

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 READ AND STEVENS, INC.,)
TO LIMIT THE WELL SPACING RULES OF THE)
LEA-PENNSYLVANIAN GAS POOL TO ITS)
CURRENT HORIZONTAL EXTENT, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,993

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Technical Examiner
DAVID K. BROOKS, Jr., Legal Examiner

September 20th, 2007

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, September 20th, 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

September 20th, 2007
 Examiner Hearing
 CASE NO. 13,993

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<u>JOHN C. MAXEY, Jr.</u> (Engineer)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 11:13 a.m.:

3 EXAMINER JONES: And let's call Case 13,993,
4 Application of Read and Stevens, Incorporated, to limit the
5 well spacing rules of the Lea-Pennsylvanian Gas Pool to its
6 current horizontal extent, Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness.

10 EXAMINER JONES: Any other appearances?

11 Will the witness please be sworn?

12 (Thereupon, the witness was sworn.)

13 JOHN C. MAXEY, Jr.,

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city of
19 residence?

20 A. My name is John Maxey, residing in Roswell, New
21 Mexico.

22 Q. Who do you work for?

23 A. I work for Read and Stevens.

24 Q. And what's your job at Read and Stevens?

25 A. I'm the president of the company, I also run the

1 operations.

2 Q. Okay. By trade are you an engineer?

3 A. Yes, petroleum engineer.

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

6 A. Yes, I have.

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

9 A. Yes, they were.

10 Q. And are you familiar with the engineering matters
11 related to this Application?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I'd tender Mr. Maxey as
14 an expert petroleum engineer.

15 EXAMINER JONES: Mr. Maxey is qualified as an
16 expert petroleum engineer.

17 Q. (By Mr. Bruce) Mr. Maxey, would you identify
18 Exhibit 1 and discuss what pools are involved the black
19 outline, what pertinence that has to this case, and
20 basically what Read and Stevens would like to see done with
21 this Application?

22 A. Okay. I'll call your attention to the black
23 arrow pointing to the little green dot surrounded by the
24 black box. That's Fasken Number 1 Quail State, which is
25 currently drilling. It's very near TD right now. We have

1 leasehold in the southeast southeast of that section, a 40-
2 acre leasehold.

3 And the Fasken well, currently, based on rules
4 that the OCD has that we will get into in Exhibit B -- we
5 do not know yet if the Fasken well is going to be a 160-
6 acre proration unit or 320-acre proration unit. It is
7 within one mile of the Lea-Penn Pool, which is the green
8 outline. The Lea-Penn Pool is 160-acre spacing, one of the
9 older fields, set up early '60s. You're probably familiar
10 with those old fields that were 160-acre spacing on the
11 Penn production.

12 I want to call your attention to the red outline
13 that's just below the green outline. That is the Laguna
14 Valley-Morrow field. That was actually set up in April of
15 '86 and extended in May of '86 by the OCD. These were OCD
16 hearings. And that's the Laguna Valley-Morrow, and it's on
17 320-acre spacing.

18 The red outline to the northeast is the Quail
19 Ridge-Morrow Field, and that field was an old Penn field
20 formed in June of '62, and that was on 160-acre spacing.
21 It was subsequently changed to 320-acre spacing in November
22 of 1969. So that well is -- that field has been on 320-
23 acre spacing since November of '69.

24 Q. So Read and Stevens would like to limit the
25 horizontal extent of the Lea-Penn Pool to that current

1 green outline?

2 A. That's correct.

3 Q. So that any development outside of that green
4 outline is on statewide 320s?

5 A. That's correct, to bring it into line with what's
6 being done in the state in more recent years.

7 Q. Okay. Now what is Exhibit 2?

8 A. Exhibit 2 is -- Well, let me describe Exhibit 2
9 this way. I had a conversation with the District Geologist
10 in Hobbs, and we discussed the Number 1 Quail State that
11 Fasken is drilling, and I asked him about this situation
12 where the State has to look at logs before they determine
13 whether the well is going to be in the Lea-Penn Pool on
14 160s or outside the Lea-Penn Pool on 320s.

15 He said there was a case -- this is Mr. Paul
16 Kautz, who's been around the OCD a long time, and he said
17 there was a case that he has to go by, OCD case, which is
18 this Order Number R-7830-A, *de novo* hearing. And in
19 particular, paragraph (16). I'll read that to you:
20 Pennsylvanian formation wells completed within one mile of
21 the boundary of such pool -- which is the -- we're talking
22 about the Lea-Penn -- should be evaluated by the Hobbs
23 District Office of the Division to determine if they should
24 be included within the boundaries of the Lea-Penn Gas Pool
25 which may be extended to include such wells.

1 When I talked with Mr. Kautz I said, That
2 presents a very difficult situation for the operator and
3 the other people that could be in a potential 320. I said,
4 The operator has to drill the well, take the risk of the
5 well, put the expense of -- the capital expense, in
6 suspense because they don't know who their working interest
7 owners are going to be. They could change when you get to
8 TD and look at the logs. So he said, you know, this is
9 basically what he's had to go by.

10 So we are looking for two things, actually.
11 Number one, we'd like to confine the 160-acre spacing to
12 the existing boundaries of the Lea-Penn Pool and, number
13 two, do away with this language. This makes it very
14 difficult for operators to know who their partners are
15 going to be and for people that are involved in what could
16 be the 320-acre proration unit.

17 Q. So it's unfair to an operator who wants to drill
18 a well, because he has to drill it and somebody could take
19 a free look at the well, and if it's excluded from they
20 pool they'd come in without any risk?

21 A. Very much so. If based on geology the District
22 Geologist determines this needs to be on 320-acre spacing,
23 Read and Stevens would be in the unfair position to say,
24 Well, you know, maybe we'd like to look at the logs. And
25 we just don't believe that's a prudent way to operate. We

1 would never want to do that with Fasken or anybody else.
2 We wouldn't want someone to take that position with us.

3 Q. And insofar as affecting correlative rights, the
4 rules in the Lea-Penn are 160-acre spacing, and you have to
5 be 660 feet off a quarter-section line, correct?

6 A. Correct.

7 Q. And what you're asking is that acreage outside
8 the current boundaries be on 320s, which is basically the
9 same because two wells are allowed per 320?

10 A. Yes --

11 Q. It allows --

12 A. -- but under --

13 Q. -- better planning on an operator --

14 A. Yes.

15 Q. -- to know who his working interest partners are
16 in drilling a well?

17 A. That's correct.

18 Q. What is Exhibit 3?

19 A. Exhibit 3 I put together so you could have some
20 information on the three fields that we're talking about.

21 As you can see, the Lea-Penn and the Quail Ridge-
22 Morrow, similar wells -- or similar well-count in those
23 fields. There are more active wells in the Quail Ridge
24 right now than there are in the Lea-Penn. But I put
25 together some statistics, cum gas, cum liquid, for

1 fieldwide.

2 You can see that the yield in barrels per million
3 cubic feet is very similar on all three fields. And what
4 I'm trying to illustrate is, this is very similar
5 production. There's nothing that's going on geologically
6 or engineeringwise that would necessitate having different
7 spacing on the two fields.

8 Total acres is within each field boundary, acres
9 per well, it's just simply doing the math. And current
10 production is as of the latest information I could get.
11 And basically per active well is an average, it's the total
12 current production divided by the total active wells right
13 now.

14 Q. What is Exhibit 4?

15 A. Exhibit 4 I have put together, and again it's
16 just to illustrate a point that the geology between the two
17 fields is very similar. We have a cross-section that runs
18 from A to A', A being in the heart of the Quail Ridge-
19 Morrow field. Follow me --

20 EXAMINER JONES: Okay.

21 THE WITNESS: -- where I am there?

22 It runs over to Section 33, which is the edge of
23 the Quail Ridge-Morrow field, and then down into the heart
24 -- Section 10, the heart of the Lea-Penn field. And then
25 we run the cross-section west into Section 9, just north of

1 the well that's drilling now.

2 And this is to illustrate, this is very typical
3 Morrow, deposited from northwest to southeast, north to
4 south, and we have several different sands that are either
5 in the upper Morrow or the lower Morrow.

6 Q. (By Mr. Bruce) And typical with Morrow, they're
7 discontinuous, they come and go from well to well?

8 A. Discontinuous, channelized sands.

9 Q. And as a result, you see no difference from this
10 plat geologically between any of the three pools in the
11 area?

12 A. No.

13 Q. Was notice of this Application given to all
14 operators in the Lea-Penn Pool?

15 A. Yes.

16 Q. And is that reflected in Exhibit 5?

17 A. Yes.

18 Q. And have you spoken with Fasken, the operator of
19 the currently drilling well, regarding this Application?

20 A. Yes, we have spoken with Fasken. As a matter of
21 fact, they have a representative present, and they support
22 what we're trying to do.

23 Q. Okay. And would you request an expedited order
24 in this matter?

25 A. Very much so. The well is probably just a few

1 days from TD, logs will be run, and it would be very
2 helpful to get an order issued on this so that we know who
3 the working interest owners are in the well.

4 MR. BRUCE: Mr. Examiner, with your permission I
5 will submit a proposed order on this matter.

6 EXAMINER JONES: Sure.

7 Q. (By Mr. Bruce) And one other thing, Mr. Maxey.
8 Is the change in the pool rules necessary so that an east-
9 half Section 16 communitization agreement can be entered
10 into and approved by the Land Office?

11 A. Yes.

12 Q. Were Exhibits 1 through 5 prepared by you or
13 under your supervision or compiled from company business
14 records?

15 A. Yes.

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

19 A. Yes, it is.

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

22 EXAMINER JONES: Exhibits 1 through 5 will be
23 admitted.

24 EXAMINATION

25 BY EXAMINER JONES:

1 Q. Mr. Maxey, the -- Paul told you that it would be
2 more than likely extended from the Lea-Penn Pool and not
3 from the Laguna Valley-Morrow, I take it?

4 A. Yes, he said that it was closer to the boundary
5 line, and that's what he was having to deal with.

6 Q. And the Lea-Penn Pool, you basically want to
7 change the spacing, but --

8 A. We just want to limit --

9 Q. Oh, limit.

10 A. Yes, we just want to limit the spacing to the
11 boundary --

12 Q. Yeah, yeah.

13 A. -- inside the boundary so that, you know,
14 anything outside is back on 320s.

15 Q. And for some reason they just called it the Lea-
16 Penn Pool. They didn't call it the Lea-Morrow Pool or
17 anything.

18 A. Well, you know, what I've seen in all the old
19 orders, they were Penn.

20 Q. Oh.

21 A. And this was under the old --

22 Q. Start general and get specific --

23 A. Right, yeah. It was pretty big.

24 Q. Okay. And there's something -- what was it
25 happened in the mid-'60s, some kind of -- Is that when they

1 changed the pool?

2 MR. BRUCE: In fall of 1964 --

3 EXAMINER JONES: He's dating himself.

4 MR. BRUCE: -- the pools below the base of the
5 Wolfcamp were increased in spacing from 160 to 320 acres.
6 And then in '72 or '73 they expanded that to include the
7 Wolfcamp.

8 Q. (By Examiner Jones) Wolfcamp is always hard to
9 tell sometimes, between -- I guess, but..

10 Okay, so you want this to be limited in scope,
11 and that way Paul has the option of making a new pool or
12 something out of this, huh?

13 A. Yes --

14 Q. Putting it into the Laguna Valley-Morrow or
15 something?

16 A. Right.

17 Q. It would be disjointed if he did, unless he
18 included that other -- the west half of Section 15 or --
19 was it -- Section 15, I guess, but...

20 Is that what you think he would do in this case?

21 A. Well, I don't know how the order would read for
22 -- you know, we're asking to limit the spacing to the
23 current boundaries. I don't know if you could go and add
24 it to the Lea-Penn Pool, but it's outside current boundary
25 now, it's on 320s, or go to Laguna Valley-Morrow.

1 Either way, the Laguna Valley-Morrow is a newer
2 field. It was established, you know, much later. It's
3 evolved. And that would give us -- potentially give us
4 what we need there. He would -- because the west half of
5 Section 15 is not in that pool. You'd have to probably
6 include that. I don't know if you -- how you guys do that,
7 as far as -- you know, they have to be connected,
8 contiguous, but --

9 Q. Yeah, I think that's -- I think they try to do
10 that and --

11 A. We drilled the -- to point out, in the -- the
12 Lorrie D in the northeast of Section 15, that little red
13 dot --

14 Q. Okay.

15 A. -- that's our well.

16 Q. Oh.

17 A. And we drilled that back in eighty- -- late '80s.
18 And you can see how close it is to the offset Morrow
19 producers to the north. And it's on 320-acre spacing --

20 Q. Okay.

21 A. -- and the offset Morrow producers just across
22 the line are on 160s.

23 Q. Okay.

24 A. And the OCD established the Laguna Valley-Morrow,
25 and I did not see in the orders that anybody brought that

1 up. It was a nomenclature.

2 Q. Okay. Well, the -- some people are coming for
3 combining spacing units into a project area, that kind of
4 thing, or making a nonstandard proration unit, you know.
5 But you're basically wanting us to issue an order affecting
6 the entire Lea-Penn Pool as far as the -- a mile around the
7 pool itself, so --

8 A. Yes, any development outside.

9 Q. -- and you think because of the engineering and
10 basically the geology that you have submitted, think 320 is
11 more valid for this area than the Lea-Penn Pool was?

12 A. Yes.

13 Q. Did you go back and look at the -- So the 160 for
14 the Lea-Penn was historically what they used back in those
15 days?

16 A. In the early '60s, yes, it was the --

17 Q. But that was one well per 160 too, right?

18 A. Yes. And that was changed in the mid-'60s.

19 Q. Mid-'60s.

20 A. Yes. So --

21 Q. Okay.

22 A. -- we have not been on 160-acre spacing in the
23 Morrow --

24 Q. -- for a long time?

25 A. -- for a number of years, yes.

1 And with the advent of the -- you know, seven
2 years ago or so where we could make application
3 administratively for an infill on the opposite 160 --

4 Q. Yeah.

5 A. -- it made sense to have 320-acre proration units
6 and allow industry to figure out if we need that infill or
7 not --

8 Q. Right.

9 A. -- and it relieved the regulatory burden. And
10 this would be right in line with what's been going on
11 for --

12 Q. Yeah.

13 A. -- even since that time.

14 Q. Okay. But even once it did shift to the 320,
15 they allowed two wells and one had to be in each 160?

16 A. You had to come to a hearing for an infill, up
17 until the administrative order -- I can't remember when
18 that was, but it was --

19 Q. Okay.

20 A. -- a few years back, several years back --

21 Q. Okay.

22 A. -- where we could make an administrative
23 application to drill on the opposite 160.

24 Q. Okay. Do you anticipate drilling in the
25 southwest -- what is it, the southeast of Section 16, a

1 Morrow well? Or it would just depend on how this one comes
2 out, I take it?

3 A. Right, but it's possible.

4 Q. Yeah.

5 A. It's very possible. You can see from the cross-
6 section, there are discontinuous sands. So if we felt
7 geology would support it, we would work with Fasken and --
8 or they may come to us. Certainly, it's possible.

9 Q. And if you did form a 320 here, you would form a
10 standup and not a north half?

11 A. Yes, we want a standup --

12 Q. Okay.

13 A. -- east half, standup east half. And then if we
14 chose -- if geology supported a second well in the
15 southeast quarter, we would make administrative
16 application, you know, and be able to drill the southeast
17 quarter.

18 Q. What about the owners in the northwest quarter of
19 that --

20 A. The owners in the -- are Fasken, Read and Stevens
21 -- in the whole section are Fasken, Read and Stevens, and
22 they have a partner also.

23 Q. Okay.

24 A. And we have the whole section tied up in a
25 drilling unit --

1 Q. Okay, the whole section --

2 A. -- so --

3 Q. -- tied up. It's not really an issue of north --
4 standup-laydown --

5 A. No.

6 Q. -- issue here?

7 A. And I might add that we already have a com
8 agreement with the State. Jim said getting that com
9 agreement approved -- and I can't -- I'm not a landman, but
10 our landman talked with the State Land Office -- or, excuse
11 me, the -- yeah, the State Land Office in the southeast,
12 about the com agreement. We're using a little different
13 kind of com agreement --

14 Q. Okay.

15 A. -- than what would normally be used because of
16 the situation. We've been in touch with him several
17 times --

18 Q. Okay --

19 A. -- and we've got that worked out --

20 Q. -- so you've got that rolling?

21 A. So that's a -- that com agreement is there, the
22 lease is valid based on the com agreement, based on the
23 well drilling in the northeast corner of the section --

24 Q. Okay.

25 A. -- and then the entire section is under a JOA.

1 EXAMINER JONES: Okay. I don't think Mr. Brooks
2 would be asking all these questions if I had understood it
3 from the start.

4 EXAMINER BROOKS: Let the record reflect that Mr.
5 Brooks recuses in this case.

6 EXAMINER JONES: Okay.

7 EXAMINER BROOKS: Will not participate in a
8 decision.

9 EXAMINER JONES: Okay, that's -- that sounds
10 good. Okay. And I don't have any more questions either.

11 Q. (By Examiner Jones) You do your own geology?

12 A. No, we have a geologist. He happens to be in
13 Hawaii this week --

14 Q. Okay --

15 A. -- so --

16 Q. -- he just had to be there. That's okay.

17 EXAMINER BROOKS: I expect he's having more fun
18 than we are.

19 Q. (By Examiner Jones) He drew this, though, right?

20 A. Yes, he put that together, and we've both worked
21 together 20 years and worked this area for about 15, so --

22 Q. I think I remember --

23 A. Yeah, but I -- Thanks for the opportunity to
24 throw that in the public record.

25 (Laughter)

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EXAMINER JONES: Okay. Okay, anything else in this case?

MR. BRUCE: No, sir.

EXAMINER JONES: Okay, thank you very much.

We'll take Case 13,981 [sic] under advisement.

(Thereupon, these proceedings were concluded at 11:34 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13981 heard by me on 9/20/07.
Will Jones, 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 September 25th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010