

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 BURLINGTON RESOURCES	)	CASE NOS. 11,808
OIL AND GAS COMPANY FOR COMPULSORY	)	
POOLING AND A NONSTANDARD GAS PRORATION	)	
AND SPACING UNIT, SAN JUAN COUNTY,	)	
NEW MEXICO	)	
	)	
APPLICATION OF BURLINGTON RESOURCES OIL	)	and 11,809
AND GAS COMPANY FOR COMPULSORY POOLING,	)	
AN UNORTHODOX GAS WELL LOCATION AND A	)	
NONSTANDARD PRORATION UNIT, SAN JUAN	)	
COUNTY, NEW MEXICO	)	
	)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS (Volume I)

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 10th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday and Friday, July 10th and 11th, 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.

\* \* \*

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

Exhibit A

1 would have in Sections 8 and Section 9?

2 A. Yes, sir.

3 Q. As part of your duties, did they include efforts  
4 to consolidate the interest owners in these two sections  
5 for purposes of drilling the deep gas well tests we're  
6 about to describe?

7 A. Yes, sir.

8 Q. And have you continued on to the present in those  
9 efforts?

10 A. Continuing, yes, sir.

11 MR. KELLAHIN: We tender Mr. Strickler as an  
12 expert petroleum landman.

13 EXAMINER CATANACH: Any objection?

14 MR. HALL: No objection.

15 EXAMINER CATANACH: Mr. Strickler is so  
16 qualified.

17 MR. KELLAHIN: Mr. Examiner, we have presented to  
18 you separate exhibit books for each case. There are some  
19 exceptions with regard to the identify of parties, so that  
20 you can be specific as to those interests per section. But  
21 generally, the information is going to be applicable to  
22 both cases.

23 And so Mr. Strickler and I will choose the  
24 exhibit book that deals with the Marcotte well. It's the  
25 exhibit book 11,809. We will start with that one, and then

1 A. Yes, sir.

2 Q. And you work jointly?

3 A. We work together, yes, sir.

4 Q. Okay. How long -- I realize you've only been on  
5 the team since August of last year, but how long has the  
6 team been assembled --

7 A. That I don't know.

8 Q. -- for Burlington?

9 A. That I don't know. I've been with the company  
10 almost three years, and the Conoco-Burlington joint venture  
11 started two and a half years ago. So...

12 Q. For what you'd call the call the deep  
13 Pennsylvania --

14 A. Joint exploration program --

15 Q. Okay.

16 A. -- yes, sir.

17 Q. Well, just tell us -- We'll discuss changes, but  
18 when you came on board in August of 1996, what was the  
19 acreage target that you were given at that time?

20 A. That is confidential information. The geologists  
21 and geophysicists came up with an outline. The asked me to  
22 concentrate within that outline, and I'm not at liberty to  
23 disclose that.

24 Q. Well, was it --

25 A. But it's centered around Section 8, I can tell

1 A. Oh, right.

2 Q. -- I'm simply asking -- That information was  
3 furnished to Amoco, so it could make a decision on whether  
4 or not to farm out; isn't that true?

5 A. I'm not at liberty to say. That information,  
6 that agreement, is confidential between Amoco and  
7 Burlington, and I'm not in a position or have the authority  
8 to discuss the terms and conditions of that agreement.

9 Q. I didn't ask you that, sir.

10 A. Well --

11 Q. I just asked you, isn't it true that technical  
12 data was furnished to Amoco --

13 MR. KELLAHIN: I'm going to object on relevance  
14 grounds.

15 Q. (By Mr. Gallegos) -- surrounding the making of  
16 the farmout agreement?

17 MR. KELLAHIN: It's confidential contracts  
18 between these people, and I don't see it's relevant, Mr.  
19 Examiner.

20 MR. GALLEGOS: I'm not asking for the terms of  
21 the contract. It can just simply be answered yes or no,  
22 the information was furnished; isn't that true?

23 EXAMINER CATANACH: I think it's relevant. I'm  
24 going to direct the witness to answer that question.

25 THE WITNESS: The answer is yes.

1 Q. (By Mr. Gallegos) Okay. There's also a farmout  
2 obtained from Cross Timbers on the Section 8 property,  
3 correct?

4 A. Yes, sir.

5 Q. Okay, did you work on that?

6 A. I sure did.

7 Q. Okay. And about when did you accomplish  
8 agreement with Cross Timbers?

9 A. That was in -- I'll have to refer to my book. I  
10 don't have that with me. Late May, early June.

11 Q. Of this year?

12 A. Yes, sir.

13 Q. And isn't it true that Cross Timbers was provided  
14 technical data and information concerning this project?

15 A. That is correct.

16 Q. Now, as to interest owners such as the Moores and  
17 the GLA-66 owners, what instructions were you given in  
18 regard to your efforts at obtaining their interest, either  
19 by purchase or some other means?

20 A. Their acreage was important to our wells, and  
21 naturally we attempted to purchase their interest or offer  
22 them a farmout or offer them to participate. That's a  
23 normal procedure in putting together a land area to support  
24 a deep high-risk well.

25 Is that what you're referring to?

1 A. These are sample letters.

2 Q. Sample letters?

3 A. Yes.

4 Q. All right.

5 A. Right. They went to --

6 Q. It wasn't necessarily LaForce but it was one of  
7 the --

8 A. Right --

9 Q. -- the GLA-66 group.

10 A. -- we didn't want to thicken up the book here.

11 Q. Okay. And doesn't the letter, first of all, tell  
12 the recipient that it's a very high-risk well, ten-percent  
13 chance of success?

14 A. Correct.

15 Q. You were discouraging voluntary participation?

16 A. No, sir, that's just our estimation of the risk  
17 involved.

18 Q. Haven't you told various parties that you've  
19 talked to personally that you wouldn't invest in this; it  
20 would be better off putting their money in the stock  
21 market?

22 A. That's my personal feeling.

23 Q. And that's what you told people?

24 A. That's right.

25 Q. All right. So that's discouraging them from

1 A. Yes, sir.

2 Q. And that's why it was placed outside of the  
3 ordinary or standard window?

4 A. Well, let me clarify, because Section 8 -- the  
5 Section 8 was a prime location. The location was chosen to  
6 use an existing wellpad, and it was an acceptable location  
7 to minimize surface disturbance.

8 So for topographic reasons and the using existing  
9 wellpad and using existing roads, that location was picked.

10 Q. There are existing wellpads all over Section 8,  
11 aren't there Mr. Strickler?

12 A. Oh, yes. This was, I guess, the best location.

13 Q. This specific location was selected by the  
14 geologist and geophysicist, based on their evaluation and  
15 decisions; isn't that right?

16 A. Based on their studies, yes.

17 Q. Okay. Now, what -- We can use any of these maps.  
18 Let's just look at the first one in here, which is this  
19 Scott 24. It's colored, and you were using it to show the  
20 Section 9 spacing unit?

21 A. Correct.

22 Q. All right. What is the location distance from  
23 the quarter-section line, for the Scott 24?

24 A. 210 feet.

25 Q. Do you have a plat or an APD plat or something

1 Q. What procedures do you usually follow? Let's  
2 concentrate on a proposal that would involve commitment of  
3 a working interest under your charge to participation in  
4 drilling, rework or some proposal of that nature. What  
5 steps do you typically follow?

6 A. When the AFE comes in we make sure we have  
7 appropriate title, look at the amount of money involved.  
8 If it's very small, like many of ours are, then sometimes  
9 it only costs the trust about \$500 to participate, so we  
10 don't do as much work in that event.

11 But if it's anything over \$1000 or \$2000 to  
12 participate, I always call the operator, regardless of the  
13 site, and find out what his plans are, find out all about  
14 the information on the surrounding production. And if it's  
15 of any size we hire an engineer to look at all the data.

16 Q. Do you request things such as logs, seismic  
17 data --

18 A. Yes.

19 Q. -- that type of thing?

20 A. Yes, we do.

21 Q. And what has been your experience as to the  
22 response that you typically received to those requests?

23 A. They're usually cooperative with supplying  
24 information.

25 Q. If the matter does involve sizeable expenditures

1 Q. Have you frequently been a participant as a  
2 nonoperator in wells that are proposed by other parties?

3 A. Oh, yes, yes.

4 Q. Have those included wells that are proposed and  
5 operated by Burlington Resources?

6 A. That's correct.

7 Q. Conoco?

8 A. Burlington, Conoco, Texaco, Amoco, Tenneco when  
9 they were there, Cross Timbers, Crown Central.

10 Q. Would it be fair to say that generally your  
11 approach is to be a consent participant, paying your share  
12 in wells that are being drilled?

13 A. I cannot remember a time in the San Juan Basin  
14 that we have not been a working interest operator -- I mean  
15 a working interest owner -- that we have not taken a part  
16 in the well.

17 Q. Okay. And about how many wells do the Moore  
18 interests have interest in in the San Juan Basin, just the  
19 San Juan Basin?

20 A. Oh, including overriding royalties and royalties,  
21 probably close to 300 wells, scattered throughout.

22 Q. Okay. Now, what has been the common practice  
23 that you have followed, and what has been your experience  
24 in following that practice, in regard to being able to  
25 obtain information from the proponent of the well in order

1 for you to make a decision whether or not to participate?

2 A. Well, normally we receive structural maps, cross-  
3 sections, seismic information, this sort of thing, prior,  
4 so we'll know what we're doing. This is the industry norm,  
5 whether it be in New Mexico or whether it be in Oklahoma or  
6 Texas.

7 And I've been on both sides of this fence,  
8 selling units and taking part in them, and wells, so I know  
9 what the norm is on both sides on it. If we put together a  
10 drilling block and try to sell it, we furnish all the  
11 information we have on it.

12 Q. All right. Does the Wayne Moore ownership  
13 include interest in both Section 8 and Section 9?

14 A. That's correct.

15 Q. Okay, and is that interest the extent that was  
16 previously represented by Mr. Strickler in his testimony,  
17 presented --

18 A. Yes, that's correct.

19 Q. Okay. Let me just quickly ask you about a few of  
20 the exhibits you have here. Is Exhibit P a title takeoff  
21 that illustrates the ownership in what's called the Arch  
22 Rock prospect?

23 A. Yes.

24 Q. It would be the two sections in question?

25 A. I have Section 8 here; is this the one --

1 said, We can't send you the seismic.

2 And I said, Wait a minute, we own the property,  
3 number one. I'm not sure we -- that it isn't seismic  
4 trespass. We were never told that there was a 3-D shooting  
5 going on through there, and this very well could represent  
6 seismic trespass. It would in Texas.

7 And he said it was proprietary and we could not  
8 have that information.

9 And I felt like it was a necessity to have it.

10 Q. Okay. And have you received seismic before from  
11 others --

12 A. Oh, sure.

13 Q. -- who have drilled wells?

14 A. That's the industry norm, is -- Other wells,  
15 sure, when you're going to -- when there's, you know, we  
16 see some reason for drilling the well.

17 This well was just stuck out there and said,  
18 We're going to drill it. The information we received was  
19 not really pertinent when you look at something 20 or 30 or  
20 80 miles away.

21 Q. Exhibit R is also dated April 22, 1997, and it's  
22 referenced as a farmout letter of intent.

23 A. Okay.

24 Q. Did this farmout proposal involve only the  
25 property in Section 8 and Section 9?

1 didn't have enough geology to support or oppose -- We did  
2 nothing in that case.

3 The geologist on the February proposal requested  
4 me to try and obtain for Mr. Strickler, as is customary  
5 with any exploratory proposed well, to get some seismic  
6 geology, anything that we could.

7 After many conversations during the month of  
8 March, then we did receive a 4-1 proposal which did allow  
9 Total Minatome to review the geology, only if we amended  
10 the GLA-46 as to all depths, which was unacceptable at that  
11 time.

12 Q. Let me ask you about that particular matter.  
13 I'll provide you with what's been marked as Exhibit 9.

14 A. Right.

15 Q. Would you identify that for the record, please?

16 A. Exhibit 9 is the April 1st proposal whereby Total  
17 Minatome would be allowed to see the 2-D and 3-D seismic by  
18 amending the November 27, 1951, operating agreement and  
19 that they would set out a mutually agreeable time to show  
20 us the Arch Rock project.

21 Q. So Burlington did acknowledge the applicability  
22 of GLA-46 to the deep rights; is that correct?

23 A. Yes. I mean, that's -- That's what this was  
24 saying to us.

25 The second page also talks about Total agreeing

1 geologist, Brad Watts, could not make a determination to  
2 farm out at that time without seeing any geology, which is  
3 customary.

4 But on the 4-1-97 letter, we were offered to see  
5 the geology if we amended the GLA-46 agreement as to all  
6 depths, and that was unacceptable to my management.

7 Q. Why did you cease negotiations when you got the  
8 news of the compulsory pooling application?

9 A. Because in our position, we were participating in  
10 the well. That is our position. And we were shown as not  
11 participating for this force-pooling hearing.

12 Q. So you chose just to discontinue negotiations?

13 A. On June 23rd. We then contacted Mr. Hall and  
14 decided we needed some legal representation for this  
15 hearing.

16 Q. You testified something to the effect about a  
17 threat that Mr. Strickler -- something about -- I'm sorry,  
18 could you go into that?

19 A. The first threat in a conversation was that if we  
20 did not farm out, amend the agreement or participate under  
21 the new agreement, this would impact the negotiations.  
22 Someone at his office had talked to corporate -- I don't  
23 know who that would be -- and that this was -- we were just  
24 doing this to get more money for a deal we were working on  
25 to sell all our San Juan Basin properties to Burlington.

1 evidence.

2 Mr. Kellahin?

3 MR. KELLAHIN: I have no questions for this  
4 witness Mr. Examiner.

5 MR. HALL: That concludes our case, Mr. Examiner.

6 EXAMINER CATANACH: I've got a couple questions.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Ms. Gilchrist, under -- As I understand it, the  
10 sequence of events, you elected to participate in the  
11 drilling of the wells under the terms of the GLA-46  
12 agreement?

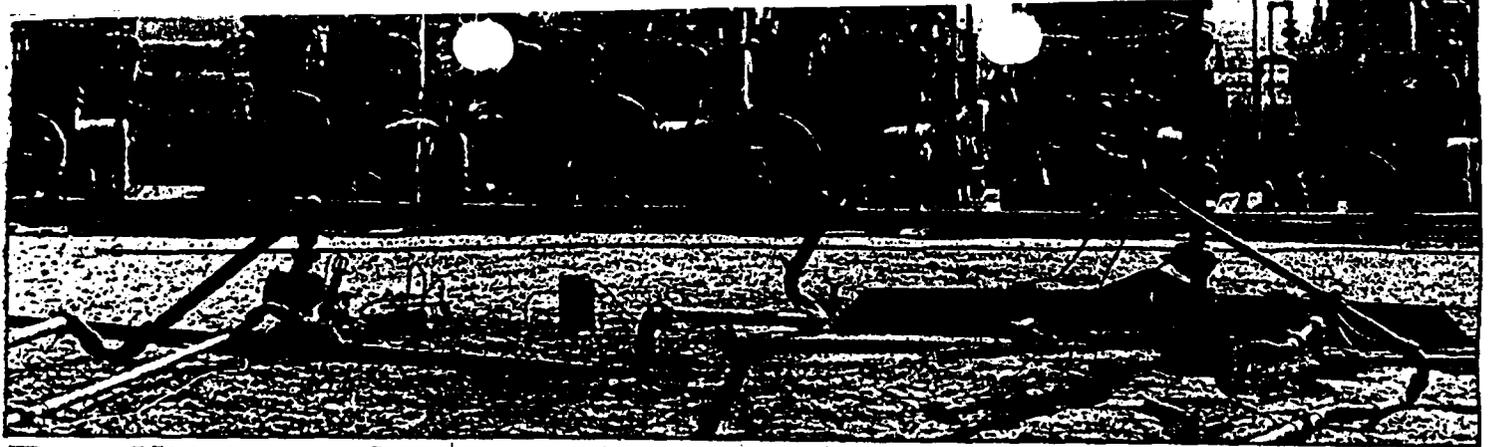
13 A. That is correct.

14 Q. Was it afterwards that you entered into further  
15 negotiations with Burlington?

16 A. After Bobby Kennedy talked to our vice president,  
17 he asked that -- Burlington asked, could they, you know,  
18 revise the terms of the farmout proposal? And our vice  
19 president said yes, and that's what precipitated the June  
20 16th, 1997 --

21 Q. Okay, so you were willing to change some of the  
22 terms of the operating agreement?

23 A. Yes, I actually prepared memos, as I testified a  
24 while ago, to amend certain portions of it, not as to the  
25 carried interest, but without the geology, our senior



# Burlington's earnings on the rise

HOUSTON — Burlington Resources reported second quarter 1997 operating income of \$73 million and net income of \$79 million or \$.64 per share. Included in net income is \$31 million or \$.25 per share from profits on the sale of assets related to the company's divestiture program. For the same period last year, the company reported operating income of \$96 million and net income of \$48 million or \$.38 per share. Operating cash flow for the first half increased 50% to \$407 million as compared to \$272 million for the first half of 1996. Bobby Shackouls, president and chief executive officer of BR, stated, "Both earnings and cash flow remain strong and with the completion of the company's divestiture program, we have approximately \$500 million in cash and short-term investments. 1997 is shaping up as another strong year for BR."

Natural gas sales averaged 1,249 million cubic feet per day (mmcf/d) during the second quarter compared to 1,193 mmcf/d in the second quarter of 1996. Second quarter oil sales volumes were 45,800 barrels per day (bo/d) versus 50,400 bo/d a year ago. These volumes reflect the sale of about 100 mmcf/d of natural gas and 11,000 bo/d associated with the company's previously announced divestiture program. Realized natural gas prices decreased slightly to 1.70 per thousand cubic feet (mcf) from \$1.75 per mcf in 1996. Oil prices also decreased from \$20.29 per barrel to \$19.16 per barrel.

During the quarter, BR acquired 785,000 shares of its common stock. Since it began acquiring stock in 1988, the company has purchased approximately 31 million shares or 21 percent of its original common

stock capitalization. During the second quarter, BR spent \$211 million on internal oil and gas capital projects including \$84 million of exploration capital. The company acquired nearly 1,300 square miles of 3-D seismic, primarily in the Gulf of Mexico, bringing BR's year-to-date seismic acquisition to nearly 3,000 square miles.

In the second quarter, BR drilled five gross exploratory

**'We have approximately \$500 million in cash and short term investments. 1997 is shaping up as another strong year for BR.'**

—Bobby Shackouls, President

wells in the Permian Basin, four in the Williston Basin, and four in the Gulf Coast Basin. Five additional exploration wells were active at the end of the quarter. BR experienced a success rate of over 50% on the 24 completed exploration wells drilled so far in 1997. The company plans to initiate over 20 exploration wells in the third quarter as it continues its heightened focus on exploration. The third quarter's program remains balanced between the Williston Basin, the Permian Basin, and the Gulf Coast Basin. In total BR will drill about 80

exploratory wells in 1997.

During the quarter, BR tested a second exploratory well in its Galveston 303 field. With this well and a follow-up development well, the company has increased production in the Galveston 303 field to nearly 20 mmcf/d. BR had another significant exploration discovery at West Delta 65. The West Delta 65 No. 1 well encountered significant pay in the Ang B sand and initial production rates of over 20 mmcf/d are expected once the platform is installed. Additional pay was also encountered uphole in the Trim A & B sands and the company has scheduled a second well later this year to accelerate recovery. BR's Eugene Island 205 field had two exploratory successes in the quarter. The recently completed No. G-2ST is producing over 30 mmcf/d from the Bul 1-4 and Bul 1-5 sands. The second exploratory well, the No. G-4, is currently being completed and is anticipated to produce over 30 mmcf/d bringing the field's production to approximately 80 mmcf/d, up from less than 10 mmcf/d at the time this property was acquired in 1996.

The company also had a potentially promising exploratory success in west Texas, the Bambino No. 1. This 21,000 feet exploratory Ellenburger test encountered approximately 800 feet of exposed gas column. The well is currently being completed and should have production test results later this month. Recently, BR spudded an exploratory well in the San Juan Basin, the Marcotte No. 2. This exploratory well is the first of several wells that will test the Deep Pennsylvanian formations which the company believes may hold significant exploration potential.

## Four oil companies to form a billion to form o

By Victoria Cunningham  
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Atlantic Richfield Co., Phillips Petroleum Co., Texaco Inc. and Venezuela's Corpoven SA agreed to invest \$3.5 billion to form a heavy oil joint venture. Officials said the venture, which will be called Petrolera Hamaca, will have revenue of \$3.5 billion over its 35-year lifetime. Arco and Corpoven, a unit of state oil company Petroleos de Venezuela SA, each own 30 percent of the venture with Phillips and Texaco holding 20 percent each. We see this as a key stone for participating in many opportunities in

## NAMEDROPPINGS

### Shackouls elected to c

Burlington Resources Inc. Shackouls, the company's president, has been elected to the additional board. He succeeds Thomas H. O'Neil, who is retiring after serving as the company's chief operating officer. In 1996, Shackouls was elected to the board and was also elected to the position of chief operating officer. In 1995, Shackouls served in senior advisor roles with Plains Energy Services, Plains Energy Minerals, Shackouls holds a BS degree in geology from Mississippi State University.

### Schneeflock to pursue

Nuevo Energy Co. announced it has resigned as vice president - energy of Energy Co. in order to pursue other opportunities. Schneeflock's career with Nuevo Energy Co. was part of the acquisition of Paramount Energy Services. Schneeflock was chairman.