulconer Pioneer Federal Com  
11 Well Number 1, that well is currently producing from the  
12 Atoka formation?

13 A. That's correct.

14 Q. What is the status of the working interest now  
15 held by Vernon Faulconer in the north half of this section?

16 A. Okay, Vernon Faulconer had farmed out their  
17 rights to us outside of their wellbore, for us to drill a  
18 subsequent well within the spacing unit.

19 Q. So what we have is, we have Wynn-Crosby with only  
20 Morrow rights and no interest in additional Morrow  
21 development on the unit?

22 A. That's correct.

23 Q. Then we have Vernon Faulconer owning at this time  
24 no working interest, only rights in their wellbore, a  
25 wellbore they still continue to desire to operate?

1           A.    That's correct, they committed all of their  
2 working interest in all formations outside of their  
3 wellbore to the Mewbourne Oil Company.

4           Q.    So you have all of Faulconer's interest --

5           A.    Yes, sir.

6           Q.    -- except the wellbore itself.

7           A.    Yes, sir, that's correct.

8           Q.    If this Application is approved and you're  
9 allowed to operate the well that will be producing from the  
10 northwest quarter, who will be reporting, actually, the  
11 production from the existing Faulconer well?

12          A.    Under our agreement with Faulconer, we would  
13 report their production.

14          Q.    And so what we have is, we have a factual  
15 situation where the Morrow has a well on it operated by  
16 Wynn-Crosby and they won't drill another Morrow well, and  
17 the other formations are -- wellbore operated by Faulconer,  
18 and Faulconer no longer owns any working interest ownership  
19 in the spacing unit, and ergo you would prefer to be the  
20 operator of a well in those horizons?

21          A.    Yes, sir, it would be much easier for us to  
22 operate and report our own production.

23          Q.    Let's take a look at what has been marked  
24 Mewbourne Exhibit Number 2. Would you identify and review  
25 that for the Examiner?

1           A.    Yes, I will.   Exhibit Number 2 gives the working  
2   interest ownership of record as to all of the three  
3   referenced wells, the first being the Esperanza 19 Federal  
4   Com Number 2 well, which shows the interest of all of the  
5   owners in our well, which includes Mewbourne Oil Company,  
6   gets a percentage at 38.11462 percent, which interest we  
7   had acquired from Vernon Faulconer, Inc.   It also lists  
8   additional joint interest owners.

9           The second well is the RGD Federal Com Number 1  
10   well, which is a Wynn-Crosby Energy, Inc., well, which is  
11   operated by Wynn-Crosby Energy, Inc.   It indicates their  
12   current interest ownership in that wellbore, along with the  
13   other joint interest owners.

14           The third well is the Pioneer Federal Com Number  
15   1 well, which is operated by Vernon Faulconer, Inc.   It  
16   indicates their ownership along with their joint interest  
17   owners.

18           Q.   Mr. Haden, will all the interest owners shown on  
19   this exhibit voluntarily commit their interests to the well  
20   you're proposing to drill?

21           A.    Yes, they have.   All the interest owners within  
22   our proposed well have signed an AFE.

23           Q.    Let's go to Exhibit Number 3.   What is that?

24           A.    Exhibit Number 3 is a copy of an AFE which was,  
25   in fact, signed by Wynn-Crosby 2000, Ltd., partnership.   It

1 indicates the estimated total well cost and the estimated  
2 cost to casing point for this well, which also indicates  
3 the surface and bottomhole location, of which we've  
4 previously described.

5 Q. And this shows Wynn-Crosby's agreement to  
6 participate in the Morrow well you're proposing to drill in  
7 the northwest of the section?

8 A. Yes, sir.

9 Q. What is Exhibit Number 4?

10 A. Exhibit Number is a copy of an operating  
11 agreement dated January 20th, 1984, which at that time the  
12 operator was TXO Production Corporation. It indicates  
13 contract area as being the north half of Section 19, 21  
14 South, 27 East. It was for the drilling of this Pioneer  
15 Federal Com Number 1 well, which we had previously  
16 discussed. It also indicates the contract area in the  
17 operating agreement, which covers all formations.

18 Q. And this is the JOA that Wynn-Crosby drilled  
19 their well under, and it would also authorize you to go  
20 forward with your plans for the Esperanza well?

21 A. Yes, sir, this is the operating agreement in  
22 which we proposed our well under.

23 Q. What is the impact of Division Rule 104.C.(2).(c)  
24 on your plans for the further development of this north-  
25 half spacing unit?

1           A.    The current Rules and Regulations, as we  
2   previously discussed, allowed one operator to report the  
3   production. Mewbourne Oil Company can go ahead and drill  
4   the well under current OCD Rules. We however could not  
5   produce our well, could not report our own production. In  
6   this case, Wynn-Crosby would have to report our Morrow  
7   production. Should we have Atoka or Strawn production,  
8   that would have to be reported by Vernon Faulconer, Inc.

9           Q.    So what you're doing is seeking an exception to  
10   this Rule to let you, in fact, drill the well and report  
11   production from the well since you're going to be the  
12   person drilling it, and you're actually the owner of all  
13   rights in everything except for Crosby's interest in that  
14   Morrow formation?

15          A.    That's correct.

16          Q.    What is Exhibit Number 5?

17          A.    Exhibit Number 5 is a copy of the letters of  
18   support from the various interest owners, the first being  
19   Wynn-Crosby 2000, Ltd. It also, attached to that, has  
20   other interest owners within this spacing unit who have  
21   signed a letter in support of our Application.

22          Q.    Do you have letters of support from all interest  
23   owners in the spacing unit, or are there some that still  
24   have not been received?

25          A.    We are still lacking executed letters from

1 several owners, being Vernon Faulconer, Inc., also Eland  
2 Energy, Inc., and the Yates group, which -- a phone  
3 conversation with them the other day, they support our  
4 Application, which would be the Yates entities described in  
5 our Exhibit Number 2.

6 Q. Mr. Haden, is Exhibit Number 6 an affidavit  
7 confirming that notice of this Application has been  
8 provided by certified mail and also by publication in  
9 accordance with the Rules of this Division?

10 A. Yes, sir, that's correct.

11 Q. And does it contain copies of the return receipt  
12 showing that each of the individuals who have not provided  
13 a letter of support -- that each of those individuals, in  
14 fact, received our Application?

15 A. Yes, sir.

16 Q. In your opinion, will approval of this  
17 Application enable Mewbourne to go forward with the  
18 responsible development of the north half of this section?

19 A. That's correct.

20 Q. Will it therefore be in the interest of  
21 conservation, the prevention of waste and the protection of  
22 correlative rights?

23 A. Yes, sir, it would.

24 Q. Were Exhibits 1 through 6 prepared by you or  
25 compiled at your direction?

1           A.    Yes, sir, they were.

2           MR. CARR:  Mr. Catanach, at this time we'd move  
3 the admission into evidence of Mewbourne Exhibits 1 through  
4 6.

5           EXAMINER CATANACH:  Exhibits 1 through 6 will be  
6 admitted.

7           MR. CARR:  And that concludes my direct  
8 examination of Mr. Haden.

9                               EXAMINATION

10          BY EXAMINER CATANACH:

11           Q.    Mr. Haden, when did Mewbourne acquire an interest  
12 in this spacing unit?

13           A.    We acquired it last December.  We have since  
14 drilled an initial well, which is called the Esperanza 19  
15 Federal Com Number 1 well.  It was drilled in the southeast  
16 quarter of this Section 19, being dedicated to a south-half  
17 unit.  Under the continuous development, this is -- we  
18 currently are under continuous development under this  
19 farmout agreement with Vernon Faulconer, in which to drill  
20 this additional well.

21           Q.    Okay, you acquired interest in the southeast  
22 quarter, and that also applied to the north half, your  
23 interest?

24           A.    Well, that was --

25           Q.    It's all part of the same --

1           A.    Right, all under the same agreement, farmout  
2 agreement.  Actually, that covered all of Section 19 and  
3 all of the north half of Section 30, of which we have not  
4 drilled a well in the north half of Section 30, but we have  
5 intentions to do so under the continuous development  
6 provision.

7           Q.    So you did drill a well on the southeast quarter?

8           A.    Yes, sir, it's a very good Morrow well, produces  
9 approximately 4 million cubic feet of gas per day.

10          Q.    Now, this was a farmout from Faulconer?

11          A.    Vernon Faulconer, Inc., yes, that's correct.  The  
12 other interest owners in the Morrow formation proposed the  
13 well under the operating agreement in which we had  
14 referenced, and all of those owners agreed to join in this  
15 Morrow target well.

16          Q.    I thought that Wynn-Crosby had the interest in  
17 the Morrow in the north half.

18          A.    Well, they had -- in their wellbore they did.  
19 Outside of the wellbore, this is where Vernon Faulconer  
20 comes in.  It's very confusing.

21          Q.    It is.

22          A.    To clarify a little bit more about Wynn-Crosby's  
23 ownership, they -- at the time KCS Medallion drilled their  
24 well they not only got a wellbore farmout from firms such  
25 as Marathon Oil Company, but they did get farmouts from



1 other interest owners within that north half. One -- For  
2 instance, the Yates group farmed out all their interest to  
3 KCS Medallion, excluding the Strawn formation rights. In  
4 addition to that, KCS acquired rights in all the formations  
5 as to that wellbore.

6 But by and large, Vernon Faulconer, Inc., had the  
7 majority of the Morrow rights outside the RGD Federal  
8 Number 1 well.

9 Q. Okay, the north half of this section is comprised  
10 of two separate federal leases; is that correct?

11 A. That's correct.

12 Q. So royalty interest is basically common under  
13 these two tracts?

14 A. That's correct.

15 Q. Okay. Again, staying with the Morrow, Wynn-  
16 Crosby currently operates the RGD Federal Number 1 --

17 A. That's correct.

18 Q. -- which is producing from the Morrow --

19 A. Yes, sir.

20 Q. -- and you're proposing to drill a second well on  
21 that unit, and is it because Wynn-Crosby doesn't want to  
22 drill a second well, or --

23 A. Well, they do not want to drill the well as  
24 operator. We've showed them our geology, and they've  
25 agreed to participate with us on that basis, because we had

1 obtained the right to drill an additional test well in the  
2 north half from Vernon Faulconer, Inc.

3 Q. Wynn-Crosby doesn't have the right to drill a  
4 second Morrow well?

5 A. They have certain rights, which I believe they  
6 would.

7 Q. They --

8 A. Yes, Morrow rights, they could drill a Morrow  
9 well.

10 Q. I'm sorry, you --

11 A. Their rights are restricted to that current  
12 wellbore.

13 Q. Your rights that you acquired from Faulconer, do  
14 those supersede Wynn-Crosby's rights to drill the Morrow?  
15 I guess I -- It's very confusing.

16 A. Yeah.

17 Q. Okay, in any case, Wynn-Crosby does not want to  
18 drill a second well?

19 A. That's correct. As you -- If you could refer to  
20 Exhibit Number 2, it shows the ownership of Wynn-Crosby  
21 2000, Ltd., as being 19.2574 percent. This is for an  
22 additional well outside the wellbore.

23 Okay, if you'll look at the RGD Federal Com  
24 Number 2 well ownership, it describes the ownership in that  
25 -- their wellbore, which is considerably more than the

1 interest outside of that wellbore as to the Morrow  
2 formation.

3 So Wynn-Crosby 2000, Ltd., could propose a Morrow  
4 well as to their 19.2574-percent interest --

5 Q. Uh-huh.

6 A. -- for a subsequent well in the north half. But  
7 they've elected to allow us to do that under the terms of  
8 the operating agreement, to drill our proposed Esperanza 19  
9 Federal Com Number 2 well.

10 MR. CARR: If Wynn-Crosby did decide to drill a  
11 well, they would have their interest in the Morrow only,  
12 and if there was an Atoka or Strawn --

13 THE WITNESS: That's correct.

14 MR. CARR: -- they would own nothing there.

15 THE WITNESS: That's correct, there would be a  
16 reporting problem in that instance also.

17 Q. (By Examiner Catanach) Okay, so this list, the  
18 interest ownership in your proposed new well, these are the  
19 interest owners?

20 A. Right.

21 Q. And it lists the interests in the existing RGD  
22 Federal Com Number 1?

23 A. Yes, sir.

24 Q. And those interest owners are limited to Wynn-  
25 Crosby, Devon and Jetta Operating Company?

1 A. That's correct, in that wellbore.

2 Q. So Mewbourne doesn't own any production from the  
3 Morrow in that spacing unit, in that well?

4 A. No, we do not currently own any production in the  
5 Morrow or the Strawn or the Atoka --

6 Q. Uh-huh.

7 A. -- in that spacing unit.

8 Q. Okay. Being that these two -- then you basically  
9 have two separate 160's; is that a fair assumption?

10 A. Well, infill well, I guess.

11 Q. But your ownership is different between the  
12 wells, so --

13 A. Well, it's actually different in the whole north  
14 half, because -- for instance, the Yates group, they own --  
15 currently own Strawn rights in this Lot 1 and 2, which they  
16 committed to the Pioneer Federal well, in which they  
17 withheld the Strawn rights when the RGD Federal Com Number  
18 1 well was drilled by KCS.

19 Q. Okay, given that the interest ownership is not  
20 the same in these two wellbores in the Morrow formation,  
21 doesn't that put you in a competitive situation with those  
22 other operators, with the other operator?

23 A. No, sir.

24 Q. I mean, you're both competing for the Morrow  
25 reserves in the north half --

1 A. Well --

2 Q. -- since the interest ownership is not common, I  
3 would -- it would be in your best interest to try and  
4 recover the most Morrow reserves that you can?

5 A. Yes, but we don't believe any Morrow production  
6 in the northwest quarter would affect any Morrow production  
7 in the northeast quarter, based on the subsurface geology,  
8 which I'm not an expert at. But that's generally the case,  
9 Morrow channels, in fact, usually different quarter  
10 sections.

11 Q. Okay. Now, the -- as to the Strawn and Atoka  
12 formation, that's a little better in the north half, isn't  
13 it?

14 A. Yeah, Atoka and Strawn production was pretty  
15 good, but there again, even should we encounter Strawn and  
16 Atoka, that production probably would not affect the  
17 production in the northeast quarter as Atoka and Strawn.

18 Q. Okay. Maybe I spoke too soon. It's going to be  
19 basically the same situation in the Strawn and the Atoka as  
20 far as the interest ownership between the wellbores?

21 A. Yes.

22 Q. It's not going to be the same?

23 A. It's not going to be the same because of the  
24 ownership in the Strawn, more particularly.

25 Q. Is the ownership going to be different in both

1 the Strawn and the Atoka, between the wells?

2 A. Well yes, it could be, because the Yates group  
3 had withheld their Strawn rights from KCS Medallion. So in  
4 other words, at some point in time at which we've sent out  
5 an agreement to all these working interest owners as to all  
6 formations spaced on 320, because there is a difference in  
7 ownership, should we recomplete to the Strawn or Atoka,  
8 we've got a problem as to expense interest.

9 And so we're doing a well-allocation formula as  
10 to the various owners from the surface to the base of the  
11 Morrow, depending on what they own, which that agreement  
12 has not been executed by all the parties, but by some thus  
13 far.

14 Q. So at that time they'd have to pay some portion  
15 of the drilling cost?

16 A. That's what we're proposing, or we may have to  
17 come back and force pool if we recomplete to those zones --

18 Q. Okay.

19 A. -- which I would not suspect that we would have  
20 to. The Yates group, they would be more than willing to  
21 participate in recompletion.

22 Q. At this point in time, you stated that you had  
23 voluntary agreement from all the parties for your proposal?

24 A. For the Morrow formation, yes, that's correct.

25 Q. For the Morrow only?

1       A.    Yes, Morrow only. The Yates group will not  
2 propose the well because they own the Morrow rights. This  
3 production reporting deal is going to come up more and  
4 more, I think, between operators in 320 acres. There's  
5 some owners who are not willing to drill another well, and  
6 there's other owners that would like to see another well  
7 drilled, which this would increase drilling activity,  
8 actually.

9       Q.    Yeah. Our problem is, it's fairly new to us --

10      A.    Correct.

11      Q.    -- from a regulatory standpoint, and we haven't  
12 -- I'm not sure we have a good handle on how we're going to  
13 deal with this yet.

14      A.    Right. Well, it's my understanding in Oklahoma  
15 they do this sort of thing all the time, increase density,  
16 and it's not a problem. So somehow it would be great if  
17 New Mexico could do the same. Would it not?

18      Q.    Well, I don't know. We've not seen some of the  
19 problems that may be associated with this kind of thing.

20      A.    Correct.

21      Q.    And I'm sure there are some. I mean, you say  
22 it's not competitive, but there may be an interest owner in  
23 this unit that says it is competitive --

24      A.    Right.

25      Q.    -- so...

1           A.    And that's why all interest owners are noticed,  
2   so they had a chance to speak their part.

3           Q.    Okay, you initially only proposed to complete in  
4   the Morrow --

5           A.    Yes, sir.

6           Q.    -- that's the plan?

7           A.    Right.

8           Q.    Have you spoken at all -- I don't see why the  
9   feds would care, but have you spoken to them at all --

10          A.    Yes, sir, I have, to BLM. They have no problem  
11   with what we're trying to do. They just want to make sure  
12   that the production is reported and the royalty paid for  
13   properly as to the different contract, as in the Morrow  
14   formation, and also the Atoka and Strawn. They have no  
15   problem with us reporting production, as long as it's done  
16   referencing those contracts.

17          Q.    Do you guys have to amend any of the Com  
18   agreements in any --

19          A.    No, sir --

20          Q.    -- form?

21          A.    -- no. Any production in the Morrow would be  
22   reported referencing the current com agreement for the  
23   Morrow formation.

24          Q.    Now, this JOA that you've got for the north half,  
25   is this -- does this apply to all the formations in



1 question?

2 A. Yes, sir.

3 Q. Strawn, Atoka and Morrow?

4 A. Right, Exhibit A describes the land, which is the  
5 north half of Section 19, and it has a depth limitation at  
6 the time of 11,600 feet beneath the surface, which would be  
7 adequate to test the Morrow formation. And the well  
8 drilled under this was the Pioneer Federal Com Number 1  
9 well.

10 EXAMINER CATANACH: I think that's all I have.

11 Can you guys develop some kind of a narrative  
12 land description that I can use to try and further my  
13 understanding --

14 MR. CARR: Yeah.

15 EXAMINER CATANACH: -- of the situation? It's  
16 very confusing, and I'm sure I don't know -- I don't  
17 understand all the intricacies.

18 MR. CARR: Mr. Catanach, we can do that. And it  
19 would seem to me that what we're dealing with here, and  
20 you've been seeing it in other cases, is really an  
21 unanticipated result of some rule changes in terms of  
22 spacing and preapproval of infill wells on deep gas units.

23 What we have here is a request for an exception  
24 to the rule that requires one operator per spacing unit,  
25 and I understand that to be successful with the Application

1 we have to have facts that would warrant this exception,  
2 and I would submit to you here that we do have unique  
3 facts.

4 We acquired the interest back in December of last  
5 year. This was not something that was contrived or  
6 constructed so we could come test the theory at the Oil  
7 Conservation Division. We have unique ownership both by  
8 quarter section and by formation. We have a farmout with a  
9 continuous-development requirement, so we need to go  
10 forward. If not, this interest goes back to the Faulconer  
11 group.

12 Without an exception we can't drill a well  
13 offsetting good Morrow production, and we're sitting in a  
14 spacing unit with a Morrow operator who has no interest in  
15 drilling the second well, or the operator of the other  
16 formations who, pursuant to the farmout, as long as we  
17 continuously develop this property, owns no interest. And  
18 without the well, the reserves may not be recovered and  
19 correlative rights can be impaired.

20 And we talk about correlative rights, we get into  
21 this competitive issue. And whenever you drill wells,  
22 whether they're in the same spacing unit or offsetting,  
23 they compete with each other, and when the ownership is  
24 different the owners are in essence competing with each  
25 other. And that's why we give notice. It's a correlative-

1 rights issue, and correlative rights is just the  
2 opportunity to produce your share. And if anybody felt  
3 this was wrong, they've had an opportunity to do it.

4 We have waivers or letters of support from  
5 everyone except the Faulconer group. Eland is related --

6 THE WITNESS: Yeah, Eland.

7 MR. CARR: -- Eland is related to that group.  
8 And you can look at your recent dockets, and there have  
9 been disputes between Mewbourne and Faulconer. And they're  
10 not opposing, but they're not interested in signing a  
11 letter for us.

12 The Yates group, the testimony is, are willing to  
13 support this approach if the well is completed in the  
14 Strawn, but that issue is still out there, that they  
15 haven't objected.

16 And so we've got, we think, a fact situation that  
17 really warrants serious consideration of this Application.  
18 We'll prepare an ownership breakdown that explains this not  
19 only by quarter section but by a subject formation, and  
20 we'll get that to you in the next few days.

21 EXAMINER CATANACH: Okay.

22 Q. (By Examiner Catanach) With regards to the  
23 farmout, do you have a drilling deadline for this well?

24 A. I believe our continuous development runs out in  
25 either September or October. I'll have to check on that,

1 but it's coming up, we need to move forward to hopefully  
2 offset one of our wells, the 19 Number 1 well, which is a  
3 great Morrow well.

4 EXAMINER CATANACH: Okay. All right, if you'll  
5 get that to me, that will help.

6 MR. CARR: We'll do that. Thank you, sir.

7 EXAMINER CATANACH: Okay, there being nothing  
8 further in this case, Case 13,305 will be taken under  
9 advisement.

10 Let's take a 15-minute break.

11 (Thereupon, these proceedings were concluded at  
12 9:59 a.m.)

13 \* \* \*

14  
15  
16 I do hereby certify that the foregoing is  
17 a complete record of the proceedings in  
18 the Examiner hearing of Case No. 13305  
19 heard by me on April 5, 2004.  
20 David R. Catanch, Examiner  
21 Off Conservation Division  
22  
23  
24  
25

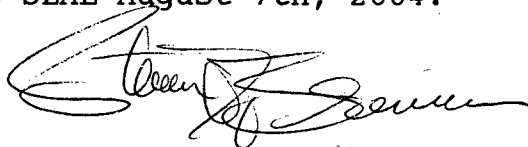
## CERTIFICATE OF REPORTER

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 August 7th, 2004.



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STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006