

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. 11,638

APPLICATION OF CITATION OIL AND GAS)
CORPORATION FOR TWO UNORTHODOX GAS)
WELL LOCATIONS AND FOR SIMULTANEOUS)
DEDICATION, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 10th, 1997

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 10th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, 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 10th, 1997
 Examiner Hearing
 CASE NO. 11,638

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>GARY C. JOHNSON</u> (Landman)	
Direct Examination by Mr. Kellahin	10
Examination by Examiner Catanach	20
<u>STEPHEN L. ROBINSON</u> (Engineer)	
Direct Examination by Mr. Kellahin	31
REPORTER'S CERTIFICATE	36

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	16	20
Exhibit 2	17	20
Exhibit 3	17	20
Exhibit 4	17	20
Exhibit 5	18	20
Exhibit 6	18	20
Exhibit 7	18	20
Exhibit 8	19, 33	20
Exhibit 9	19	20
Exhibit 10	20, 33	20

* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:52 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order at this time, and we'll skip over to Case 11,638,
5 page 6. Let's call that case.

6 MR. CARROLL: Application of Citation Oil and Gas
7 Corporation for two unorthodox gas well locations and for
8 simultaneous dedication, Lea County, New Mexico.

9 EXAMINER CATANACH: Call for appearances in this
10 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 the Applicant, and I have two witnesses to be
14 sworn.

15 EXAMINER CATANACH: Call for additional
16 appearances.

17 Will the witnesses please stand to be sworn in?
18 (Thereupon, the witnesses were sworn.)

19 MR. KELLAHIN: Mr. Examiner, let me give you a
20 brief introduction of why we're here. I've organized in
21 front of you an exhibit book. The exhibit book contains an
22 outline of the exhibits that we're going to present.

23 Behind Exhibit Tab Number 1 is going to be a
24 locator map, and then behind that map is a written summary
25 of the entire presentation, so that afterwards if you

1 desire to look at a specific portion of the presentation
2 you might do so by looking at that information.

3 Let me describe briefly what we're here to do
4 today. We're examining an east half of Section 20, which
5 involves oil and gas production from the Eumont Gas Pool.

6 You're going to find when you look at the map --
7 there's a larger copy in front of you on the display
8 board -- the first challenge is to try to keep the
9 nomenclature straight for all these various wells. Mr.
10 Johnson and I will go through that in a moment to make sure
11 that you and I are clear on the well identification.

12 Back in 1953, I believe it was, what you see as
13 the gas well in Unit Letter G is referred to as the
14 Devonian State Com Number 1 well. Prior to 1953 that well
15 produced for years as an oil well. It was originally
16 drilled by Shell in 1934. In 1953 it was recompleted as a
17 gas well, and dedication on 160 acres, which was the
18 northeast quarter, was made to that well.

19 Then in 1958, Shell, Gulf, Standard and ARCO, who
20 were the owners in the east half of 20, entered into some
21 agreements, one of which was to communitize the east half
22 for production from that gas well.

23 That communitization and the underlying agreement
24 -- it's called an agreement to use a well -- are unique to
25 that gas well. Those agreements did not cover any of the

1 oil wells. And as a consequence, the ownership in the
2 northeast quarter had a sharing arrangement for the oil
3 wells. And consequently, the southeast quarter had a
4 sharing arrangement for the oil wells.

5 And over time there was no provisions made in any
6 of the existing documents to handle what became a not
7 unusual occurrence in the Eumont where the oil wells, over
8 time, would have an increasing gas-oil ratio and would
9 produce significant amounts of gas and would be
10 reclassified as gas wells.

11 When Citation took over the properties in 1986,
12 they continued to manage the wells in the northeast
13 quarter, plus the gas well.

14 In late -- in -- Early last year, Citation
15 recognized the potential for further Eumont gas production
16 and approached ARCO and Chevron in the southeast quarter to
17 talk about taking the Devonian State Com Number 3 well,
18 which is the plugged and abandoned well in Unit Letter J,
19 and re-entering that as a gas well, and also to have a new
20 drill, a new drill for the Devonian State Com 2 well in
21 Unit Letter P.

22 Shortly thereafter, all parties recognized that
23 they did not have agreements to handle this gas situation.
24 In addition, Mr. Johnson, who is the senior attorney for
25 Citation and is also a senior vice president in charge of

1 their land matters, conducted an investigation. And he and
2 Mr. Steve Robinson, who is the petroleum engineer and who
3 is the manager of their drilling and production department,
4 made an inventory and an audit of all past production in
5 the spacing unit.

6 As part of that audit process, they recognized
7 that the two wells in Unit Letter A and B, the Devonian
8 State Wells 2 and 3, that, in fact, in late 1990 those gas-
9 oil ratios for those wells should have reclassified those
10 wells as gas wells, and that was not done.

11 In addition, Mr. Johnson has advised Chevron and
12 ARCO back in the summer of last year of the gas imbalance,
13 the fact that wells needed to be reclassified, and has for
14 the last eight months completed the audit and has
15 negotiated a solution with Chevron and ARCO, and we have
16 balanced the gas and we've paid them their value and share
17 of that gas production retroactive to back to 1990.

18 In addition, Citation has executed new operating
19 agreements, and so all the interest owners are satisfied.
20 In fact, Chevron has turned over the operation of their
21 wells in the east half of 20 to Citation, and Citation now
22 will operate all wells regardless of whether they're gas or
23 oil. In addition, all production is going to be shared
24 under an equity arrangement for the east-half owners.

25 We're here today to ask you to do some specific

1 things. Because of the reclassification of the wells in
2 Unit Letter A and B, we're asking your approval to
3 simultaneously dedicate those as gas wells to the east
4 half, in addition with the continuing dedication of the
5 Devonian State Com Number 1 well in Unit Letter G.

6 Because of that reclassification, those two
7 Devonian oil wells in Unit Letter A and B now are
8 unorthodox.

9 For a 320-acre dedication in the Eumont, you must
10 have wells, the side boundary of which, at least on one
11 side, is not closer than 990 feet. Those two wells are 660
12 out of the corner, and so they're unorthodox.

13 Chevron is the operator, along with Conoco, of
14 the properties to the north. They were all provided
15 notification back in September of last year. There has
16 been no objection entered as to those locations. Chevron
17 has entered an appearance in this case and has withdrawn
18 their opposition.

19 This case could have been processed
20 administratively at this point, but we felt that it was
21 important to bring this to you at a hearing so that you
22 would have an opportunity to ask Mr. Johnson and Mr.
23 Robinson any questions that you felt appropriate with
24 regards to this solution.

25 In addition, there was a question raised by the

1 Division at one time about the classification of what is
2 called the Janda well.

3 Chevron operates the Janda well, which is down
4 there in the northeast of the southeast. There's a period
5 of time and there is records in the files that indicate
6 Chevron was notified by the Division that that well should
7 have been reclassified as a gas well.

8 As part of the reconciliation, Citation has
9 reconciled the gas production and the oil production from
10 that well, and we believe we've correctly accounted for it,
11 and so that's part of what we're here to resolve today.

12 A substantial portion of the documents in front
13 of you constitute amended C-115s, which are behind Exhibit
14 Tab Number 10, I believe, and we're seeking your permission
15 now to file those of record and have you acknowledge that
16 we have the opportunity to correct the records, and so the
17 Division files will show the proper classification and the
18 allocation of these wells as gas wells to this spacing
19 unit.

20 It's an involved process. Most of it did not
21 involve the Division; It simply involved the parties
22 working to a common goal of straightening out this
23 accounting problem for the gas, and we're here to report to
24 you that that has been successful.

25 I'd like to call at this time Mr. Gary Johnson.

1 GARY C. JOHNSON,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Johnson, for the record, sir, would you
7 please state your name and occupation?

8 A. Gary C. Johnson, senior vice president and
9 general counsel, Citation Oil and Gas Corp., Houston,
10 Texas.

11 Q. And you reside in Houston, Texas, sir?

12 A. That's correct.

13 Q. On any prior occasion have you testified before
14 the Division on behalf of your company?

15 A. I have not.

16 Q. Give us a short summary of your education and
17 your employment background.

18 A. I have a bachelor's of art from Austin College, I
19 have a JD from the University of Texas which I obtained in
20 1976. I'm licensed to practice in the State of Texas and
21 the District of Columbia. I practiced in both of those
22 jurisdictions for 19 years.

23 I joined Citation in my current capacity in the
24 summer of 1995.

25 Q. With regards to this particular topic in the east

1 half of Section 20, what has been your involvement?

2 A. You mentioned, and I can confirm that during the
3 summer of 1996, in connection with applications the company
4 filed to drill a new well and to re-enter an existing well,
5 a study of press production was done in that area.

6 In the course of that study it was brought to my
7 attention that the reporting of production from the Number
8 2 and Number 3 well, which had previously been Penrose oil
9 producer's, was not correct. At that point I contacted you
10 and said we have a reporting situation that needs to be
11 corrected, we have an accounting situation that needs to be
12 corrected.

13 My understanding of the accounting problem was
14 that the entire east half was subject to a communitization
15 agreement. The Number 2 and 3 wells were not part of that
16 communitization agreement because they had previously been
17 oil producers, and the communitization agreement only
18 covered the production of gas from the Eumont pool.

19 Further complicating it was that the ownership of
20 the Number 2 and 3 wells was different from what the
21 ownership would be if the Number 2 and 3 wells were gas
22 wells and subject to the communitization agreement.

23 And finally, if that wasn't difficult enough, the
24 only well that was being produced under the communitization
25 agreement was not being produced in accordance with the

1 ownership of the leases in the communitized pool. It was
2 subject to a document entered into in 1958 called agreement
3 for use of a well, and that provided for the parties to own
4 the net revenue from that well in a manner that was
5 inconsistent with the ownership of the surface in the
6 communitized area.

7 The communitization agreement and the agreement
8 for use of a well were written at a time when apparently
9 future production was not contemplated, or at least the
10 addition of new gas wells was not contemplated.

11 The other issue that apparently was not
12 contemplated was the change of the gas-oil ratio in those
13 wells to go back and forth from an oil producer to a gas
14 producer and perhaps back from a gas producer to an oil
15 producer.

16 So there was not in place a method to handle the
17 problems associated with the Number 2 and Number 3 wells,
18 there was not a fair method in place to contemplate other
19 development.

20 Your suggestion was that we move to reclassify
21 those wells as of the date that they should have been
22 classified as gas wells, which we have done, and also to
23 approach Chevron and ARCO and come to some understanding
24 regarding how the gas production from not only the Number 2
25 and 3 well but also from the Janda well, which had

1 theretofore been operated by Chevron, be reconciled between
2 the parties.

3 The Janda, like the Number 2 and 3 well, had had
4 significant periods where it had not met the gas-oil ratio
5 test. And, in fact, as the records reflect, there were a
6 couple of occasions where the Commission wrote Chevron and
7 said, This doesn't appear to be in conformity with the gas-
8 oil ratio requirements; please retest it or reclassify it.

9 Q. Did you engage then, Mr. Johnson, in an effort
10 under your supervision to have all the production in the
11 east half of 20 audited and reconciled?

12 A. Yes, we did, and that is so reflected in one of
13 the exhibits in the book.

14 Q. Did you eventually satisfy yourself that that
15 reconciliation was accurate and reasonable?

16 A. Yes.

17 Q. What then did you do with regards to contacting
18 ARCO and Chevron to advise them of the issues you had
19 discovered and to discuss with them resolutions of these
20 issues?

21 A. At the time that we filed papers with the
22 Division to reclassify the two wells, we notified Chevron
23 and ARCO in writing of the problem associated with the
24 Number 2 and 3 well. We notified them that we were
25 undertaking a full audit of production from all of our

1 wells in the east half to determine whether or not there
2 was any moneys due to those parties associated with gas
3 production that should have been or might have been subject
4 to the terms of the communitization agreement and/or
5 agreement for use of a well.

6 As soon as we had a written reconciliation of
7 those documents, we sat down face to face with the
8 interested parties. They also brought to the table a
9 reconciliation associated with the Janda well. Those
10 numbers have all been reconciled, and before we came over
11 here today we made a cash accounting to ARCO and Chevron to
12 account to them for the gas production they were due from
13 the Number 2 and 3 wells and the gas production that we
14 were due from the Janda well.

15 Q. As part of that reconciliation, did Chevron and
16 ARCO agree with Citation as to that reconciliation?

17 A. Yes, they did.

18 Q. With regards to the documents necessary to allow
19 effective and efficient operations to continue in the
20 spacing unit, what if anything was done?

21 A. It was clear to all of the parties that the
22 communitization agreement, as worded, and the agreement for
23 use of a well, as worded, were not adequate to the future
24 needs of the area.

25 And in order to deal with those needs, we at the

1 same time entered into negotiations for a new operating
2 agreement to cover the entire east half of the section.
3 Those negotiations were successfully completed in the last
4 month, and the operating agreement has been signed by all
5 parties.

6 Production from all wells on the east half will
7 be shared in accordance with percentages set forth in
8 Exhibit A to the operating agreement and also in the letter
9 that we've handed to the Division this morning.

10 In addition, both Chevron and ARCO agreed that
11 that entire east half should be operated by one operator
12 and not have multiple operators of the circumstance where
13 you have one company operating the oil wells and another
14 company operating the gas wells. And we agreed that
15 Citation would take over operatorship of all of the
16 properties -- all of the wells on the east half.

17 Q. What, if any, opinion does Citation have with
18 regards to the future opportunity for Eumont gas production
19 in the east half of 20?

20 A. Well, what originally prompted our investigation
21 into the area was the belief that we had and that has come
22 to be shared by Chevron and ARCO, that there were
23 opportunities for further development in the Eumont Gas
24 Pool from what was a plugged and abandoned ARCO well, it
25 had been a Eumont -- I'm sorry, a Eunice Pool oil well,

1 Penrose, and an opportunity to drill a new well down in the
2 southeast portion of the east half.

3 And we had previously made application to and had
4 the Division approve our interest in re-entering the
5 existing well and in drilling a new well. And in fact, I
6 believe we've recently received a 30-day extension to
7 accomplish both of those projects.

8 Q. In your opinion, do you now have in place the
9 necessary operating agreements to allow you to commence
10 operations pursuant to those administrative orders
11 approving the re-entry and the new drill in the southeast
12 quarter of Section 20?

13 A. That is my opinion.

14 Q. Okay. Let's take a moment and have you identify
15 for the record the exhibits. I'm not asking you to explain
16 them but to simply go through and identify them for the
17 record, starting with Exhibit Number 1.

18 A. Exhibit Number 1 is a map of the area to help the
19 Division identify essentially the location that we're
20 talking about. It's located approximately two to two and a
21 half miles southeast of Oil Center. It's located in --
22 It's Section 20 of Township 21 South, Range 36 East.

23 The red area on the map identifies the scope of
24 the communitized area. The yellow area on Exhibit Number 1
25 shows the area that was being operated by Citation prior to

1 the negotiations leading to a new operating agreement.

2 Q. Let's turn to Exhibit Tab Number 2 and have you
3 identify this display.

4 A. Exhibit 2 is a map that we prepared for this
5 hearing. It is the same map that appears on the poster
6 board before the Examiner.

7 It shows in a little greater detail the location
8 of the wells. It depicts the five wells that Citation has
9 heretofore operated, being the 1Y, 2, 3 and 4, as well as
10 the State Com Number 1. It shows the Janda well as a
11 Number 2 in the southeast quarter of the section.

12 And it shows the locations that we propose to re-
13 enter, which is the J Unit and the location where we
14 propose the new drill, which is the P Unit.

15 It also provides an explanation of the
16 conflicting percentages of ownership that we had to deal
17 with in order to resolve the problem.

18 Q. All right, sir. Exhibit Number 3?

19 A. Exhibit 3 is the September, 1996 filling that
20 Kellahin and Kellahin made on our behalf to reclassify the
21 Number 2 and 3 wells from oil wells to gas wells, effective
22 as of the date that they should have been so reclassified.

23 Q. Exhibit 4?

24 A. This is the opposition that was originally filed
25 by Chevron to the relief that we sought in this matter.

1 After we had completed a full accounting of all
2 of the gas production from the area and entered into a new
3 operating agreement and new ownership percentages for
4 production of both oil and gas from the entire east half,
5 Chevron withdrew its opposition, and that appears as the
6 second letter of Exhibit 4.

7 Q. All right, sir. Exhibit 5?

8 A. Exhibit 5 is the approval that was received by
9 the Commission in 1959. It's NSP-488, and it is the order
10 that the Division wanted reviewed today.

11 Q. And the information behind Exhibit Tab Number 6?

12 A. Those are the two applications filed by Citation
13 Oil and Gas with respect to future activity on the east
14 half. One contemplates the re-entry of a well, the other
15 contemplates a new drill. Both of those have been
16 approved. And as I mentioned in my earlier testimony, we
17 have just received a verbal extension, at least, to
18 complete that activity during the next 30 days.

19 Q. The approval letter of the Division,
20 Administrative Order NSL-3646, is that the last document
21 behind Exhibit Tab Number 6?

22 A. Yes, it is, and it's dated April 3, 1996.

23 Q. All right, sir, the information behind Exhibit
24 Tab Number 7?

25 A. Tab Number 7 is illustrative of the kinds of

1 problems that both operators experienced in having wells
2 that would -- had changing gas-oil ratios, going from gas
3 production to -- from oil production to gas production, and
4 this is illustrative of the instances where the Division
5 has gone to our fellow working interest owner, Chevron, on
6 the Janda well and said, This looks like it needs to be
7 reclassified.

8 And I might add that all of the parties have
9 agreed that Janda production will be carefully monitored,
10 and at such point in time when it appears necessary, if it
11 does, to reclassify that well from an oil well to a gas
12 well, such a reclassification will be made.

13 Q. All right, sir. The information behind Exhibit
14 Tab Number 8?

15 A. Tab 8 contains the reconciliation of gas
16 production, operating expenses, capital costs associated
17 with the Number 2 and 3 well, and also associated with the
18 Janda well, arriving at a calculation of what should be
19 paid to Chevron and ARCO by Citation to reconcile all of
20 those calculations. And as I mentioned, that payment has
21 been made.

22 Q. Okay. The information behind Exhibit Tab 9?

23 A. Tab 9 contains the letter agreement and operating
24 agreement associated with operatorship of the east half of
25 the section, commencing on June 1, 1997.

1 It, among other matters, makes all of the wells
2 subject to the terms of the communitization agreement. If
3 they're gas wells, it makes all of the wells subject to a
4 single operating agreement, and it creates a uniform
5 sharing of production for all of the wells from the east
6 half.

7 Q. And then finally, the information behind Exhibit
8 Tab 10?

9 A. Exhibit Tab 10 is the first exhibit material that
10 you mentioned today, and that is the corrected reports to
11 reflect production from the Number 2 and 3 wells for the
12 period from the time that we believe they should have been
13 reclassified to the present.

14 MR. KELLAHIN: Mr. Examiner, that concludes my
15 examination of Mr. Johnson.

16 We move the introduction of Exhibits 1 through
17 10.

18 EXAMINER CATANACH: Exhibits 1 through 10 will be
19 admitted as evidence.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Okay, the -- I just want to make sure I have
23 everything straight here.

24 The Devonian State Numbers 2 and 3 were oil wells
25 in the Eunice Monument --

1 A. Producing from the Penrose.

2 Q. Okay. Those wells should have been reclassified
3 in 1990 --

4 A. That's correct.

5 Q. -- to gas wells in the Eumont --

6 A. Correct --

7 Q. -- gas pool?

8 A. -- because of the gas-oil ratio change.

9 Q. They were not reclassified?

10 A. That's correct.

11 Q. Okay. And they have not yet been reclassified?

12 A. The papers were filed in September of 1996 to
13 reclassify those, and as I understood, one of the purposes
14 of this hearing was to obtain that reclassification.

15 Q. Okay.

16 A. And the application for the reclassification
17 appears as your book Exhibit Number 3.

18 Q. That's normally done by the District Office; is
19 that --

20 A. That's my understanding.

21 EXAMINER CATANACH: Okay. Are you seeking to do
22 that with this order, Mr. Kellahin?

23 MR. KELLAHIN: We would like to do that in this
24 case, Mr. Examiner.

25 Q. (By Examiner Catanach) The Janda well was an oil

1 well operated by Chevron?

2 A. Correct.

3 Q. And at some point that well should have been
4 reclassified?

5 A. It appears that -- at least from the records of
6 production from the Janda well, that its history has been
7 closely analogous to the history of the Number 2 and 3
8 well. And I think what confirms that in our view is simply
9 that the record -- the records of the Division contained at
10 least two letters, and there may have been others,
11 prompting Chevron to seek reclassification of that well
12 from a Penrose oil to a gas well subject to the rules of
13 the Eumont Gas Pool.

14 Such a reclassification has not been sought or
15 obtained. And frankly, as I understand it -- and I would
16 defer to Mr. Robinson on this, but as I understand it,
17 there continues to be sufficient production of oil from the
18 Janda to satisfy the gas-oil ratio test, at least at this
19 moment.

20 And as I mentioned, at such point in time when it
21 appears necessary to seek reclassification as the new
22 operator, we intend to do so.

23 Q. Okay, we're talking about the well in Unit I, the
24 Number 2, right?

25 A. Yes.

1 Q. Okay.

2 A. In the northeast of the southeast.

3 Q. Okay. You've got three P-and-A'd wells in the
4 southeast quarter of Section 20, the one -- the two Number
5 1's and the one Number 2, right?

6 A. Correct.

7 Q. Those aren't -- Any of those aren't at issue in
8 this case?

9 A. That's correct.

10 Q. Okay. You're also proposing to --

11 A. May I make just one -- There are actually four
12 P-and-A'd wells in the area that you mentioned, but one of
13 those we propose to re-enter, and it's covered by the large
14 purple dot. The other -- but there's another -- There's
15 P-and-A'd wells adjacent to both the re-entry and to the
16 new drill.

17 Q. Is that in Unit P?

18 A. There's a P-and-A'd well that no operations are
19 proposed for, there's a P-and-A'd well in J that no
20 operations are proposed for, there's a P-and-A'd well in J
21 that we propose to re-enter.

22 Q. And you're going to complete that as a gas well?

23 A. Correct.

24 Q. And you're also planning to drill an additional
25 well in Unit P?

1 A. Correct.

2 Q. Another gas well?

3 A. Correct.

4 Q. You're not seeking at this time to have those
5 wells dedicated to this proration unit, or are you trying
6 to do that too?

7 A. We are.

8 MR. KELLAHIN: We would need to do that.

9 Q. (By Examiner Catanach) Okay. Do you know what
10 the name of those wells are, or is going to be?

11 A. If I might rely on the -- Exhibit 6, the drill
12 well will be the Devonian State Com Number 2, and the re-
13 entry well will be the Devonian State Com Number 3. And
14 with respect to the Number 3, that was formerly the ARCO
15 State D Number 1.

16 Q. Okay. Are both those wells at standard gas
17 locations?

18 A. That is my understanding.

19 MR. KELLAHIN: They are, Mr. Examiner. The
20 footage on the Number 2 is 710 from the south, 660 from the
21 east. The Number 3 is 1980 from the south and east.

22 That's not correct, Mr. Examiner.

23 THE WITNESS: Both of them are unorthodox.

24 MR. KELLAHIN: One is -- The 3 is orthodox
25 because it has at least one dimension that's greater than

1 990. The Number 2 is unorthodox because it has a dimension
2 of 710 as opposed to 990, so it is unorthodox.

3 EXAMINER CATANACH: That's not covered in the
4 Application. You probably need to follow that up.

5 MR. KELLAHIN: I believe it was approved by
6 NSL-3646.

7 EXAMINER CATANACH: Oh, it already has been?

8 MR. KELLAHIN: Yes, sir.

9 EXAMINER CATANACH: NSL- -- ?

10 MR. KELLAHIN: -- -3646. It's in the exhibit
11 book behind Exhibit Tab Number 6.

12 Q. (By Examiner Catanach) Okay. Let's see. The
13 two oil wells in the northeast quarter should remain the
14 same, at least for the time being?

15 A. That's correct, the 1Y and the 4.

16 Q. Okay. And that leaves us with the -- What is the
17 Number 2 well? Oh, okay, that's the Janda Number 2.

18 A. Right.

19 Q. So that takes care of all the wells in the east
20 half?

21 A. That does.

22 Q. Okay. So -- As far as the amended C-115s, those
23 are filed to reflect that production should have actually
24 been in the Eumont Pool?

25 A. Correct.

1 Q. Okay, they're not correcting any volumes, are
2 they?

3 A. They are correcting volumes and reflecting that
4 it should have been in the Eumont Pool.

5 Q. Why was it necessary to correct volumes?

6 A. Because the reports that had been filed, in my
7 judgment, were incorrect.

8 Q. Hm. And those amended reports are for the Number
9 2 and 3?

10 A. That's correct.

11 Q. And those are the only two?

12 A. Yes.

13 Q. Just those two wells.

14 How did you determine that the production volumes
15 were not correct, Mr. Johnson?

16 A. The determination was, I think, originally made
17 by the engineer or geologist who had been working on the
18 drilling of the new well and re-entry of the new well, and
19 he brought to my attention that the well test reports and
20 some field production data appeared to be inconsistent with
21 the reports that had been filed with the Commission.

22 Q. So how were you able to go back and determine
23 what the correct volumes should be?

24 A. Using the field reports.

25 Q. Are you satisfied that those amended reports are

1 accurate?

2 A. Yes, I am.

3 Q. And this has all been reconciled with Chevron and
4 ARCO?

5 A. Yes, sir.

6 Q. Are they the only interest owners in this east
7 half, besides Citation?

8 A. Yes.

9 Q. And what type of leases are these? Are these
10 state leases?

11 A. Yes.

12 Q. All state --

13 A. The entire east half.

14 Q. Does that reconciliation involve -- did that
15 involve reconciling with the Land Office, Commissioner of
16 Public Lands, as far as royalty payments?

17 A. There was no change in the royalty payments.
18 They were identical on oil and gas. And the reconciliation
19 did not require any adjustment with the State.

20 Q. But if the volumes were not being reported
21 correctly?

22 A. The incorrect nature of the reporting involved
23 whether or not a given well had produced oil or not. It
24 did not involve a -- Total volumes were correct; it
25 appeared that the attribution was incorrect.

1 Q. So you're satisfied that royalty was paid
2 correctly?

3 A. Yes.

4 EXAMINER CATANACH: Okay. Notice for the case,
5 Mr. Kellahin, was given to -- for the unorthodox locations?

6 MR. KELLAHIN: Yes, sir, it was given back in
7 September of last year. Notifications were made to all of
8 the adjoining operators around the east half of 20. Most
9 of the notifications were responded to by Chevron, who
10 operates the offsets, as well as has interest in 20.

11 If you'll look at Exhibit A, which is attached to
12 the Application behind Exhibit 3, there's a map that will
13 identify for you the offsets. And further in that -- If
14 you'll look in your exhibit book, and if you'll look behind
15 Exhibit Tab 3 in your book and if you'll turn to Exhibit A,
16 there's a map.

17 And you can see the north offsets are Conoco and
18 Chevron; the west offsets, Conoco; east offsets, Chevron;
19 to the south is Burleson, Hendrix and Conoco.

20 And if you flip over to Exhibit C, you see the
21 addresses of all those parties. And then if you further
22 flip over, you'll find the return receipt cards providing
23 notification to all those people.

24 And as a result, the only party to file an
25 objection was Chevron, and they have now withdrawn that

1 objection.

2 EXAMINER CATANACH: When we received the
3 objection from Chevron, is that when we decided that this
4 should go to hearing? Is that --

5 MR. KELLAHIN: Mr. Stogner decided it, because of
6 the protest, he would docket it. We have now continued it
7 more than a dozen times.

8 We've now reached settlement with the only
9 opposition, and this case could have been returned and
10 processed administratively, but we wanted to afford you the
11 opportunity of hearing the verbal testimony of these
12 witnesses.

13 EXAMINER CATANACH: So, Mr. Kellahin, were any
14 offset operators given notice of the actual hearing today?

15 MR. KELLAHIN: No, sir, we did not think that was
16 necessary in light of the way the case had been processed,
17 so I did not do that.

18 If you desire it to be done, then I'll have to do
19 that, because it wasn't done.

20 EXAMINER CATANACH: I think we probably should go
21 ahead and do that.

22 MR. KELLAHIN: All right, sir.

23 THE WITNESS: Well, to the extent that Chevron
24 and ARCO were offset operators, they were certainly aware
25 of the hearing today.

1 MR. KELLAHIN: Let me ask for clarification. Do
2 you want me to go ahead and renotify ARCO and Chevron?

3 EXAMINER CATANACH: Well, if you're giving notice
4 to some other interest owners that need notice, I mean, you
5 might as well.

6 MR. KELLAHIN: The notice list will be the list
7 we've just described, and I'm happy to do that.

8 EXAMINER CATANACH: Okay.

9 MR. KELLAHIN: If you'd like to leave it on the
10 docket, then, for -- I guess it's going to have to be the
11 August 7th hearing --

12 EXAMINER CATANACH: Yeah.

13 MR. KELLAHIN: -- that will afford me time to
14 send notice next week and satisfy that desire, and then we
15 can close out the case.

16 EXAMINER CATANACH: Okay. Have we touched on all
17 the major issues here?

18 MR. KELLAHIN: Yes, sir.

19 MR. CARR: May it please the Examiner, my name is
20 William F. Carr with the Santa Fe law firm Campbell, Carr,
21 Berge and Sheridan.

22 We would like to enter our appearance in the case
23 on behalf of Chevron USA, Inc.

24 We do support the position and the presentation
25 made by Citation here today.

1 EXAMINER CATANACH: Okay. So we're seeking the
2 approval of the unorthodox locations, simultaneous
3 dedication of five gas wells in the east half of Section
4 20 --

5 MR. KELLAHIN: Yes, sir.

6 EXAMINER CATANACH: -- and reclassification of
7 the two oil wells and authority or -- What do you seek in
8 terms of the amended --

9 MR. KELLAHIN: Permission to file the corrected
10 C-115s, which will correct the records back to the fall of
11 1990.

12 EXAMINER CATANACH: Okay. That's it?

13 MR. KELLAHIN: Yes, sir.

14 EXAMINER CATANACH: That's enough. Okay, this
15 witness may be excused.

16 STEPHEN L. ROBINSON,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Robinson, for the record, sir, would you
22 please state your name and occupation?

23 A. Steven L. Robinson; Vice President, Drilling and
24 Production; Citation Oil and Gas Corporation; Houston,
25 Texas.

1 Q. Do you hold a professional degree, Mr. Robinson?

2 A. Yes, sir, I do.

3 Q. In what field, sir?

4 A. Mechanical engineering.

5 Q. From what institution and in what year?

6 A. I graduated from Texas A&M in 1980.

7 Q. Have you practiced as a petroleum engineer?

8 A. Yes, sir, for 17 years now.

9 Q. And what are your current responsibilities for
10 Citation?

11 A. I am in charge of all the drilling and production
12 activities of the company.

13 Q. Do your responsibilities include the auditing of
14 production in the east half of Section 20, the
15 reconciliation of that production, and supervising the
16 preparation of these proposed amended C-115s?

17 A. Yes, it would.

18 Q. As part of that process did you also examine and
19 review the spreadsheet reconciliations that are shown as
20 Exhibit 8 in the exhibit book?

21 A. I did.

22 Q. And you've assisted Mr. Johnson in the
23 preparation of the necessary documentations concerning that
24 production so that you could come to some settlement and
25 solution with all the working interest owners?

1 A. Yes, I have.

2 MR. KELLAHIN: We tender Mr. Robinson as an
3 expert engineer.

4 EXAMINER CATANACH: He is so qualified.

5 Q. (By Mr. Kellahin) Mr. Robinson, let me ask you
6 to turn to Exhibit 8 of the exhibit book. These are the
7 reconciliation spreadsheets?

8 A. Yes.

9 Q. Are you familiar with these documents?

10 A. Yes, I am.

11 Q. To the best of your knowledge, are they true and
12 accurate?

13 A. Yes, they are.

14 Q. Let's turn to Exhibit 10.

15 Were you responsible for the preparation of these
16 amended C-115s for production from the two oil wells that
17 turned to gas wells in 1990, in Unit Letters A and B of
18 Section 20?

19 A. Yes, I was.

20 Q. Have you satisfied yourself that the
21 reconciliations and the proposed amended C-115s are true
22 and accurate?

23 A. I have.

24 Q. How did you go about determining that?

25 A. I, together with our production clerk -- we -- as

1 Mr. Johnson stated, we found a discrepancy in the
2 reporting.

3 One of our reservoir engineers who was working up
4 the two prospects, drilling prospects, in the east half of
5 Section 20 came to me with some production data that he
6 felt was maybe inaccurate and inconsistent.

7 In fact, I agreed with him, and we were able to
8 go back to our field records and reconstruct what actually
9 should have been reported as production from these two
10 wells.

11 Q. Do you have an opinion as to whether those field
12 records were an accurate and reliable document upon which
13 to base the reconciliations?

14 A. I feel they're accurate.

15 Q. And that's, in fact, what you did?

16 A. Yes, sir.

17 MR. KELLAHIN: That concludes my examination of
18 Mr. Robinson.

19 EXAMINER CATANACH: I have no questions of this
20 witness.

21 MR. KELLAHIN: That concludes our presentation,
22 Mr. Examiner.

23 EXAMINER CATANACH: Mr. Kellahin, can I get you
24 to work on a rough draft order in this case?

25 MR. KELLAHIN: Yes, sir, I'd be happy to.

1 EXAMINER CATANACH: We'll go ahead and continue
2 it to the August 7th hearing, at which time we'll call it,
3 and if there's no appearances we'll take it under
4 advisement.

5 MR. KELLAHIN: All right, sir. Thank you, sir.

6 (Thereupon, these proceedings were concluded at
7 10:40 a.m.)

8 * * *

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13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
the Examiner hearing of Case No. 11638,
15 heard by me on July 10 1977.
David K. Catanch, Examiner
16 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 July 13th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998