

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. 13,532

APPLICATION OF J.W. NEAL, PATRICIA NEAL)
AND THE CLAUDIA YOUNG TRUST TO RESCIND)
DIVISION ADMINISTRATIVE ORDER NUMBER)
SWD-984, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

August 11th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, August 11th, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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WVJ 8/25/05

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August 11th, 2005
 Examiner Hearing
 CASE NO. 13,532

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A P P E A R A N C E S

FOR THE DIVISION:

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:26 a.m.:

3 EXAMINER JONES: And at this time let's call Case
4 13,532, Application of J.W. Neal, Patricia Neal and the
5 Claudia Young Trust to rescind Division Administrative
6 Order Number SWD-984, Lea County, New Mexico.

7 Call for appearances.

8 MR. COMEAU: Mr. Examiner, Michael Comeau for
9 J.W. Neal, Patricia Neal and Claudia Young. We filed the
10 protest on behalf of the Neals. I am not and do not
11 pretend to be familiar with the Rules, customs and
12 practices of the Division. Mr. Neal is a distinguished
13 lawyer in his own right. With the Examiner's permission,
14 he'll conduct his own case.

15 MR. NEAL: Actually with that statement of
16 counsel, I also join in saying I'm not familiar with your
17 Rules and regulations. That hasn't been my forte through
18 the years.

19 EXAMINER JONES: Well, that's why we have Gail
20 MacQuesten here.

21 MR. NEAL: Okay, that's fine. Do you want me to
22 sit here, or where --

23 EXAMINER JONES: Right there.

24 MR. NEAL: Okay, I have a seeing problem, and if
25 you'll give me a few minutes I can hook up a TV set --

1 EXAMINER JONES: That sounds good.

2 MR. NEAL: -- so that if I have to look at
3 anything I can tell what you're talking about. I have
4 macular degeneration, and with hard of hearing I decided to
5 stop -- quit practicing law, so I'm retired.

6 EXAMINER JONES: Any other appearances in this
7 case?

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing Platinum Exploration, Inc., who is the holder
10 of Administrative Order SWD-984. I have one witness.

11 EXAMINER JONES: Witnesses?

12 (Off the record)

13 MR. NEAL: If the Examiner please, I would ask
14 the Examiner to take administrative notice of the well
15 locations marked in Exhibits 1, 2, 3 and 4 --

16 EXAMINER JONES: Any objection?

17 MR. NEAL: -- and they all have a case number
18 with it.

19 EXAMINER JONES: So you want to admit Exhibits 1,
20 2, 3 and 4?

21 MR. NEAL: Yes, they're --

22 EXAMINER JONES: Okay.

23 MR. NEAL: -- they're -- actually, they're drill
24 records.

25 MR. BRUCE: I have no --

1 MS. MacQUESTEN: These are all Exhibit 4.

2 MR. BRUCE: Mr. Neal, you gave me -- Hold on, you
3 gave me extra copies, hold on.

4 MR. NEAL: Oh, I'm sorry.

5 MR. BRUCE: Just a second.

6 MR. NEAL: When you're making change with money
7 and you're blind, that happens too sometimes.

8 MR. BRUCE: Just a second here, Mr. Examiner.

9 (Off the record)

10 MR. BRUCE: These are Exhibits -- sets of
11 Exhibits 1 through 3.

12 MR. NEAL: Okay, thanks. Okay. Now maybe this
13 makes more sense to you. Okay, that's 1, 2, 3, and this
14 would be 4.

15 MR. BRUCE: Yeah, it's marked right here.

16 EXAMINER JONES: Okay, so if there's no
17 objections, we will admit Exhibits 1, 2, 3 and 4 into the
18 record.

19 Would everyone intending to testify in this case
20 stand to be sworn?

21 (Thereupon, the witnesses were sworn.)

22 MR. NEAL: Do you want the witness to sit over
23 here?

24 EXAMINER JONES: Normally we do.

25 MR. NEAL: Okay, that's no problem.

1 MS. MacQUESTEN: Do you need to be near your
2 television set?

3 EXAMINER JONES: But you can be near your
4 television --

5 MR. COMEAU: Do you need to be -- have your TV?

6 MR. NEAL: Well, yeah.

7 MR. COMEAU: I'll let you sit here.

8 EXAMINER JONES: I would stay right there --

9 MR. NEAL: Okay.

10 EXAMINER JONES: -- Mr. Neal.

11 MR. NEAL: Since I'm the only witness in my
12 behalf, I would like to have a few minutes to state my
13 position.

14 J.W. NEAL,
15 the witness herein, after having been first duly sworn upon
16 his oath, testified as follows:

17 DIRECT TESTIMONY

18 BY MR. NEAL:

19 MR. NEAL: I received a letter from Platinum.
20 I'm sure they -- In fact, they have given me a copy of it
21 today, which I did receive.

22 I was out of town at my daughter's wedding and
23 then had gone on in May, had gone on to some other area. I
24 did not get home until -- and my office is -- I'm retired
25 and there's not anybody in my office every day, and my

1 daughter picks up the mail, Claudia Young. She is also an
2 owner, as a trustee, of the property in question.

3 I'm the owner of the -- all the minerals in the
4 northeast quarter and the north half of the southeast
5 quarter of Section 12 --

6 MR. COMEAU: 18.

7 MR. NEAL: -- 18, 17-39, along with my former
8 wife, Pat Neal, who lives in Ruidoso, New Mexico, and who
9 at this time has no information nor knowledge of this
10 proceedings until I called her the day before yesterday.
11 I'm not in the habit of calling her very often, and I asked
12 her if she had received any letter, and she said she had
13 not, even though now I find out their address that they use
14 was on her lease, and that was the same address that I had.

15 And anyway, she doesn't know anything about this
16 deal, or this objection or the proceeding. What she would
17 do if she had known, I can't answer that.

18 The situation here is that I called a lady in --
19 who's on this letter here, it's on the letter --

20 MR. COMEAU: Figel.

21 MR. NEAL: That looks like Julie -- Fagel?

22 MR. COMEAU: Figel.

23 MR. NEAL: Figel?

24 MR. REEVES: Figel.

25 MR. COMEAU: Figel.

1 MR. NEAL: Okay. She called -- I called her and
2 advised her at that time, and that was the first warning or
3 day that I had received -- had seen this letter. I don't
4 know when I called her, but I'm sure they would have a
5 record of -- in her notes, that -- I'm sure, that would be
6 -- whatever day that was, is when I called. And I did tell
7 her at that time that I really didn't care one way or the
8 other and had no objection.

9 Then I slept on it for a couple days and tried to
10 call her back to inform her that I did have numerous
11 questions and that I wasn't sure if I could approve it, and
12 asked her to call me. And I never did hear from her.

13 And I didn't think anything too much more about
14 this until I got to looking at some of the rest of your
15 correspondence, and then I called Mr. Comeau and asked him
16 to file an objection.

17 And those are the facts, as far as I know, what
18 happened in connection with this notification.

19 If there are not any -- After seeing the lease,
20 the address that she -- her address is in Ruidoso, New
21 Mexico, and has been for many years. She did put down --
22 When the man filled out the lease forms, he used my address
23 for everybody. And so he sent that to me, and then I would
24 send that up and if it was satisfactory she'd sign the
25 lease and send it back to me.

1 But anyway, she didn't receive any notice.

2 The reason I changed my mind was because --
3 approving this matter, the reason I changed my mind was
4 very simple. This describes Summers Number 1 well. Well,
5 the Summers-Neal Number 1, if you'll look at the little
6 plat that's in Exhibit 4 you'll see that I have marked --
7 written in where it is located, and Summers Number 2, where
8 it's located.

9 And then the Summers well, which is -- which was
10 in B, is the well that they want to re-enter.

11 So what I'm concerned about is that the Well
12 Number 2, Summers-Neal Number 2, produced a substantial
13 amount of oil. The operations called out of Dallas that
14 was in charge of it had ordered a couple of electric pumps
15 which they use rather than a pumpjack. The company was not
16 in the best financial position, obviously, because they
17 filed bankruptcy, and there was two electric motors burned
18 up on this well, and those motors -- I mean, that operation
19 cost about \$50,000 to get that straightened out, so...
20 since they were in such financial shape.

21 Anyway, the well got plugged. And I have been
22 trying to get a -- to re-enter that location for the
23 purpose of producing the oil and gas -- oil, out of it.
24 And at this time I haven't been successful.

25 When this lease that they're operating under was

1 given, it was my understanding that that outfit was going
2 to enter and inject that well, and that's the reason we
3 switched it to your lease, because I wanted it done. If it
4 didn't get done, then I wanted to have it open where I
5 could still try to get somebody in there on Number 2.

6 And I feel very strongly about the location --
7 I'm sorry, I'm coughing up here -- because when you start
8 injecting that kind of water and at that depth and at that
9 pressure and at that volume, you can very easily come on
10 down to where the second -- the Number 2 well is located.
11 And if that should happen, I've got more problems than I've
12 got now.

13 So I strongly object to this Application that
14 they made for that reason. Now, if they -- since they're
15 the holder -- I now find out that they're the holder of my
16 lease, which matures January of 2006, and if they're going
17 to go in there and do something in that well, then I'll
18 say, Amen, brother, let's get after it.

19 So -- But I don't want anything done to my
20 minerals when our family owns all those minerals. And I
21 don't think anybody's got a right to go in there at this
22 time except Platinum, because they're holding the lease.
23 But that lease is for the production of oil and gas, not to
24 dispose of saltwater, including unless oil is produced. If
25 oil becomes -- is produced from that lease, then they're

1 entitled to dispose of it.

2 But they're not entitled to bring in water from
3 an off-location or offlease and use that as a disposal
4 well.

5 At this point, the only thing they could possibly
6 have is a surface arrangement to where they could use the
7 surface, because if the hole goes through my minerals --
8 and I have claimed them all the time; nobody asked me about
9 this before this occurred.

10 And I agree that we ought to have surface --
11 somebody that's on the surface to be able to put in a
12 disposal well. I used to represent too many ranchers, I
13 agree with that position, I've taken it before.

14 So anyway, that's my argument, and I would like
15 for them not to be able to dispose of -- interim at this
16 time or at any time, under the present arrangement, unless
17 they drill my well for me on Number 2. And if that doesn't
18 happen, then I don't want them out there in my minerals.

19 And I don't think anybody is entitled to take
20 those minerals without my permission. You're going into a
21 known mineral area, which is -- they've got quite a bit of
22 production immediately to the west, and there has been more
23 money made in Lea County on mistakes of people that come
24 back later and re-enter and are successful.

25 So I object to the -- their application.

1 With that statement, well, I stand ready for
2 cross-examination.

3 EXAMINER JONES: Mr. Bruce?

4 MR. BRUCE: I really only have one question.

5 CROSS-EXAMINATION

6 BY MR. BRUCE:

7 Q. Mr. Neal, is Claudia Young also the daughter of
8 Patricia Neal?

9 A. She's my daughter also --

10 Q. But she is Patricia's daughter?

11 A. -- and she's Trustee of the Claudia Young Trust,
12 and she owns -- the Trust owns an interest in those -- in
13 that property.

14 Q. Okay, but she is Patricia's daughter?

15 A. That's correct.

16 MR. BRUCE: That's all I have, Mr. Examiner.

17 MR. NEAL: The -- I believe the -- I'd like to
18 point out in that connection, I believe that the signature
19 card was signed -- was signed by her. Does it have
20 "agent"? I can't tell. She thought that she put that
21 down.

22 MR. BRUCE: I'll present that in evidence, Mr.
23 Examiner, so you can address the...

24 MR. NEAL: Okay with that, I conclude mine and
25 move my exhibits in -- introduced -- approved.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Neal, can you tell me where your lease is?
Is this one lease, the northeast quarter plus the north
half of the southeast quarter?

A. That's what I own.

Q. That's one lease. So you own the minerals?

A. The lease that they're under does not cover all
that --

MR. BRUCE: And we'll present that evidence, Mr.
Examiner.

MR. NEAL: Well, I can show it to them.

Q. (By Examiner Jones) Okay, well, that's --
okay --

A. If you'll look at the Number 4, you'll see the
locations, and they're in -- all that stuff is over in the
east half.

Q. Okay, so it goes all the way down here --

A. Yes, sir.

Q. -- like that?

A. Yes, sir.

Q. Okay. Is it --

A. I own all of this, and then this also. But their
lease only covers -- which is this part right here, only
covers this part here.

1 Q. Okay, so they have a lease from you that expires
2 early next year.

3 A. Yes, sir --

4 Q. And --

5 A. -- in August, I believe it is -- January, of
6 2006.

7 Q. And is it -- Does it extend from the surface to
8 everything?

9 A. It covers everything.

10 Q. Okay.

11 A. There's no limitation --

12 Q. Okay.

13 A. -- as to depth.

14 Q. Okay.

15 A. But anyway, as you -- But when you look at this
16 B, and I think this was --

17 Q. That was --

18 A. -- J, and this is B, I think.

19 Q. Yeah, okay.

20 A. It will show on these --

21 Q. A, G, B.

22 A. -- so when you look at it, it's in a straight
23 line, and I want a well.

24 Q. Okay, Mr. Neal, the -- but the name on the lease,
25 is it Claudia Young?

1 A. It would be Claudia Young, Trustee of --

2 Q. Trustee of --

3 A. -- Claudia Young Trust. I think I've got a copy
4 of it.

5 Q. Okay.

6 A. There were three leases given at the same time, I
7 think --

8 Q. Okay.

9 A. -- with the same provision.

10 Q. Okay, Mr. Neal, did you hear about this through
11 your daughter Claudia?

12 A. She told me after I returned and she returned,
13 and whenever their records show that I called, is the first
14 time that I had seen that -- this letter. That's all I
15 knew about it. And she accepted the registered letter and
16 signed off on it. She told me the agent, but I don't know
17 if it's on there or not. Agent for me. But I don't know
18 if that's on there or not.

19 Q. Okay, so you were on a trip and --

20 A. I was gone.

21 Q. You were gone.

22 A. I was gone to another daughter's wedding. And
23 after I got through with that, then I had gone down to
24 another part of Texas where I had some more minerals, and
25 we were working out a lease down there. I was down there

1 about a week or 10 days.

2 But the day I saw this is the day that -- when it
3 was on my desk, it was the day that I called and I told her
4 at that time I didn't have a problem. After I slept a
5 little bit I changed my mind, when I realized what was
6 happening.

7 Q. But you didn't send them anything in writing --

8 A. No, I did not. And I asked the lady to call me
9 back, and I didn't hear from her. And so I -- I called the
10 same number, and I got the name of the company, and her
11 answering machine and came on and she wasn't there, and to
12 leave word, which I did, to call me, and I haven't heard
13 anything since.

14 EXAMINER JONES: Okay.

15 (Off the record)

16 Q. (By Examiner Jones) Mr. Neal, did you talk about
17 the other three exhibits, Exhibit 1, 2 and 3?

18 A. No, I think they've covered by your admission of
19 the exhibit as administrative notice. They show the
20 location of the well, of the three wells.

21 MS. MacQUESTEN: These are the three wells --

22 EXAMINER JONES: Okay.

23 MS. MacQUESTEN: -- that he was showing.

24 EXAMINER JONES: Okay. Okay, thanks, Mr. Neal.

25 Mr. Bruce?

1 MR. BRUCE: Call Mr. Reeves to the stand.

2 JAMES M. REEVES,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. James Michael Reeves of Midland, Texas.

9 Q. And who do you work for?

10 A. I work for Platinum Exploration.

11 Q. What is your job with Platinum?

12 A. I'm a petroleum engineer.

13 Q. Have you previously testified before the Division
14 as a petroleum engineer?

15 A. Yes, I have.

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

18 A. Yes, they were.

19 Q. And are you familiar with the matters involved
20 with respect to the saltwater disposal application of
21 Platinum for the Summers Number 1 well?

22 A. I designed the completion.

23 Q. Okay, and Julie Figel works for you?

24 A. Yes.

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

1 as an expert petroleum engineer.

2 MR. NEAL: No objection.

3 EXAMINER JONES: No objection? Mr. Reeves is
4 qualified as an expert petroleum engineer.

5 Q. (By Mr. Bruce) Now, Mr. Reeves, when you file a
6 saltwater disposal application, you have to notify certain
7 offsets of the application, correct?

8 A. Correct.

9 Q. Looking at Exhibit 1, what does that summarize?

10 A. That's a summary of the lease takeoff for the
11 properties in question --

12 Q. Okay.

13 A. -- plus adjoining, several adjoining properties.

14 Q. Okay, so it's a takeoff of the people within a
15 half-mile radius of the Summers saltwater disposal well?

16 A. Yes.

17 Q. And --

18 MR. NEAL: I'm going to saying "your". They
19 indicate that they haven't. I object to that, using the
20 word "your".

21 EXAMINER JONES: Can you re-arrange your wording
22 a little bit, Mr. Bruce?

23 Q. (By Mr. Bruce) Mr. Reeves, did Platinum search
24 the county records to identify the offset interest owners
25 entitled to notice of the application?

1 A. Yes, they did.

2 Q. And it's reflected on Exhibit 1?

3 A. Yes.

4 Q. One of those owners entitled to notice -- or
5 three of the owners are J.W. Neal, Patricia Neal and the
6 Claudia Young Trust?

7 A. That's correct.

8 Q. Okay. Now, it shows -- I'll just refer to them
9 as the Neals at this point -- that they're the unleased
10 mineral owners of the east half, northeast quarter of
11 Section 18; is that correct? Of the east half, northeast
12 quarter?

13 A. Yes.

14 Q. Now, moving to Exhibit --

15 A. I believe they're -- Aren't they the leased?

16 Q. I'm saying for the east half, northeast quarter?

17 A. Oh, okay, I'm sorry.

18 Q. Yeah. Now, if you could move on to your Exhibit
19 C -- Exhibit 2, excuse me, could you identify what that is
20 for the Examiner?

21 A. Yes, the oil and gas lease that Platinum procured
22 through Fagadau Energy --

23 Q. Okay --

24 A. -- or Rand --

25 Q. -- now --

1 A. -- Oil and Gas.

2 Q. -- the exhibit contains three leases, does it
3 not?

4 A. Yes, it does.

5 Q. J.W. Neal; Claudia Young, Trustee; and Patricia
6 Neal?

7 A. Yes, sir.

8 Q. Okay. And Mr. Neal has already testified that
9 those are the owners of the mineral interest. And this
10 lease covers the -- only a portion of the minerals that Mr.
11 Neal is talking about, correct?

12 A. Yes.

13 Q. Now, this was -- the leases were taken in the
14 name of Mildren Energy Services. Is Platinum the
15 assignee --

16 A. Yes.

17 Q. -- of Mildren?

18 A. Yes, we obtained their rights.

19 Q. And these leases do cover the well site of the
20 Summers Well Number 1; is that correct?

21 A. Yes, they do.

22 MR. NEAL: As a matter of clarification, rather
23 than saying Summers Number 1, because that's the Summers --
24 Summers well was the first well that was drilled and left
25 on the north side.

1 MR. BRUCE: Well, Mr. Examiner, the Exhibit 3
2 submitted by Mr. Neal shows that it's called the Summers
3 Well Number 1. It's in the northwest quarter of the
4 northeast quarter.

5 MR. NEAL: It actually is the Summers well, it's
6 known as the Summers well, Summers Number 2, I believe --

7 MR. BRUCE: Okay.

8 MR. NEAL: -- is the way it works. Okay, go
9 ahead.

10 Q. (By Mr. Bruce) And what address do all of these
11 leases give for the Neals?

12 A. They have the same address, in Hobbs, New Mexico,
13 P.O. box.

14 Q. P.O. Box 278 in Hobbs?

15 A. 278, Hobbs, New Mexico 88241 [sic].

16 Q. What is Exhibit 3?

17 A. Exhibit 3 is the letter that Julie -- cover
18 letter that Julie sent out with the SWD package, a copy of
19 the application contained in Exhibit 4.

20 Q. And the second page of the -- what is the second
21 page of the exhibit?

22 A. It's a copy of the return receipt that we
23 normally send out, normally send registered.

24 Q. So Exhibit 3 was sent out by certified mail?

25 A. Yes, it was.

1 Q. And it was signed by Claudia Young, it appears to
2 be signed by Claudia Young?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, Exhibit 4 is simply a
5 copy of the C-108 that was submitted to the Division by
6 Platinum. At this point I don't plan to have Mr. Reeves go
7 into it unless you have some specific questions.

8 Q. (By Mr. Bruce) Next, Mr. Reeves, what is Exhibit
9 5?

10 A. Exhibit 5 is a structure map of the Devonian
11 formation.

12 Q. Now --

13 A. It is also presented in our -- in our earlier
14 hearing that we had, changing the field rules for this
15 particular field.

16 Q. And what pool is this, the --

17 A. This is the South Knowles Pool.

18 Q. South Knowles-Devonian --

19 A. -- Devonian Pool.

20 Q. And Platinum -- Take a step back. This pool was
21 discovered about 50 or 55 years ago?

22 A. Yes.

23 Q. And the evidence presented in that pool showed
24 that most of the wells in that pool were plugged and
25 abandoned; is that correct?

1 A. Yes, that's correct.

2 Q. What has Platinum done over the last couple of
3 years in this pool?

4 A. We have re-entered several of the plugged wells
5 and are currently producing those wells. In addition to
6 that, we've attempted to further develop the reservoir by
7 drilling lateral, horizontal legs to these wellbores.

8 Q. Okay. So Platinum -- a lot of these wells have
9 been plugged and abandoned, or a lot of expired leases,
10 leases had expired over the years?

11 A. Yes, sir.

12 Q. Platinum went back in and --

13 A. -- re-leased.

14 Q. -- acquired new leases on these interests --

15 A. That's correct.

16 Q. -- re-entered the wells and brought a number of
17 them onto production?

18 A. That's correct.

19 MR. BRUCE: Okay. And Mr. Examiner, I don't
20 remember the case number, but this pool was spaced on 80
21 acres. Platinum obtained approval of the Division to
22 reduce spacing to 40 acres for horizontal drilling
23 purposes.

24 Q. (By Mr. Bruce) And that was last year, I
25 believe --

1 A. Yes, I believe it was.

2 Q. -- Mr. Reeves?

3 Could you point out or identify the Summers well
4 that we're talking about on this exhibit?

5 A. It's in the northeast quarter of the Section 18
6 on our structure map. It's designated as a dryhole marker,
7 Summers Number 1.

8 Q. Was this well ever productive?

9 A. It did not ever produce, has never produced.

10 Q. Okay. It was drilled to the Devonian?

11 A. That's right, it was drilled to the Devonian, and
12 the Devonian was tested and found to be nonproductive at
13 that point.

14 Q. This structure map -- which was presented at the
15 prior hearing, was it not?

16 A. Yes, it was.

17 Q. -- indicates that it's low on structure, this
18 well, and --

19 A. Yes, sir, it's low on structure, and below the
20 oil-water contact at the Devonian top --

21 Q. Okay.

22 A. -- or close to it, as best we can determine.

23 Q. Okay. Mr. Reeves, could you identify Exhibit 6
24 for the Examiner?

25 A. Exhibit 6 is a cross-section terminating with the

1 proposed inject- -- or disposal well.

2 Q. And could you describe, just looking at the
3 Summers well, what your proposal is with respect to this
4 well?

5 A. My proposal is to deepen it substantially below
6 the oil-water contact and set casing, sealing off any
7 productive interval in the Devonian formation and inject
8 water in the Devonian, since the Devonian is typically a
9 water-drive reservoir, it's an active water-drive
10 reservoir, which means when you take fluid out it replaces
11 it with water.

12 Q. Okay. Do you think your proposal will harm any
13 offset mineral interests?

14 A. I do not, I do not.

15 Q. Platinum itself is an offset mineral interest
16 owner?

17 A. That's correct. I wouldn't want to jeopardize
18 our minerals.

19 Q. You -- As a matter of fact, you have some direct
20 40- or 80-acre offsets to this well that are producing at
21 this time?

22 A. Yes --

23 Q. And --

24 A. -- and we're not finished developing the field as
25 yet.

1 Q. Okay, you still have ongoing plans to complete or
2 drill other wells?

3 A. Yes, sir.

4 Q. And you do not want to harm your own producing
5 wells, do you?

6 A. No, certainly do not.

7 Q. One thing on this map, there is one relatively
8 deep Devonian well, right in the center of the map, that
9 Willhoit Number 1, and it was drilled to certain depths,
10 including the depths that you are planning to inject into.
11 Was it ever produced from those depths?

12 A. It was not.

13 Q. The perforations --

14 A. It tested -- There was several tests below the
15 oil-water contact, all giving water and no hydrocarbon,
16 basically.

17 Q. And it was -- the eventual perforations were well
18 above the oil-water content, were they not?

19 A. Yes.

20 Q. Okay. In your opinion, is the approval of
21 saltwater disposal for the Summers well appropriate?

22 A. I think it is, yes.

23 Q. And it will not cause waste or harm correlative
24 rights?

25 A. Not in my experience, no.

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

4 A. Yes.

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

7 EXAMINER JONES: Mr. Neal?

8 MR. NEAL: No objection.

9 EXAMINER JONES: Platinum Exhibits 1 through 6
10 will be admitted to evidence.

11 MR. BRUCE: One other matter, Mr. Examiner, I'd
12 ask you just to take administrative notice of the file for
13 SWD-984.

14 EXAMINER JONES: 984? Is it 9- --

15 MR. BRUCE: Yeah, it's 984.

16 EXAMINER JONES: 984. Any objection, Mr. Neal?

17 MR. NEAL: No, no objection.

18 EXAMINER JONES: All right, we'll take
19 administrative notice of the file, SWD-984.

20 MR. BRUCE: Mr. Examiner, I turn the witness over
21 for cross-examination.

22 CROSS-EXAMINATION

23 BY MR. NEAL:

24 Q. I'm interested in your comment that you expect
25 that to help the oil developer. Would that help also down

1 in that Section Number -- in that Summers-Neal Number 2, as
2 you go to the south?

3 A. The injected fluids?

4 Q. Yes, have you tried -- Let me back up. Have you
5 tried to go into Summers Number 2?

6 A. We have not, as yet.

7 Q. And you've never looked as yet. Do you consider
8 that your lease, as now it's drawn, gives you any right to
9 inject water into the location in the Summers Number -- the
10 Summers well, the present lease that you have, that I
11 executed along with my daughter and former wife? Do you
12 say you have that right to do that at this time?

13 A. Yes, sir, we do.

14 Q. On what basis?

15 A. Well, we have agreement with the surface owner.

16 Q. And that's the only -- But as far as any
17 agreement of the minerals, you don't have anything, do you?

18 A. I have a surface mineral lease.

19 Q. The mineral lease does not give you the right to
20 inject water in the absence of oil production, does it?

21 A. No, sir, it doesn't.

22 Q. Okay, so you don't have it at this time, do you?

23 A. I have it with the surface owner.

24 Q. Only with the surface owner?

25 A. Yes, sir --

1 Q. All right.

2 A. -- who has the right to any wellbore
3 nonproductive of oil and gas.

4 Q. Did you make any determination at that time to
5 determine whether Mr. Neal had any claim in that bore
6 right?

7 A. That was the reason for the notification.

8 Q. You have notification, but you'd already acquired
9 -- and you're asking now, then, to produce water without
10 production of oil?

11 A. No, we're producing oil in the --

12 Q. From this lease?

13 A. -- outlying leases.

14 Q. From this lease?

15 A. I'm sorry?

16 Q. You're asking to dispose of produced water not
17 from this lease --

18 A. Not from this lease --

19 Q. -- the lease that you have?

20 A. -- no, sir.

21 Q. It's on an off-lease basis, isn't it?

22 A. Yes, sir.

23 Q. Okay. And you've been fairly successful on the
24 re-entry of your other wells in the Devonian?

25 A. Yes, sir, we have.

1 Q. And -- well, I'm interested in -- the little --
2 doesn't mean anything. I notice in your application you
3 say that you're going to use 4-1/4 tubing and inject that
4 in -- put that in the 5-inch casing, in your application?
5 I think it's on the front page of the application.

6 A. 4-1/2 tubing.

7 Q. Can you get that in a 5-inch casing?

8 A. I can with slimhole, yes. I think it should be
9 3-1/2 tubing, that might have been a --

10 Q. I was going to say --

11 A. -- typographical error.

12 Q. -- I don't think you can put 4-1/2 into 5-inch
13 casing.

14 A. Well, no, it's 5-1/2-inch casing.

15 Q. Well, that's not what it says on the application.
16 The application is 4-1/2 and 5, I believe. But you'll
17 correct that whenever you get -- if you do this; is that
18 right?

19 A. Yes, sir.

20 Q. Yes, okay. I was just calling it to your
21 attention --

22 A. Thank you.

23 Q. -- you're going to do what you're going to do.
24 You're welcome.

25 A. No, typically I can't get 4-1/2 --

1 Q. Well, that's okay --

2 A. -- in a 5-inch casing, you're right there.

3 Q. Okay, thank you, sir. Now, let's talk a little
4 bit about the -- How much water at this time are you
5 producing from the -- your offlease?

6 A. Approximately 12,000 barrels a day.

7 Q. Okay. And how many injection wells or disposal
8 wells do you own at this time?

9 A. Three.

10 Q. Where are they located?

11 A. One is in the designated -- the ARCO Number 1 in
12 the south -- southeast corner. The Hollaway -- It says
13 Hamon Federal Davis Number 1. Just east of that is the
14 Hollaway Number 1. It is an SWD.

15 Q. Okay, that's three wells.

16 A. And -- no, sir.

17 Q. I'm sorry.

18 A. The Cox Number 1, just west of the Hollaway,
19 excuse me.

20 Q. Okay. How far are any of these disposal wells --
21 they're all south of the Summers Number 2, aren't they?

22 A. West, most of them are west of the Summers Number
23 2, north and west.

24 Q. Summers-Neal Number 2, I'm sorry.

25 A. Most of them are north and west.

1 Q. Okay. Then this proposed location that you have
2 would be the furthest disposal well that you have to the
3 north?

4 A. It will be equal to the other two in Section 17,
5 I believe --

6 Q. How far away --

7 A. -- south --

8 Q. How far away will that be?

9 A. I may need Mr. Neal's -- borrow his -- I forgot
10 to bring to bring my glasses.

11 Q. Do you want to borrow my -- It works pretty good.

12 A. In Section 13 here, we have two wells, the two
13 wells in the north part. They're as far north as the
14 Summers Number 1 is, but they're much further west, of
15 course.

16 Q. Okay. Now, you've got production that's closer
17 -- In other words, you're going to be getting the water
18 from production that these other wells are not servicing;
19 is that the reason for the new well?

20 A. It's -- It would be mainly proposed as a backup
21 disposal well, probably would not receive a continued
22 injection unless some of the other wells went down. We
23 were trying to achieve an operational problem there.

24 Q. So it's not absolutely necessary at this time
25 that you have another production well; this is in the

1 future, is what you're advocating?

2 A. Yes, sir.

3 Q. How long do you intend to wait on that?

4 A. Not very long, because it's an unplugged wellbore
5 that needs to be addressed.

6 Q. Is it going to be as long as six months?

7 A. Probably not.

8 Q. Then you're going to be re-entering it just to --
9 your lease is expiring January of 2006, is it not?

10 A. From your information it does, yes.

11 Q. That's just a few months away, that you've got to
12 have this taken care of. So you're going to go ahead and
13 enter because of the termination of the lease?

14 A. No.

15 Q. The lease has nothing to do with it, does it --

16 A. No, sir.

17 Q. -- as far as you're concerned?

18 A. As far as I'm concerned it doesn't.

19 Q. Okay. And you're not a lawyer?

20 A. No, sir.

21 Q. Have you had this information -- Over in Texas
22 isn't it just understood that you have to have permission
23 from the mineral owner to produce -- to inject water into
24 their locations?

25 A. That's the reason for the notifications, is to

1 notify the mineral interest owners of what's happening on
2 their -- involved in their mineral leases.

3 Q. Okay, so -- But you're not claiming a right at
4 this time without doing any work on Number 2 or the other
5 Summers Number 1, you're not going to do anything as far as
6 searching for oil off of those leases in that description?

7 A. Other than the Summers Number 2, we really don't
8 see any possible prospect there.

9 Q. Do you think the Number 2 is a wellbore?

10 A. It shows to be a wellbore that's been plugged.

11 Q. Okay, and that's also true with Number 1 -- I
12 mean Summers-Neal Number 1?

13 A. Yes, sir.

14 Q. So they're all in the same shape, then; is that
15 what you're saying, as far as --

16 A. Summers-Neal Number 1 is a little lower on the
17 structure --

18 Q. Okay.

19 A. -- would not be as attractive a re-entry.

20 Q. For the purpose of disposing of water?

21 A. No, of producing oil and gas.

22 Q. Okay, but it would be very attractive for the
23 disposing of water, wouldn't it?

24 A. If we could have maken an agreement with the
25 surface owner, yes.

1 Q. In other words, your position is, the mineral
2 owner has nothing to do with whether or not you can have a
3 disposal well on their property, on their minerals?

4 A. Unless it affects their minerals.

5 MR. BRUCE: And I'll object to having my client
6 answer legal questions.

7 MR. NEAL: Okay. All right, then.

8 EXAMINER JONES: Sustained.

9 Q. (By Mr. Neal) What are you paying -- Are you
10 paying the surface owner any dollars for the injection of a
11 barrel of water?

12 A. We would, yes.

13 Q. What do you mean you would? You've got a
14 contract. Are you going to?

15 A. If we use the wellbore, yes, there will be a
16 gratuity for --

17 Q. What's the gratuity?

18 A. I have no idea. That would be settled with the
19 -- in our legal/land department.

20 Q. Okay. But you don't have personal information
21 about that?

22 A. No, sir.

23 MR. NEAL: Do you have that in your file?

24 MR. BRUCE: I don't, Mr. Neal.

25 MR. NEAL: Would you obtain that for me please,

1 sir?

2 MR. BRUCE: Sure.

3 MR. NEAL: Yes or no.

4 MR. COMEAU: He said he would.

5 Q. (By Mr. Neal) Okay. It's not uncommon in Lea
6 County, or in that part of Lea County, at this time to pay
7 50 cents to a dollar a barrel for disposal, is it?

8 A. In my experience it's not -- that's a little
9 higher than what I've normally paid.

10 Q. Okay, what do you normally pay?

11 A. For a commercial disposal it's 25 cents a barrel.

12 Q. Okay, how about just disposing of your own oil --
13 own water? How do you charge that to your expense?

14 A. Our disposal system is not a cost-basis center,
15 so just the cost to operate the system is spread out to the
16 operations of the interest owners in each well.

17 Q. Okay. As I understand your position, is that you
18 take -- you're saying that the wellbore at this time
19 belongs to the landowner?

20 A. That's correct.

21 Q. And that the mineral owner has no interest or
22 claim or anything concerning that?

23 A. In my experience --

24 Q. No, in your opinion.

25 A. -- they have not. It is my opinion.

1 MR. NEAL: All right. May I have a minute,
2 please?

3 EXAMINER JONES: Sure.

4 MR. NEAL: That's all.

5 EXAMINATION

6 BY EXAMINER JONES:

7 Q. Mr. Reeves, you seem to be wearing several hats
8 here today.

9 A. It appears so. I can present what's been
10 presented before in our hearing, so...

11 Q. Okay, I realize you're not a landman, but can you
12 go over what Mr. Bruce was talking about right in the
13 first, exactly. Do you agree that your lease is the same
14 as what Mr. Neal says your lease is?

15 A. We have more than what Mr. Neal's lease --

16 Q. All on one lease?

17 A. Yes, sir.

18 Q. But it does include the northeast quarter and the
19 north half of the south- --

20 A. Yes, sir.

21 MR. BRUCE: It includes the western half of that
22 240 acres. Mr. Neal and his family own the northeast
23 quarter and the north half, southeast quarter.

24 EXAMINER JONES: Okay.

25 MR. BRUCE: The leases that you have marked there

1 cover the western half, 120 acres.

2 Q. (By Examiner Jones) Okay. But the western half
3 does include all three of these wells that Mr. Neal showed
4 us in his exhibits?

5 A. I believe it does, yes.

6 Q. Yeah. Okay, so you've got that lease. And I
7 realize this is a -- you weren't qualified as a landman
8 here today, but --

9 A. No, sir.

10 Q. -- and Mr. -- we prevented Mr. Neal from asking
11 you some legal questions, but the terms of your lease -- do
12 they say anything about whether you can dispose of water
13 offlease if you don't have production on the lease itself?

14 A. The actual mineral lease?

15 Q. Yes.

16 A. Doesn't address that.

17 Q. Doesn't address that. Okay. And can you go over
18 again what you intend to do on this lease itself, as far as
19 production goes?

20 A. We still have the Summers Number 2 well as a
21 prospective re-entry.

22 Q. Is it a temporarily abandoned well right now?

23 A. It's plugged.

24 Q. It's totally plugged and abandoned?

25 A. Right.

1 Q. Okay, it just shows a line through it here.

2 A. Yes, sir, that's our indication that it's
3 plugged.

4 Q. Okay, and you do intend to re-enter that well?

5 A. That's in our plans, yes, sir.

6 Q. Okay. And you're not worried about this well
7 being watered out by an injection well straight to the
8 north?

9 A. Not in the Devonian, I'm not concerned at all.
10 We're injecting below -- substantially below the oil-water
11 contact, which -- I mean, if it does anything it should
12 enhance the pressure maintenance of the reservoir.

13 Q. Okay, is it below the oil-water contact or below
14 the original oil-water contact, or where is the oil-water
15 contact right now, do you know?

16 A. I have no idea. I believe it's further up the
17 hole but --

18 Q. So are you saying it moves up with time?

19 A. Yes, sir, with time it does.

20 Q. Okay, because it's bottom-drive?

21 A. Yes, sir, it's an active water drive reservoir.

22 Q. Okay.

23 A. So it moves up.

24 Q. Moves upstructure --

25 A. Yes, sir.

1 Q. -- or up --

2 A. Well, of course your residual is going to be in
3 -- that's the non-movable oil in the reservoir, but the
4 water, as any fluid evacuated from the reservoir, the water
5 is going to move up and fill those voids.

6 Q. Okay, what is your permeability in the Devonian?
7 I mean, just -- Do you have a range of permeabilities in
8 the Devonian?

9 A. I don't recall that information off the top of my
10 head.

11 Q. Okay, what about horizontal versus vertical
12 permeability?

13 A. There are several barriers in this reservoir.

14 Q. Where would they be?

15 A. They're interspersed throughout this reservoir.
16 This is a much more difficult reservoir than the typical
17 Devonian reservoir. It's got sections in -- it's got shale
18 stringers in it, which I've not encountered other than this
19 reservoir. It's got all kinds of barriers in it that --
20 which we've discovered originally, this fault that is shown
21 on our map that was not in the original structure until we
22 encountered it with our horizontal drilling.

23 Q. Okay, so you have drilled some horizontal wells
24 out here in the --

25 A. Yes, I actually have a horizontal from this

1 Brooks Number 2 well.

2 Q. Okay.

3 A. We actually drilled a horizontal to the west of
4 that and encountered that fault and plugged that horizontal
5 back and laid off a different horizontal, trying to stay
6 away from that fault.

7 Q. So at what depth are you drilling your horizontal
8 wells? Are those perfectly horizontal, or are they
9 slantholes?

10 A. No, they're perfectly horizontal.

11 Q. Okay, what vertical depth are you putting them in
12 the Devonian? In other words, you're putting them in the
13 top --

14 A. Top, and trying to get down below the shale
15 stringer that we've encountered in there as well.

16 Q. At the same --

17 A. We've done both.

18 Q. Okay, in the same well?

19 A. (Nods)

20 Q. So you go in the top and then you go down into
21 the -- below that shale?

22 A. Drill a second lateral.

23 Q. Okay. Have you done any production work, profile
24 work, in those wells --

25 A. No, we haven't.

1 Q. -- to see where the oil is coming from?

2 A. No, we haven't.

3 Q. So you don't know whether it's coming from below
4 that shale string or --

5 A. Other than the test on the test on the lateral
6 that we did.

7 Q. Yeah, so you do have a test on a lateral?

8 A. Yeah, we did one lateral, tested it, and then the
9 second lateral.

10 Q. And what did you --

11 A. Other than the lateral that we encountered the
12 fault in. We just plugged it back and --

13 Q. But the one you tested, did it show -- what did
14 it -- Where's the oil coming from in that well? You did do
15 a production profile?

16 A. We didn't actually do a profile of the entire
17 lateral, we just did a production test in the straight
18 wellbore.

19 Q. Just to --

20 A. Well, we're moving -- In this reservoir you have
21 to move a lot of fluid --

22 Q. Uh-huh.

23 A. -- to be commercially viable.

24 Q. Uh-huh.

25 A. And that's what we do. We move a lot of fluid,

1 dispose of water and get reserves that would not otherwise
2 be obtained.

3 Q. Okay. Do you log these horizontal wells?

4 A. We have mudlogged them.

5 Q. Mudlogged them. Do you have good shows below
6 that shale --

7 A. Yes.

8 Q. -- stringer that you're talking about?

9 A. Yes, we do.

10 Q. Is that -- Do you know the depth of that shale
11 stringer, as related to the depth you intend to inject into
12 this --

13 A. I believe it was shown in our field hearing.

14 Q. Okay.

15 A. I don't recall that depth off the top of my head,
16 no, because it -- I know it varied from the east half of
17 this -- from the fault -- from the east of the fault, it
18 varied differently than what's on the west part.

19 Q. Okay. But in your opinion, these -- your
20 production will not be affected by the depth that you're
21 going to inject?

22 A. No, it will not.

23 Q. You don't think the water that you inject is
24 going to be moving up? It -- just move laterally?

25 A. It will move laterally.

1 Q. It won't move up?

2 A. No, because we'll drill down until we find a very
3 good porosity stringer, and then that's probably where
4 we'll stop drilling.

5 Q. Okay.

6 A. So we'll find a stringer of porosity in the
7 Devonian, and that's where we would inject. And those
8 vary --

9 Q. Okay.

10 A. -- in depth.

11 Q. Okay, so you find that by the mudlog and electric
12 logs?

13 A. Drilling.

14 Q. Drilling breaks.

15 A. Drilling breaks and the mudlog that we're --

16 Q. Okay.

17 A. -- conjunction with the tube --

18 Q. Okay.

19 A. -- and the loss of fluid in the hole. We take
20 all that in consideration.

21 Q. Okay. But -- Okay, let's go over the top depth
22 you're going to inject. 12,300, right, in this well?
23 That's the top depth you're going to inject. It's going to
24 be open-hole below that; is that right?

25 A. That's correct.

1 Q. Okay. Have you done any injection surveys in
2 these open-hole injection wells to see where the water is
3 being injected, where it's going?

4 A. In the other Devonian wells?

5 Q. Yeah, in this pod, this Devonian pod.

6 A. We're not injecting in the Devonian in the other
7 disposal wells. They were all wells that were re-entered,
8 and they're injecting into the San Andres and the Clear
9 Fork and the -- those intervals, shallower intervals.

10 Q. Do you intend to run any injection profiles in
11 this well, to see where the --

12 A. In this well?

13 Q. -- where the water's going?

14 A. Yes.

15 Q. Okay. And when do you intend to do anything
16 about trying to produce the Summers-Neal Number 2? Is it
17 before the lease runs out or -- Are you going to lose the
18 lease if you don't start producing these wells, any of
19 these wells?

20 A. I'm not certain what the terms of the lease --

21 MR. NEAL: The answer to that, the answer is yes.

22 EXAMINER JONES: I think I have to get an answer
23 from a --

24 MR. BRUCE: Well, Mr. Examiner, if there's no
25 production or they're not conducting operations at the end

1 of -- I think it's a primary term of two years -- the lease
2 will expire.

3 Q. (By Examiner Jones) The lease will expire. And
4 you guys are the only producers in this field?

5 A. Yes, sir, other than this Ava [sic] in Section
6 24. He has one well there. We really think it's not part
7 of this field.

8 Q. Oh, that's Avra, yeah.

9 A. Avra.

10 Q. We know them, those people.

11 A. We really think it's probably a faulted --
12 there's a fault in there that's probably separating that
13 production from the South Knowles main production.

14 Q. Okay. Just quickly, I sat in on a little bit of
15 your hearing to -- that was a downspacing hearing to --

16 A. Yes, sir.

17 Q. -- 40-acre downspacing?

18 A. Yes, sir.

19 Q. But you already had 80-acre optional two wells,
20 right?

21 A. Right, but it's constrained -- you aren't able to
22 do a north -- or east-west lateral.

23 Q. But you're doing a lot of north-south laterals --

24 A. Well, that's the only option we had at the time.

25 Q. Oh, okay. So basically you did it for spacing --

1 A. Yes, sir.

2 Q. -- for the location of the horizontal wellbore --

3 A. Yes, sir.

4 Q. -- downhole location?

5 A. Right.

6 Q. Have you received any drilling demands from
7 royalty owners since then?

8 A. We've just completed this Federal Davis Number 4
9 that you see in Section 13. We just finished drilling it
10 and testing that without a lateral, and we're in the
11 process of going back in to drill our lateral.

12 Q. So that's your last 40-acre spacing anyway,
13 there, in --

14 A. There, yeah, it allows us to encompass a little
15 more than 40 acres or 80 acres --

16 Q. Okay.

17 A. -- due to the length of the lateral.

18 Q. Okay. What kind of pumps are you putting in to
19 pump all this water?

20 A. Electrosubmersibles.

21 Q. You put it down into the horizontal part of the
22 holes, or --

23 A. No. No, no, you keep it in the vertical section.

24 Q. Are you aware of the history on this Summers
25 Number 2? Mr. Neal said something about they may have lost

1 some pumps in the hole or something.

2 A. I was not aware of that.

3 Q. Well, he didn't specifically say that, I don't
4 think.

5 MR. NEAL: There were two pumps, Reda pumps, and
6 they both burned up, they shorted out, because of the lack
7 of fluid. At least that's what I was told. And the man
8 that was doing the work on all of it -- I'm sorry, we're
9 getting farther afield.

10 But anyway, I can tell you what I was told if
11 that's of interest to you. I was told that the pumps were
12 burned up, they were short of money, and the pumper wanted
13 to put in a regular pumpjack and they didn't have the money
14 to do it. Next thing he knew, they wanted it plugged,
15 so... And then that's when the bankruptcy occurred.

16 EXAMINER JONES: So they recovered the pumps?

17 MR. NEAL: I can't answer that, I don't know.

18 Q. (By Examiner Jones) So -- Okay, you'll find out
19 when you try to re-enter the --

20 A. Yes, I will. Yes, sir --

21 Q. Okay.

22 A. -- I certainly will. Unfortunately, I have much
23 more experience fishing those out than I'd like to have,
24 but...

25 Q. Well, it's good to have someone with experience

1 fishing out their cable, Reda pump cable.

2 A. Let's see, just as a side note, the Gulf Black
3 Number 1 in Section 13, we just finished a re-entry on that
4 last week and are in the process of putting it on
5 production.

6 Q. Okay.

7 A. In Section 13, in the southwest -- the furthest
8 southwest well.

9 Q. Okay, but --

10 A. So we're -- I mean, we're in the process of
11 continuing to develop this reservoir.

12 Q. Okay. Do you -- I think -- You may have already
13 told me, and I should quit asking this question, but the
14 depth of your -- the end of your lateral, the vertical
15 depth in this reservoir, where would it be, of your
16 production wells?

17 A. It -- what -- the actual --

18 Q. Well, what I'm --

19 A. -- TVD depth --

20 Q. -- subsea depth or something. See, this cross-
21 section you gave us is a top-of-Devonian cross-section --

22 A. Right.

23 Q. -- it's not an oil-water contact --

24 A. No, it's not.

25 Q. -- cross-section. Is that --

1 A. The cross-section is showing you where the --

2 Q. Okay, cross-section --

3 A. -- oil-water contact is at.

4 Q. Okay. So your production lateral would go down
5 into this oil-water contact a certain amount, right?

6 A. No, we have not penetrated the oil-water --

7 Q. Okay.

8 A. -- contact in our laterals --

9 Q. Okay.

10 A. -- no, we're staying above -- staying above that.

11 Q. And that's 8570. The only wells that you're
12 going to know where this oil-water contact is, is the wells
13 that have penetrated it in the past, correct? Or the wells
14 that have penetrated --

15 A. Right.

16 Q. -- and produced too much water in the past --

17 A. Right.

18 Q. -- I guess?

19 A. Well, all the tests that we have indicate that
20 production below the oil-water contact is all water.

21 Q. Okay, so if anything --

22 A. That's --

23 Q. -- it moved up in the past?

24 A. Yes, which should enhance us. That's why I say,
25 pressure maintenance -- It's not an active waterflood

1 situation, but pressure maintenance would not hurt us at
2 all, but -- it would maintain our reservoir pressure.

3 Q. Okay. But there is no -- Is there any
4 waterfloods in Devonian reservoirs?

5 A. Oh, yes.

6 Q. So it's got a good, favorable mobility as far as
7 flooding?

8 A. CO₂ does better, but water has worked.

9 Q. Okay, when are you going to put it on CO₂?

10 A. I probably will allow someone else to do that.

11 Q. Okay.

12 A. We don't have a CO₂ pipeline in this immediate
13 area, so that's really not a real viable economic
14 alternative at this juncture.

15 Q. It looks like --

16 A. Not to say that it won't in the future.

17 Q. Okay. And so basically right now, when you start
18 injecting in this well, unless you do something on this
19 Neal Number 2, you're going to be bringing in water
20 offlease to inject in this well?

21 A. That's correct.

22 EXAMINER JONES: Okay. Gail, do you have
23 questions?

24 MS. MacQUESTEN: I had a few questions, Mr.
25 Reeves.

EXAMINATION

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BY MS. MacQUESTEN:

Q. I'm looking at Platinum's Exhibit Number 3, which is the notice letter that was sent out.

A. Yes.

Q. It's dated May 16th, 2005. Do you know if that's when it was mailed out?

A. No, it was actually mailed out -- Yes, ma'am, that was when it was mailed out.

Q. The date on the letter?

A. Yes, that's the date. It was prepared in April.

Q. Okay. And if you turn to the next page of that exhibit, we have a copy of the return receipt.

A. Yes.

Q. It appears that one letter was sent to Mr. Neal, Patricia Neal and the Claudia Young Trust --

A. That's correct.

Q. -- at one address, and that's the address you have for all three of those --

A. Yes, ma'am.

Q. And Ms. Young received it on May 25th?

A. May 25th.

Q. So approximately nine days after it was sent out; is that --

A. Yes, ma'am.

1 Q. -- on the 16th.

2 Mr. Neal had testified that at some point after
3 Ms. Young received it, he called and indicated that he did
4 not have an objection. This was his first call. Do you
5 know -- Do you yourself know when that call was made?

6 A. I do not. I believe it was in July at some time,
7 but I couldn't give you a specific date, just when Julie
8 notified me that Mr. Neal had called.

9 Q. Okay, you don't have a record of --

10 A. I didn't keep a record. I'm sure Julie has
11 something.

12 Q. Okay, and then according to Mr. Neal's testimony,
13 he made another call to express some concerns later?

14 A. And she was on vacation. She may have returned
15 his call and he wasn't at home at the time. I'm not
16 certain what happened then.

17 Q. But you personally don't know when that call was
18 made or whether there's a record of it?

19 A. No. No, I don't.

20 Q. When did you first become aware that Mr. Neal had
21 some concerns about this?

22 A. When he contacted Julie and expressed his
23 displeasure with the -- Of course, we'd already received
24 your notice of approval for the saltwater disposal well.

25 Q. Has Platinum taken any action based on that

1 approval?

2 A. Not at the present time, no.

3 MS. MacQUESTEN: I don't have any other
4 questions, thank you.

5 EXAMINER JONES: Any other questions for Mr.
6 Neal, Mr. Bruce?

7 MR. BRUCE: I don't have a question, I have a
8 brief statement.

9 EXAMINER JONES: Okay, let's go to closing
10 statements, then.

11 MR. BRUCE: I'll give Mr. Neal the last word,
12 since he is the Applicant.

13 There's two main issues here. One is notice, and
14 one is the right to use this wellbore. And our Exhibit 2
15 shows that Mr. Neal, Patricia Neal and Claudia Young,
16 Trustee, all signed oil and gas leases, which are now owned
17 by Platinum, with one address, and that's where the notice
18 was given. I can't tell you why they put all the same
19 address on them, but they were, and those three lessors
20 signed these leases, and we think we had a good address, we
21 gave notice to them, the notice was received, and it's all
22 family members. We think they had notice or constructive
23 notice. Proper notice was given, and so the Application to
24 rescind this administrative order should be denied.

25 The second issue is ownership of the wellbore.

1 The law is that the surface owner also owns all subsurface
2 depths. The mineral owner or the mineral lessee only has
3 the right to extract oil and gas. They don't own the
4 subsurface, they own the right to extract it. And the law
5 is that when a well is drilled and a lease expires, that
6 wellbore belongs to the surface owner. And the surface
7 owner has the right to give Platinum the right to go in
8 there and inject water.

9 Now, if the Summers Number 2 was producing -- The
10 mineral estate is the dominant estate. If the Summers
11 Number 2 was producing, Platinum could use the Summers 1 to
12 dispose of on-lease water, without anybody's permission
13 other than the OCD. There is no production, we agree with
14 that. So as of this point, you have to go to the surface
15 owner, and he has the right to authorize the use of that
16 wellbore for saltwater disposal purposes. And they have
17 reached an agreement with the surface owner, and they have
18 the right to go on and do it.

19 I understand Mr. Neal's position, but I believe
20 it's incorrect. The mineral owner does not own that
21 wellbore, pure and simple. And so Platinum has the right
22 to do what it is doing legally.

23 And furthermore, as Mr. Reeves has testified,
24 there's certainly no harm to the offsets. Platinum isn't
25 trying to drown out its offsetting productive wells. It's

1 got good production; it's all in the record from the prior
2 hearing on the pool rules case as to what they're
3 producing. They don't want to harm themselves, they have a
4 direct offset.

5 So there is no effect on correlative rights,
6 there is no waste, they have the right to do what they're
7 doing and proper notice was given.

8 We think the Application should be denied.

9 EXAMINER JONES: Mr. Neal?

10 MR. NEAL: In response, if it please the
11 Commissioner, first, as far as the notice, the notice
12 apparently was addressed -- the envelope was apparently
13 addressed to me, Pat Neal and Claudia Young, Trustee, I
14 assume. She only signed in her name, which would be also
15 in -- mention my name. Her mother's name was never
16 mentioned, and I can represent to you that there has been
17 absolutely no information furnished to her, and I was
18 unaware that her address was on the lease.

19 Now, generally what has happened, when these
20 lease people contact me, well then, I'll tell them to
21 contact her. But to accommodate them, I -- it's okay with
22 her, and just send everything to me and I'll get it all
23 signed by everybody, and they can send me these checks that
24 way, and I'll distribute them. But as far as making the
25 deal, they have to deal with her. And she's lived in

1 Ruidoso now for more than 15 years, and we don't have that
2 very often contact with each other.

3 So in this -- when I found out about it, I
4 immediately called and told them I really didn't feel for
5 it. But after I thought about it and the possibility that
6 oil had been produced in Summers Number 2 -- in Summers-
7 Neal Number 2 -- then I was concerned, will this adversely
8 affect?

9 And it also adversely affects the value of my
10 lease, because if they went in and obtained oil in the
11 Number 2, there would be no question and they could dispose
12 of it in the Summers well, because that's part of the
13 searching and exploring and developing and producing the
14 oil that may be down there. I don't think there's any
15 question about that.

16 But until that oil starts coming off of the
17 lease, they don't have any right to use that water down
18 there and adversely affect the values of my property. And
19 that wellbore has a value just for what they want to use it
20 for, because it's in an area where they produce a lot of
21 water, and they could then dump it in there and save a lot
22 of expense.

23 But anyway, that has to do with the other end of
24 it. And that's something probably that may have to be
25 decided by some court. I don't know.

1 But at this point I feel very strong that they
2 still have a lease, and if they're going to drill it or try
3 to produce it, that's fine, they've got a right until
4 whenever the thing -- primary term expires, and if they're
5 in the process of doing the work, they would have that time
6 until they got through with it. I think that's the terms
7 of the lease.

8 So at this time I don't think that they are in a
9 position to go in and jeopardize -- us be jeopardized,
10 the -- any of the minerals.

11 Suppose I want to make a caliche pit there.
12 What would they do there? Caliche is a mineral. I could
13 go move them out completely, because I've got a prior
14 right. They don't -- They can't interfere with my
15 property. And we're just headed for a collision, it looks
16 like.

17 But anyway, that's my story, and I've got to stay
18 -- I'm going to stay with this. Thank you.

19 MS. MacQUESTEN: Mr. Neal --

20 MR. NEAL: Anything else?

21 MS. MacQUESTEN: Mr. Neal, could I ask one
22 question --

23 MR. NEAL: Yes, ma'am.

24 MS. MacQUESTEN: -- just to clarify? Are you
25 here representing your interest, or are you also

1 representing Patricia Neal and the Trust?

2 MR. NEAL: As of this hearing I'm going to appear
3 for everybody because our protest went from everybody.

4 MS. MacQUESTEN: So it is a joint protest?

5 MR. NEAL: Beg pardon?

6 MS. MacQUESTEN: It is a joint protest? All
7 three entities are protesting?

8 MR. NEAL: Yes, ma'am. I think I they're
9 protesting, all three of them.

10 MS. MacQUESTEN: Okay, thank you.

11 MR. NEAL: Anything else?

12 MS. MacQUESTEN: No, thank you.

13 MR. NEAL: Okay.

14 EXAMINER JONES: There being nothing -- Okay,
15 thank you, Mr. Neal, Mr. Comeau and Mr. Bruce. Case
16 13,5- --

17 MR. COMEAU: Give us a minute here to unplug.

18 (Off the record)

19 EXAMINER JONES: Case 13,532 under advisement.

20 Let's take a 10-minute break until 10:00 a.m.,
21 and then come back at 10:00 a.m.

22 (Thereupon, these proceedings were concluded at
23 9:49 a.m.)

24 I hereby certify that the foregoing is
25 a complete record of the proceedings heard
by the Examiner hearing of Case No. _____
heard by me on _____

STEVEN T. BRENNER, ~~Examiner~~ Division, Examiner
(505) 989-9317

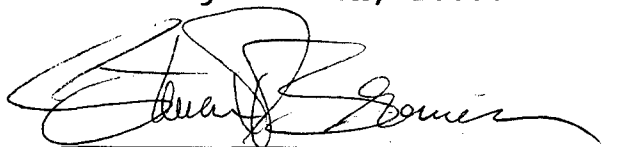
CERTIFICATE OF REPORTER

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 12th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006