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. 12,037
APPLICATION OF YATES PETROLEUM CORPORATION FOR POOL CONTRACTION, POOL EXTENSION AND SPECIAL POOL RULES, OR IN THE ALTERNATIVE, SIMULTANEOUS DEDICATION, LEA COUNTY, NEW MEXICO	)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 1st, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 1st, 1999, 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

April 1st, 1999
Examiner Hearing
CASE NO. 12,037

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	15
Exhibit 2	9	15
Exhibit 3	10	15
Exhibit 4	12	15

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Ocean Energy	Identified	Admitted
Exhibit 1	18	24
Exhibit 2	22	24

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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:

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

FOR OCEAN ENERGY:

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR AMERISTATE OIL AND GAS:

PHIL BREWER, Attorney at Law
125 West Fourth
Roswell, New Mexico 88201

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WHEREUPON, the following proceedings were had at 10:21 a.m.:

EXAMINER ASHLEY: At this time the Division calls Case 12,037.

MR. CARROLL: Application of Yates Petroleum Corporation for pool contraction, pool extension and special pool rules, or in the alternative, simultaneous dedication, Lea County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe law firm Campbell, Carr, Berge and Sheridan. We represent Yates Petroleum Corporation in this matter, and I have one witness.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing Ocean Energy, Incorporated, and I have one witness.

EXAMINER ASHLEY: Any additional appearances?

MR. BREWER: Mr. Examiner, Phil Brewer on behalf of Ameristate Oil and Gas, Inc., and I have one witness.

EXAMINER ASHLEY: You have -- ?

MR. BREWER: One witness.

EXAMINER ASHLEY: One witness.

Any additional appearances?

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of Chesapeake Operating, Inc., and Amerind Oil

Company.

EXAMINER ASHLEY: Any additional appearances?

Will the witnesses please stand and be sworn in?

(Thereupon, the witnesses were sworn.)

EXAMINER ASHLEY: Mr. Carr?

MR. CARR: May it please the Examiner, initially Yates would request that the portion of this case which relates to special pool rules be dismissed.

EXAMINER ASHLEY: Yates' part of the Application regarding special pool rules will be dismissed.

Mr. Carr?

MR. CARR: At this time we call Eric Cummins.

Mr. Examiner, I would request that the record reflect that Mr. Cummins testified in the preceding case, and at that time his credentials as an expert in petroleum geology were accepted and made a matter of record.

EXAMINER ASHLEY: The record will reflect that.

ERIC CUMMINS,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Cummins, would you briefly state what it is that Yates Petroleum Corporation seeks in this case?

A. Yates seeks an order authorizing the simultaneous

dedication of its Brunson "AQK" State Com Well Number 1, located 2260 feet from the north line and 1795 feet from the east line, and its Big Flat "ASN" State Com Well Number 1, located 1650 feet from the south line and 1980 feet from the east line, both in Section 10 of Township 16 South, Range 35 East, to be dedicated to the existing spacing unit covering the east half of Section 10.

Also for contraction and extension of the boundaries of the North Shoe Bar-Atoka Gas Pool to conform to the acreage dedicated to the wells therein.

Q. Mr. Cummins, are you familiar with the Division's memorandum from William J. LeMay in 1988 and 1990 concerning simultaneous dedication of wells in nonprorated pools?

A. Yes, I am.

Q. And you understand that to receive approval to simultaneously dedicate wells, you have to show that your correlative rights would be impaired?

A. Yes.

Q. Is the pool which is the subject of this Application, the North Shoe Bar-Atoka Gas Pool, a prorated pool?

A. No, it is not.

Q. Let's go to Exhibit 1, and I'd ask you to identify that and review it for Mr. Ashley.

A. Exhibit Number 1 is a land plat that first shows the current pool boundaries, as defined by the state, that are the north half of Sections 10 and 11. The pool was created by Division Order R-10,972, May 1st, 1988.

It shows the wells in the pool. I'll point first to the Brunson and the Big Flat wells in the east half of Section 10. The green dot is the Brunson "AQK" State Number 1. The red dot is the Big Flat "ASN" State Com Number 1.

Also, although not highlighted, in the northwest quarter of Section 11, 1980 from the north and west lines, the Yates Petroleum Shell Lusk "ANB" Com Well Number 1.

Q. Is the west half of Section 11 dedicated to that well?

A. Yes, it is.

Q. And so the acreage dedicated to wells in the pool is a 640-acre tract, comprised of the west half of 11 and the east half of 10; is that right?

A. That's correct.

Q. And that's what Yates is recommending the pool boundaries be adjusted to?

A. That is right.

Q. Does this plat also show offset operators in the area?

A. Yes, it does.

Q. Is Exhibit Number 2 a notice affidavit confirming that notice of the Application has been provided to affected interest owners, as required by Division rules?

A. Yes, it is.

Q. And to whom was notice provided?

A. All operators within a mile of the pool boundaries?

Q. What response to this Application has Yates received?

A. We had concern expressed from a number of different operators in the area. We have provided requested information on these wells to both Chesapeake and Ameristate. We believe that we have settled our differences and the Application is now unopposed.

Q. Now, Mr. Cummins, Yates currently has two wells in the east half of Section 10 which are capable of producing from the Atoka formation; is that correct?

A. That is correct.

Q. And what is the status of these wells at this time?

A. Currently the Big Flat is producing. That's the red dot on the land map in the southeast quarter. And the green dot, the Brunson well, is currently shut in.

Q. Is Yates only producing one well at any one time on the east half of Section 10?

A. Yes, we are.

Q. Could you refer to what has been marked for identification as Yates Petroleum Corporation Exhibit Number 3 and simply review for the Examiner the history of the events which have resulted in Yates having two wells on this 320-acre tract?

A. Exhibit Number 3 is a brief history of the wells that were drilled in Section 10. In May of 1997, the Brunson well was spudded, drilled to a total depth of 12,600 feet. It was completed in the lower Atoka Brunson sand.

On February 13th of 1998, UMC, now Ocean Energy, spudded their Carlisle State Com Number 1 well. It is not highlighted on Exhibit Number 1, but the well is located in the southwest quarter of Section 10, 1650 from the south line and 190 from the west line.

On March the 20th, 1998, the Carlisle well blew out while drilling at 12,086 feet. At that time, the decision was made by Yates to drill their Big Flat in order to try to recover reserves from what we call the Carlisle zone, the zone that blew out in the Carlisle well, that could be under our portion of Section 10 in the southeast quarter.

We drilled the well. TD was reached on that well on 6-11 of 1998, and we did not find the Carlisle zone, it

was not present.

On may the 22nd Ocean, or UMC, spudded their replacement well for the blowout, and they roughly moved 100 feet to the northwest. The official location is 1721 from the south line and 1909 feet from the west line. They drilled that well, and they did not encounter the lower Atoka Brunson sand that was encountered in the Brunson and the Big Flat wells in the east half of Section 10.

Ocean then, or UMC, then completed their well in the Carlisle zone, the zone that blew them out in the original wellbore, and are currently producing from that zone.

Yates Petroleum then completed the Big Flat well in the lower Atoka Brunson zone.

Q. When you were drilling and attempting to complete the Big Flat, did you also attempt to complete that well in the Carlisle zone?

A. Yes, we did.

Q. Would Yates have drilled the Big Flat on a stand-alone basis to produce the Brunson zone in the Atoka formation?

A. No, we would not.

Q. And the problem is, isn't it, Mr. Cummins, that as a result of the events that you have just summarized Yates now has two wells capable of draining the Atoka

formation on the 320-acre unit comprised of the east half of Section 10?

A. Yes, that is correct. We believe that if both wells are allowed to produce concurrently, we could drain the reserves quicker and more efficiently.

Q. Since we already have a wellbore, what would be the effect of denying Yates the opportunity to use this well?

A. It would delay the recovery of the hydrocarbons under our tract and increase the cost of producing the reserves.

Q. And the bottom line is, the reason we're here is, we have two wells capable of producing, and you're seeking authority from the Division to permit you to go forward and utilize both wells; isn't that correct?

A. That's correct.

Q. Let's take a look at the cross-section, Yates Exhibit Number 4. Will you identify and review that, please?

A. Exhibit Number 4 is a stratigraphic cross-section, a three-well cross-section that goes from the Ocean Energy Carlisle 1 Y, the replacement well for the blowout in Section 10, east to the Big Flat Number 1 well, and then north to the Brunson well.

This cross-section just shows very simply that

the Brunson sand, highlighted in yellow at the top of the cross-section is not present in the Carlisle well. It also shows in the Carlisle well the presence of the sand that blew them out, that it is not present in the Big Flat nor the Brunson wells in the east half of Section 10.

Q. Were they able to run a log in the Carlisle Number 1 well?

A. No, sir, they were not.

Q. In your opinion, would it be comparable to what we see of the log in the 1 Y?

A. Yes.

Q. When we look at these logs, do you have any doubt that the Brunson and the Big Flat are in communication with one another?

A. Absolutely no doubt.

Q. They are in communication?

A. They are in communication.

Q. And they're competing and producing the same reserves?

A. Yes, they are.

Q. And if both would be allowed to produce simultaneously and concurrently, you would be recovering the reserves at a more rapid rate; is that correct?

A. That is right.

Q. In your opinion, will approval of the Application

prevent waste?

A. Yes, it would. It would result in more efficient drainage of the remaining reserves, as well as reducing the cost of recovering those reserves.

Q. And you're not testifying that there would be substantial additional recovery, are you? It would just be more efficient to take it out at this faster rate since you have the wellbore?

A. That is correct.

Q. What about correlative rights? Will Yates' correlative rights be protected if, in fact, the Application is approved?

A. Yes, they would.

Q. And why is that?

A. Well, it would afford us the opportunity to produce the reserves under the tract more efficiently.

Q. In your opinion, would approval of this Application impair the correlative rights of any other operator in the pool?

A. No, it would not. Ocean Energy supports the Application and will present evidence that shows the limited extent of the reservoir, and that this well should only drain the reserves under this spacing unit.

Q. In fact, what Yates is here doing is trying to figure out how to deal with the situation where

inadvertently they have two wells completed on a spacing unit in the same formation; is that right?

A. That is correct.

Q. Were Exhibits 1 through 4 prepared by you?

A. Yes, they were.

MR. CARR: At this time we move the admission of Yates Exhibits 1 through 4.

EXAMINER ASHLEY: Exhibits 1 through 4 will be admitted as evidence at this time.

MR. CARR: And that concludes my examination of this witness.

EXAMINER ASHLEY: Mr. Bruce?

MR. BRUCE: No questions.

EXAMINER ASHLEY: Mr. Brewer?

MR. BREWER: No questions.

EXAMINER ASHLEY: Mr. Kellahin?

MR. KELLAHIN: A point of clarification, Mr. Examiner.

EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Cummins, when you went through your chronology on Exhibit 3, it was not apparent to me why Yates drilled the Big Flat well. You've got the Brunson well producing in the Brunson sand. The second well in sequence was the Big Flat well. What was its original

targeted depth?

A. No, sir, I'm sorry. You misunderstood that. The second well in the sequence was the Carlisle well. The Big Flat was drilled third.

Q. The Carlisle well is Ocean's well?

A. That's correct.

Q. I meant among the two Yates wells.

A. Yes --

Q. Yates' well -- The first one was the Brunson well?

A. That's right.

Q. And it's drilling and producing and holding the east half of the spacing unit?

A. That is correct.

Q. All right, what was the reason for the Big Flat well?

A. The Big Flat was drilled to attempt to recover reserves from the Carlisle zone that may have been present under our tract.

Q. Which was not present in the Brunson well?

A. That's correct.

Q. All right. And then you drilled the Big Flat well. Was it drilled just to the Carlisle zone, or was it a deeper well?

A. It was drilled to the Carlisle zone.

Q. Okay, and so you found in that Big Flat well that the Carlisle zone was not present in your Big Flat well?

A. That is correct.

Q. But now you have the dilemma of having the two wells both able to produce out of the Brunson sand?

A. That is right.

MR. KELLAHIN: Okay, thanks.

EXAMINER ASHLEY: I have no further questions, Mr. Cummins. You may be excused. Thank you.

JOHN R. McRAE,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. John McRae. I live in Highlands Ranch, Colorado.

Q. Who do you work for?

A. Ocean Energy.

Q. And what is your position with Ocean?

A. Senior geologist.

Q. Have you previously testified before the Division as a geologist?

A. Yes, I have.

Q. And were your credentials as a geologist accepted

as a matter of record?

A. Yes.

Q. And are you familiar with the geology involved in this Application?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd tender Mr. McRae as an expert petroleum geologist.

EXAMINER ASHLEY: Mr. McRae is so qualified.

Q. (By Mr. Bruce) Preliminarily, Mr. McRae, what is Ocean Energy's position with respect to this case?

A. We support Yates Petroleum in the simultaneous dedication of the east half of Section 2 to produce the Brunson and the Big Flat well.

Q. Now, in the -- Mr. Cummins testified that Ocean is an offset operator in the west half of Section 10. It also owns an interest in these two wells, does it not?

A. Yes.

Q. Okay. Mr. McRae, would you identify your Exhibit 1 now and tell the Examiner what it shows about this Atoka reservoir in this area?

A. Exhibit 1 is a gross isopach of what we call the "Brunson" Atoka Sand interval. I've highlighted in yellow the zero limits of the sand.

I want to point out that this isopach is not to depict one continuous, homogeneous sand. This is only a

sand fairway, a sand -- just the area where there's sand present. There's quite a bit of well control to the northwest and also to the east and to the southwest to show where there is no sand.

So we have reasons to believe that this is not one continuous homogeneous sand, but there are permeability barriers, possibly separate channels. We just don't know exactly what is going on within the sand fairway.

I would also like to point out the faults that I've put on this map. There's a very large fault that goes northwest-southeast through Section 15. That is the westerlymost fault. And then there is a fault zone -- I've labeled it as a fault zone -- and then a smaller fault, which would be the easternmost fault.

This particular area in here, this interpretation that I've showed is based on some 3-D seismic that we have. And that 3-D seismic shows that this fault zone is highly complex, highly faulted. It's a very contorted zone, and it's very difficult to tell where you are in that.

The Carlisle well encountered a Morrow sand, and that's the well in the northeast of the southwest of Section 10. It encountered a Morrow sand associated with this highly complex faulting and erosional -- associated with the Shoe Bar structure.

Also on this map, I've put on some production

figures for the well in Section 14, which was one of the original wells drilled. I've labeled it Well Number 7. This well was drilled in 1974 and to date has produced approximately 3.8 BCF and 90,000 barrels of oil. We do not have a bottomhole pressure; there was no DST run on that well.

The well up in Section 11, which would be the Number 3 well, is the Shell Lusk. That well was drilled in October of 1997. And from a shut-in bottomhole pressure, it has a pressure of 3016 pounds, which is quite a bit below normal gradient.

It has been testified in previous cases, or in a previous case. In fact, let me give you those numbers: Case Number 11,958, 11,959, 11,934, which were all consolidated. It was testified in that hearing that the reservoir pressure in the Shell Lusk had been affected by the production from the well in 14, Well Number 7, and Ocean Energy agrees with that interpretation.

The Brunson well, which is in the east half of Section 10, which is labeled Well Number 1, ran a DST in the Brunson zone in October of 1997, the same month as the Shell Lusk did the bottomhole pressure buildup. It had a pressure of 4086 pounds, which is over 1000 pounds higher.

And what we feel is that there are some type of permeability barriers or separate channels that separate

the Brunson and the Big Flat well, which are in the east half of Section 10, from the wells in Section 11 and Section 14.

Q. Mr. McRae, based on this map, with respect to correlative rights, since the sand pinches out to the west, there's no effect on the interest owners in the west half of Section 10; is that --

A. That's correct. The Carlisle well that we drilled had no sand in the Brunson interval.

Q. And because of the faulting, there is little or no effect on the interest owners to the south?

A. That's our interpretation. We actually looked at participating in a well to be drilled in the northeast of Section 15, and we turned that down because we were very concerned that there were -- first of all, there was any sand; and if there was, it would be very, very thin.

Q. And finally, because of that permeability barrier, based on these large pressure differences, there shouldn't be any effect to the people to the east of Section 11 -- I mean Section 10; is that correct?

A. That's correct. If we were in communication with the wells in 11 -- and I say we're in communication -- if the wells in the east half of 10, if they were in communication with the wells in 11, I would expect to see approximately the same bottomhole pressure, since the

pressure -- the DST and the bottomhole pressure were taken at essentially the same time.

Q. And you would expect to see the same because of the large production from the southeast too, would you not?

A. That's correct.

Q. Let's move on to your Exhibit 2. Would you identify that and explain what that shows for the Examiner?

A. Exhibit 2 is a structure map on top of the Morrow lime. The Brunson zone is about 30 to 40 feet above the Morrow lime. So this structure map shows fairly accurately the structural configuration of the Brunson zone.

I've overlaid on this structure map the zero edge of the Brunson sand that was shown on the previous exhibit. And as you can see, the Shoe Bar structure is in the southwest of the map in Section 15. Those are 100-foot contours. It's a very complex, sharp structure. Then you cross the big fault. This would be going to the northeast. It's about 300 feet of throw.

Then you go into the fault zone and then cross the last small fault in the extreme northeast corner of Section 15, and then the Morrow lime and the Brunson zone dips to the northeast.

Up in Section 2 there's a pronounced nose, pullout, and there's also no sand up in Section 2 -- or Section 3, excuse me. And to the south there's a nose that

pulls out in Section 13.

Recently, Yates drilled Well Number 5, which would be located in the southwest quarter of Section 2. It encountered 22 feet of sand in the Brunson zone, ran a DST and recovered water, 1603 feet of water. So the northern limits of this Brunson zone does have water, it's wet.

And not knowing exactly where the gas-water contact is, I've basically put it between the two wells.

And what that shows is that Section 2 and Section 3 are downdip from the Shell Lusk well, which is the lowest producing well in this reservoir, and updip from the well in the southwest of Section 2, which is wet. So we feel that the -- what sand might be present in Section 3 is a high probability of being wet.

Q. Putting Exhibits 1 and 2 together, Mr. McRae, it appears that the reservoir and the Brunson Atoka reservoir in the east half of Section 10 is pretty limited?

A. That's correct.

Q. And so the effect on any offset's correlative rights would be limited accordingly?

A. All the well control and the pressure data supports that.

Q. In your opinion, is the granting of Yates' Application in the interests of conservation and the prevention of waste?

A. Yes.

Q. And were Exhibits 1 and 2 prepared by you or under your direction?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Ocean Exhibits 1 and 11 -- I mean 1 and 2, excuse me.

EXAMINER ASHLEY: Exhibits 1 and 2 will be admitted as evidence at this time.

MR. BRUCE: I'll learn to count later.

EXAMINATION

BY EXAMINER ASHLEY:

Q. Mr. McRae, the southeast quarter of Section 3, does Ocean have interest in that?

A. No, sir.

Q. Okay.

A. We do own interest in the southwest quarter of 3.

EXAMINER ASHLEY: Okay. Mr. Carr?

MR. CARR: I have no questions.

EXAMINER ASHLEY: Mr. Brewer?

MR. BREWER: No questions.

EXAMINER ASHLEY: Mr. Kellahin?

MR. KELLAHIN: Thank you, Mr. Examiner.

EXAMINATION

BY MR. KELLAHIN:

Q. Mr. McRae, may I draw your attention to Exhibit

Number 1? The Brunson Atoka sand is what you're mapping here?

A. Yes, that sand interval.

Q. And that interval is present in all the wells that you've numbered with the red pen, numbers 1 through 7?

A. Yes, that's correct.

Q. When I look at the east half of 10, in the Brunson well, the Yates Brunson well, you've got 14 feet of gross thickness in the Brunson sand?

A. Yes, sir.

Q. And then your next control point to the north and west is a zero line in Section 3; for that dryhole it shows a depth of 12,250?

A. Right.

Q. What's your basis for making the contours between those two control points, as you've chosen to do?

A. Several things. Our Carlisle well in the southwest of Section 10 had no sand, and the Big Flat, one location, one 40-acre location to the east, had 18 feet of sand. The sand drops off very quickly.

If you go up in Section 2, the Yates Field APK Number 3, located in the southwest quarter, had 22 feet of sand.

Q. That's the Number 5 well?

A. Yes, the Number 5.

And the Number 6 well is a well that we drilled, Ocean operated. It had two feet of sand, and that's even questionable. We're not even sure if it's sand or just a real thin lime. But it's -- essentially, the interval was gone, but there's just a hint of it there. Again, 22 feet to two feet is pretty quick. Down in Section 14, in the southeast quarter, there's a well that has 20 feet of sand, and --

Q. That's the Mesa well? I forgot the name of that well.

A. I don't know. It's the northeast of the southeast of Section 14.

Q. It's not the Number 7 well?

A. No, it's -- I didn't number this one. It's --

Q. I'm with you now, okay. It's the 20-foot to the east?

A. Right.

Q. All right.

A. And again, a 40-acre offset to the north is down to six feet. And then the other well had zero, so we don't know where the --

Q. What I'm trying to focus in on is that portion of Section 10 that is outside the zero contour line?

A. Okay.

Q. Yeah, what's your basis for putting those lines

where you've chosen to do so?

A. I just used the contour interval that I saw in other areas where I had well control. So I have no control to say -- well control, to say where that edge is.

Q. When you integrate the pressure data you describe, you're satisfied that the communication in the Brunson sand is not affecting all seven of these wells in the same way, right?

A. That's correct.

Q. The Number 7 well was one of the first wells drilled, was it not?

A. Yes.

Q. And that had an original pressure in the Brunson sand, did it not?

A. We don't know what that is. There was no DST run, no bottomhole pressure information.

Q. Did you testify at the prior hearing that you just described in Case 11,958? Were you a witness in that --

A. Yes.

Q. -- Yates-Ocean dispute?

A. Yes.

Q. Okay. That dispute had to do with a competition between Yates and Ocean for competing pooling cases up in irregular Section 2 to the north, did it not?

A. True.

Q. And as a result of the order in that case, the west-half equivalent, if you will, of Section 2 was determined to be the spacing unit, and Yates was given the right to drill the well?

A. Correct.

Q. All right. What happened as a result of that order? Which ones of these wells were drilled?

A. Well Number 6 was drilled first, operated by Ocean. It was our interpretation that there would be sand in that east half. As it turned out, we found just an edge, a hint, and the sand was tight.

Then Yates drilled the second well, Well Number 5 --

Q. This is Number 5?

A. Right. -- after we drilled Well Number 6. And they encountered 22 feet of Brunson sand, but it was downdip from the production and it tested wet.

Q. Those two wells, then, have provided new data that have substantially altered the geologic opinions expressed to the Division in those prior cases, did it not?

A. Actually, they've confirmed our interpretation of the sand. At that time I testified that as we move to the north and downdip, there was a possibility that we might encounter water. And that was why we wanted to do a

laydown in the south half of 2 and drill at a legal location in the southeast of the southwest, to minimize that risk.

Q. In that case, there was pressure evidence introduced that showed at least in a north-south direction there was a substantial distance in which the wells interfered with each other?

A. Yes, that's correct.

Q. Has anything occurred with this additional data to change that opinion?

A. Actually, the additional drilling has supported that, and that's why I pointed out the two shut-in pressures. It appears that east-west across this sand interval there are some type of permeability barriers. But as north-south -- Well, as it was testified in that, that well in 14 was essentially the only significant producer in this reservoir, and to pull the reservoir pressure down to 3000 pounds, those have to be in some type of communication.

Q. Prior testimony in 1998 did show that there was a limited pressure effect east-west?

A. That's correct.

Q. But there was good communication north-south?

A. Well, "good" is meaning better than east-west.

Q. Well, better to the extent that it was testified

that the Well Number 7 had drawn the pressures so when the Shell Lusk Number 3 well was drilled, there was substantial pressure reduction?

A. That's apparently what the data indicates.

Q. When we look now at the relationship between the Brunson and the Big Flat well, is there pressure communication between those two wells in the Brunson zone in a north-south direction?

A. Yes, those wells appear to be in communication.

Q. And are Wells 3 and 4 in pressure communication?

A. I don't have the data on the Runnels 2, which is Well Number 4, because we're not involved in that -- Ocean is not involved in that particular well. So I can't answer that question.

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

FURTHER EXAMINATION

BY EXAMINER ASHLEY:

Q. Mr. McRae, who operates Well Number 4?

A. Well Number 4 is operated by Yates Petroleum.

EXAMINATION

BY MR. CARROLL:

Q. Mr. McRae, you testified Ocean owns an interest in the Brunson and the Big Flat wells?

A. That's correct.

Q. How large an interest is that?

A. I believe we have 50 percent; is that correct, Jim?

MR. BRUCE: I think it's 25 percent. I don't --

THE WITNESS: I honestly don't remember the exact -- We have an interest in both wells, but I'm not sure what it is. I don't remember.

EXAMINER ASHLEY: Mr. Bruce, is it 25 percent per well, or combined?

MR. BRUCE: I believe the wells are under the same JOA, so it would be equal in each well. It's either 25 or 50 percent.

THE WITNESS: We can provide that information.

EXAMINER ASHLEY: Mr. Bruce?

MR. BRUCE: I don't have anything further.

EXAMINER ASHLEY: I have no further questions. Thank you, Mr. McRae.

Mr. Brewer?

MR. BREWER: Mr. Examiner, in light of the amendment to the Application, we have no testimony to offer.

EXAMINER ASHLEY: Okay, thank you.

Is there anything further in this case?

MR. CARR: No, Mr. Examiner, that concludes our presentation in this case.

I mean, the facts are fairly obvious. We've got

two wells on a 320-acre spacing unit. We didn't intend to be in this position. We believe that the most efficient thing to do, instead of requiring us to plug a perfectly good wellbore, would be to authorize us to simultaneously dedicate these wells and concurrently produce them.

We do not believe we will be impairing the correlative rights of any other operator, and for that reason we have requested this.

EXAMINER ASHLEY: There being nothing further in this case, Case 12,037 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:05 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12037, heard by me on 4/1 1999.

Mark Ashley, 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 April 4th, 1999.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002