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. 12,004
APPLICATION OF STEVENS AND TULL, INC., FOR A NONSTANDARD SUBSURFACE GAS WELL LOCATION/PRODUCING AREA AND A NONSTANDARD GAS PRORATION UNIT, EDDY COUNTY, NEW MEXICO	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

98 JUL 23 AM 8:27

OIL CONSERVATION DIV.

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 9th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 9th, 1998, 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 8th, 1998
Examiner Hearing
CASE NO. 12,004

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	26

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR SCOTT E. WILSON and RICHARD K. BARR:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

MARK W. ASHLEY
NMOCD Environmental Geologist
2040 South Pacheco
Santa Fe, New Mexico 87505

* * *

WHEREUPON, the following proceedings were had at 10:46 a.m.:

EXAMINER STOGNER: Call Case Number 12,004.

MR. CARROLL: Application of Stevens and Tull, Inc., for a nonstandard subsurface gas well location/ producing area and a nonstandard gas proration unit, Eddy County, New Mexico.

EXAMINER STOGNER: Call for appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the Applicant, and I have two witnesses to be sworn.

EXAMINER STOGNER: Any other appearances?

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe law firm Campbell, Carr, Berge and Sheridan. I represent Scott E. Wilson and Richard K. Barr.

As the Examiner is aware, we had a companion which we've dismissed. We've dismissed it because we've reached an agreement with Stevens and Tull for the development of this acreage.

EXAMINER STOGNER: And that companion case was Case 12,002 --

MR. CARR: Yes, sir.

EXAMINER STOGNER: -- which was dismissed prior

to today's hearing.

Any other appearances?

Will the witnesses please stand to be sworn at this time?

(Thereupon, the witnesses were sworn.)

MR. KELLAHIN: Mr. Examiner, our first witness is Mr. Jerry Weant.

Mr. Stogner, the exhibit book is marked as Stevens Exhibit 1. Within the context of the binder it's subdivided into three parts: There's the land presentation, the geologic report and then a short engineering summary.

Mr. Weant will address himself to the land portion of Exhibit 1.

JERRY L. WEANT,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. My name is Jerry Weant, and I am the vice president of land for Stevens and Tull, Inc.

Q. On prior occasions have you testified as an expert in petroleum land matters before the Division?

A. Yes, I have.

Q. And in your responsibility as the land manager for your company, have you been involved with the working interest owners in this spacing unit as well as the adjoining spacing unit?

A. Yes, I have.

Q. Are you familiar with all the offset operators and interest owners that are entitled to notification of this case?

A. Yes.

MR. KELLAHIN: We tender Mr. Weant as an expert witness.

EXAMINER STOGNER: Mr. Weant is so qualified.

Q. (By Mr. Kellahin) Mr. Weant, let's turn to the exhibit book, and if you'll look at the first document behind the green tab, you're going to find a locator map.

Would you take a moment and focus the Examiner's attention, not on the well that's the subject of this case but the well that generated this case, the Sweet Thing Number 1, located in Section 36? Show us where that is.

A. Okay. The acreage dedicated to the Sweet Thing State 36 well is colored pink, as you can see.

Q. And the approximate location of the Sweet Thing Number 1 well is what, sir?

A. That is located 850 feet from the north line, 300

feet from the east line of Section 36.

Q. And that is the approved surface location?

A. That is correct.

Q. When we look at the next section to the east, Section 31, that is an irregular-size section, is it not?

A. That is correct.

Q. Do you know what the acreage is within that nonstandard section?

A. Yes, there are 233.79 acres in that section.

Q. Is it your company's proposal to dedicate that entire irregular section to what we've called the Sweet Thing Federal Unit Number 2 well?

A. That is correct.

Q. And that is the subject of this hearing?

A. Yes, sir.

Q. What is the proposal for this well in terms of a surface location and a bottomhole location?

A. The surface location was arrived at by viewing the surface topography in here. The best location that we deemed was a location of 660 feet from the north line, 660 feet from the west line of Section 31.

Q. That's a surface location?

A. That is correct.

Q. And has that surface location, to the best of your knowledge, been approved, or is it approvable, by the

Bureau of Land Management?

A. It is approvable by the Bureau of Land Management.

Q. Okay. And what is the bottomhole target for the well?

A. The bottomhole target will be roughly 435 feet from the west line and approximately 660 feet from the north line.

Q. Within that area, then, there is intended to be a drilling window, is there not?

A. That is correct.

Q. So the western boundary of the drilling window will be 435 feet?

A. That is correct.

Q. And it would extend, then, eastward a distance, a maximum distance, of 50 feet in width, right?

A. That is correct.

Q. In the north-south dimension, the closest northern portion of the drilling window would be 660 feet?

A. Yes, sir.

Q. And it would extend 200 feet to the south?

A. That is correct.

Q. That's your target, and that would be in the top of the Morrow?

A. Yes, sir.

Q. Let's look at the ownership in Section 31. How is that arranged? Is that under a unit or an operating agreement or some other contractual arrangement?

A. Yes, the yellow acreage which is reflected on the plat is designated as the Sweet Thing Federal Unit, and that is dedicated to the well drilled down in Section 6, Sweet Thin Federal Unit Number 1 well, and that acreage was originally dedicated to that unit well.

Q. Are the working interest owners in the federal unit of which Section 31 is part, are they the same working interest owners that you find in Section 36 for the Sweet Thing Number 1 well?

A. The Sweet Thing State 36?

Q. Yes, sir.

A. Yes, sir.

Q. Okay. In the regular Section 36 to the north that's shaded in orange, there's also a well in 36, is there not?

A. That is correct.

Q. Is that a well that you operate?

A. Yes, sir. That is the Stevens and Tull Sweet Thing State -- I'm sorry, Stevens and Tull Little Box State Number 2 well.

Q. All right. Have you sent notification to all the interest owners that might be affected by this unorthodox

location?

A. Yes, we have.

Q. Let's turn to the next document behind the locator map and have you identify and describe what this is.

A. This is the proposal dated April 30, 1998, from Stevens and Tull as operator to the working interest owners of the Sweet Thing Federal Unit, proposing the drilling of the Sweet Thing Federal Unit Number 2 well.

Q. All right, let's turn beyond that -- it's got an AFE attached to it? --

A. That is correct.

Q. -- and that behind that, and there is a colored separator page, and then we see what, sir?

A. Behind that is a letter dated April 29, 1998, which is a letter that I submitted to the BLM, which was as a result of the Sweet Thing State 36 well. We notified them of our intent to further develop and amend our development plan of the Sweet Thing Federal Unit.

Q. Okay, and did you receive a response from Mr. Lopez of the Bureau of Land Management?

A. Yes, we did, that's the next letter, dated May 14th, 1998.

Q. Following Mr. Lopez's letter, what is the next correspondence?

A. The next letter is a letter from Great Western Drilling Company, who is one of the participants in the Sweet Thing State 36 well, as well as the Sweet Thing Federal Unit, and it's simply a letter wherein they are supporting our proposal for the subject well.

Q. Okay. Behind, then, the next colored sheet separating the documents, what then do we find?

A. That is the notice of the Application for this particular case.

Q. And have you reviewed the copies of the green certified mail return receipt cards and satisfied yourself that we have provided notice to all the proper parties?

A. Yes.

Q. All right. Then finally in the land section, let's turn to the last correspondence. This is a letter executed by Mr. Carr and me, confirming a settlement with Scott Wilson and Richard Barr?

A. That is correct.

Q. All right. Without going into all the infinite details of the issue, Mr. Weant, summarize for us what Mr. Wilson and Mr. Barr wanted you to accomplish with this new Sweet Thing Number 2 well.

A. Basically, they wanted us to attempt to complete a well in the Morrow formation in a similar position, on this tract within the Sweet Thing Federal Unit, to the

offsetting well, the Sweet Thing State 36 well, which was a nonstandard location in a nonstandard section, which was recently completed. The well actually went on line March 1st -- or March 2nd of this year.

Q. All right. The Sweet Thing Number 1 well in Section 36, while it had an approved surface location 300 feet from this common boundary, your technical people with your company have determined that, in fact, is not a vertical, straight wellbore; is that not true?

A. That is correct.

Q. And it has drifted to the west?

A. That is correct.

Q. The new well that we're discussing today is an attempt to locate this second well in an approximate location that's in a similar position from the common boundary?

A. That is correct.

Q. All right. And Wilson and Barr have agreed to the size and location of the drilling window that's targeted for the new well?

A. Yes, sir.

Q. Okay. And with the approval of this Division, then, you're ready to proceed with this well, are you not?

A. Yes, sir.

MR. KELLAHIN: That concludes my examination of

Mr. Weant.

EXAMINER STOGNER: Mr. Carr, any questions?

MR. CARR: No questions.

EXAMINATION

BY EXAMINER STOGNER:

Q. In referring to the first page behind the green tab marked "Land", down in Section 1 to the south and west --

A. Yes, sir.

Q. -- is -- Now, it shows Exxon as a lessee, but is that a Stevens-and-Tull-operated well --

A. Yes, sir --

Q. -- over in the east --

A. -- in fact, we operate both wells located in Section 1. And that acreage is actually dedicated to the same agreement as the pink lands.

Q. I'm sorry, as the what lands?

A. The east half of Section 1 is dedicated under the same agreement as the Sweet Thing State 36 well, the pink. So those parties were noticed, the same parties were noticed.

Q. Okay. Now, the well in Section 36, that Number 2, is that presently producing, drilling, or what's the status of that well?

A. That well is currently awaiting a pipeline

connection, which we anticipate in probably 30 days or less.

Q. Do you remember the administrative order that approved that Number 2 well? Or that's an unorthodox location, is it not?

A. The Little Box Number 2?

Q. Yes.

A. No, sir, that is a standard location. That's a laydown -- I think it's 2150 from the west and 660 from the south.

EXAMINER STOGNER: Any other questions of this witness?

You may be excused.

THE WITNESS: Thank you.

EXAMINER STOGNER: Mr. Kellahin?

MR. KELLAHIN: Mr. Examiner, we'll call at this time Mr. George Ulmo. He spells his last name U-l-m-o.

GEORGE J. ULMO,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. George Ulmo. I'm a consulting geologist on

retainer with Stevens and Tull.

Q. Mr. Ulmo, on prior occasions have you testified as a petroleum geologist before the Division?

A. Yes, I have.

Q. Pursuant to your consulting work with Stevens and Tull, have you made a geologic study concerning this well and other wells in the area to determine an appropriate methodology by which you can directionally control this wellbore and bottom it within this drilling window in the Morrow?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Ulmo as an expert geologist.

EXAMINER STOGNER: No objections? Mr. Ulmo is so qualified.

Q. (By Mr. Kellahin) Let me have you turn to the exhibit book, and let's look at the schematic for a moment, behind the tab.

And we've made an editing change here, Mr. Examiner. The schematic had showed 600 feet from the north. In fact, it's to be 660 from the north. But if you slide that down visually, then describe for us the target that you're trying to hit.

A. Okay, the target window would be a rectangular box, oriented in a north-south direction, with the north

limit of the box at 660 feet from the north line of Section 31, the south side of the box would be 860 feet from the north line of the section, the western boundary of the box is to be 435 feet from the west line of the section, and the eastern boundary would be 485 feet from the west line of the section.

That gives us a 50-foot-wide target window which is 200 feet tall.

Q. When we look at the schematic and look over in Section 36 to the west, you've approximated the Sweet Thing State Number 1 well and also showed its estimated bottomhole location?

A. That's correct. The Sweet Thing -- This is an estimated bottomhole location for the Sweet Thing State 36, based on analysis I have done with three other wells in the area, being the Number 2 Little Box State, the Number 1 Sweet Thing Federal Unit and the Number 1 Nasser Federal.

Q. All right.

A. Those wells, we acquired gyroscopic directional surveys on, and based on those have come up with this conclusion to where our bottomhole location is most likely located.

MR. KELLAHIN: Mr. Stogner, within Mr. Ulmo's geologic report I have tabbed your exhibit book with a yellow tab. It is towards the end of his report, just

before you get to the red-colored separator page. And if you count back three displays you're going to find a structure map, and it's on top of the Atoka shale. And there should be a yellow tab on the top of your books, or the side of your books.

EXAMINER STOGNER: Structure map, top of Atoka shale?

MR. KELLAHIN: Yes, sir. I'd like to use that for a moment to provide an indication to you of the control wells that Mr. Ulmo used in his report. I'll give you my copy because it's color-coded.

Q. (By Mr. Kellahin) Based upon your study, have you determined that the wellbores within this area of review, in fact, are not vertical, straight wellbores?

A. Yes, I have.

Q. And how did you do that?

A. On the Number 2 Little Box State, we ran a gyroscopic directional survey from the surface to TD, and we determined that wellbore has drifted westward approximately 148 feet, I think it is. Let me get my chart here and see. That well went about 148 feet west and, oh, about 24 feet or so south of the surface location at the top of the Morrow sand.

Q. Did you, as part of your study, look at other wellbores in this vicinity that had been drilled to a

similar depth to determine what the general direction of wellbore drift was?

A. Yes, we did. We looked at the Number 1 Sweet Thing Federal in Section 6 and the Number 1 Nasser Federal in Section 1, and both of them -- both of those wells exhibited westward drift, for the most part.

Q. Were you able to survey or determine the exact bottomhole location of the Sweet Thing 36-1 well that you're trying to offset?

A. We were not able to determine the exact location of that well. We tried to run a gyro survey on that well and were unsuccessful.

During our attempt -- The well was currently flowing between 7 and 8 million cubic feet of gas a day, and we shut the well in and tried to go into the tubing with a gyroscopic tool, and there's not enough clearance within the annulus between the tool and the tubing for the gas to -- Well, there was too much gas in there; it didn't allow the tool to go down. And the tool was jolted up and down vertically several times, and actually the wireline pulled out of the rope socket and we nearly lost the tool. We were able to catch it before it went down below the main shut-off valve.

There's an explanation of that in the very back, in the engineering section that Mike Mooney, our consulting

engineer, wrote up.

But basically, we were lucky not to lose the tool down the tubing string, which would have been disastrous for the well.

Q. As part of your study, then, you have determined that there's a general direction of wellbore drift for all these wells, certainly below the San Andres?

A. That's true, that's correct.

Q. What are your observations with regards to your ability to predict the direction and orientation of that drift?

A. I've -- During my study, I've noticed that the changes in the drift azimuth and the inclination are more pronounced in intervals where there are interbedded shale and either sand or limestone beds. And as the structural dip increases, the deviation also increases, and it seems to go in the direction opposite to structural dip.

Q. You have, in fact, engaged in a very detailed, specific study of the geology in relation to each of these analogy wells, have you not?

A. I have.

Q. In your opinion, are you going to be able to accurately predict the drift azimuth of the Sweet Thing Federal 1 well to determine within reasonable certainty its current bottomhole location?

A. I believe so.

Q. And have you done that?

A. Yes, I have.

Q. Let's show the Examiner the hypothetical case where you have predicted, using this methodology, the bottomhole location of the Sweet Thing State 36 Number 1 well.

If you'll look, Mr. Stogner, to the display shown between pages 6 and 7 of Mr. Ulmo's report, he's got an illustration for you and he can describe how he has determined the bottomhole location of the well to be offset.

Summarize that for us.

A. Okay. Through all my series of maps I've determined that the wellbores seem to deviate when they reach the top of the Glorieta, they start turning towards the west. And they generally drift toward the west until they reach the Little Box Canyon lime, which is what we're calling the top of the Cisco lime out here. And then from there down they tend to turn slightly towards the top of the structure, at the Atoka and the Morrow.

And based on these observations I've used my structure maps to predict the azimuth of drift in each of the intervals shown on page 6 from the Glorieta to the Abo, from the Abo to the Wolfcamp, from the Wolfcamp to the

Little Box Canyon Lime, from the Little Box Canyon Lime to the Atoka and from the Atoka to the lower Morrow and to the top of the sand. And those azimuths I've shown would be directly updip, according to the maps.

And from the interval from the surface to the top of the Glorieta, the wellbores don't seem to have a preferred drift direction. Some go north, some go east, south -- It just kind of varies, and they just wander around, more or less. And when they hit the Glorieta they start their westward turn.

So I used five different cases where I assumed an initial drift direction of north, south, east and west, and then one that would go updip at 230-degree azimuth. And I used these azimuths along with the Totco inclinations taken by the drilling contractor and combined them as if it were a true directional survey, and I calculated all those cases.

And the amount of west drift varies slightly, depending on the initial azimuth of the drift. When you average all the cases together, you come up with about 24 feet of north drift and 132 feet of west drift, as an average case.

The plot that's shown as the Hypothetical Case Number 1 is Case Number 1, which assumes an initial north drift for the wellbore. It's just chosen at random to

illustrate how the drift curve would look in that particular case.

Q. The supporting documents and the other calculations you have made for this hypothetical wellbore drift are contained behind the green separator page, before we get to the engineering data?

A. That's correct, there's five cases there, and I've calculated the coordinates for each segment along the way for that well.

Q. Between the red divider sheet and the green sheet we've just talked about, what's contained within that section of your report?

A. The first page is the direction -- inclination -- deviation survey provided by WEK Drilling Company. These are the Totco surveys that were taken during the course of drilling the Sweet Thing State 36, and these are the dip values that I used in my calculations.

Q. At the end of your report you have included a number of geologic maps?

A. Yes.

Q. What is the purpose of the maps?

A. The maps show the structural attitude, basically from the surface all the way down to the top of the lower Morrow. At the surface the Grayburg is exposed, and you reach the top of the San Andres about in 100 or 200 feet,

so I couldn't map the top of the San Andres. So I chose a marker within the San Andres to map on. That's the first page.

As you go downstructure, the Glorieta structure closely mimics the San Andres, as does the Tubb and the Abo and the Wolfcamp. Those structures pretty much are similar, showing a structural nose with the subject well and the Sweet Thing State 36 well being situated on the northeastern flank of that structural nose.

As you go down Wolf- -- isopach from the Wolfcamp to the Little Box Canyon lime and structure map on the Little Box Canyon lime, all the structure maps below the Wolfcamp show that the structure is getting increasingly more complex and pronounced, you know, more structural relief as you approach the Morrow.

Q. Have you utilized any technical published papers to authenticate your use of this hypothetical wellbore drift?

A. Yes, I have.

Q. Those references are shown on page 8 of Mr. Ulmo's report, Mr. Examiner.

Having established that with reasonable certainty you can predict the current bottomhole location of the Sweet Thing State 36-1 well, how do you propose to locate, drill and control the well that's the subject of this

hearing?

A. Okay, we believe the well will drift to the west approximately 135 feet, and so we moved our surface location to the east to allow sufficient room for that to occur.

Q. Why would you want to do that, as opposed to simply trying to control a well vertically?

A. Well, the cost to maintain a vertical and straight wellbore is a lot more than just giving the well a push in the right direction. We ran a comparison, and DIG, who's the company who does the directional drilling out here, they've just done a well where they tried to maintain a vertical wellbore, and it cost $100,000 or more to just maintain that, and the cost of just giving the well a slight push in the right direction, of about 50 feet or so, would run in the neighborhood of $15,000 to $20,000.

So we feel it's a lot more economical to allow the well to drift in the right direction and then just help it along as needed.

Q. Okay, and how will that be done?

A. Okay, we will set our intermediate pipe casing at about 1200 feet. Then we'll run a Monel -- I mean a gyroscopic survey at that point, determine where the bottomhole is.

And then from that point down we'll utilize a

Monel collar in our bottomhole assembly, and every 200 feet we'll take a directional survey. Like the Totco -- It's a directional Totco survey. So you get inclination and azimuth. And we can plot our course as we go, and just keep track of the wellbore.

When we get down to approximately 7000 feet -- that will be around the top of the Atoka -- we'll know where our wellbore is heading. If it's heading towards target we'll just keep on drilling, and if it needs a little steering we'll put a mud motor with a bent sub assembly and just push the well -- just deviate it to the right inclination and azimuth to reach our target window. And then use packed-hole assemblies and whatever we need to, to penetrate the window.

Q. In your opinion, Mr. Ulmo, is this an appropriate and efficient manner in which to put a wellbore in this particular Section 31 in order to have a fair opportunity to recover its share of hydrocarbons in the Morrow?

A. Yes, it is.

MR. KELLAHIN: That concludes my examination of Mr. Ulmo, Mr. Examiner.

The engineering exhibits he's referred to are included in letter form from Mr. Mooney.

At this time we would ask you to admit the entire exhibit book into the record.

EXAMINER STOGNER: Exhibit Number 1, with all of its internal parts, will be admitted into evidence at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. The well in Section 36 was originally drilled at this -- at its location for geological purposes, or topographic?

A. Yes, for geological purposes. It -- There was believed to be a fault somewhere in the middle of Section 36, based on another geologist's structural map. He wanted to have the well east of that fault. So we moved it as far as we could east in that section.

Originally the well was drilled for the Cisco or the Little Box Canyon lime pay, because we knew we could make a well there, and we decided to go ahead and drill it to the Morrow just in case we would get lucky.

Q. And you did?

A. Yeah, we got lucky.

Q. Good. So this well would just closely mirror --

A. Right, our attempt is to mirror, as close as we can tell, the bottomhole location of that well to the section line, to the common boundary.

Our normal Totco surveys, shown on Table 1, which is behind the first page of my report, I summarize all the

inclinations there and all the drift -- If you assume all the drift is in the same direction, at the top of the pay we could have been as far as 176 feet away from the surface location.

And, you know, we're asking for 135 feet, and that's the average of the west drift shown on the Number 2 Little Box State and the Number 1 Sweet Thing Federal. Those wells, when you average their west drift together, it's 135 feet. And the average of our hypothetical case is 132 feet. So we feel that we're pretty close to the norm here, so we're just asking for what the average of those two gyro surveys is.

Since those wells are on the same -- similar, I should say, locations on the structure, being on the east flank, those tend to drift directly updip for the most part.

So we're pretty certain that our well went west approximately 135 feet, and we think the new well will do the same.

Q. In referring to your proposed box, behind the pink page --

A. Okay. We need the -- The western boundary of that, we're asking to be a hard line of 435 feet from this section line, and then the 50-foot-wide-window.

Q. Okay, how -- That 50-foot-wide window, is that

more of an internal thing between you and --

A. Yes, that's what we agreed upon with Wilson and Barr.

EXAMINER STOGNER: Is it necessary that that 50-foot window appear in the order, Mr. Kellahin?

MR. KELLAHIN: No, sir, I don't think so, but it's of no adverse consequence to have it in there. We've agreed to do it, and that's what we'll try to hit. If we miss it, we may have to come back and amend it and explain to you why we missed it.

THE WITNESS: You know, we intend to -- If we miss it and have to plug back the well and redrill it, it's mechanically more risky and just more expensive.

Typically out here we do experience some lost circulation in the shallow portion of the well, and the shorter our drilling time is, you know, the better off we are. So we fully intend to hit that window on the first try.

Q. (By Examiner Stogner) Okay, I -- Let me rephrase that question. I can understand the hard 435 and the hard 660. I'd have a problem with you missing that one. But I wouldn't have a hard time if you missed the 485 or 660.

Is that more -- Is those boundaries back to the east and to the south more of an internal verification with you and Mr. Wilson?

MR. KELLAHIN: Well, it's also a potential issue with the Bureau of Land Management. They're requiring us -- They've made a protection-against-drainage demand and have asked for a comparable wellbore in the Morrow.

So we have no objection to having you give us a smaller drilling window than you would otherwise approve under Rule 111.

THE WITNESS: The north-south dimension is not the critical dimensions. The east-west is the one we adhere to more stringently.

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: Well, within the last year we've redone the Rule 111, and essentially what I'm giving everybody now is a barn door to stay in. So what I was proposing is an order that says no closer than 435 nor closer than 660 to that north and western boundary.

But is there any need for my order to say anything about that minimal distance?

MR. KELLAHIN: Because of the settlement with Wilson and Barr and our obligations with the BLM, we would appreciate your giving us a smaller window than you otherwise do.

EXAMINER STOGNER: Okay, that's the purpose I was getting at, because this is going to differ than what we're trying to get through with the new Rule 111 --

MR. KELLAHIN: I understand.

EXAMINER STOGNER: -- and so this will be an exception to what I was -- I'm going to give you a knothole instead of a barn door at your request.

MR. KELLAHIN: Well, it's got some unusual circumstances that make it different than other cases.

EXAMINER STOGNER: Okay. And with that -- so whenever we -- In fact, this one might be one that when we revisit Rule 111, that we'll keep in tabs, because it was a special interest.

Okay. I don't have any other questions of Mr. Ulmo.

THE WITNESS: Thank you.

EXAMINER STOGNER: You may be excused.

Anything further in Case 12,004?

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

EXAMINER STOGNER: Case Number 12,204 [*sic*] will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:21 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12004, heard by me on 9 July 1998.

Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 13th, 1998.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998