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 U.S. ENERCORP, LTD., FOR A NONSTANDARD OIL SPACING AND PRORATION UNIT AND AN UNORTHODOX OIL WELL LOCATION, RIO ARRIBA COUNTY, NEW MEXICO	)	CASE NO. 13,951

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Technical Examiner
DAVID K. BROOKS, Jr., Legal Examiner

July 12th, date, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, July 12th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

July 12th, 2007
Examiner Hearing
CASE NO. 13,951

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A P P E A R A N C E S

FOR THE DIVISION:

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* * *

WHEREUPON, the following proceedings were had at 9:28 a.m.:

EXAMINER EZEANYIM: Let's go back on the record and call Case Number 13,951, Application of U.S. Enercorp, Ltd., for a nonstandard oil spacing and proration unit and an unorthodox oil well location, Rio Arriba County, New Mexico.

Call for appearances.

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

EXAMINER EZEANYIM: Any other appearances?

May the witnesses stand to be sworn, please?

(Thereupon, the witnesses were sworn.)

EXAMINER EZEANYIM: Mr. Bruce, you may proceed.

MR. BRUCE: Thank you.

JOHN SOWELL,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. John Sowell.

Q. How do you spell your last name, for the court reporter?

A. S-o-w-e-l-l.

Q. And where do you reside?

A. I reside in Von Ormy, Texas, which is a little town outside of San Antonio, Texas.

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

A. I work for U.S. Enercorp, Ltd., as a landman.

Q. Have you previously testified before the Division?

A. No.

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

A. In 1974 I graduated from the University of Texas at Austin with a business degree, and then went on to law school at Texas Tech University, and I graduated in 1978 with my law degree from Tech.

And out of law school I went to work for Exxon in Houston for almost three years, and then I worked for Clayton Williams, an independent oil and gas producer out of Midland, for almost 14 years, and the last five of which I was district land manager. Then I worked for several small independents. And five years ago, approximately, I began working for U.S. Enercorp, Ltd.

Q. Are you familiar with the land matters regarding this Application?

A. Yes.

Q. And does your area of responsibility at U.S.

Enercorp include this part of New Mexico?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Sowell as an expert petroleum landman.

EXAMINER EZEANYIM: Mr. Sowell, are you -- do you happen to be a certified public landman? Are you --

THE WITNESS: I don't have my CPL, but I do have a law degree and I am a member of the AAPL.

EXAMINER EZEANYIM: Mr. Sowell is qualified.

Q. (By Mr. Bruce) Mr. Sowell, could you identify Exhibit 1 for the Examiner and briefly describe what U.S. Enercorp seeks in this case?

A. Yes, Exhibit 1 is a plat outlining the west half of Section 2 and the east half of Section 3 in Township 23 North, Range 1 West, NMPM. And we seek to form a nonstandard oil spacing unit comprised of these two half-sections, and we intend to drill a horizontal Mancos well.

Q. Before we move off of this, there's two half-sections. Is the west half of Section 2 a single lease?

A. Yes.

Q. What type of lease?

A. That's a private ownership fee lease.

Q. Okay. And then in Section 3, is Section -- is all of Section 3 covered by a single federal lease?

A. That's my understanding, owned by McElvain Oil

and Gas --

Q. And --

A. -- McElvain.

Q. -- does U.S. Enercorp have a farmout from McElvain on the east half of Section 3?

A. Yes, we do.

Q. Okay. What is the location -- the surface location and the bottomhole location for the proposed well?

A. The surface location is 1220 feet from the east line and 3250 feet from the south line of Section 3, and the bottomhole location is at 1870 feet from the west line and 2180 feet from the south line of Section 2.

Q. And is Exhibit 2 a portion of the Application for permit to drill this well?

A. I believe it is.

Q. And since the surface is on federal land, this Application is initially being filed with the Bureau of Land Management, is it not?

A. That's correct, we file our APD with the BLM.

Q. Okay. What -- This is a Mancos test. What Mancos pool is the well located in?

A. It is in the West Puerto Chiquito-Mancos Pool.

Q. Would you identify Exhibit 3 and describe the applicable pool rules?

A. Yes. Exhibit 3 is a copy of part of Order Number

R-6469, as amended, which instituted 640-acre spacing for the pool. A standard well unit is comprised of a single section. One well is allowed per well unit, with the wells to be no closer than 1650 feet to the section lines.

Q. And because of that 1650-foot requirement, this well is unorthodox?

A. That's correct.

Q. Is the well location and the nonstandard unit requested due to geological reasons?

A. Yes, it is, and I believe our geologist will go into more details on that.

Q. Okay. What is Exhibit 4?

A. Exhibit 4 is a plat of parts of 23 North, 1 West, and 24 North, 1 West, and it indicates the type of land in Sections 2 and 3 and identifies offset acreage and operators.

Q. Okay. And let's just run down this a little bit. To the north in Sections 34 and 35 there are Mancos wells that are operated by Elm Ridge Exploration Company, are there not?

A. That's my understanding, yes.

Q. And going down, your proposed well unit is highlighted in blue?

A. Correct.

Q. And then to the west it's McElvain Oil and Gas.

They are actually the owner of a single federal lease covering all of Section 3, correct?

A. Yes, that and I believe it covers additional acreage as well --

Q. Okay.

A. -- so we have a farmout on the east half of that.

Q. And then in the east half of Section 2, the east half is federal acreage; is that correct?

A. Yes.

Q. And U.S. Enercorp leases the northeast quarter?

A. Yes.

Q. And the southeast quarter is unleased federal land?

A. Yes.

Q. Okay. And then in Sections -- to the south, the operators are listed on those acreages, correct?

A. Yes.

Q. And there are no Mancos wells on the acreage to the south?

A. Not that I'm aware of.

Q. Okay. And were all of the offsets notified of this Application?

A. Yes, and I believe that's shown on Exhibit 6.

Q. That's Exhibit 6, yeah, which is my affidavit of notice, correct?

A. Yes.

Q. Now did representatives of U.S. Enercorp meet with any governmental entities regarding this Application?

A. I have not, but a principal of our company, Bruce Gates, who is a geologist, did meet with Mr. Jim Lovato with the BLM and Steve Hayden, and I believe he's with the OCD. And in fact, Mr. Lovato wrote a letter in support of our position, and a copy of that letter is attached as Exhibit 5, I believe.

Q. Okay. One item in the second paragraph of Mr. Lovato's letter, he asked U.S. Enercorp to request nonstandard units comprised of the east half of Section 2 and the west half of Section 3; is that correct?

A. Yes.

Q. And U.S. Enercorp has filed those applications now with the Division, has it not?

A. Yes.

MR. BRUCE: Those applications are set for the August 9th hearing, Mr. Examiner.

EXAMINER EZEANYIM: For the east half of 2 and the west half of 3; is that --

MR. BRUCE: That is correct.

THE WITNESS: Yes, sir.

Q. (By Mr. Bruce) And that was requested not only by the BLM but by the -- Mr. Hayden of the Oil Conservation

Division; is that correct?

A. Yes.

EXAMINER EZEANYIM: So you want that to be heard on August 9th?

MR. BRUCE: That application, yeah. It wasn't filed until a few days ago, Mr. Examiner.

EXAMINER EZEANYIM: Okay, go ahead.

Q. (By Mr. Bruce) Were Exhibits 1 through 6 prepared by you or under your supervision or compiled from company business records?

A. Yes.

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

A. Yes.

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

EXAMINER EZEANYIM: Exhibits 1 through 6 will be admitted.

MR. BRUCE: And I pass the witness.

EXAMINER EZEANYIM: Do you have any questions?

EXAMINER BROOKS: No, I have no questions. Go ahead.

EXAMINER EZEANYIM: Well, first of all maybe I have to listen to the geologist to see where you want to

divide those units because as you know, the order you cited, Order -2565 or -6469, says you have to have an oil well 640, and there are two 640s in that -- Exhibit Number 4?

MR. BRUCE: Correct.

EXAMINER EZEANYIM: Go back to Exhibit Number 4. I think maybe I will understand why you want to do this when I listen to the geologist.

MR. BRUCE: That would be better addressed to the geologist, Mr. Examiner.

EXAMINER EZEANYIM: Okay, I think I will reserve those comments on that.

MR. BRUCE: Okay.

THE WITNESS: Thank you.

JAMES D. McCONNELL,

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. James Douglas McConnell.

Q. And where do you reside?

A. I reside in Fair Oaks Ranch, Texas, which is just outside the City of San Antonio.

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

A. I work for U.S. Enercorp, Ltd., as a geologist.

Q. Have you previously testified before the Division?

A. No.

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

A. Education is a BA in geology, BS in business, from Trinity University in San Antonio, and then an MBA from the University of Texas in Austin and some subsequent studies at Tulane University in reservoir engineering, where I didn't complete a degree.

I worked then for Exxon in New Orleans and Houston for about six years, retired early and went to San Antonio as an independent. About five years ago I started with U.S. Enercorp as a geologist and geophysicist and have been there since.

Q. Does your area of responsibility at U.S. Enercorp include this part of northwest New Mexico?

A. Yes, sir.

Q. And are you familiar with the geologic matters involved in this Application?

A. Yes.

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

EXAMINER EZEANYIM: Thank you very much. Do you

happen to be certified geologist, petroleum geologist? Are you -- do you have any -- in that area?

THE WITNESS: Yes, sir, I am a certified petroleum geologist through the American Association of Petroleum Geologists. I'm not registered with the State of Texas or the State of New Mexico.

EXAMINER EZEANYIM: Mr. McConnell is so qualified.

Q. (By Mr. Bruce) Mr. McConnell, if you could initially identify your Exhibit 7 and discuss the geologic conditions in the area of your proposed well?

A. Exhibit 7 is a geologic structure map on the top of the Gallup sand, which is a member of -- in the Mancos formation. This map is in the area where we're proposing to drill our directional well, and on the map I'd like to have you focus your attention on the yellow square, which is our proposed 640-acre unit, including the west half of Section 2 and the east half of Section 3, Township 23 North, Range 1 West.

There's a couple of things I'd like to point out about this map. One is the location of a seismic line which we have used along with geologic subsurface information from the wells on the map and geologic surface locations, where the formations outcrop on the lower right-hand side of this map.

This -- on the map, shown in blue -- which it's kind of hard to see that it's in blue but is labeled Cuba 2 is a 2-D seismic line, part of which we've used to create this map.

EXAMINER EZEANYIM: Where is the blue? I don't see that.

THE WITNESS: It's a numbered line that has --

EXAMINER EZEANYIM: Oh, Cuba 2?

THE WITNESS: Yeah, Cuba 2 labels on each end of it. It runs basically east-west. The top of the map is toward the north.

This map then shows the structural setting on the top of the Gallup sand, and on the lower right-hand side, as I mentioned, the Gallup outcrops at the surface. It then slopes very steeply down to approximately the west half of Section 2, and then is fairly flat as you go to the west. And this will be a little easier to see in the next exhibit, but I kind of wanted to explain the setting here first.

Shown on the exhibit in the yellow box is our proposed lateral, in red. The surface location is in Section 3. The lateral follows the seismic line and the geologic cross-section I'm going to show you in a minute, going to the east southeast, and the bottomhole location is noted with the symbol BHL.

And if you don't have any questions, I'd like to bring --

Q. (By Mr. Bruce) One thing I do want you to point out. There are a couple of wells in Sections 2 and 3. Could you identify those and what they were -- what they produced?

A. Yes. The well that you see in Section 2 is labeled Nassau Resources Laguna Colorado Number 2. It has a slight directional nature to it. That's what the little black line is from the black dot, going to the south southeast [*sic*]. It also has a label in red at the top of this gallup sand horizon, and that's showing a plus-690. That's sea level -- above sea level.

The other well I'd like to -- That well produced 5000 barrels. That's what the little 5 is in green, 5 CUM.

To the west in Section 3 is the Amoco Badland Flats well, which had cum'd 7000 barrels. And its structural position on the map is a plus 728.

EXAMINER EZEANYIM: Do you know when those wells were drilled? Do you know when those wells were drilled?

THE WITNESS: Approximately. The Amoco well was drilled in the late 1980s, and the Nassau Resources well was drilled around the same time.

Q. (By Mr. Bruce) And those wells were definitely uneconomic?

A. Yes.

Q. Okay. Let's move on to your Exhibit 8 then at this point, and describe the reason for the nonstandard unit.

A. The reason for the nonstandard unit is due to geologic considerations which I think I can show you fairly clearly on this geologic cross-section. The line of the cross-section follows the Cuba 2 seismic line that's shown on the structure map. So at the right we're on the outcrop and you can see that that's coming up very steeply. And on the left it comes out to where these beds are very flat.

So the proposed unit is also shown on this cross-section with two yellow lines. On the right the yellow line is the half-section line for Section 2, and on -- the left-hand yellow line is the half-section line for Section 3.

What we're targeting, as you can probably see, is the point where the beds bend. They've come down from the right-hand side or the east side, and they flatten out right in the center of our proposed location.

The proposed well is shown on the cross-section in dark red. We're going to drill the well straight down to just above the Gallup sand, and then we're going to attempt a lateral to the east southeast, towards the bottomhole location.

Q. Based on this plat, would you anticipate both the west half of Section 2 and the east half of Section 3 to be productive in the Mancos?

A. The west half of Section 3 --

Q. No, no, no, the west half of 2 --

A. Oh.

Q. -- and the east half of 3?

A. Well, we're hoping so. The sweet spot, if you'll allow that term, would probably be toward the center of the proposed unit. As you go to the west of the proposed unit, the beds are fairly flat. And as the results of the Amoco well indicate, we don't believe that the -- it's as prospective for production of oil.

As you go to the east the beds are highly dipping, and we again don't feel that they'll be as productive as in the curve.

Q. And so the reason for the nonstandard unit is because, based on your geologic study of the area, the east half of 2 and the west half of 3 are not prospective?

A. That is correct.

EXAMINER EZEANYIM: But you want to -- They are not prospective, but you want to combine them. So when you combine them, they become prospective? Is that what --

MR. BRUCE: No, no, no. I'm talking the east half of 2, the excluded acreage in --

EXAMINER EZEANYIM: Oh, the excluded.

MR. BRUCE: -- Section 2 --

EXAMINER EZEANYIM: Okay, the --

MR. BRUCE: -- and then the west half of 3.

EXAMINER EZEANYIM: But the -- neither of the one that you include is productive. Those wells were drilled in 1980, and they are cum'ing seven and five. And I heard you say that they are not productive. I don't know whether when you combine them, then they become productive.

MR. BRUCE: No, no. Well -- That's not what I'm asking, Mr. Examiner.

He -- I was asking Mr. McConnell if he expects -- There's two separate questions: if he expects the west half of 2 and the east half of 3 to be productive --

EXAMINER EZEANYIM: Okay.

MR. BRUCE: -- and then separately the west half of 3 and the east half of 2 to be nonprospective.

EXAMINER EZEANYIM: Yeah, what was your answer when that question was asked, Mr. McConnell? When he was asking you if the -- this west half of 2 and the east half of 3, whether you expect them to be productive.

THE WITNESS: The west half of 2 and the east half of 3 --

EXAMINER EZEANYIM: Uh-huh.

THE WITNESS: -- which is in the proposed unit --

EXAMINER EZEANYIM: Yeah.

THE WITNESS: -- we do expect that to be productive because of its geologic position at the point where the beds come down steeply dipping and then turn to flat --

EXAMINER EZEANYIM: Yeah, I'm looking at --

THE WITNESS: -- so that's our target area for geologic considerations.

And for the similar reason, the areas outside of the proposed unit, which would include the east half of 2 and the west half of 3, are not likely to be productive in our opinion, and that's supported by -- at least by the Amoco well's poor results.

EXAMINER EZEANYIM: I guess my other question would be, you know, that bottomhole is in the west half of Section 2, right? The bottomhole is in the west half of 2? The bottomhole location of that well is in the west half of 2, right?

THE WITNESS: Yes, sir.

EXAMINER EZEANYIM: Okay. Let me ask you this question, because that will be a basis of approving this Application. If you go to the rules and have Section 2 as your standard unit, what would be the -- How would I ask that question? Are there going to be wells involved -- what would be -- Just use Section 2 for example, and you

drill that well there. Under the order, -6469 or -2565, whichever that is going in that pool, Mancos Pool, and you use Section 2, what are you going to lose by using Section 2, combining this half-section?

THE WITNESS: Well, I think we'll lose approximately half to maybe three-quarters of our prospective productive region, because we're expecting that the majority of the productive fractures will be pretty much on the centerline between Section 2 and Section 3. It's unfortunate that the geology didn't follow the governmental sections --

EXAMINER EZEANYIM: Uh-huh.

THE WITNESS: -- but we felt like to apply these modern technologies to make productive wells and add to production from an old field, we had to try to maximize our possibility of productivity by hitting that curve.

EXAMINER EZEANYIM: So it's because of economics that you want to drill that horizontal well?

THE WITNESS: Yes, sir.

Q. (By Mr. Bruce) And Mr. McConnell, these Mancos pools out here were discovered some 20 to 25 years ago, were they not?

A. It was longer than that, it was in the '60s.

Q. And really there has been very little development for about 20 years out here; is that correct?

A. That is correct.

Q. And so what U.S. Enercorp hopes to do is apply a little new technology to this old reservoir?

A. That is correct.

Q. And then as the Examiner correctly pointed out, that Nassau Resources well is in the west half of 2, but that was a vertical well, correct? More or less?

A. Yes.

Q. And so it isn't able to -- it wasn't -- or it didn't test any -- the bend in the formation like you are intending to test?

A. That is correct.

Q. Were Exhibits 7 and 8 prepared by you or under your supervision?

A. Yes.

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

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 7 and 8.

EXAMINER EZEANYIM: Exhibits 7 and 8 will be admitted.

MR. BRUCE: And I have no further questions of the witness.

EXAMINER EZEANYIM: Do you have any?

EXAMINATION

BY EXAMINER BROOKS:

Q. Mr. McConnell, looking at your Exhibit 8, you're attempting to place your bottomhole location right in the crook where the formation turns upwards; is that correct?

A. Yes.

Q. And then you're -- But you're going to penetrate farther back where the formation is more or less flat?

A. We think we're going to come into the formation -- As you can see, there are some faults indicated on here --

Q. Yeah.

A. -- with question marks. They're interpreted. But we're hoping that the fracturing will be prevalent from about the point we contact the formation, which is probably a little bit on the eastern edge of Section 3, all the way through to approximately where the Laguna Colorado well has been projected onto the seismic line.

Q. Okay.

A. We --

Q. Go ahead.

A. We're not sure we'll actually get this long a lateral when it comes to drilling. There's difficulties trying to get the lateral that long, but we wanted to try

to get as far as we could with it, and that's what we proposed here.

Q. Well, I readily understand your point about the change in grade of the beds, or change in depth of the beds. At the same time, I would ask the question, then, since the formation appears to be relatively flat through the entirety of Section 3, why is it that you believe that the east half of Section 3 will contribute to the production and the west half of Section 3 would not?

A. I think that the contribution, even though it's shown as relatively flat, the junction of the sloping formation and the flat is probably -- we don't know exactly where it is --

Q. Yeah.

A. -- to be honest. But the faulting we've proposed there, even though it's flat, the fracturing is likely to be where we think that faulting is occurring.

Q. So the fault is -- the faulting is the line shown with the question marks on it, on Exhibit 7, right?

A. Yes, sir. And there's actually little arrows that you may be able to see, that indicate what direction that fault has moved, we believe.

Q. So would it be correct, then, to say that you're relying on the change in the dip of the beds as a trapping mechanism here or --

A. The change in the dip of the beds is a trapping mechanism in the sense that that's likely to be where the fractures will occur, and the fractures are where the oil is held.

Q. Yeah.

A. They are the trap.

Q. And do you think, though -- the fault that you've put in here as a question mark, would that be a western boundary to the area that you would think would be where the production would be, or -- What I'm trying to get to is why you think the west half would be unproductive, other than the relatively poor performance of the Badland Flats well.

A. We believe that the fracturing is probably occurring in the bend, as I indicated, and that -- by that same idea, there would be less fracturing as you got out into the flatter section of the formation, out toward the Amoco well. The results of the Amoco well, of course, are not very compelling to drill out there either, but it's really because of the fracturing. We think that that will be maximized in the bend area and -- the area where we've shown this proposed fault.

Q. Okay. If -- And you're not real sure exactly where the structure is, then?

A. That's correct.

Q. It's somewhere around the boundary between Section 2 and 3, but you don't know exactly?

A. Right. It could be a little bit more on the eastern edge of 3 or a little bit more on the western edge of 2, we're not sure. But we feel like with this unit we've got our best chance of hitting that fractured bend.

Q. And the farther you get away from that structure, the less juice you expect to find?

A. That's what we are thinking in this area.

Q. So if you created a standard unit in -- if you created two standard units as a project area, you could do this same well, but you'd have to share the production with the owners of the east half of 2 and the west half of 3, correct?

A. Yes.

Q. And that would be kind of hard on your correlative rights if your geologic theory is correct?

A. That's true.

MR. BRUCE: And one thing, Mr. Examiner. I will point out that the -- and I didn't get into this with Mr. Sowell, but U.S. Enercorp has a farmout that's coming to the end with McElvain Oil and Gas, and they have to drill the well fairly shortly. But the southeast quarter of Section 2 is unleased federal minerals, and -- which Mr. Sowell did testify to.

EXAMINER BROOKS: Yes, I believe I recall that.

MR. BRUCE: And so as you know, you can't force pool the federal government --

EXAMINER BROOKS: That's true.

MR. BRUCE: -- et cetera, et cetera, and it also leads to issues regarding if they make a good well, then somebody could go out and buy that lease after seeing what's happened, et cetera. So that's an issue too.

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

EXAMINATION

BY EXAMINER EZEANYIM:

Q. Yeah, geology alone is not very convincing to me. I would have preferred there are some calculations done here to prove that what you are trying to do is going to -- even more production. So I would like to see some reservoir engineering calculations. You have some offset wells there on 3 and 2 that could have given you some information.

Of course, you should -- with your geology, you know the porosity and everything. You could do some calculations to demonstrate that what you are doing is going to be profitable. You know, you are -- right now, if I understand what you said correctly from geology, so I don't know whether dividing those two will yield the desired results that you wanted unless you have a

calculation to back that up. I mean, that's my feeling. I don't know how you feel about it.

A. Well, geology is an inexact science, but this is our best estimate of the geologic setting, and this unit would give us the best way to test that idea. The calculations you're referring to, I'm not quite sure what else we can add to the concept we've come up with.

We do have this seismic line Cuba 2, which is the basis for this cross-section, and it shows basically the same thing as we've gone through with the cross-section, where the bend is. So locationwise, the bend -- we're pretty close. It's somewhere along the boundary line between Section 2 and Section 3.

So the only way to penetrate that bend position is to create a unit that doesn't follow the governmental sections. That's really the only way to test it at this location.

Now we're not experts at this yet, but we have drilled another well on this type of idea, and it is working. So it's new to the area, the area really hasn't had much activity in a long time, and we'd like to come in and employ new technology as far as lateral drilling. But we need to do it where we think we have our best shot.

Q. You are also asking for approval of the nonstandard location, correct?

A. Yes, sir.

MR. BRUCE: That's correct, Mr. --

Q. (By Examiner Ezeanyim) And that includes the terminus and the -- I don't know where is the penetration point of this one.

MR. BRUCE: Well, both the surface location and the terminus proposed terminus are unorthodox, both of them.

EXAMINER EZEANYIM: I don't really care about the surface, but I care about where the -- where that will penetrate the formation.

MR. BRUCE: And that's -- and I think Mr. McConnell can address that. It's -- where it penetrates the Mancos --

EXAMINER EZEANYIM: Yeah.

MR. BRUCE: -- might be a little -- where you first penetrate the Mancos might be a little uncertain until you get down there and start drilling.

EXAMINER EZEANYIM: Well, yeah, it's okay, I needed to know where it is. You are asking for those to be approved too, so --

MR. BRUCE: Yes.

EXAMINER EZEANYIM: -- I think you have done your notification requirements, but I wanted to know where it penetrated it, because bottomhole location is --

THE WITNESS: Right, the penetration point for the Gallup will be further east than the surface location.

EXAMINER EZEANYIM: Oh, okay.

THE WITNESS: Where it's going to be, as Mr. Bruce said, we don't know until we actually get there. We actually have to sort of manually drive the directional, to hit the formation. But it will be further east, as is indicated on the cross-section, than the --

EXAMINER EZEANYIM: Yeah.

THE WITNESS: -- surface location.

EXAMINER EZEANYIM: And you -- the notice requirement, all the notices, right?

MR. BRUCE: Yes, sir.

EXAMINER EZEANYIM: Okay. Anything further?

EXAMINER BROOKS: Nothing further.

EXAMINER EZEANYIM: Anything?

MR. BRUCE: Nothing further, thank you.

THE WITNESS: Thank you.

EXAMINER EZEANYIM: Well, if nothing further, Case Number 13,951 will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:07 a.m.)

* I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13951 heard by me on _____, 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 July 15th, 2007.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010