

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. 11,861
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO) ORIGINAL
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

1997

October 9th, 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, October 9th, 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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October 9th, 1997
 Examiner Hearing
 CASE NO. 11,861

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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 9:09 a.m.:

3

4

5 EXAMINER CATANACH: Okay, at this time we'll call
6 Case 11,861.

7 MR. CARROLL: Application of Nearburg Exploration
8 Company, L.L.C., for compulsory pooling, Lea County, New
9 Mexico.

10 EXAMINER CATANACH: Call for appearances in this
11 case.

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

15 We represent Nearburg Exploration Company, L.L.C.
16 in this matter, and I have two witnesses.

17 EXAMINER CATANACH: Call for additional
18 appearances.

19 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
20 Fe, representing Chesapeake Operating, Inc.

21 I have no witnesses.

22 EXAMINER CATANACH: Any additional appearances?

23 Okay, will the witnesses please stand to be sworn
24 in?

25 (Thereupon, the witnesses were sworn.)

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DUKE W. ROUSH,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. Yes, it's Duke Roush, R-o-u-s-h.

Q. Where do you reside?

A. Midland, Texas.

Q. Mr. Roush, by whom are you employed and in what capacity?

A. Nearburg Exploration Company, L.L.C., as a senior landman.

Q. Have you previously testified before this Division?

A. Yes, I have.

Q. At the time of that testimony, were your credentials as an expert in petroleum land matters accepted and made a matter of record?

A. Yes, they were.

Q. Are you familiar with the Application filed in this case on behalf of Nearburg?

A. Yes, I am.

Q. And are you familiar with the status of the lands in the subject area?

1 A. Yes, I am.

2 MR. CARR: Are the witness's qualifications
3 acceptable?

4 EXAMINER CATANACH: They are.

5 Q. (By Mr. Carr) Mr. Roush, would you briefly
6 summarize for the Examiner what Nearburg seeks with this
7 Application?

8 A. Yes, we're seeking an order pooling all the
9 minerals in certain spacing and proration units from the
10 surface to the base of the Strawn formation in Section 19,
11 Township 16 South, Range 36 East, in Lea County, New
12 Mexico, in all formations developed on 160-acre spacing
13 under the northeast quarter, including but not limited to,
14 the North Shoe Bar-Wolfcamp Pool, and in all formations
15 developed on 40-acre spacing in the northeast of the
16 northeast quarter.

17 This will be dedicated to the Gandy 19 Number 1
18 well, which is drilled at a standard location 810 feet from
19 the north, 660 feet from the east line.

20 Q. Have you prepared exhibits for presentation in
21 this case?

22 A. Yes, I have.

23 Q. Let's go what has been marked as Nearburg Exhibit
24 Number 1. Would you identify and review that for Mr.
25 Catanach?

1 A. Yes, Exhibit Number 1 is simply a locator map
2 showing the proposed spacing unit and its location and the
3 location of the well we're drilling.

4 Q. What is the primary objective in the proposed
5 well?

6 A. The primary objective is the Strawn.

7 Q. Are there secondary objectives?

8 A. Yes, there are. It's the Wolfcamp in the North
9 Shoe Bar Pool.

10 Q. And that is developed on 160-acre spacing?

11 A. That's correct.

12 MR. CARR: Mr. Catanach, the special rules for
13 that pool establishing the spacing were adopted by Order
14 R-4657 on October 17, 1973.

15 Q. Mr. Roush, let's go to Nearburg Exhibit 2. Would
16 you identify and review that?

17 A. Yes, Exhibit Number 2 shows the northeast
18 northeast quarter proration unit for the Strawn formation
19 and the working interest owners' percentage interest.

20 Q. And Exhibit Number 3?

21 A. Same Exhibit, just showing that the Wolfcamp
22 formation would have a proration unit of the northeast
23 quarter and again shows the potential working interest of
24 each party.

25 Q. What percentage of the working interest is

1 committed in each of these formations?

2 A. At present just the Nearburg Exploration
3 interest.

4 Q. Let's go to Nearburg Exhibit Number 4. Can you
5 identify this for the Examiner?

6 A. Yes, Exhibit Number 4 is a letter to William
7 Chalfant proposing the well. We sent a JOA along with an
8 AFE on this proposal.

9 Q. And the date on this proposal?

10 A. The date of this proposal is June 29, 1997.

11 Q. July 29, 1997?

12 A. Uh-huh. What did I say? June?

13 Q. And this is the original proposal to Chesapeake
14 and Chalfant?

15 A. That's true.

16 Q. Did you attach an AFE to the proposal?

17 A. Yes, I did.

18 Q. And that's the document attached to the letter?

19 A. That's correct.

20 Q. Would you review the totals on the AFE?

21 A. Yes, the dryhole or costs to casing point are
22 \$601,870. The total completed well is \$974,580.

23 Q. Are these costs in line with what's charged by
24 other operators for similar wells in this area?

25 A. Yes, it is.

1 Q. Let's go to Exhibit Number 5. What is that?

2 A. It's a letter dated August 14th, 1997, addressed
3 to Mr. Mike Hazlip with Chesapeake. This letter was
4 prompted by a phone conversation had with Mr. Shelton of
5 our office. They had requested that we amend the location.
6 This letter is basically saying we'd like to stay with the
7 location we have based on the 3-D, and again requests that
8 they provide us comments on the JOA that we previously
9 provided.

10 Q. Exhibit Number 6, is that your next
11 correspondence with Chesapeake concerning this matter?

12 A. Yes, it is.

13 Q. What is the date of that letter?

14 A. September 12th, 1997.

15 Q. And what basically were you discussing with them
16 at that time?

17 A. We had amended the location to move the well 810
18 feet from the north line, which originally was 660 feet.
19 We provided a new contract area and amended the
20 commencement date to January 1, 1998.

21 Q. On September 12th did you advise that you would
22 have to seek compulsory pooling if an agreement couldn't be
23 reached?

24 A. Yes, we did.

25 Q. Have you received any comments as of this date

1 from Chesapeake concerning the joint operating agreement?

2 A. No, we have not.

3 Q. Let's go to what has been marked as Nearburg
4 Exhibit Number 7. Could you identify this?

5 A. Yes, it's a letter dated October 6th, 1997. Part
6 of the agreement we were attempting to reach with
7 Chesapeake is that we will enter into two separate joint
8 operating agreements, one covering the east half of the
9 northeast, which is the JOA we have previously provided,
10 and we sought to have a JOA delivered to us from
11 Chesapeake, covering the west half of the northeast.

12 Q. Have you gotten the JOA for the west half of the
13 northeast?

14 A. I received it last Saturday at my house. We
15 reviewed it over the weekend, and this letter is a result
16 of that review.

17 Q. And these are the changes that you are now
18 proposing to the JOA that you have received from
19 Chesapeake?

20 A. That's correct.

21 Q. Have you received any response as of this date
22 from Chesapeake as to your JOA?

23 A. No.

24 Q. And so basically what we have outstanding now are
25 negotiations, to the extent we have any, going forward

1 concerning the terms of the joint operating agreement?

2 A. That's correct.

3 Q. When does Nearburg propose to spud this well?

4 A. Depending on rig availability, in the very near
5 future.

6 Q. And in your opinion, have you made a good-faith
7 effort to identify all individuals who are affected by this
8 Application and obtain their voluntary participation in
9 this project?

10 A. Yes, we have.

11 Q. Has Nearburg drilled other Strawn and Wolfcamp
12 wells in the immediate area?

13 A. Yes, we've drilled numerous wells to the township
14 to the east in 16-37.

15 Q. Is Exhibit Number 8 a copy of an affidavit
16 confirming that notice of today's hearing has been provided
17 in accordance with Oil Conservation Division Rules?

18 A. Yes, it is.

19 Q. And attached to that are copies of the letter and
20 the return receipt; is that right?

21 A. That's correct.

22 Q. Has Nearburg made an estimate of the overhead and
23 administrative costs to be assessed while drilling this
24 well and also while producing it, if it is successful?

25 A. Yes, and those would be \$6000 and \$600.

1 Q. And are those costs in line with what's being
2 charged for other wells in this area?

3 A. Yes, it is.

4 Q. Are these the charges that you are making or
5 charging others --

6 A. Yes.

7 Q. -- for the offsetting well?

8 A. It is both what we are requesting and giving.

9 Q. Do you recommend these figures be incorporated in
10 the order that results from today's hearing?

11 A. Yes, I do.

12 Q. Will Nearburg call a technical witness to review
13 possible drainage which is occurring at this time and the
14 risks associated with the drilling of this well?

15 A. Yes, we will. Mr. Jerry Elger will address that
16 situation.

17 Q. Were Exhibits 1 through 8 either prepared by you
18 or compiled under your direction and supervision?

19 A. Yes, they were.

20 MR. CARR: At this time, Mr. Catanach, we would
21 move the admission into evidence of Nearburg Exhibits 1
22 through 8.

23 EXAMINER CATANACH: Exhibits 1 through 8 will be
24 admitted as evidence.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Roush.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Roush, are there Strawn pools in this area?

5 A. I would prefer that Mr. Elger address that, but
6 yes, I believe there are.

7 Q. Your well is going to be located in Unit A; is
8 that right?

9 A. That's correct.

10 Q. So that Exhibit Number 1 is kind of misleading.
11 It shows it to be in a different quarter section.

12 A. Exhibit 1, if we end up with a Wolfcamp producer,
13 would actually be a 160-acre spacing.

14 Q. Do you know what the spacing is for the Strawn
15 here?

16 A. I believe it's 40 acres.

17 Q. You're proposing JOAs covering the east half and
18 the west half of that quarter section?

19 A. Yes.

20 Q. What is the reason for that?

21 A. They will operate the west half and we will
22 operate the east half, so we have two separate JOAs.

23 Q. For a -- Presumably for a Strawn completion?

24 A. Yes, that's correct, 40-acre spacing.

25 Q. But you've not yet agreed on that?

1 A. That's correct. That's what we're attempting to
2 do.

3 Q. Do you anticipate that that's going to come to
4 pass?

5 A. I hope that it will, but we provided them our JOA
6 July of this year and have yet to receive comments on our
7 JOA. We received theirs and tried to turn it around as
8 quickly as possible, but we still have not received
9 comments on that. And with a possible drainage situation,
10 it's critical that we get it moved forward.

11 Q. You've not yet agreed with the Chalfant
12 properties yet?

13 A. Mr. Chalfant was acting as a broker for
14 Chesapeake and acquired a lease in his name which is yet to
15 be assigned to Chesapeake, but I'm sure that it will be.

16 Q. What do you do in the event you do get a Wolfcamp
17 completion? Would you have to try and get a new JOA for
18 the 160?

19 A. We would probably amend the JOA that we have,
20 since the location is actually on the east half of the
21 northeast, to incorporate 160-acre spacing and revise
22 Exhibit A to the JOA, and limit it probably to the Wolfcamp
23 formation, as to that spacing.

24 Q. On Exhibit Number 2 you've got the interest
25 breakdown for the -- I presume for that 40-acre unit.

1 A. That's correct.

2 Q. Is it the same for the 160?

3 A. No, it differs a little bit, because you're
4 bringing in the west half of the northeast, and Chesapeake
5 owns a little higher interest in the west half of the
6 northeast than they do in the east half of the northeast.

7 Q. Okay. You've got that broke down on Exhibit
8 Number 3?

9 A. That's correct. It's about -- a little less than
10 two percent difference between the ownerships.

11 Q. So you did, in fact, talk to Chesapeake on
12 October 6th; is that correct?

13 A. That's correct.

14 Q. And they suggested some changes?

15 A. No, we suggested some changes. That's our letter
16 back to them regarding our proposed JOA.

17 Q. Okay, they proposed a JOA to you guys?

18 A. Yes.

19 Q. Okay, and you've not yet signed that?

20 A. No. That letter is our suggested changes to
21 their proposed form.

22 Q. And they've not yet signed your JOA?

23 A. That's correct. What we're seeking is a similar
24 letter from them advising us of their comments regarding
25 our JOA.

1 Q. In your letter dated September 12th, you state
2 that the commencement date for the well was January 1st,
3 but now you -- Is it my understanding that you intend to
4 start it earlier than that?

5 A. As quickly as we can obtain rig availability and
6 hopefully come to a voluntary agreement with Chesapeake.

7 Q. Is Chesapeake aware of that?

8 A. Uh-huh.

9 EXAMINER CATANACH: Okay, I have no further
10 questions.

11 MR. CARR: At this time, Mr. Catanach, we would
12 call Jerry Elger.

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your name for the record, please?

19 A. Jerry Elger.

20 Q. Where do you reside?

21 A. In Midland, Texas.

22 Q. By whom are you employed?

23 A. By Nearburg Producing Company.

24 Q. And what is your current position with Nearburg?

25 A. Exploration geologist.

1 Q. Have you previously testified before this
2 Division?

3 A. Yes, I have.

4 Q. At the time of that testimony, were your
5 credentials as an expert in petroleum geology accepted and
6 made a matter of record?

7 A. Yes, they were.

8 Q. Are you familiar with the Application filed in
9 this case on behalf of Nearburg?

10 A. Yes, I am.

11 Q. Have you made a geological study of the area
12 surrounding the proposed well?

13 A. Yes, I have.

14 Q. Are you prepared to share the results of that
15 study with Mr. Catanach?

16 A. Yes, sir.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER CATANACH: They are.

20 Q. (By Mr. Carr) Mr. Elger, let's go to what has
21 been marked Nearburg Exhibit Number 9. Would you identify
22 and review that, please?

23 A. Exhibit Number 9 is simply a production map in
24 the area of this prospect. Two particular -- Two zones are
25 productive in this area, the Wolfcamp and Strawn.

1 There's a former Strawn producer located in the
2 northwest quarter of Section 19, drilled by Spectrum Oil.
3 That well cum'd 1200 barrels of oil and was abandoned.

4 Two recent wells drilled by Chesapeake in the
5 northwest quarter of Section 20 are reported on here, and
6 the completions of each of those wells is reported, but
7 there's no cumulative production reported with the OCD at
8 this time.

9 Q. And they are completed in the Strawn formation?

10 A. That is correct.

11 Q. Okay.

12 A. All three of those wells were listed in the West
13 Lovington-Penn Pool.

14 A well located in the southwest quarter of
15 Section 20 is only a Wolfcamp producer, and that particular
16 well is in the Shoe Bar North-Wolfcamp Pool.

17 Q. This exhibit also contains a trace for your
18 subsequent cross-section; is that right?

19 A. Yes, it does.

20 Q. Let's go to Exhibit Number 10, the isochron.
21 Will you review that?

22 A. A number of months ago, Nearburg Producing
23 Company acquired a piece of a much larger 3-D that was shot
24 by Chesapeake Oil across this area. The trace of that
25 portion of the 3-D which Nearburg purchased is the dashed

1 line, and it's been labeled such, 3-D outline, on this map.

2 Our geophysicist worked this data, and in working
3 this data he compiled a Strawn-Atoka isochron map. What
4 this map basically represents are thick areas that develop
5 below the top of the Strawn and above the top of the Atoka.

6 Typically, two factors enter into thick areas
7 developing within this isochron interval, and those two
8 factors are thick areas of Strawn and porosity developed
9 within Strawn. Both of those factors account for
10 seismically seeing thick Strawn-Atoka isochron values.

11 As you can see, the two Chesapeake wells in the
12 northwest quarter of Section 20 both fall within the
13 confines of what I've labeled maximum -- or intermediate
14 Strawn thickness. The minimum -- And the Spectrum well,
15 located in the northwest quarter of Section 19, falls in a
16 minimum area on this isochron map.

17 When we look at the cross-section, you'll see the
18 relationship between the Chesapeake well, which is -- I
19 believe it's called -- the one in the southwest quarter of
20 the northwest quarter -- that is the Patty 1 Number 20 --
21 you'll see the relationship of that well to the proposed
22 location, based on this isochron map, and then the
23 relationship over to the west of that Spectrum 7 well.

24 Q. The well in the southwest of the northwest of 20,
25 it is a producing well?

1 A. That's correct.

2 Q. And it appears to be completed in the same small
3 Strawn reservoir that you believe to be the proposed
4 location?

5 A. That is correct.

6 Q. Are you ready to go to your cross-section?

7 A. Yes.

8 Q. All right. Let's review that for Mr. Catanach.

9 A. The upper portion of this cross-section ties the
10 four wells in proximity to our proposed location on both
11 the Wolfcamp horizons and also on the Strawn horizon. It's
12 a stratigraphic cross-section, and it's hung on the base of
13 the Strawn carbonate.

14 The production from the Shoe Bar North-Wolfcamp
15 field, which was encountered in that well in the southwest
16 quarter of Section 20, the perforations within the Wolfcamp
17 are shown in the depth column on that particular log, which
18 is on the far right side of the cross-section, towards the
19 top. There's actually three separate porosity zones in the
20 Shoe Bar North-Wolfcamp field in that particular well.

21 The immediate offsets, all three of those
22 porosity events look to be tight in the offset logs.

23 In the Strawn I tied a well that was just outside
24 the 3-D in the southwest quarter of Section 19. That well
25 was a dry hole, and when that well drilled through the

1 Strawn section, they encountered about 100 feet of
2 virtually tight, carbonate rock.

3 The Spectrum 7 well, which was a northeast offset
4 to that well, encountered roughly the same thickness of
5 Strawn. But they did encounter the indications of some
6 porosity. These are all porosity density neutron logs on
7 this particular display.

8 A drill stem test was run in the Strawn, and it
9 was subsequently perforated in the Strawn, and that is the
10 well that made a cumulative of 1200 barrels of oil. The
11 indications, just from the log, are that the well is close
12 to something, but it sideswiped some sort of an event
13 occurring within the Strawn.

14 The two wells on the far right of the cross-
15 section, again, one is the producer in the Shoe Bar North-
16 Wolfcamp field. That was also a Strawn test, Strawn depth
17 test. No drill stem tests were run in the Strawn, and the
18 Strawn basically looks to be mostly tight in the upper
19 portion of the Strawn carbonate package. There may be some
20 porosity that's indicated towards the base of the Strawn.

21 The well that's the second well from the right is
22 this Chesapeake Patty well. You can see the difference
23 between that well and all of the other wells that are on
24 this particular display. The porosity on this porosity
25 display has been shaded red, and the perforations in this

1 particular well are also red within the depth column.

2 Based on the potential and based on the log
3 character, we believe this is a quite significant well and
4 significant producer in the Strawn. And again, we don't
5 have any production records on this well. But you can see
6 the difference within the Strawn thickens in this
7 particular well relative to the other wells. And also,
8 there's at least a hundred feet of porosity development
9 within the Strawn carbonate. Both of those show up on the
10 seismic map, and in particular the Atoka-Strawn isochron
11 map, as thick areas.

12 That thick area, based on the interpretation of
13 this 3-D by our geophysicist, extends up across the
14 northeast quarter -- corner of Section 19 and across the
15 proposed location where Nearburg is proposing this 810 from
16 the north and 660 from the east location.

17 Q. Summarize the conclusions you've reached from
18 your geological study.

19 A. The conclusions I've reached are that the Strawn
20 producing zone in this Chesapeake well in Section 20
21 extends across -- in which Nearburg has no interest --
22 extends across the northwest quarter of Section 20, and
23 Nearburg would like to drill a well to test the Strawn
24 carbonate that we see in the -- across this particular
25 acreage.

1 Q. Are you prepared to make a recommendation to Mr.
2 Catanach concerning the risk penalty that should be
3 assessed against any interest owner who is not voluntarily
4 committed to this well?

5 A. Yes, I am.

6 Q. And what is that penalty?

7 A. Two hundred percent.

8 Q. Do you believe there is a chance you could drill
9 a well at the proposed location that would not be a
10 commercial success?

11 A. Yes, I do.

12 Q. Should this recommended penalty apply to all the
13 formations being pooled?

14 A. Yes, they should.

15 Q. Do you think there is sufficient risk associated
16 with each of the formations to warrant a 200-percent
17 penalty?

18 A. Yes. We have drilled dry holes based on 3-D in
19 the past, in the Strawn.

20 Q. Who will be the operator of this well?

21 A. Nearburg Producing Company.

22 Q. And what is the relationship between Nearburg
23 Producing Company and Nearburg Exploration?

24 A. They're the same ownership, the same -- Charles
25 Nearburg.

1 Q. And Nearburg Producing Company is just the
2 producing arm of your business?

3 A. That's correct.

4 Q. Have you requested Nearburg Producing Company be
5 designated operator of this well in the order that results
6 from this hearing?

7 A. Yes.

8 Q. In your opinion, will the granting of this
9 Application and the drilling of the proposed well be in the
10 best interest of conservation, the prevention of waste and
11 the protection of correlative rights?

12 A. Yes.

13 Q. Were Nearburg Exhibits 9 through 11 prepared by
14 you or compiled under your direction?

15 MR. CARR: Mr. Catanach, at this time we would
16 offer Exhibits 9 through 11 into evidence.

17 EXAMINER CATANACH: Exhibits 9 through 11 will be
18 admitted as evidence.

19 Q. (By Mr. Carr) Mr. Elger, is it fair to say that
20 your concern at this point in time is that the acreage that
21 you're now proposing to develop is currently being drained
22 by an existing well to the east?

23 A. That's correct.

24 Q. Does Nearburg request that the order in this case
25 be expedited?

1 same --

2 A. Yes.

3 Q. -- pod that you're trying to get into?

4 A. Yes.

5 Q. Okay. That Wolfcamp producer, is that the
6 closest Wolfcamp producer to your proposed location in the
7 southwest of 20?

8 A. Yes, it is.

9 Q. Okay.

10 A. And that well was -- as the production map
11 indicates, produced 83,000 oil, 188 million cubic feet. We
12 consider the Wolfcamp really a secondary -- a serendipity
13 secondary objective for this prospect.

14 EXAMINER CATANACH: Did you have anything, Mr.
15 Bruce?

16 MR. BRUCE: No, sir.

17 EXAMINER CATANACH: Okay. Anything further, Mr.
18 Carr?

19 MR. CARR: Nothing further, Mr. Catanach.

20 EXAMINER CATANACH: There being nothing further
21 in this case, Case 11,861 will be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 9:37 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
* the Examiner hearing of Case No. 11861,
heard by me on October 9, 1997.

David M. Catanach

, Examiner

Oil Conservation Division

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

