

STATE OF NEW MEXICO  
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIV.

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OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY )  
 THE OIL CONSERVATION DIVISION FOR THE )  
 PURPOSE OF CONSIDERING: )

CASE NO. 12,145

APPLICATION OF SANTA FE ENERGY )  
 RESOURCES, INC., FOR COMPULSORY )  
 POOLING, LEA COUNTY, NEW MEXICO )

ORIGINAL

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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April 1st, 1999  
Examiner Hearing  
CASE NO. 12,145

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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:

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 ROBERT E. LANDRETH:

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

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 12:17 p.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,145.

4 MR. CARROLL: Application of Santa Fe Energy  
5 Resources, Inc., for compulsory pooling, Lea County, New  
6 Mexico.

7 EXAMINER ASHLEY: Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa  
9 Fe, representing the Applicant Santa Fe. I have two  
10 witnesses to be sworn.

11 EXAMINER ASHLEY: Additional appearances?

12 MR. CARR: May it please the Examiner, my name is  
13 Bill Carr from Santa Fe, representing Robert E. Landreth  
14 from Midland. I have no witness.

15 EXAMINER ASHLEY: Will the witnesses please stand  
16 to be sworn?

17 (Thereupon, the witnesses were sworn.)

18 STEVEN J. SMITH,  
19 the witness herein, after having been first duly sworn upon  
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of  
24 residence for the record?

25 A. Steve Smith, Midland, Texas.

1 Q. Who do you work for and in what capacity?

2 A. Santa Fe Energy Resources, Inc., and I'm a senior  
3 staff landman.

4 Q. Have you previously testified before the  
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials as an expert petroleum  
8 landman accepted as a matter of record?

9 A. Yes, they were.

10 Q. And you familiar with the land matters involved  
11 in this Application?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as  
14 an expert petroleum landman.

15 EXAMINER ASHLEY: So qualified.

16 Q. (By Mr. Bruce) Mr. Smith, briefly, what does  
17 Santa Fe seek in this case?

18 A. We're seeking a pooling order covering all the  
19 south half of Section 4, Township 23 South, Range 34 East,  
20 Lea County, New Mexico, as to all formations from the  
21 surface to the base of the Morrow, and all pools on 40, 160  
22 or 320 acres.

23 Q. What is Exhibit 1?

24 A. Exhibit 1 is a land plat. It shows the location  
25 of our proposed Rio Blanco 4 well, located 660 from the

1 south and west lines. It shows the anticipated proration  
2 unit in the south half, and it has Santa Fe's interest in  
3 that acreage highlighted in yellow, either solid or cross-  
4 hatched.

5 Q. Okay. And the unorthodox location was approved  
6 by administrative order NSL-4241?

7 A. That is correct.

8 Q. Would you move on to your Exhibit 2 and identify  
9 the leasehold owners in the two tracts you have marked on  
10 Exhibit 1?

11 A. Exhibit 2 is really an attachment to the plat.  
12 It shows the ownership within the tracts reflected, Tract  
13 1, being the southwest quarter of Section 4, Federal Lease  
14 19,142, is owned 50-50 by Robert E. Landreth and Hunt Oil  
15 Company. As noted, Hunt Oil Company has farmed out to  
16 Santa Fe Energy and Southwestern Energy, and pursuant to  
17 that agreement we must spud on or before May 22nd, 1999, or  
18 the agreement will terminate.

19 Q. Okay.

20 A. Tract 2 is the southwest quarter of Section 4,  
21 Federal Lease 19,143. That lease is held contractually,  
22 50-50, by Southwestern Energy and Santa Fe Energy, and  
23 under that agreement we must spud a well on or before July  
24 2nd, or 50 percent interest will revert to Altura Energy.

25 Q. Mr. Landreth is the only person that Santa Fe

1 seeks to pool; is that correct?

2 A. That is correct.

3 Q. Let's discuss Santa Fe's efforts to obtain the  
4 joinder of Mr. Landreth in the well. Would you identify  
5 the packet of correspondence marked Exhibit 3 for the  
6 Examiner?

7 A. Exhibit 3 contains all the written correspondence  
8 between Santa Fe and Robert E. Landreth. The first  
9 correspondence, of course, is our well proposal letter,  
10 dated January 12th, in which we proposed a 13,450-foot  
11 Morrow test at the location and offered him the opportunity  
12 to either participate or farm out. We carried on various  
13 written correspondence back and forth between ourselves up  
14 and through March 29th. All of the correspondence is  
15 included.

16 Q. And with your original proposal letter you did  
17 attach an AFE and ask his joinder in the well?

18 A. That is correct.

19 Q. Did you have telephone conversations with Mr.  
20 Landreth in addition to the written correspondence?

21 A. Yes, I did. I had ten separate phone  
22 conversations with Mr. Landreth.

23 Q. When was your last conversation with him?

24 A. Monday, May 29th [sic]. That conversation was  
25 really directed at the contents of our last two letters



1 between one another. Actually three. The March 26th  
2 letter of 1999 from Mr. Landreth to Santa Fe, my reply of  
3 March 29th, and his reply of March 29th as well.

4 Q. Okay. Now, in that letter Mr. Landreth said he  
5 would agree to do certain things, but there has been no  
6 definitive agreement between the parties at this point?

7 A. We have not been able to reach a mutually  
8 acceptable written agreement at this point.

9 Q. Either farmout or signature on a JOA?

10 A. That's correct.

11 Q. Why are you going forward with pooling at this  
12 time if there appears to be some chance of working things  
13 out?

14 A. Well, we have a March 22nd [sic] drop-dead date,  
15 which, by our calculations, this was the last hearing date  
16 where we could comfortably seek an order to protect our  
17 interest and get an order in time to spud a well and drill.

18 Q. Get an order in time to send out the Election  
19 notice, et cetera?

20 A. Exactly, right, to comply with all of the hurdles  
21 that are implicit in obtaining an order to get a well  
22 drilled.

23 Q. And the drop-dead date under the farmout is May  
24 22nd?

25 A. Excuse me, May 22nd, that's correct.

1 Q. Now, after this hearing, will you continue to  
2 negotiate with Mr. Landreth?

3 A. As I indicated in my letter to him of March 29th,  
4 we will continue to work around the general concepts in his  
5 March 26th letter, in an attempt to come to an agreement.  
6 The letter, I think, my letter, kind of details our  
7 concerns, that we've got to get Mr. Landreth to give us a  
8 reasonable amount of time to know what his intentions are  
9 so that we can offer his interest, if we should farm it  
10 out, or take it under an order to our partners, give them  
11 sufficient time to elect, and get our well drilled.

12 So we will work to that end, and I will -- If we  
13 can reach an agreement with Mr. Landreth, we will notify  
14 you and dismiss him from this process.

15 Q. Now, Mr. Landreth did not join in the well or  
16 farmed out, his interest is what? He has a 25-percent  
17 interest?

18 A. In the anticipated unit. Now, if we were to  
19 encounter 40- or 160-acre spacing, he would have a 50-  
20 percent interest.

21 Q. Okay, and a 25-percent interest in --

22 A. In a 320-acre proration --

23 Q. In a 320-acre unit?

24 A. That's correct.

25 Q. And we'll get to the AFE in a while, but that

1 is -- If Santa Fe or its partners have to absorb or pay for  
2 that share of costs, that's quite a bit of money to have to  
3 come up with?

4 A. Well, it can have a potential swing of 25 percent  
5 to Santa Fe, if our partner did not choose to carry their  
6 share.

7 Q. And that's why you need to make your plans as  
8 reasonably soon as possible?

9 A. Correct, we must have some time to accommodate  
10 the contracts of the parties involved.

11 Q. Okay. In your opinion, has Santa Fe made a good-  
12 faith effort to obtain the voluntary joinder of Mr.  
13 Landreth in the well?

14 A. Absolutely.

15 Q. What is Exhibit 4, Mr. Smith?

16 A. Exhibit 4 is the letter that was mailed to Altura  
17 Energy pursuant to our exploration agreement with them.  
18 They actually own 100 percent -- or they have 50-percent  
19 interest in the southwest quarter, and under that agreement  
20 we were to --

21 Q. In the southeast quarter?

22 A. Excuse me, southeast quarter. And we were to  
23 propose the well to them if they chose not to participate,  
24 and we took their interest as if they nonconsented.

25 Q. And what is Exhibit 5?

1           A.   Exhibit 5 is the operating agreement that is  
2   currently in place between Santa Fe and Southwest Energy.  
3   I'd like to point out that this operating agreement has  
4   been signed by Robert Landreth, but only as to the north  
5   half of Section 4. So I don't want anyone to be confused  
6   by seeing his signature on the operating agreement. His  
7   joinder is limited to the north half. In my proposal  
8   letter for the well, I recommended that if he participate,  
9   that we simply amend the Exhibit A to reflect that his  
10   interest was then adjoined as to that south half.

11           Q.   And a well has been drilled under this JOA?

12           A.   That's correct.

13           Q.   In the north half?

14           A.   That is correct.

15           Q.   Okay. Would you please identify Exhibit 6 and  
16   discuss the cost of the proposed well?

17           A.   The -- Exhibit 6 is the AFE cost estimate that  
18   was sent out to all potential participants. It provides  
19   for a \$1,204,490 dryhole cost and a \$1,452,150 completed  
20   well cost.

21           Q.   So unless my math isn't good, which it may not  
22   be, but Mr. Landreth's share of those well costs is  
23   approximately \$350,000?

24           A.   That's correct.

25           Q.   Now, is the cost reflected on this AFE in line

1 with the costs of other wells drilled to this depth in this  
2 area of New Mexico?

3 A. Yes.

4 Q. Does Santa Fe Energy request that it be  
5 designated operator of the well?

6 A. Yes, yes, we do.

7 Q. And do you have a recommendation for the amounts  
8 which Santa Fe should be paid for supervision and  
9 administrative expenses?

10 A. The recommended -- the same overhead rates in the  
11 operating agreement, being \$6000 a month for a drilling  
12 well and \$600 for a completed producing.

13 Q. And are these amounts equivalent to those  
14 normally charged in this area for wells of this depth?

15 A. Absolutely.

16 Q. Was Mr. Landreth notified of this hearing?

17 A. Yes, he was.

18 Q. And is Exhibit 7 my affidavit of notice?

19 A. Yes.

20 Q. Were Exhibits 1 through 7 prepared by you or  
21 under your supervision, or compiled from company business  
22 records?

23 A. Yes, they were.

24 Q. And in your opinion, is the granting of Santa  
25 Fe's Application in the interests of conservation and the

1 prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd move the admission  
4 of Santa Fe's Exhibits 1 through 7.

5 EXAMINER ASHLEY: Exhibits 1 through 7 will be  
6 admitted at this time.

7 EXAMINER ASHLEY: Mr. Carr?

8 EXAMINATION

9 BY MR. CARR:

10 Q. Mr. Smith, you indicated that Mr. Landreth had  
11 signed a JOA for the north half of Section 4?

12 A. That is correct.

13 Q. Is Santa drilling a well currently in the north  
14 half of Section 4?

15 A. No, we -- that well has been drilled and has been  
16 completed.

17 Q. Okay, when was that completed? Do you know?

18 A. In the last two or three months.

19 Q. And you're still acquiring information on that  
20 well?

21 A. We are running a four-point test on it as we  
22 speak, probably.

23 Q. There is also a well being drilled in the north  
24 half of Section 9, is there not?

25 A. That's correct.

1 Q. Who is drilling that well?

2 A. It will be -- Concho is the operator.

3 Q. And do you have an ownership interest in that  
4 well?

5 A. No, we do not.

6 Q. Will you have access to data or information on  
7 that well?

8 A. We have no contractual way of obtaining any.

9 Q. And that well is currently drilling?

10 A. It, I believe, spud the 24th of last month.

11 Q. Information that you're going to get from further  
12 testing of your well in the north half of Section 4 is  
13 going to be valuable, is it not, in terms of evaluating  
14 this location?

15 A. Absolutely will.

16 Q. The results of the well south of you will also be  
17 valuable?

18 A. If we can obtain the information in a timely  
19 fashion, yes.

20 Q. And if you obtain that information, are you  
21 willing to share that with Mr. Landreth?

22 A. I believe we would as a partner.

23 Q. Mr. Landreth has agreed, has he not, to join or  
24 farm out?

25 A. He has agreed to enter into an agreement where he

1 will either advise us as to that election at some point in  
2 time. He has not given us a date, other than he's agreed  
3 to my proposed May 17th date with conditions, and --

4 Q. Isn't the condition that if you move the well  
5 back in time, that he still be able to make that election  
6 close to the spud date?

7 A. Well, I'm not sure that I can provide him that  
8 moving target. I think that May 17th date is an acceptable  
9 date.

10 We kind of roughly calculated it based upon about  
11 the same date that if we obtained an order and provided him  
12 notice of that order, and gave him 30 days within which to  
13 choose to participate or go under the order, that's  
14 about -- that's a guesstimation.

15 We also believe that if the well in Section 9 was  
16 spud on the 24th, which that is, in fact, what has  
17 happened, we drilled and completed our well in 46 days --  
18 if Concho does the same, that well will be drilled and  
19 logged by May 9th, which would give ten days for him to  
20 know what the outcome of that well was.

21 So we feel like that date is sufficient and would  
22 be able to give him a reasonable amount of time to make up  
23 his mind.

24 Q. If you move the spud date back for some reason,  
25 would it be possible that between May the 17th and whenever



1 you eventually spud the well, there might be events which  
2 would cause you to decide to not go forward with the well?

3 A. We have not received our APD back for this well  
4 that's on federal acreage, and there is the possibility  
5 that a prairie-chicken stipulation will be attached to the  
6 APD.

7 Q. And if that should occur, what would happen to  
8 your May 22nd date? Would you have a *force majeure*  
9 provision that would --

10 A. You could attempt to enact it, yes. I mean, it's  
11 one of those deals where we could ask and they could tell  
12 you yes or no.

13 Q. You don't have a right, if there's a *force*  
14 *majeure* --

15 A. There's a *force majeure* clause, but I am saying  
16 that it's subject to interpretation as to whether the  
17 prairie-chicken stipulation would fall under *force majeure*.  
18 We would ask for it under those terms.

19 What I'm saying is, I'm not -- I have no  
20 certainty at this point as to what Hunt's response would be  
21 to that.

22 Q. You understand, do you not, that Mr. Landreth is  
23 just trying to be in a position to have as much information  
24 as possible before he has to make his election?

25 A. I understand, and I feel like we have at this

1 point bent over backwards to accommodate Mr. Landreth along  
2 those lines.

3 Q. And if you move the well-drilling date back  
4 farther, there would be information, additional  
5 information, potentially, would there not?

6 A. Not necessarily.

7 Q. But there might be?

8 A. I can't think of any.

9 Q. So you're telling me that after May the 17th,  
10 there will be no new data if you move the well back 90  
11 days?

12 A. Production data from the wells --

13 Q. Would that information be of value to you in  
14 determining whether or not to spud?

15 A. Well, it may, and I can assure you that Santa Fe  
16 is not in a position of wasting its or any of its partners'  
17 money, and that we will look, certainly, long and hard at  
18 drilling any well that we had the authority either under a  
19 JOA or an order.

20 We wouldn't drill a well that, in our opinion,  
21 was uneconomic or wasteful.

22 Q. Don't you understand the problem to be that all  
23 we're trying to do is have as much information --

24 A. Sure.

25 Q. -- as possible when we need to make the election?

1           A.    Right.  And of course our position is, we need  
2   sufficient within which to allocate and budget our moneys,  
3   offer Mr. Landreth's interests to our partners under our  
4   AMI and JOA, give them sufficient time to elect, and timely  
5   drill the well under the constraints.

6           Q.    Did you propose the May 17th date?

7           A.    Yes, I did.

8           Q.    And so that is five days before spud date?

9           A.    That's, in essence -- Yeah, it was to give him  
10   some time.

11                   It was a balancing act between the current drop-  
12   dead date, and then I perceived Mr. Landreth would, if we  
13   were to take him under an order, be forced to either decide  
14   to participate or go under the order.

15           Q.    Since you picked the May 17th date, is it fair to  
16   assume that five days is enough time to go to your partner?

17           A.    It's possible, yes.

18           Q.    You wouldn't have picked that if you thought you  
19   couldn't do it, five days; is that --

20           A.    It -- Well, okay.

21           Q.    That's fair?

22           A.    It's possible.

23           Q.    And you are willing to share data with him?

24           A.    Yes.

25                   MR. CARR:  That's all I have, thank you.

1 EXAMINER ASHLEY: Mr. Bruce.

2 MR. BRUCE: I have nothing further with respect  
3 to Mr. Smith.

4 EXAMINATION

5 BY EXAMINER ASHLEY:

6 Q. Mr. Smith --

7 A. Yes.

8 Q. -- who -- You said there's a well drilling in the  
9 north half of Section 4?

10 A. That's correct.

11 Q. And where is that well located, and who's the  
12 operator?

13 A. I believe it is 1650 off of the north line and  
14 660 off the west.

15 I don't have that, but I believe that's my guess.  
16 It's at a legal location.

17 Q. And who operates -- who's operating that?

18 A. I believe it will be Concho --

19 Q. Okay.

20 A. -- out of Midland.

21 Q. And they also have the one in the north half of  
22 Section 9?

23 A. Wait a second. I may be confused.

24 MR. BRUCE: I think he was confused. I think the  
25 Examiner asked you about the Section 4 well.

1 THE WITNESS: That is operated -- yes, the first  
2 well --

3 EXAMINER ASHLEY: Okay.

4 THE WITNESS: -- the Rio Blanco 4, is a Santa Fe-  
5 operated well, which currently Southwestern Energy, Bob  
6 Landreth and Santa Fe are partners in that well.

7 Q. (By Examiner Ashley) Now, according to your  
8 Exhibit 1, you hold 100 percent of Tract 2?

9 A. That's correct.

10 Q. And what's the percentage in Tract 1?

11 A. We have a farmout covering Hunt's one-half  
12 interest.

13 Q. Okay.

14 A. So if the well was completed in the Morrow, and  
15 assuming all parties participate, Santa Fe would have  
16 37 1/2, Southwestern would have 37 1/2, and Robert Landreth  
17 would have 25.

18 Q. Now, is Southwestern part of Robert E. Landreth,  
19 or is that a separate company?

20 A. That's a separate company.

21 Q. Okay.

22 A. Southwestern Energy Production Company.

23 EXAMINER ASHLEY: Okay. I have nothing further,  
24 Mr. Smith. Thank you.

25 MR. BRUCE: Call Mr. Tinney to the stand.

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THOMAS J. TINNEY, III,

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. Thomas Jordan Tinney, III, Midland, Texas.

Q. Who do you work for and in what capacity?

A. Santa Fe Energy Resources. I'm the geological and geophysical manager.

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

A. Yes, I have.

Q. And were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with geologic matters pertaining to this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I tender Mr. Tinney as an expert petroleum geologist.

EXAMINER ASHLEY: Mr. Tinney is so qualified.

Q. (By Mr. Bruce) Mr. Tinney, could you identify Exhibit 8 for the Examiner and briefly discuss its

1 contents?

2 A. Yes, Exhibit 8 is a structure map on the middle  
3 Morrow marker. It shows a northeast-southwest structure  
4 and the relative dip to that.

5 Q. With respect to the existing wells that Mr. Smith  
6 has been asked about, could you go through the three wells  
7 we're talking about and give their footage locations,  
8 please?

9 A. Yes, starting with the well in the north half of  
10 Section 4, the Santa Fe Energy Resources Rio Blanco Fed  
11 Number 1, that well is located 1980 from the north and 1980  
12 from the west. In Section 9 you will see a circle  
13 designating the Concho Resources well. That well is  
14 located 1650 from the north and 660 from the west.

15 Q. Okay. And this might be jumping ahead, Mr.  
16 Tinney, but in many instances structure is unimportant in  
17 the Morrow. Does structure have importance with respect to  
18 this well?

19 A. Yes, it introduces an amount of risk into this  
20 particular location. We can address that when we get to  
21 the -- I believe it's Exhibit 10.

22 Q. The isopachs?

23 A. The isopach.

24 Q. Let's move on to your first isopach, then,  
25 Exhibit 9. Is this the -- Could you identify that for the

1 Examiner and discuss what the primary target for your well  
2 is.

3 A. Yes, Exhibit 9 is a clean sand isopach map of the  
4 Upper Morrow Grama Ridge "A". That's the primary objective  
5 of this well. It's the reason that we sought and received  
6 approval for an unorthodox location, which is 660 from the  
7 south and 660 from the west.

8 This sand is a prolific Morrow sand that is  
9 productive just off of this map to the north in our Gaucho  
10 Unit. We're trying to extend this productive sand trend to  
11 the south through drilling of this exploration well.

12 You can see the Rio Blanco Fed Number 1, the well  
13 in the north half of Section 4, encountered five feet total  
14 of sand, in a gross sense. And in a net sense, using an  
15 8-percent density porosity cutoff, encountered two feet.  
16 So we feel like we're on the edge of the sand. And by  
17 moving to the west we hopefully will encounter a thicker  
18 sand.

19 Q. Does the fact that you only encountered two feet  
20 of net sand add to the risk involved in drilling this well?

21 A. Yeah, prior to drilling the Rio Blanco Fed Number  
22 1 our interpretation was that it was going to be thicker  
23 than it was, and obviously when we drilled it, it wasn't.  
24 We uncovered the thin sand.

25 Fortunately, we encountered a sand lower than the



1 Grama Ridge "A", which is the middle Morrow A, which is  
2 Exhibit 10 --

3 Q. Why don't you move on to that exhibit, then?

4 A. -- and in Exhibit 10 we encountered 20 feet of  
5 that particular sand with 20 feet of porosity, and that's  
6 the interval that that well is currently producing out of.

7 The middle Morrow A, to the east, you'll notice,  
8 there's in Section 34 of 22 South, 34 East -- and I might  
9 note there is a typographic error on your -- on that base  
10 map. On the right-hand side it says 24 South. That should  
11 be 22 South, as it is on the left-hand side. And 34 East.

12 In Section 34 there, you'll see two wells in the  
13 south half of 34 that are -- one is 16 feet thick and the  
14 other is 12 feet thick. And also in the north half of  
15 Section 3 in 23 South, 34 East, you'll notice there's a  
16 well that's 15 feet thick. All those wells calculated out  
17 as wet in this middle Morrow A. The Rio Blanco Fed Number  
18 1 encountered these sands somewhere, depending on which  
19 well you pick, 200 feet high to those wells, and it was  
20 productive. So there is a gas-water contact at some point  
21 between the wells to the east and to our well.

22 Obviously, the location that we have staked for  
23 the Rio Blanco Fed Number 2, we are moving structurally  
24 downdip. That introduces an amount of risk to where that  
25 gas-water contact is.

1 Q. So structure does have some importance in this  
2 matter?

3 A. Absolutely.

4 Q. Okay. Now, these areas highlighted in yellow on  
5 the map, is there a geologic term that you use to --

6 A. Well, on the Rio Blanco Fed Number 1 we ran a  
7 FMI, which is formation micro-imaging tool, Schlumberger  
8 runs, and that tool indicated to us -- and one reason we  
9 picked the unorthodox location was that the Thalweg  
10 direction, which is the thickest portion of the center  
11 portion of the channel, was to the west. So that was  
12 really the -- One of the impetus behind picking that  
13 location was that Thalweg direction to the west.

14 Q. Let's move on to your final exhibit, Exhibit 11.  
15 Would you identify that and discuss for the Examiner any  
16 possible secondary zones for your proposed well?

17 A. Yes, this is a cumulative production map, with  
18 the *Dwight's* production data through 10 of 1998. It's the  
19 most recent that we have. And it indicates there is some  
20 Morrow production in the area, a couple wells -- one in  
21 particular, in Section 8. You can see it only made 20  
22 million out of the Morrow sand.

23 There's also Atoka production to the east. There  
24 is some scattered shallower production, Wolfcamp, there is  
25 some Delaware in Section 10, there's also a Bone Springs in

1 Section 10 and Section 9. The production is not something  
2 that Santa Fe would drill on its own, but if encountered  
3 obviously it would add as a plugback, potential plugback,  
4 so...

5 Q. In your opinion, based on your structure, the  
6 isopachs, the result in your Number 1 well, and the lack of  
7 immediate offsetting Morrow commercial production, should  
8 the maximum cost plus 200 percent be assessed against any  
9 interest owner who goes nonconsent in this well?

10 A. Yes, I agree with that.

11 Q. Were Exhibits 8 through 11 prepared by you or  
12 under your direction?

13 A. Yes, they were.

14 Q. And in your opinion, is the granting of Santa  
15 Fe's Application in the interests of conservation and the  
16 prevention of waste?

17 A. Yes, it is.

18 MR. BRUCE: Mr. Examiner, I'd move the admission  
19 of Santa Fe's Exhibits 8 through 11.

20 EXAMINER ASHLEY: Exhibits 8 through 11 will be  
21 admitted as evidence at this time.

22 Mr. Carr?

23 MR. CARR: No questions.

24 EXAMINER ASHLEY: I have nothing further, Mr.  
25 Tinney. Thank you.

1 THE WITNESS: Thank you.

2 MR. BRUCE: I have nothing further to present in  
3 this case, Mr. Examiner.

4 EXAMINER ASHLEY: There being nothing further in  
5 this case, Case 12,145 will be taken under advisement.

6 Thereupon, these proceedings were concluded at  
7 12:45 p.m.)

8 \* \* \*

9  
10  
11  
12  
13  
14  
15 I do hereby certify that the foregoing is  
16 a complete record of the proceedings in  
the Examiner hearing of Case No. 12145,  
17 heard by me on 4-1 1999.  
18 Mark Ashley, Examiner  
Oil Conservation Division  
19  
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25

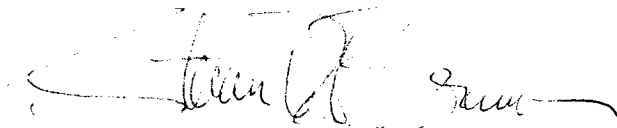
## CERTIFICATE OF REPORTER

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 6th, 1999.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002

<div>U.S. MI Merchant Live Stock Co.</div> <div>Mitchell Ener 92776 1004 120 22</div> <div>U.S.</div>	<div>U.S. MI Merchant Live Stock Co.</div> <div>L.A. Sawyer 12-1-91 69596</div> <div>Peter Press 7-1-96 66272</div> <div>U.S.</div>	<div>U.S. MI State, S</div> <div>F.L. Engle 7-1-95 61360</div> <div>Continental 7-1-91(3) 070544</div> <div>U.S.</div>	<div>22 34</div> <div>U.S.</div>	<div>U.S. MI State</div> <div>Hunt Oil HBP 43565</div> <div>McKnight &amp; Brunson Jacquie Ann TO3881 DIA 2-72</div> <div>Yates Pet, etal 11-1-94 82943 23082</div> <div>U.S.</div>	<div>U.S. MI State</div> <div>HBC 5/2</div> <div>U.S.</div>
<div>U.S.</div> <div>Mitchell Ener 1-1-98 70230</div> <div>U.S.</div>	<div>U.S.</div> <div>Santa Fe Ener 92781 2004 120 22</div> <div>U.S.</div>	<div>U.S.</div> <div>Continental 7-1-91(3) 070544</div> <div>Santa Fe Ener 92781 2004 120 22</div> <div>U.S.</div>	<div>U.S.</div>	<div>U.S.</div> <div>Hunt Oil HBP 43565</div> <div>McKnight &amp; Brunson Jacquie Ann TO3881 DIA 2-72</div> <div>Yates Pet, etal 11-1-94 82943 23082</div> <div>U.S.</div>	<div>U.S.</div> <div>HBC 5/2</div> <div>U.S.</div>
<div>U.S.</div> <div>Engle 1-95 1360</div> <div>U.S.</div>	<div>U.S.</div> <div>L.A. Sawyer 12-1-91 69596</div> <div>U.S.</div>	<div>U.S.</div> <div>L.A. Sawyer 12-1-91 69596</div> <div>U.S.</div>	<div>U.S.</div> <div>RE. Landreth, etal 4-1-94 57536</div> <div>U.S.</div>	<div>U.S.</div> <div>Hunt Oil HBP 43564</div> <div>McKnight &amp; Brunson Jacquie Ann TO3881 DIA 2-72</div> <div>Yates Pet, etal 11-1-94 82943 23082</div> <div>U.S.</div>	<div>U.S.</div> <div>HBC 5/2</div> <div>U.S.</div>
<div>U.S.</div> <div>Asher Oil 1-1-81 12846</div> <div>U.S.</div>	<div>U.S.</div> <div>V.J. Duncan 6-1-96 66271</div> <div>U.S.</div>	<div>U.S.</div> <div>F.L. Engle 7-1-95 61360</div> <div>U.S.</div>	<div>U.S.</div>	<div>U.S.</div> <div>Hunt Oil HBP 43564</div> <div>McKnight &amp; Brunson Jacquie Ann TO3881 DIA 2-72</div> <div>Yates Pet, etal 11-1-94 82943 23082</div> <div>U.S.</div>	<div>U.S.</div> <div>HBC 5/2</div> <div>U.S.</div>
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