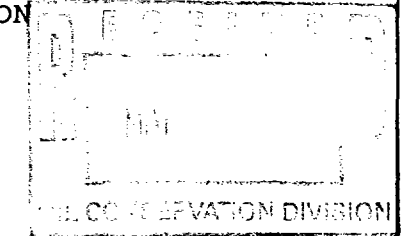


STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
 CALLED BY THE OIL CONSERVATION)
 DIVISION FOR THE PURPOSE OF)
 CONSIDERING:)
)
 APPLICATION OF CONOCO, INC.)
 _____)



CASE NO. 11,240

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 6th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, April 6th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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

I N D E X

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 Examiner Hearing
 CASE NO. 11,240

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* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:40 a.m.:

3 EXAMINER CATANACH: At this time we'll go ahead
4 and call Case 11,240, which is the Application of Conoco,
5 Inc., to reopen Case Numbers 10,471 and 10,560 to vacate
6 the compulsory pooling provisions of Order Number R-9673-A
7 and for the creation of two nonstandard 80-acre spacing and
8 proration units, including the assignment of appropriate
9 allowables, Eddy County, New Mexico.

10 Are there appearances in this case?

11 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
12 the Santa Fe law firm of Kellahin and Kellahin, appearing
13 on behalf of Conoco, Inc.

14 I have one witness to be sworn.

15 EXAMINER CATANACH: Additional appearances?

16 MR. COOTER: Paul Cooter with the Kemp Smith firm
17 in Albuquerque, appearing in this case on behalf of
18 Southwest Royalties in Midland.

19 EXAMINER CATANACH: Anybody else?

20 MR. KELLAHIN: Mr. Examiner, the record should
21 also reflect the continuing appearance of Ernest Carroll,
22 attorney of record for Yates Petroleum Corporation in this
23 matter.

24 EXAMINER CATANACH: Okay.

25 Will the witness please stand to be sworn in at

1 this time?

2 (Thereupon, the witness was sworn.)

3 MR. KELLAHIN: Mr. Examiner, there's some
4 preliminary matters to have you address before I present
5 Mr. Hoover's testimony.

6 By way of introduction to those preliminary
7 matters, we are back before you pursuant to the terms and
8 conditions of Division Order R-9673-A, a copy of which is
9 before you among the Conoco exhibits. They may have been
10 stapled together so that the Pooling Order, 9673, appears
11 first, followed by the subsequent order that's denominated
12 as 9673-A.

13 You will remember that you were the Examiner in
14 both of the prior cases. We're dealing with the North
15 Dagger Draw-Upper Pennsylvanian Oil Pool. That pool is
16 spaced on 160-acre oil spacing, but it's very common to
17 have multiple wells in the North Dagger Draw spacing units.
18 In fact, a great many of those spacing units have three and
19 four wells within a single spacing unit.

20 The Division and Southwest Royalties, as well as
21 Conoco, recognized a unique problem in this particular
22 spacing unit. It's the northeast quarter of Section 17.
23 The Order refers to the chronology of events.

24 We are back before you today concerning how to
25 further operate that 160 acres. You left unresolved at the

1 last hearing whether or not it was going to be appropriate
2 to subdivide the spacing unit and to create two nonstandard
3 80-acre spacing units, one operated by Conoco in the north
4 half of that 160, and the other operated by Southwest for
5 the south half.

6 In drafting the Order that the Division finally
7 issued, if you'll look at Ordering Provision 16, it is
8 further subdivided. Ordering Paragraph (16), then, deals
9 with the topics that we are going to address today.

10 In bringing this matter back to you, I filed an
11 Application that contains two items for which Mr. Cooter,
12 representing Southwest Royalty, has raised some concerns.
13 He and I have discussed his concerns, and I concede to his
14 point of view on two items, and the record should reflect
15 that while Conoco asked to have Case 10,471 reopened, in
16 fact, procedurally it's unnecessary to reopen that case.
17 And so we would ask you to delete our request to reopen
18 Case 10,471.

19 For your information, that was a force-pooling
20 case filed by Conoco for this same acreage, and as a result
21 of the settlement among the parties it was no longer
22 required.

23 Case 10,560 dealt with compulsory pooling for the
24 160 acres with Southwest Royalty as the -- Have I
25 misspoken, Paul? I think I've got these numbers reversed.

1 MR. COOTER: You've got them reversed.

2 MR. KELLAHIN: I've got the numbers reversed, Mr.
3 Examiner, I apologize. The case we're trying to not reopen
4 is 10,560. That was the Conoco pooling application.

5 Case 10,471 is the pooling order obtained by
6 Southwest Royalty, and in filing the application with
7 Conoco, we asked to vacate the pooling provisions under
8 that case, which are incorporated in Order R-9673. We did
9 so in the belief that for Conoco's operation, a pooling
10 order was not necessary. We have subsequently obtained the
11 agreement of Southwest Royalty, and we have subsequently
12 acquired the interest of Scarlet Nunes.

13 Mr. Cooter reminds me that in his opinion he
14 believes the pooling provisions are appropriate insofar as
15 it deals with the wells operated by Southwest, because
16 there are still unresolved remaining issues with Yates
17 Petroleum.

18 I have agreed to withdraw from our Application
19 the request to vacate the pooling provisions of Order 9673.
20 We would ask that you leave all those provisions in place.

21 The end result of that is that we're dealing with
22 Paragraph (16) and the subdivisions of that paragraph, and
23 those are the issues that Mr. Hoover is prepared to discuss
24 with you this morning.

25 Having said that, I would formally move at this

1 point to vacate our request to reopen Case 10,560 and to
2 withdraw our request to vacate the compulsory pooling
3 provisions of Order 9673.

4 EXAMINER CATANACH: I guess, Mr. Kellahin, it
5 would be appropriate just to dismiss those requests?

6 MR. KELLAHIN: Yes, sir.

7 EXAMINER CATANACH: Okay.

8 MR. KELLAHIN: That would leave on the table,
9 then, our request to create two nonstandard 80-acre spacing
10 units, including the assignment of an appropriate allowable
11 and the -- addressing the other issues under Ordering
12 Paragraph (16).

13 All right, sir? We're ready to present Mr.
14 Hoover.

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

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. For the record, sir, would you please state your
21 name and occupation?

22 A. I'm Jerry Hoover. I'm a petroleum engineer with
23 Conoco, Incorporated.

24 Q. On prior occasions, Mr. Hoover, have you
25 testified as a petroleum engineer before the Division?

1 A. Yes, I have.

2 Q. And where do you reside, sir?

3 A. In Midland, Texas.

4 Q. Were you involved on behalf of your company with
5 the facts and information with regards to the compulsory
6 pooling case that was docketed by the Division as Case
7 10,471, resulting in the issuance of the pooling orders
8 that dealt with the topics that we've described this
9 morning?

10 A. Yes, I was.

11 Q. In addition, are you the regulatory coordinator
12 for your company that deals with matters before the Oil
13 Conservation Division, including the subject matter of the
14 items listed in this pooling order?

15 A. Yes, I am.

16 MR. KELLAHIN: We tender Mr. Hoover as an expert
17 witness.

18 EXAMINER CATANACH: Mr. Hoover is so qualified.

19 Q. (By Mr. Kellahin) Mr. Hoover, let me have you
20 direct your attention to what we've marked as Conoco
21 Exhibit 1, and for purposes of the record let's have you
22 identify this plat and then let me ask you some questions
23 about it.

24 A. This is a plat primarily of Section 17, Township
25 19 South, Range 25 East, Eddy County.

1 We have outlined the 160-acre standard spacing
2 unit that we're dealing with in this case.

3 We have indicated Conoco's preference to divide
4 this into two 80-acre spacing units, the north half to be
5 operated by Conoco, the south half to be operated by
6 Southwest Royalties.

7 Q. To the best of your knowledge, does this display
8 show the approximate location and the status of the wells
9 that are currently drilled or well locations proposed in
10 what is identified as the North Dagger Draw-Upper
11 Pennsylvanian Pool?

12 A. Yes, it does.

13 Q. Back in April of 1992, when Examiner Catanach was
14 first dealing with the topic of compulsory pooling in the
15 northeast quarter of Section 17, what if any wells existed
16 with regards to this particular pool?

17 A. At that time, the well labeled as Julie Com
18 Number 2 had been drilled. It was cased but uncompleted at
19 that time. There was only a proposal by Southwest to drill
20 the Dagger 1A.

21 The well listed as Julie Com 1, which is a
22 previously plugged well in the Cisco, was there.

23 Q. The Julie Com 1, during the course of the
24 relevant period with regards to these applications, was
25 anticipated to be a saltwater disposal well?

1 A. That's correct.

2 Q. Was that ever utilized for that purpose?

3 A. Yes.

4 Q. As a result of a settlement between Conoco and
5 Southwest Royalty, what was contemplated in that settlement
6 concerning the operatorship of the northeast quarter of
7 Section 17?

8 A. Conoco and Southwest both agreed that Conoco
9 would take over operation of the Julie Com Number 2 well,
10 that Conoco would finish the completion of that well in the
11 Cisco formation and that we would operate the northern 80
12 acres of this unit.

13 Q. What was to happen with the south 80 acres of
14 this unit?

15 A. Southwest was to continue with its drilling of
16 the Dagger Number 1A well. Conoco went nonconsent in that
17 well and also consented to the operatorship of that well by
18 Southwest Royalties.

19 Q. What do you propose to do at this point?

20 A. That is still the arrangement that Conoco would
21 like to proceed with.

22 Q. In order to accomplish that arrangement with the
23 Oil Conservation Division, Order R-9673-A, in Paragraph
24 (16), contemplated that Southwest and Conoco would come
25 back before the Division and explain how to resolve these

1 issues that were raised at the earlier hearing.

2 If you'll go down the list with me, describe for
3 me what in your opinion is an appropriate solution for each
4 of the items shown within that particular Order.

5 A. All right, referring to subtitle (a) under
6 Paragraph (16), speaking of the pooling concerning the
7 northeast quarter of Section 17 in regards to the Julie
8 Well Number 2, as we'll discover in a future subdivision,
9 that is no longer needed by Conoco. Conoco now controls
10 all the interests in the north 80 acres, which we propose
11 to operate.

12 Q. That, however, is not to disturb any of the
13 pooling provisions with regards to any other well that has
14 been drilled in the spacing unit?

15 A. That's correct.

16 Q. All right, let's turn briefly to subparagraph (b)
17 of (16). That required what?

18 A. This was the assignment of an appropriate
19 allowable between the Conoco-operated well Julie Com Number
20 2 and the proposed Dagger Draw Well 1A by Southwest
21 Royalties.

22 Q. All right. In order to address that issue, let
23 me subdivide it for you.

24 The distribution of allowable, is that an issue
25 separate and apart from the distribution of proceeds among

1 the working interest and royalty owners, as well as
2 overrides in the spacing unit?

3 A. Yes, I believe it is.

4 Q. All right. So when we come to the issue of how
5 the interests are being handled, that is to be handled by
6 the companies, based upon ownership within the spacing
7 units?

8 A. That's correct.

9 Q. All right. What was the problem that the
10 Examiner was trying to wrestle with concerning the
11 allocation of allowables on a 160-acre basis for what is
12 now called the Julie Com Number 2?

13 A. Any type of split in the allowable, which would
14 have been reported to the 160 spacing unit, would have
15 required monitoring of some type of a suboperatorship
16 arrangement, which I don't think anybody is set up to
17 handle.

18 Q. As you understand the Division's regulatory
19 scheme, it is not possible for them to track a
20 suboperatorship, if you will, in the North Dagger Draw if
21 we were to subdivide the spacing unit?

22 A. No, we understand that's not practical.

23 Q. All right, the practical solution is, you
24 understand the regulatory scheme is to simply designate
25 this spacing unit as two separate nonstandard proration

1 units consisting of 80 acres each?

2 A. That's correct.

3 Q. All right. If the Division does that, then, we
4 can designate Conoco as the operator of the north half, and
5 Southwest the operator of the south half?

6 A. Yes.

7 Q. We'll come back to how we handle the allowable in
8 a moment.

9 If you'll look at sub (c), do you have an opinion
10 as to whether or not it is appropriate to subdivide the
11 existing spacing unit into two nonstandard proration units?

12 A. Our opinion is that this is the most practical
13 solution to the issue.

14 Q. In order to remove any regulatory glitch in the
15 paperwork, is it appropriate to make it retroactive as of
16 the date of first production of whatever well is
17 appropriate?

18 A. I believe that would remove any complications
19 that might occur.

20 Q. Let's go down to sub (d) and have you address
21 that issue.

22 A. At the time of the hearing, we still had an
23 outstanding interest owner in this quarter section that
24 neither Conoco nor Southwest Royalties had been able to
25 locate. That was the party of Martha L. Scarlet Nunes. We

1 had lost track of her somewhere back in 1984 and had not
2 been able to contact her since that time.

3 So she was a party to the pooling order, both in
4 the Southwest cases and in the original case that Conoco
5 filed.

6 Subsequent to this hearing, Conoco was able to
7 locate Scarlet Nunes and has purchased all of her interest
8 in this north half of Section 17.

9 Q. Do you have documents that are identified as
10 proposed exhibits that support your conclusion?

11 A. Yes, we do. If you'd look at Exhibit 4, Exhibit
12 4 is a letter from Conoco to Scarlet Nunes explaining the
13 situation, agreeing to purchase all of her interests in the
14 north half of Section 17, telling her what the situation
15 was, that we had not been able to locate her, that she had
16 accrued a debt against her participation in other wells,
17 and offering to forgive all of that debt, plus pay her the
18 sum of \$17,500 for her remaining interest.

19 Q. Was that transaction completed?

20 A. It was, and that's shown here as Exhibit 5, which
21 is the assignment of her interest to Conoco in that north
22 half of Section 17.

23 Q. All right, sir. To go back, Exhibits 2 and 3,
24 then, that have been skipped at this point, would you
25 identify them for the record?

1 A. All right. Exhibit 2 is the order that the
2 Division issued on Conoco's pooling application, Case
3 10,560, and following the acquiring of Scarlet Nunes's
4 interests Conoco no longer had any outstanding interest in
5 its well, the Julie Com 2. And so we requested the
6 dismissal of that case, which this Exhibit 2 indicates was
7 done.

8 Q. All right, let's go back, then, to the rest of
9 the subparagraphs of (16).

10 Following Nunes, subparagraph (e) requires a
11 further determination of what, sir?

12 A. Determination of operatorship. In addition to
13 the splitting into two nonstandard proration units being
14 the practical solution, as Conoco and Southwest both had
15 agreed, the designation of operator -- Conoco as the
16 operator of the north half, and Southwest as the operator
17 of the south half, appeared to be the solution to our
18 problem.

19 Q. All right, sir. Subparagraph (f) addresses what
20 concern?

21 A. This order that we're reading from, 9673-A, shows
22 dedication of the entire 160.

23 I would assume that there would need to be an
24 amendment to this, dedicating the south half of this
25 quarter section as being dedicated to Southwest Royalty's

1 well.

2 Q. All right, sir. And subparagraph (g)?

3 A. (g), yes, this deals, again, definitely with the
4 creation of two nonstandard 80-acre spacing proration
5 units, and that is our request.

6 Q. All right, sir, let's go back to the hard
7 question and see if we have an answer, and that is how to
8 handle the assignment of the allowable.

9 Let's start at the point to have you summarize
10 for us what Conoco and Southwest had agreed to do among the
11 two companies.

12 A. Southwest and Conoco had agreed to work with each
13 other in a variable split of the allowable, depending on
14 the capacities of the wells that we operated on each of the
15 80-acre tracts.

16 When we came to hearing, it became obvious that
17 was not going to be a workable situation within the State's
18 mechanism of accounting for allowables, production.

19 Q. Have you prepared a proposed assignment of
20 allowable and submitted it in writing for the Examiner's
21 consideration?

22 A. Yes, I have. That's Exhibit 6.

23 Q. Let's have you go through the steps of the
24 process, and then let's talk about how we implement it
25 within the limitations of the Division's regulatory system

1 for managing production from this pool.

2 A. All right.

3 Q. First of all, is the summary you have provided
4 for us consistent with your settlement agreement, as you
5 understand it, between Conoco and Southwest on this topic?

6 A. Yes, I believe it is.

7 Q. Take us through your proposed assignment.

8 A. All right. First of all, the assumptions behind
9 this allocation principle. It's based, of course, on the
10 standard 160-acre proration unit, for the North Dagger
11 Draw-Upper Penn Pool, and a 700-barrel-per-day allowable
12 for that standard unit.

13 It also assumes that this standard unit will be
14 split into two 80-acre nonstandard proration units,
15 consisting of north half and south half.

16 Now, based on those assumptions, we would propose
17 one scenario, which is where we currently are. That's
18 number one. Both of the 80-acre nonstandard proration
19 units at this point are not capable of producing in excess
20 of one half of the standard allowable. So an even split,
21 50 percent, 350 barrels per day for each of those, is
22 certainly a practical solution to that.

23 Q. How is it probable that that circumstance might
24 change?

25 A. If either party were to drill an additional well

1 or were to do remedial work which made significant
2 increases in production, it is certainly possible that one
3 of the 80-acre tracts, or both, might be capable of
4 producing more than one half of the allowable.

5 Q. Does Conoco have plans to drill an additional
6 well in their proposed nonstandard 80-acre spacing unit
7 that might eventually be dedicated as a producing
8 Cisco/Canyon well in this particular pool?

9 A. Conoco has proposed another well in Unit A, which
10 was shown as the open circle on the plat we looked at,
11 Exhibit 1.

12 Q. And part of the approval for drilling that well
13 is the subject of the next case on the Examiner's docket,
14 which is Case 11,241?

15 A. That's correct.

16 Q. If additional capacity to produce the allowable
17 is obtained in either one or both of the nonstandard 80's,
18 what is contemplated between the parties as occurring
19 concerning the allowable?

20 A. Discussions that Conoco and Southwest Royalty
21 have had just recently, both are in agreement that should
22 one party or the other, subsequent to this agreement, find
23 themselves able to produce more than one half of the
24 allowable, while the other party cannot utilize half of the
25 allowable, that we both would like to have some way of

1 adjusting this so that we could -- either party could take
2 advantage of that.

3 Southwest Royalties has interests in the wells
4 that Conoco operates, as well as the ones they operate.

5 Q. The subsequent portions of Exhibit 6, then,
6 describe how to execute a shift or a sharing of the
7 allowable as various events occur?

8 A. That's correct.

9 Q. How do you suggest that the Division handle the
10 potential to have the allowable transferred between the two
11 nonstandard spacing units?

12 A. From our recent meeting with Southwest, I believe
13 that Conoco and Southwest can come to a mutual agreement
14 should this occur, because it's of interest to both of us.

15 And we would like to suggest that if both
16 companies find that the other party has need of more of the
17 allowable than half and it's not being utilized by the
18 other unit, that if we can come together in agreement, we
19 would like to be able to take that to the District Office
20 and be able to administratively shift the division of the
21 allowable.

22 Q. In order to implement that solution, what is your
23 opinion of the following option: That the Examiner would
24 approve the two nonstandard proration units, that he would
25 initially assign an allowable for oil of 350 barrels of oil

1 a day per 80-acre GPU, and that -- direct the combined
2 total of those two nonstandard units shall not exceed 700
3 barrels of oil a day?

4 A. Yes.

5 Q. And that the opportunity to over- or underproduce
6 the two nonstandard units, so long as the combined total
7 doesn't exceed 700 barrels a day, be delegated to the
8 Division's area supervisor to monitor the compliance of
9 this solution that the parties have agreed upon? What is
10 your opinion about that option?

11 A. We feel like that would be the most equitable
12 solution to this.

13 Q. How might that protect the correlative rights of
14 all the other offsetting spacing units, which are standard
15 spacing units?

16 A. Well, that certainly would be limiting the 160-
17 acre tract, making sure that it did not produce more than
18 its 700 barrels per day that's allotted to the other 160-
19 acre tracts around it.

20 Q. What protection of correlative rights does it
21 afford to the interest owners within this original 160-acre
22 spacing unit?

23 A. Well, I think it accounts for changing capacities
24 between the two 80-acre nonstandard proration units.

25 If one finds that they can drill another well,

1 they can access more pay than perhaps the other unit can
2 access, it's not denied the process of producing that
3 additional reserve.

4 Q. Is this problem a unique occurrence within this
5 particular spacing unit for production from the North
6 Dagger Draw-Upper Penn Pool?

7 A. Yes, I believe it is.

8 Q. Are you aware of any other occurrence where we
9 have this kind of problem to resolve?

10 A. No, I'm not.

11 MR. KELLAHIN: That concludes my examination of
12 Mr. Hoover.

13 We move the introduction of Conoco Exhibits 1
14 through 6.

15 EXAMINER CATANACH: Exhibits 1 through 6 will be
16 admitted as evidence.

17 Mr. Cooter, do you have any questions of this
18 witness?

19 MR. COOTER: I have no questions of this witness.

20 I do have a comment to make that I thought Mr. --
21 that Southwest Royalties concurs completely with what is
22 proposed.

23 Individually, I would commend Mr. Kellahin for
24 stating it far better than I would have.

25 EXAMINER CATANACH: Thank you, Mr. Cooter.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Hoover, how does this current proposal of establishing nonstandard spacing units -- how does that affect any of the previous pooling orders, as far as you can tell? Or how does it affect the interest owners within the spacing units?

A. I don't see any direct effect on the interest owners. It would affect the pooling Order, this 9673-A of Southwest Royalty's, because it calls for the dedication of the full 160.

Q. It's my understanding Southwest does have an interest in the Julie Com Number 2?

A. That's correct.

Q. Conoco does not have an interest in the Dagger 1A?

A. That's right. Well, we went nonconsent in that well.

Q. You went nonconsent under the pooling agreement? Under the force-pooling order?

A. That was an agreement we reached with them outside of the pooling order.

MR. KELLAHIN: Mr. Examiner, Conoco went nonconsent under the pooling provisions for what is identified now as the Dagger 1A. We still have an

1 interest.

2 THE WITNESS: Yes.

3 MR. KELLAHIN: I'm not sure that payout has been
4 achieved, and so --

5 THE WITNESS: We come back in after payout.

6 Q. (By Examiner Catanach) I see.

7 Mr. Hoover, are Conoco and Southwest the only
8 interest owners in the Julie Com 2?

9 A. That's correct now, since we've purchased Scarlet
10 Nunes's interest.

11 Q. Okay. Do you have any knowledge of whether the
12 Nunes interest was acquired by Southwest?

13 A. Conoco acquired all of her interests in the north
14 half of Section 17.

15 Q. I see. Do you have any knowledge as to the
16 interest ownership in the Dagger 1A?

17 A. I cannot tell you about that. I know that there
18 were some different investors, Southwest Project, for that
19 well. But that would be a split-out in their portion of
20 the interests, not in Conoco's.

21 Q. Will this proposed split of these -- of this
22 proration unit, will it have any kind of adverse effect on
23 any interest owner in this acreage?

24 A. I cannot see that it would.

25 Q. Two main issues we're dealing with is whether or

1 not to establish the nonstandard spacing unit and how to
2 allocate the allowables --

3 A. Yes.

4 Q. -- to the spacing unit.

5 You're proposing that we initially assign these
6 wells an allowable of 350 barrels a day, and that be
7 adjusted -- you be able to take that to the District Office
8 to adjust that

9 Is this on some kind of a fixed time interval?
10 Once every six months or once a year or something?

11 A. I wouldn't propose that they necessarily change
12 that often. There might be a significant change with the
13 drilling of a new well or with a major workover.

14 Once that type of shift is made, I don't
15 anticipate -- I wouldn't anticipate that happening more
16 than once or twice in the life of the project, I would
17 think. I don't think we're talking about a real often
18 occurrence.

19 Q. Mr. Hoover, the Julie Well Number 2 was drilled
20 in 1992; is that correct?

21 A. Julie Com 2, yes.

22 Q. And completed in 1992?

23 A. Completion was probably early 1993. It was after
24 the hearing.

25 Q. Mr. Hoover, do you have information as to when

1 the Dagger Draw A Well Number 1 was drilled and/or
2 completed?

3 A. I do not have the dates on that with me.

4 MR. KELLAHIN: We can provide those to you, Mr.
5 Examiner.

6 Q. (By Examiner Catanach) Do you have -- not
7 anything specific, but do you have a general indication
8 when that well might have been drilled?

9 A. I'll just have to look that up. I don't know.

10 Q. Okay. Have -- Do you know if both wells have
11 been producing since they've been drilled?

12 A. They have been producing, yes.

13 Q. Have they been producing on a split-allowable-
14 type situation?

15 A. Neither well has been capable of producing more
16 than half of the allowable, so really it has not been an
17 issue to this point.

18 But that's the assumption that Conoco and
19 Southwest were working upon, was a 50-percent split.

20 Q. Mr. Hoover, are you familiar with the provisions
21 of Ordering Paragraph Number (17) of R-9673-A?

22 A. Yes.

23 Q. What is your understanding of that ordering
24 paragraph?

25 A. My understanding was that once the two wells were

1 completed and sufficient testing had been done, we would
2 come back and resolve this issue.

3 Q. Do you know if the completion of the Dagger Draw
4 A Well Number 1 was less than 90 days ago?

5 A. No, it has not been less than 90 days.

6 Q. Is it your understanding that under the
7 provisions of that ordering paragraph, that following --
8 not more than 90 days following first production from the
9 Dagger Draw A Well Number 1, that both wells would
10 effectively not even have an allowable?

11 A. That's certainly a potential interpretation of
12 this.

13 EXAMINER CATANACH: Okay. Mr. Kellahin, I think
14 we need some more information subsequent to the hearing.

15 MR. KELLAHIN: Yes, sir.

16 EXAMINER CATANACH: If you can, some completion
17 dates for the Dagger Draw A Number 1, and probably actual
18 production figures from the time the wells were completed
19 and producing up until the present time.

20 MR. KELLAHIN: I should have thought to do that,
21 Mr. Examiner, and it's not available on the ONGARD system
22 yet, so we will have both Southwest and Conoco provide the
23 completion reports plus the tabulation of monthly
24 production for the hydrocarbons produced from both wells.

25 Q. (By Examiner Catanach) Mr. Hoover, how was this

1 discovered, that it was a good idea to bring this back in
2 for hearing?

3 A. This was discovered on the filing of a separate
4 case by Conoco to drill an additional well in Unit A of
5 Section 17.

6 Q. The subject of the next case?

7 A. That's correct.

8 MR. KELLAHIN: Mr. Examiner, for your
9 information, Mr. Stogner brought to my attention when we
10 filed the application for the Julie Com well, back in
11 February, he reminded me that we had neglected to attend to
12 the remaining unresolved issues in this Order. And having
13 been reminded then, Mr. Hoover and I immediately got after
14 it.

15 We apologize for not doing it sooner. We have no
16 excuse, we simply didn't do it. It was overlooked, and we
17 apologize.

18 EXAMINER CATANACH: Okay. Is there anything you
19 would like to add, Mr. Kellahin, or Mr. Cooter, to this?

20 MR. COOTER: If I may, a couple of your questions
21 presented a problem.

22 One is that subsequent to the drilling of -- the
23 completion of the first well up in the north half of the
24 quarter section, Southwest Royalty's drilling of the Dagger
25 Draw wells to the south half of that quarter section,

1 Conoco and Yates resolved their differences, as were first
2 mentioned in that prior hearing.

3 And pursuant to the terms of that settlement,
4 Conoco assigned half-interest in the Yates leases back to
5 Yates. Their differences concerned -- put in quotes,
6 payout, and then, if payout had occurred, in quotes, when?

7 They amicably resolved that and took care of the
8 problem by reassigning half-interest in those Yates leases
9 to Yates. That was effective April 1 of 1993, after both
10 of these wells had been drilled and completed.

11 From one of your questions, I may have made the
12 wrong inference, but the ownership under the quarter
13 section remains as it was and is unaffected by what the
14 parties seek at this time.

15 You asked a question about the practical aspect
16 of monitoring the Division of a single allowable, should
17 circumstances arise in the future.

18 I don't know that that would have to be done on
19 any particular time basis, but if the parties, by the
20 drilling of a second well by Conoco, reworking of the well
21 by Southwest Royalties, encounters a problem where their
22 respective well or wells can produce in excess -- together,
23 considering them together, produce in excess of a standard
24 allowable that remains at 700 barrels, or if it's changed
25 in some way, then I think that is the time that the two

1 parties, both Southwest Royalties and Conoco, seek to go
2 back to the District Office and provide that...

3 As an example, if Conoco drills its second well
4 and the two wells together can produce 500 barrels per day,
5 and the Southwest well can only produce 200 barrels per
6 day, that's when I think that -- when those circumstances
7 arise, that they seek to go to your District Office, to
8 alert or to obtain permission to divide that 700 allowable
9 in a way different than the 350 barrels to each.

10 On the other hand, if through their joint action
11 both parties can produce from their well or wells in excess
12 of, when considered together, 700 barrels, and each one
13 considered separately can produce more than 350 barrels,
14 then that limit, I think, comes onto it, as I understand
15 the agreement.

16 Q. (By Examiner Catanach) Mr. Hoover, under the
17 terms of this agreement, of the allowable agreement, would
18 Conoco and Southwest have to agree on how the allowable
19 would be split before you went to the District Office?

20 A. I think if we didn't, it would be very difficult
21 to resolve at that level.

22 EXAMINER CATANACH: Okay. I think that's all I
23 have, Mr. Kellahin.

24 MR. KELLAHIN: All right, sir. In addition to
25 the completion reports and the production data for each of

1 the wells, is there anything else in terms of data you
2 would like us to submit?

3 EXAMINER CATANACH: I don't think so. I think
4 that's all I'll probably need.

5 MR. KELLAHIN: All right, sir.

6 EXAMINER CATANACH: There being nothing further
7 in this case, Case 10,240 will be taken under advisement.

8 Tom, can you send in a rough order on this?

9 MR. KELLAHIN: Yes, sir.

10 (Thereupon, these proceedings were concluded at
11 11:28 a.m.)

12 * * *

13
14 I do hereby certify that the foregoing is
15 a complete record of the proceedings in
the hearing of Case No. 11240,
heard by me on April 6, 1998.

16 David R. Catanach, Examiner
17 Oil Conservation Division
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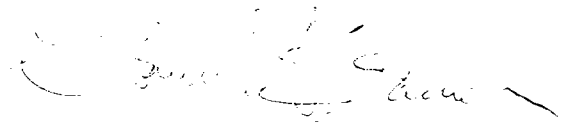
CERTIFICATE OF REPORTER

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, April 15th, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998