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 PLATINUM EXPLORATION, INC., TO ABOLISH THE SPECIAL RULES AND REGULATIONS FOR THE SOUTH KNOWLES-DEVONIAN POOL, LEA COUNTY, NEW MEXICO	)	CASE NOS. 13,400
APPLICATION OF PLATINUM EXPLORATION, INC., TO ABOLISH THE SPECIAL RULES AND REGULATIONS FOR THE KNOWLES-DEVONIAN POOL, LEA COUNTY, NEW MEXICO	)	and 13,401
	)	(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 6th, 2005

Santa Fe, New Mexico

2005 JAN 20 AM 8 10

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 6th, 2005, 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.

* * *

I N D E X

January 6th, 2005
Examiner Hearing
CASE NOS. 13,400 and 13,401 (Consolidated)

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1A	6	13
Exhibit 1B	6	13
Exhibit 2	7	13
Exhibit 3	8	13
Exhibit 4	9	13
Exhibit 5	10	13
Exhibit 6	11	13
Exhibit 7	12	13
Exhibit 8	22	28
Exhibit 9	27	28
Exhibit 10	27	28

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

WHEREUPON, the following proceedings were had at 8:34 a.m.:

EXAMINER CATANACH: At this time I'll call Case 13,400, the Application of Platinum Exploration, Inc., to abolish the special rules and regulations for the South Knowles-Devonian Pool, Lea County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing the Applicant. I have two witnesses to be sworn in.

EXAMINER CATANACH: Call for additional appearances.

MR. BRUCE: And Mr. Examiner, at this time I'd also ask that the next case, 13,401, be consolidated for hearing with this matter.

EXAMINER CATANACH: Call Case 13,401, the Application of Platinum Exploration, Inc., to abolish special rules and regulations for the Knowles-Devonian Pool, Lea County, New Mexico.

Are there any additional appearances in this case?

Okay, Mr. Bruce, do you have two witnesses?

MR. BRUCE: Two witnesses.

EXAMINER CATANACH: Will the witnesses please stand to be sworn in?

(Thereupon, the witnesses were sworn.)

DAVID HOBBY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. David Hobby.

Q. Where do you reside?

A. Midland, Texas.

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

A. Platinum Exploration, Inc., geologist.

Q. Have you previously testified before the Division?

A. No, I haven't.

Q. Would you please summarize your educational and employment background for the Examiner?

A. I have a bachelor of science in geology from the University of Georgia. I've been employed in various capacities as a geologist in the oil and gas business in the Permian Basin since 1980, almost 25 years experience. I'm an active member of the American Association of Petroleum Geologists and a certified geoscientist in the State of Texas.

Q. Have you -- How long have you been with Platinum?

A. Two and a half years.

Q. And does your area of responsibility at Platinum include this portion of southeast New Mexico?

A. Yes, it does.

Q. And are you familiar with the geology involved in these two cases?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Hobby as an expert petroleum geologist.

EXAMINER CATANACH: Mr. Hobby is so qualified.

Q. (By Mr. Bruce) Mr. Hobby, if you could look at our exhibits and just very briefly, what do Exhibits 1A and 1B depict?

A. Okay, they depict the outline of the Knowles South and the Knowles fields.

Q. Okay, and these are both Devonian pools?

A. They're Devonian, primarily Devonian pools.

Q. What is the current well-spacing requirements in both of these pools?

A. They're on 80-acre spacing.

Q. Okay. And were these -- and wells are to be located how far away from the center of a quarter-quarter section?

A. They're supposed to be in the center of the quarter section, the 40-acre, but they can be within 150

feet of that center.

Q. Okay. And at this point, Platinum is seeking to abolish these special pool rules?

A. That's correct.

Q. Okay. Let's first discuss the Knowles South Pool. What does your Exhibit 2 depict?

A. This is a land plat that depicts laterals that we've drilled, except for one up in Section 12, in the southeast quarter, on the east half of the southeast quarter. That has not been drilled. That was proposed, but not drilled.

Q. Okay. Now, these -- and the yellow outlines Platinum's leasehold ownings in this area?

A. Yes, Platinum's leasehold ownings.

Q. Okay. Now, you are seeking to abolish the special pool rules. Even if you do that, the laterals would still be spaced on 80s, would they not? Eighty acres would be dedicated --

A. Right.

Q. -- to each lateral well?

Also on this map, for purposes of notice, in the northeast quarter of Section 24, there's a well down there operated by Avra Energy; is that correct?

A. That's correct.

Q. Is that the only other existing Knowles South-

Devonian well in this pool, other than the ones operated by Platinum?

A. Yes, that's correct.

Q. Let's discuss the geology in the Knowles South Pool. Could you move on to your Exhibit 3 and identify that for the Examiner?

A. Okay, this is a subsurface structure map on top of the Devonian. It shows the approximate original oil-water contact at minus 8570, oil column being about 230 feet thick. It's a -- There are some faults within this structure.

Q. Okay. What is the drive mechanism within this pool?

A. It's a water drive.

Q. And when, approximately, was this pool discovered?

A. It was discovered in the mid-1950s.

Q. And although the spacing was 80 acres, was it essentially developed with one well per quarter-quarter section?

A. It was initially developed on 80s, and then in the 1970s they began infilling on 40 acres. And what they would do is abandon the old original Devonian well, and then on the 40 acre opposite they would drill a new well.

Q. Okay. And in this pool, the Avra well is noted

in Section 24. That well is a Devonian producer?

A. That's correct.

Q. But before Platinum came in and purchased leases there were no other Devonian producers; is that correct, in this pool?

A. There were a couple of marginal producers.

Q. Which Platinum purchased?

A. That Platinum purchased.

Q. Okay. Is there anything else you'd like to discuss on this map?

A. No.

Q. Well, why don't you move on to your cross-section and discuss the reservoir and what Platinum is doing in this pool?

A. This cross-section is a stratigraphic cross-section. It's to illustrate the heterogeneity of the Devonian in this area in the Knowles South field. What we've found, we've -- We're in the process of exploiting and further developing Devonian -- faults of Devonian features in Gaines County, Yoakum County and Lea County, and what we're finding is that the reservoirs aren't homogeneous, they're complex.

In the Knowles South case, there's several shales that's interbedded, there's shale lenses that inhibit, restrict the flow of oil, even though it's an oil -- I mean

a water-drive reservoir. The water does not come up in a uniform fashion; it's complex. And we're finding that to be true in the Knowles South field, that it's one of the more broken-up structures that we've developed at the present time.

And so what we're finding is that we can go in -- there's lenses, reservoir lenses, in the Devonian dolomite that haven't really been exploited or they've under-exploited. And so we feel that we can get in, in some cases deepen old wells, in other cases drill laterals that will open up these little reservoir lenses, and enhance the oil recovery.

Q. Do you have a map of the laterals on one of your wells?

A. Yes, I do.

Q. And is that marked Exhibit 5?

A. Right.

Q. Why don't you discuss that particular well and the results of that well for the Examiner?

A. This illustrates what we're doing. The solid red line indicates an actual lateral that we drilled, and you can see that as we drilled it we encountered several shales within our lateral. The red boxes, they indicate mud log shows that we got as we drilled. And so we targeted the dolomites which are the reservoir within the Devonian, and

we targeted and tried to stay within the -- in between the shales, within the porous and permeable dolomite. And this illustrates what laterals we've encountered, in general.

Q. And with respect to the well spacing, do you feel it's better to have 40-acre spacing with the 330-foot setback requirements on a quarter-quarter section, to be available for you to adequately develop this old pool?

A. Yes, I do.

Q. It gives you increased flexibility and well locations, et cetera?

A. Right, it gives us a greater latitude in orienting our laterals so that we can orient them toward areas of the field that we feel have been under exploited.

Q. Let's move on to your exhibits with respect to the Knowles pool, and first just briefly identify Exhibit 6.

A. Okay, it's a land plat showing Platinum's acreage outline.

Q. Now, you have not re-entered or drilled any new wells in this pool --

A. No, we haven't.

Q. -- have you?

And on this plat, in the west half, southwest quarter of Section 35, there's noted a Paladin well. Is that a producing well?

A. Yes, it is.

Q. That's the only producing well in this pool at this point, is it not?

A. Yes, it is.

Q. And the west half, southwest quarter is dedicated to that well; is that correct?

A. That's correct.

Q. Okay, why don't you move on to your Exhibit 7 and discuss the geology in the Knowles pool?

A. This exhibit is a montage that shows two cross-sections, two structural cross-sections in the Knowles field. It also has a structure map.

The reservoir is the Devonian dolomite with an oil column approximately 360 feet thick, and we feel that this is somewhat similar to the Knowles South -- the proximity of the two fields, they're close, and we feel that it'll be real similar, that we'll be able to exploit it better if we can orient our laterals in the directions we need to get away from old boreholes and be able to open up porosity lenses, permeability lenses that we could enhance the recovery and be able to get more reserves from the field.

Q. And because of the heterogeneity of the reservoir, you feel there are reserves in the pool that haven't been tapped by the existing wells?

A. Yes, that's our belief.

Q. And again, even though the spacing is 80 acres in this pool, to a large extent they were developed one well per 40; is that correct?

A. Yeah, to a large extent, that's correct.

Q. And again, with respect to this pool, do you feel that developing it based on statewide rules will give you the added flexibility you need to properly locate your wells to recover remaining reserves?

A. Yes, it will.

Q. Okay. Mr. Hobby, were Exhibits 1 through 7 prepared by you, under your supervision or compiled from company business records?

A. That's right.

Q. And in your opinion, are the granting of these two Applications in the interests of conservation and the prevention of waste?

A. Yes, definitely.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 1 through 7, 1A through 7.

EXAMINER CATANACH: Exhibits 1 and 1A through 7 will be admitted into evidence.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Hobby, do you know the status of the two

producing wells, the Avra well and the Paladin well?

A. They're making a lot of water. I think they're making in the neighborhood of anywhere from 20 to 45 barrels a day.

Q. Of oil?

A. Of oil.

Q. So they're still actively producing. And you think they're making a lot of water?

A. Yes, I do.

Q. Have you by any chance talked to these two companies about your proposal?

A. I've talked to Avra and he said that, you know, was fine, that he wouldn't oppose us, that he didn't have any problem with going to statewide rules.

Q. Do you know what their lease situation is? Is it a -- Do both of these wells have 80 acres dedicated to them at this point?

A. Yes, they do.

Q. Do you know how this changing to 40 acres is going to affect those two proration units?

MR. BRUCE: Mr. Examiner, if I might, the well units are oriented on a leasehold basis. The Paladin well, if you look at Exhibit 1B --

EXAMINER CATANACH: Exhibit 1B.

MR. BRUCE: -- and Mr. Reeves, our next witness,

can confirm this -- the Paladin well is the west half, southwest quarter of Section 35, and it has common interest ownership, whether you're looking at 40 or 80 acres. So there's no effect on interest ownership.

EXAMINER CATANACH: Okay, that's the Paladin well?

MR. BRUCE: That's the Paladin well. And then if you look at Exhibit 1A for the South Knowles Pool, the Avra well is in the northeast quarter of Section 24, and again the northeast quarter of Section 24 is a single tract with uniform ownership. And therefore, regardless of how that well unit is or may be oriented, interest ownership remains the same in production from the well.

EXAMINER CATANACH: Now, did you verify this, Mr. Bruce, with the interest -- I mean, with the operators or --

MR. BRUCE: I think Mr. Reeves can verify that Platinum did a bunch of title work out here --

EXAMINER CATANACH: Okay.

MR. BRUCE: -- on this, when they were out here purchasing their interests. And I believe Mr. Hobby could confirm that they actually offered to buy Avra's well.

THE WITNESS: Yeah, that's correct.

Q. (By Examiner Catanach) Okay. In the South Knowles-Devonian Pool, you guys are currently developing

with laterals?

A. Uh-huh, that's correct.

Q. Are you re-entering existing wells?

A. We're re-entering -- So far we've re-entered five existing wells and drilled laterals. The toe of the lateral will be in -- within 150 feet of the center spot of the 40, in compliance with the present field rules.

Q. Okay, the existing wells are wells that have -- I presume have been depleted at their locations?

A. Yes, two of them have, and the other two were, you know, making about 20-some-odd barrels a day.

Q. With respect to the heterogeneous nature of this dolomite reservoir, is it just that this dolomite just comes and goes, or are there porosity or permeability barriers?

A. Well, there's -- within the dolomite reservoir itself, there are lenses of porosity that develop, so it's -- it could be the old -- the depositional fabric of the dolomite or of the lime, carbonate, when it was deposited, that contributed to this. And so we have lateral changes in the porosity and the permeability, and in the Knowles south, we're also finding that there's shell beds and shell lenses that also segregate the reservoirs.

Q. Is that how the South Knowles and the Knowles Pool is going to be further developed? Do you anticipate

drilling laterals or --

A. It depends. Some of these wells, we feel we can deepen, and other wells we feel that, you know, drilling laterals is the best way to exploit them. You know, some of the wells we may initially deepen them and put them on production, see how they do, and then go back in and drill laterals.

We have a pooling clause in the Knowles South in our leases, so that if we can get statewide rules we can pool it and it will allow us more flexibility in the orienting of laterals.

Q. Now, the laterals, they're still going to be developed on 80 acres; is that correct?

A. As far as their orientation?

Q. As far as -- well, I assume that they're -- well, I don't know for sure how that's going to work with the laterals. Are you just producing in the bottom portion of those wellbores?

A. Yeah, just in the Devonian is where we're producing.

Q. Okay. Do you know how many more wells you're going to drill in this area?

A. In the South Knowles, we have planned one new drill, and possibly three to four more laterals.

Q. How about the other pool?

A. In the Knowles we have three laterals planned.

Q. So are you having good success with the laterals?

A. Yes, we are.

Q. Has the oil-water contact moved up in this reservoir?

A. Since we drilled our laterals?

Q. Well, since the original?

A. Since the original? It's --

Q. If you know.

A. Yeah, what we found is that because of the heterogeneity of the different reservoirs, that in some cases we're getting kind of an edge drive, we're getting water, you know, coming up from the edges, possibly enhanced from the faulting and fracturing of the reservoir. And so in some cases we're finding that there's a high water cut, relatively high in the reservoir, whereas below there's higher oil cuts and -- because it's oil that's been left behind.

Typically, these reservoirs, in the early days, they would drill all the way through and determine where the oil-water contact is. And then later, a lot of the Devonian wells, they just scratch the top of it, thinking that it's a homogeneous reservoir, that the water's going to come to you, is going to find you, and so just scratching to the top and produce the wells, they felt more

efficiently, that way.

And so in effect, the old deeper wells, where they plugged back over the years and wound up plugging up to the very top of the formation, in essence, there's high water cuts in the very top of these formations. And like I said, we're finding that we're finding high oil cuts deep within the reservoir itself.

And so if we can get in there and open up the lower sections and then -- and also open up what we feel are -- what we found are isolated -- or oil pockets that have been, you know, somewhat -- there's been a baffling effect because of a decrease in the permeability or whatever. If we can get down deeper to the Devonian and open these reservoirs up, then we have success. And so that's what we're finding. So it's...

Q. So I -- have you guys done some drainage work out here to determine what these wells are capable of draining, or --

A. That may be something that Mike could better address, our engineer.

Q. Okay.

A. But you know, in my opinion it would be real complex, it would be very complex.

Q. It sounds like it.

A. Yeah.

EXAMINER CATANACH: Okay, I think that's all I have of this witness.

JAMES MICHAEL REEVES,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. James Michael Reeves, I reside in Midland, Texas.

Q. Who do you work for an in what capacity?

A. I work for Platinum Exploration, Incorporated. I'm currently employed as a drilling engineer.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, I was.

Q. And are you familiar with the engineering matters involved in these two pools?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Reeves as an expert engineer.

EXAMINER CATANACH: Mr. Reeves is so qualified.

Q. (By Mr. Bruce) Mr. Reeves, before we get into your drainage or your production testimony, let's ask a few of the notice questions. Platinum has been out here buying acreage now for what, a couple years or so?

A. Yes.

Q. And it did title work out in this area to determine who owned what?

A. That's correct.

Q. And with respect to the Knowles Pool, the Paladin well unit, the west half, southwest quarter of Section 35, that is all one tract, is it not?

A. They own -- in the south --

Q. In the west half, southwest quarter, just that well unit?

A. Yes.

Q. That is the well unit for their well?

A. Yes.

Q. And it has uniform ownership in that --

A. Yes, it does.

Q. And same thing with -- in the South Knowles Pool, in the Avra well, that 160-acre tract, again, is one singular tract --

A. That's correct.

Q. -- with uniform ownership?

A. That's correct.

Q. One other thing. With respect to -- There have been 80-acre laterals drilled already in the South Knowles Pool?

A. Yes, they have.

Q. Those 80-acre well units retain the prior orientation of the well units for the existing -- for the prior or existing wells, do they not?

A. That's correct.

Q. So --

A. That's the most expedient way to --

MR. BRUCE: And that is reflected in the Division records, Mr. Examiner. So for instance, in Section 18, Mr. Examiner, all those 80-acre well units for those laterals are the same as for the prior wells, even if they were abandoned at some point. So...

Q. (By Mr. Bruce) Let's move on to your Exhibit 8, Mr. Reeves. Could you identify that, discuss production in the pools to date and what Platinum hopes to recover by way of its re-entries and directional drilling?

A. The technical information I'm given here, we have very little technical -- actual technical information available to us. The logs are 1949- and 1950-vintage logs, so they're not very -- they're hard to use for actual calculations.

The figures I've given you were based on our

research in Lea County, what the Devonian has been capable of recovering, and we based on recovering what we feel has been recovered successfully in other Devonian reservoirs in Lea County of about 100 barrels per acre-foot for each one of those reservoirs.

These reservoirs, the Knowles reservoir has recovered 51 barrels per acre-foot, and the Knowles South has recovered 34 barrels per acre-foot, approximately.

We feel like these lower recoveries are due to the heterogeneity of these reservoirs, and our lateral drilling, the heterogeneity has even been borne out more than we anticipated initially.

We have a fault running through in Exhibit 3, you'll see a fault shown in -- coming through this reservoir. That was not -- When we initially started the project, that was not considered a fault. We now feel that there is a fault there. Our drilling indicates there's a fault there, and this lateral actually encountered part of the fracturing next to that fault. And we've got quite a large water cut from that well. That is a producing well, this is our Brooks Number 2 well. It's in the South Knowles in Exhibit 3.

Q. In Section 12?

A. In Section 18, excuse me.

Q. 18.

A. Yes.

Q. Now -- So with respect to Exhibit 8, you're predicting essentially doubling the recoveries that -- doubling the existing recoveries?

A. We feel like we can easily double the recovery, because we feel like if the reservoir is produced properly and the oil is encountered the way it should have been -- and I think in this reservoir, the laterals are really the only method of recovery that are going to be successful, or successful in recovering the potential of the reservoir.

Q. Now, the -- just looking in general in both pools, what did good wells in the Knowles or Knowles South Pool recover originally, roughly?

A. Oh, gosh, I didn't bring that. They're recovering, in a good well, about 120,000 barrels.

Q. Okay, and that was for the older wells, the wells --

A. That's for the older wells, yes.

Q. -- drilled in the 1950s and 1970s?

A. Yes.

Q. And at least -- you haven't drilled any wells yet in the Knowles field?

A. No, the Knowles was actually developed on 40 acres, according to the wells that we're trying to work in. We've got some 330 from the lease line, some -- several 330

from the lease line, so it appeared to me that they had been actually developed on 40-acre spacing.

Q. Even though the well spacing was officially 80 acres, they were --

A. Yes, sir.

Q. -- effectively developed on 40s, with unorthodox locations thrown in?

A. That's my supposition, yes, sir.

Q. Okay. Now, the wells that you drilled in the South Knowles, what type of water production are you getting from those wells?

A. We have a high water cut, which -- that's our method of production. In the older -- in these older reservoirs, you move fluid, you're going to get a fairly decent oil production.

For example, in the Number 2 Brooks well, which is the lateral in Exhibit 3, this Number 2 Brooks well, you see how close to this fault coming through here we have. Its initial production prior to our working the well over was 22 barrels a day, with about 80 barrels of water.

Currently, we're producing 130 barrels of oil a day with about 2500 barrels of water, which is still an economically viable method of production. That's typically how we produce our wells.

Q. Okay, and that would be what you'd hope to

accomplish on these other wells?

A. That's exactly right, exactly. The one due south of this one is the Brooks Number 1. It was a similar 20-barrels-a-day well, and it's producing at, currently, 160 barrels a day, of oil, with about 2400 barrels of water.

Q. Have you been able to calculate the drainage areas for these wells?

A. We don't have the technical information available to us. The logs were too old to really be usable for --

Q. Too old or poor quality?

A. Right. And we haven't logged the laterals.

Q. Okay.

A. I think that's -- So we're going to have to do it based on just calculating what it could have recovered, based on the lateral geometry.

Q. But the fact that you are getting wells producing 120 or 160 barrels of oil per day indicates there are undrained reserves in these reservoirs?

A. That and the heterogeneity of the reservoir, we feel like there's some intervals that haven't been drained at all. They appear to have some pressure reduction in the reservoir, but the oil cut, like David was saying, is still very high, much higher than it should have been in a properly drained reservoir.

Q. And therefore you feel that you need the

flexibility provided by statewide rules to adequately develop --

A. I think it's --

Q. -- these reservoirs?

A. I think it's essential in this case, yes.

MR. BRUCE: Okay. Mr. Examiner, Exhibit 9 is the affidavit of notice with respect to the Knowles South Pool.

Q. (By Mr. Bruce) Mr. Reeves, for that I notified Avra Oil Company, which is an operator in the Delaware, correct --

A. That's correct.

Q. -- I mean Delaware in the Devon --

A. Devon --

Q. -- Devonian

A. -- Devonian.

Q. And I also notified Triumph Exploration and Fagadau Energy, which were pulled up off the Division's records, but has Platinum acquired the interests of Fagadau Energy?

A. Yes, we have --

Q. Okay, and so that was --

A. -- which was previously Triumph.

Q. Okay, so it's essentially the same company, so that was just over-notification. Okay.

And Mr. Examiner, Exhibit 10 is the affidavit of

notice with respect to the Knowles Pool, and again Paladin Energy was notified, and because of the lease holding out here, whether you're on 80 acres or 40 acres, none of the existing wells would have been -- would have had the interests and production affected, and therefore we just notified the operators in these wells.

Mr. Reeves, were Exhibits 8 through 10 prepared by you or compiled from company business records?

A. Yes.

Q. And in your opinion is the granting of these applications in the interests of conservation and the prevention of waste?

A. Very definitely.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 8 through 10.

EXAMINER CATANACH: Exhibits 8 through 10 will be admitted.

Mr. Bruce, as far as you could determine, there's no other Devonian operators within a mile of these pools?

MR. BRUCE: Correct, the Division records show none.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Reeves, within the acreage that your company has purchased in this area, what types of land is this? Is

it all fee land or state land or --

A. It's mainly fee land.

Q. Fee land?

A. We have one 160-acre tract, the east half of Section 13, the east half of the east half of Section 13 somehow became federal. I'm not certain how that happened, but the remainder of it is fee land.

Q. So you've essentially got a situation where -- are you the only working interest owner?

A. Yes, sir.

Q. Okay. So the royalty interest owner is going to be different on the various different leases that you purchased?

A. Yes, sir.

Q. Okay. So going from 80 to 40 acres, does that affect some of the royalty interest owners who will --

A. Not on our current development pattern, no.

Q. Do you know what's going to happen with the lateral wells? Are those going to continue to be -- are those going to go to 40 acres if this is approved?

A. No, sir.

Q. Those are going to stay on 80?

A. They'll stay on 80 or --

Q. Because of the nature of the well?

A. -- or more. We may go up to 160 acres.

Q. Okay, so those ones are -- those are not going to be affected by this rule change?

A. No, sir.

Q. And I believe that you said there's going to be a couple of -- or previous testimony -- some vertical wells drilled?

A. We have two vertical wells, one already permitted. Our intent is to drill it vertically and test and then to drill laterally. That was our original intent. However, with our success to date of our laterals, we may go ahead and just drill laterals instead of drilling the vertical and testing.

It will also allow us to get some real technical data where I can run some decent log and be able to identify our reservoir information a little better.

Q. So basically you're going to drill some laterals, and the actual well spacing is going to remain the same. They're going to be spaced on 80 acres; is that -- ?

A. Well, the Federal Davis Number 4 in this Exhibit 2, you'll notice a circle for the wellbore position. It will be more than 180 acres; we'll be drilling that a little further. And with the new rules, we would capable of diverting from the older wellbores and getting into quite possibly areas that have not been drained, which is our intent.

Q. Okay. It sounds to me like development of this pool is not going to be on 40 acres; it's going to be on 80s or larger units; is that correct?

A. Well actually, the development was on 40 acres. You've got wellbores on every 40 acres out there.

Q. But you're not going to have any wells that have 40 acres dedicated to them; you're going to have at least 80 acres --

A. You can't drill a lateral and make it economic for 40 acres, no, sir.

Q. Well, what is the advantage of going to 40-acre spacing?

A. It allows us to deviate from the old wellbores and drain areas that we don't feel have been drained.

Q. But can't you do the same thing -- Under the current rules you can apply for a project area --

A. Even with the 80-acre, the most we can deviate from the current wellbore is 150 feet.

Q. Okay, so basically it gives you flexibility in locating the wells?

A. That's correct.

Q. That's the advantage?

A. And our lateral, and that's all we're really asking for, is the flexibility to do that.

Q. I guess the threshold question is, what do these

wells drain? I mean, in your opinion what are these things draining?

A. Well, they haven't drained 80 acres. And whether the lateral will make them capable of draining the 80 acres, I -- we don't know yet.

Q. But a typical vertical well in this pool would not drain 80 acres?

A. No, sir, it would not. It has not.

Q. Now, have you looked at some of the production data and made that determination yourself?

A. Yes, sir.

Q. When the infill wells were drilled, do you know what kind of production numbers they got? If I understand, the original well was drilled on 80, and then they produced it for a while, and then they came back and drilled infill wells?

A. Actually, yes, sir, they came back and drilled infill wells, and many times the other producing well was producing at the same time. In other words, they were producing two wells in each 80 acres.

Q. Okay, but do you know what the results of the infill wells typically were? Did they get good production from those wells?

A. They didn't get as good a production from the secondary wells. My estimation is about 80 percent of the

original wellbore, which would still make it --

Q. -- a producing rate?

A. Yes, sir.

Q. What about ultimate recoveries, did you look at those?

A. I'm thinking of ultimate recovery, excuse me.

Q. Okay. So they recovered about 80 percent of what the parent well did?

A. Yes, sir.

Q. Okay.

A. Which still, the recovery in the South Knowles is still extremely low. I mean, 34 barrels per acre-foot, that's basically 34 percent of what they really should have recovered. So we've got basically a third of what we feel like the reservoir should have given up.

Q. So you think that you can at least double what's been recovered in this pool?

A. Without a doubt, I do, yes.

Q. So you'll get another 15 million barrels?

A. Well, I wish I had 15 million to start with.

(Laughter)

Q. (By Examiner Catanach) Well, isn't that what the recovered, the cumulative on those?

A. The Knowles recovered right at 4 million barrels, and the Knowles South was 10 million barrels.

Q. Yeah, closer -- well, so they've cumulatively recovered 15 million barrels?

A. Yes, sir.

Q. So you're saying you can get at least that many?

A. I think that's very capable -- we're very capable of doing that, yes, with the laterals, because what we've seen in the laterals to date is that we've encountered areas that were probably never drained. Because of the shale lamination, the water drive was ineffective, or not effective at all. And basically all you had was gas expansion involved in the recovery factor. And that's why I think you see the 34 per- -- the 30-percent of what we should have recovered, because of the shale laminations in there.

Q. What are you guys doing with all the water?

A. We have disposal wells in the area that we're -- we're also permitting some other disposal wells to be able to handle all the water production.

Q. What are you injecting into; do you know?

A. We're injecting below the oil-water contact in the Devonian.

Q. So are you guys producing these wells on submersible pumps?

A. Yes, sir, sure are.

Q. Okay. I believe you gave some figures for a

well, one of your lateral wells, producing about 120 barrels of oil a day?

A. Yes, sir.

Q. 2500 barrels of water. Is that typical for one of these laterals?

A. It seems to have been. We've done -- We've got results from three wells out there that we have actually had production on, and they've all been in the 120- to 150-barrel-a-day range, so we feel very comfortable about continuing our development of the reservoir.

EXAMINER CATANACH: Okay, that's all I have.

MR. BRUCE: Go ahead.

MS. MacQUESTEN: I had a few questions I was hoping you could help me understand, the notice provisions. Are you proceeding under the notice provision for special pool orders regulating or affecting a specific pool? It's in 1207.A.(4).

MR. BRUCE: Yes.

MS. MacQUESTEN: And that has two different provisions. One, if the Application involves changing the amount of acreage, and a second provision if the Application hasn't?

MR. BRUCE: Correct.

MS. MacQUESTEN: Are you proceeding under the one for changing the acreage?

MR. BRUCE: Yes, we were, if we're changing it to 40, yes.

MS. MacQUESTEN: And that would require notice to the operators but also to all owners of interests in the mineral estate in existing spacing units with producing wells?

MR. BRUCE: That's right, Ms. MacQuesten, and I recognize that. On the other hand, they're not being squeezed out of a well, is what I'm saying, because of the way these -- the two existing wells in the pool. And actually all wells in the pool, if you look at the exhibits, all of the existing wells out there are on 80 acres, and they are all -- for instance, if you look at the existing Paladin well in the Knowles Pool, west half, southwest quarter of Section 35, that is a single tract. It was patented by the federal government, and ownership is uniform in that tract.

So whether it is on 80s or 40s, no one will be cut out of production, Number 1.

And the same thing with all of the wells in the Knowles South Pool, they are on -- None of these tracts have been pooled with any other tracts at this point. They are all uniform tracts, each well, and therefore -- I recognize what the Rule says, and if we have to we can give additional notice, but what I'm saying is that no one will

be cut out of production on any existing well in the pool because interest ownership in the tracts on which they are located is uniform. So even if spacing went down to 40 acres, it would be the same interest owners in the same proportion, whether you're looking at 40 or 80 acres.

EXAMINER CATANACH: Well, does that hold true for the existing wells of your client, that your client owns?

MR. BRUCE: Yes, Mr. Examiner, if you look at Exhibit 3, for instance -- yeah, that one right there -- and compare that with Exhibit 1A, there's two things.

First of all, if you look at Section 18, the west half of Section 18, it is comprised of four separate tracts. Those four wells, those four wells that Platinum has re-entered or drilled maintain those 80-acre well units, and those are the same 80-acre well units that were initially established when the wells were drilled back in the 1950s or 1970s, number one. So the well-unit orientations have not changed.

The second thing is that each of those four tracts -- each of them separately has common interest ownership. The west half, northwest quarter, which was a well unit back in the 1950s, is still a well unit, and it has uniform ownership, uniform mineral interest ownership. Same thing with the east half, northwest, and then the two tracts in the southwest quarter.

So regardless of whether these were spaced -- if these were vertical wells and they were respaced on 40s, no one would be cut out of production.

EXAMINER CATANACH: Okay. Now, are those the only four existing wells that your client operates in the south --

MR. BRUCE: Those four, and then that one in the southeast quarter of Section 12. And the southeast quarter of Section 12 is -- 160 acres is a uniform tract. Now again, the well units originally in that southeast quarter were standup well units --

EXAMINER CATANACH: Okay.

MR. BRUCE: -- and that is shown by the Division's records.

EXAMINER CATANACH: Okay, but due to the nature of these wellbores being laterals, the current plan is to leave these spaced on 80 acres; is that right?

MR. BRUCE: These, yes --

EXAMINER CATANACH: Because of the project area --

MR. BRUCE: -- because they're laterals, the project area would be 80 acres --

EXAMINER CATANACH: Okay.

MR. BRUCE: -- that is correct.

And getting back to your other question, Mr.

Examiner, you may be right, leaving them on 80s at this point may not have any effect. But I suppose there are chances where they might want to do a lateral that has a 120-acre project area.

THE WITNESS: That's what I was pointing out on the Federal Davis Number 4.

MR. BRUCE: Okay.

THE WITNESS: It is actually a 120-acre project area.

MR. BRUCE: It would be a 120-acre project area. There may be chances for that up in the Knowles Pool also, which would make it easier to form those 120-acre project areas if the well spacing was 40 acres rather than 80.

But getting back to Gail's question, we can notify those interest owners if you so desire. But once again, they are not affected. Their interests will not be reduced by de-spacing.

EXAMINER CATANACH: I'll tell you what, Mr. Bruce, we're going to discuss a little bit, we're going to leave the record open --

MR. BRUCE: Okay.

EXAMINER CATANACH: -- in the case for a couple of weeks and see if we want you to do anything else as far as notice is concerned.

MR. BRUCE: That's fine.

EXAMINER CATANACH: Okay, anything else?

MR. BRUCE: I don't think so.

EXAMINER CATANACH: Okay, there being nothing further, Case 13,400 and 13,401 will be continued to the January 20th hearing.

And let's take about a 15-minute break here before we start on the other case.

(Thereupon, these proceedings were concluded at 9:29 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13400, 13401 heard by me on January 6 2005.

David R. Catanach, Examiner
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 January 8th, 2005.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006