

OIL CONSERVATION DIV.

STATE OF NEW MEXICO

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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. 12,289

APPLICATION OF GILLESPIE OIL, INC., AND)
 ENERGEN RESOURCES CORPORATION TO AMEND)
 DIVISION ORDER NO. R-10,864-A FOR UNIT)
 EXPANSION, STATUTORY UNITIZATION, AND)
 QUALIFICATION OF THE EXPANDED UNIT AREA)
 FOR THE RECOVERED OIL TAX RATE AND)
 CERTIFICATION OF A POSITIVE PRODUCTION)
 RESPONSE PURSUANT TO THE NEW MEXICO)
 ENHANCED OIL RECOVERY ACT, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

November 18th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 18th, 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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November 18th, 1999
 Examiner Hearing
 CASE NO. 12,289

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A P P E A R A N C E S

FOR THE DIVISION:

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(Continued...)

A P P E A R A N C E S (Continued)

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By: J. SCOTT HALL

FOR YATES PETROLEUM CORPORATION
and HANLEY PETROLEUM, INC.:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
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By: WILLIAM F. CARR

FOR LARRY SQUIRES and SNYDER RANCHES, INC.:

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Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

ALSO PRESENT:

PHILIP GLEN ADAMS

* * *

1 WHEREUPON, the following proceedings were had at
2 8:56 a.m.:

3 EXAMINER STOGNER: I will call Case Number
4 12,289.

5 MR. CARROLL: Application of Gillespie Oil, Inc.,
6 and Energen Resources Corporation to amend Division Order
7 Number R-10,864-A for unit expansion, statutory
8 unitization, and qualification of the expanded unit area
9 for the recovered oil tax rate and certification of a
10 positive production response pursuant to the New Mexico
11 Enhanced Oil Recovery Act, Lea County, New Mexico.

12 EXAMINER STOGNER: Call for appearances.

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
14 representing Gillespie Oil, Inc.

15 If I could request that -- I'm still waiting for
16 my exhibits to arrive. Perhaps it would be best to let
17 Burlington do their pool rules case and then take this
18 case. It's a surprise to see this case up so early on any
19 docket, but I'm just waiting for my exhibits to arrive.

20 EXAMINER STOGNER: Mr. Squires, were you
21 surprised that this got here so early?

22 MR. SQUIRES: No, sir.

23 EXAMINER STOGNER: Okay. So noted, Mr. Bruce,
24 and we will come back to this matter.

25 (Off the record at 8:57 a.m.)

1 (The following proceedings had at 10:35 a.m.)

2 EXAMINER STOGNER: Hearing will come to order.

3 I'll call Case Number 12,289 again.

4 MR. CARROLL: Application of Gillespie Oil, Inc.,
5 and Energen Resources Corporation to amend Division Order
6 Number R-10,864-A for unit expansion, statutory
7 unitization, and qualification of the expanded unit area
8 for the recovered oil tax rate and certification of a
9 positive production response pursuant to the New Mexico
10 Enhanced Oil Recovery Act, Lea County, New Mexico.

11 EXAMINER STOGNER: Call for appearances, again.

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
13 representing Gillespie Oil, Inc. I have two witnesses.

14 MR. HALL: Mr. Examiner, Scott Hall of Miller,
15 Stratvert and Torgerson of Santa Fe. I have one witness I
16 may or may not call. I'll go ahead and have him sworn.

17 MR. CARR: May it please the Examiner, my name is
18 William F. Carr with the Santa Fe law firm Campbell, Carr,
19 Berge and Sheridan. We represent in this case Yates
20 Petroleum Corporation and Hanley Petroleum, Inc. I do not
21 have a witness.

22 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
23 the Santa Fe law firm of Kellahin and Kellahin, appearing
24 on behalf of Larry Squires and Snyder Ranches, Inc.

25 EXAMINER STOGNER: Okay, I believe -- Is there

1 any other appearances? Okay, I believe we have -- what?
2 Three witnesses to swear in? Let's go ahead and have them
3 stand.

4 (Thereupon, the witnesses were sworn.)

5 MR. BRUCE: Mr. Examiner, the first witness is
6 Lynn Charuk, a petroleum geologist. It would shorten the
7 proceedings if we could just have the record reflect that
8 in prior cases regarding the West Lovington-Strawn Unit Mr.
9 Charuk was qualified as an expert petroleum geologist.

10 EXAMINER STOGNER: So noted, and Mr. Charuk is so
11 qualified.

12 LYNN S. CHARUK,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Charuk, let's be brief with these exhibits.
18 First of all, what is Exhibit 1?

19 A. Exhibit 1 is a technical committee map of the
20 West Lovington-Strawn area, showing the original Strawn
21 unit, showing the first expansion, and it now also shows
22 the proposed second expansion tracts that will be included
23 in the unit.

24 Q. And the type of land is indicated by color?

25 A. That's correct.

1 Q. And at this point, from the -- We're asking to
2 add about roughly a thousand acres to the unit at this
3 time?

4 A. That's correct.

5 Q. Okay. Now, let's move on to your Exhibit 2, Mr.
6 Charuk. First, what is it, and then I'll ask you a couple
7 of questions about that.

8 A. Exhibit 2 is the most recent version of the HPV
9 map for the West Lovington-Strawn Unit. It was generated
10 by the technical committee in October of 1999, and everyone
11 present at the technical committee agreed to this HPV map.
12 We feel it's accurate. It's delineated by a couple new
13 wells that were drilled, and it is very close to the total
14 volumetrics of the unit of 15.8 million barrels.

15 Q. Okay. So what is -- The HPV on this would agree
16 to the material balance calculations that Mr. Mladenka will
17 present shortly?

18 A. That's correct, within two or three percent.

19 Q. And this includes all the wells that have been
20 drilled up through October?

21 A. That's correct.

22 Q. Okay. Let's move on to your Exhibit 3, which is
23 up on the wall there. Go through it briefly and describe
24 why the unit area is now so well defined.

25 A. This exhibit has four structural cross-sections.

1 A-A' is a north-south cross-section which intersects five
2 wells, which geologically pretty much define the northern
3 boundaries of the unit and the southern boundaries of the
4 unit.

5 Section B-B' is basically an east-west cross-
6 section that goes through another five wells that shows --
7 the most recent well, the Unit Number 4 -- 14 West
8 Lovington-Strawn Unit, showing pretty much the western edge
9 of the unit and the Julia Culp well over here on the east,
10 which has no porosity, which pretty much defines the
11 northeastern part of the unit boundary.

12 Cross-section C-C' goes through an east-west
13 section, showing the Amerind well, which had no porosity,
14 in the West Lovington-Strawn Unit, and the Charles
15 Gillespie Snyder "F" 3 well, which pretty much shows the
16 eastern, southeastern, edge of the unit defined by porosity
17 that was encountered when we drilled that well.

18 And cross-section D-D' goes through the
19 southeastern portion of the unit, which shows the Beadle
20 Energen well and the Gillespie "EC" Com well on the updip
21 edge, which pretty much defines that portion of the unit as
22 determined by these wells here.

23 Q. In your opinion, has the proposal for the
24 expanded West Lovington-Strawn Unit containing the acreage
25 shown on your Exhibits 1 and 2 been adequately defined by

1 development?

2 A. In my opinion, yes.

3 Q. And were Exhibits 1 through 3 prepared by you or
4 under your direction?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of Exhibits 1 through 3.

8 EXAMINER STOGNER: Exhibits 1 through 3 will be
9 admitted into evidence.

10 Thank you, Mr. Bruce.

11 Mr. Hall, your witness.

12 MR. HALL: No questions.

13 EXAMINER STOGNER: Mr. Carr?

14 MR. CARR: No questions.

15 EXAMINER STOGNER: Mr. Kellahin?

16 MR. KELLAHIN: Thank you, Mr. Examiner.

17 EXAMINATION

18 BY MR. KELLAHIN:

19 Q. Mr. Charuk, I'm looking at your HPV map. It's
20 Exhibit Number 2.

21 A. Yes, sir.

22 Q. The latest revision is October 1st of 1999?

23 A. That's correct.

24 Q. What occurred between August 2nd and October 1st
25 to cause the revision?

1 A. Three wells were drilled on the unit, the Energen
2 Beadle well, which is in the southwest of the southwest of
3 Section 35; the "F" 3, Gillespie's "F" 3 well, which was
4 drilled in the north --

5 Q. In Tract 22?

6 A. Tract 22.

7 Q. Right.

8 A. And the Gillespie Unit Well Number 14, which is
9 on the western edge of the unit drilled in Tract 4.

10 Q. When you talk about a consensus with regards to
11 the size and the shape of the pore volume map, who
12 represents the consensus?

13 A. The technical committee that generated this map.

14 Q. Who's on the technical committee that signed off
15 on the map?

16 A. Mark Mladenka, myself, Brett Bracken from Hanley
17 Petroleum, Dave Cromwell and -- oh, there's two other
18 people from the Energen group.

19 Q. All right, so all the working interest owners?
20 Is that all the working interest owners, were on the
21 technical committee?

22 A. The majority of the largest working interest
23 owners were on the technical committee.

24 Q. So the technical committee has come to a
25 consensus about the size and the shape of the pore volume,

1 and you've calculated the tract values here on the left
2 side of the map?

3 A. I didn't calculate the tract values. I basically
4 agreed to the consensus on the pore volume and the shape
5 and configuration of the HPV map.

6 Q. All right, so -- And the map is now included, all
7 the wells that have been drilled to date?

8 A. That's correct.

9 Q. And this is the recommendation of the technical
10 committee to the working interest owner group?

11 A. That's correct.

12 Q. Do you know what action, if any, the working
13 interest owner group have taken on this size and shape?

14 A. I'm not certain. We have not had a working
15 interest owners' meeting since this technical committee map
16 was generated.

17 Q. All right. So the technical committee map has
18 not been balloted by the working interest owners' group,
19 because there's been no working interest owners' meeting?

20 A. We have not had a meeting.

21 Q. Okay. When I look at Tract 21 in Section 35 --

22 A. Yes, sir.

23 Q. -- the Beadle Energen well --

24 A. Yes, sir.

25 Q. -- this is the one that Energen drilled. Is

1 Energen and you in agreement on what is the reservoir pore
2 volume distributed to Tract 21 based upon that well?

3 A. Yes, sir.

4 Q. Why is Tract 21 subdivided into three
5 subdivisions? Do you know?

6 A. I'm not sure. I would guess it's three different
7 ownerships in there.

8 MR. KELLAHIN: Okay. All right, thank you, sir.

9 MR. BRUCE: Mr. Examiner, could I clarify a
10 couple of things?

11 FURTHER EXAMINATION

12 BY MR. BRUCE:

13 Q. On the technical committee, Mr. Charuk, a
14 representative of Yates Petroleum is also on the committee?

15 A. Yes, that's right.

16 Q. Okay. And as to the calculations over on the
17 left side of Exhibit 2, were those performed by Energen?

18 A. Yes, they're performed by Energen's engineering
19 and geological staff.

20 Q. -- staff.

21 MR. BRUCE: That's all I have, Mr. Examiner.

22 EXAMINER STOGNER: Questions?

23 MR. HALL: (Shakes head)

24 EXAMINER STOGNER: You may be excused. Thank
25 you.

1 MR. BRUCE: Mr. Examiner, my next witness is an
2 engineer, Mark Mladenka, M-l-a-d-e-n-k-a, and again, I'd
3 like the record to reflect that Mr. Mladenka previously
4 qualified as an expert in these proceedings and would ask
5 that he be recognized as such today.

6 EXAMINER STOGNER: So recognized.

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Again, Mr. Mladenka, being brief, could you just
13 identify for the Examiner what Exhibit 4 is?

14 A. Exhibit 4 is the updated production through
15 September of 1999. It reflects production from four
16 leases: the West Lovington-Strawn Unit, which includes 13
17 wells; the Snyder "EC" Com well, which will be included in
18 this expansion; the Snyder "C" Well Number 4; and also one
19 month's production from the Beadle. The Snyder "F" 3 did
20 not produce in September of 1999.

21 The only thing I'd like to point out is the GOR
22 on the West Lovington-Strawn Unit is between 4600 and 4800
23 GOR, with a pool GOR due to the addition of the new wells,
24 basically, in the downdip direction, have been driven below
25 4200, between 4200, 4300 and 4000 GOR.

1 Q. This data is similar to data you presented at
2 several other hearings, it's just updated?

3 A. It's just updated to the most recent C-115
4 reports.

5 Q. Okay. What is Exhibit 5?

6 A. Exhibit 5 is the hard data acquired from fresh
7 buildups, giving us another tool to determine that these
8 wells were in pressure communication with the unit's
9 pressure maintenance project.

10 Q. By "these wells", you mean the wells to be
11 brought into the unit with this expansion?

12 A. That is correct, the "EC", "C" 4, Beadle, and the
13 Snyder "F" 3.

14 Q. And without going into great detail, this
15 pressure data shows that these wells are in pressure
16 communication with the wells in the West Lovington-Strawn
17 Unit?

18 A. That is correct.

19 Q. Okay. And regarding the positive-production-
20 response portion of this Application, will these wells
21 benefit from pressure -- excuse me, gas injection into the
22 unit?

23 A. That is correct.

24 Q. Okay. Next, what is Exhibit 6, Mr. Mladenka?

25 A. Exhibit 6 is an updated version of an exhibit we

1 have been presenting throughout the process. It is a
2 pressure-cum plot. The triangle data is the calculated
3 forecasted production without pressure maintenance based on
4 a solution gas depletion method, the square points are the
5 actual measured production values and pressure points.

6 When injection started, we had a cum of over a
7 little over a million and a half barrels with a pressure of
8 3294 p.s.i. Current reservoir pressure is 3183. That's
9 through November and the first ten days of November's
10 production, indicating 4.1 million barrels of oil recovery.
11 Since injection started, reservoir pressures declined only
12 111 p.s.i., since October, 1995.

13 Q. Just one other thing I notice on this map, in the
14 lower right-hand corner you have a "30 percent of OOIP".

15 A. Correct.

16 Q. What would that indicate?

17 A. That was our target estimated oil recovery for
18 the pressure-maintenance project.

19 Q. That's what you hope to achieve?

20 A. That's what we hope to achieve.

21 Q. Or better?

22 A. Or better.

23 Q. Next, what does Exhibit 7 show?

24 A. Exhibit 7 is the material balance calculation,
25 incorporating this new data that was taken. The last line

1 there shows November the 12th, with the 4.1 barrels of oil
2 recovered.

3 The 3183 p.s.i., the fourth or fifth column from
4 the right side, is the average pressure data obtained from
5 a buildup, 72-hour shut-in period, all 18 wells in the unit
6 and the pool were shut in to obtain this reservoir
7 bottomhole pressure.

8 The extreme right is the calculated oil in place
9 based on this material balance calculation. The last two
10 points between May and November show nearly 16 million and
11 15.6 million barrels of oil in place, for an average of
12 15.8, which is , which is almost identical to the
13 hydrocarbon pore volume map's calculation of oil in place.

14 Q. And the calculation of original oil in place has
15 remained fairly steady for, oh, three or three and a half
16 years?

17 A. Correct, since we started injection in 1995,
18 October, 1995.

19 MR. BRUCE: Mr. Examiner, before I turn Mr.
20 Mladenka over for questioning, I would just like to
21 introduce a couple of exhibits. And I've handed you a copy
22 of the last order on the unit, R-10,864-A, and I will point
23 out to you -- and I will be glad to draft an order for the
24 unit expansion, but I would like to point out to you a few
25 changes to the order.

1 First of all, ~~Exhibit 8~~ -- Mr. Examiner, if you
2 could go to Attachment D, which is the final portion of the
3 last order issued, final page issued by the Division, this
4 provision amended Article 10.4 of the unit operating
5 agreement on investment adjustments. This was done even
6 before the Beadle well was completed, and certainly even
7 before the "F" 3 well was drilled.

8 Since that time, there have been discussions
9 among the working interest owners about amending this
10 portion, attachment D, to the order. ~~What I have handed~~
11 ~~you as Exhibit 8~~ is a draft prepared by -- I was provided
12 this by Mr. Hall. It was a draft prepared by Energen. And
13 this concerns the investment adjustment, in effect granting
14 certain wells up to 200 percent of payout costs if they are
15 brought into the unit.

16 ~~Exhibit 9, now this well, this well, this well~~
17 ~~reimburse the working interest owners~~ On my own, I have
18 prepared what is Exhibit 9, which is based on the Energen
19 proposal. It would cover all interest owners in a well.

20 Secondly, if you could turn to page 11 of the
21 prior order, I think I can summarize pretty briefly what
22 has been proposed in this Application, which is -- page 11
23 is the -- starting with the declaratory portions of the
24 order.

25 In paragraph 2, of course, the acreage in the

1 unit would change slightly because -- I forget the exact
2 amount, but several tracts were deleted with this latest
3 proposal, and one tract was added in.

4 If you would go to page 13, and I believe this
5 was a drafting error when I prepared or drafted or
6 submitted a draft order on the last one, paragraph 12
7 refers to the wells to be brought into the unit. Actually,
8 these two wells described here are from the first
9 expansion. And we will be asking that four wells, four
10 different wells, be brought in: the ~~Snyder "EC" Com~~, the
11 ~~"Snyder "C" 4~~, the Beadle well, and the ~~Snyder "F" 3~~.

12 And then if you would go to Attachment A, this
13 remains pretty much the same, except when we had originally
14 done it, the last go-around in -- if you would go to the
15 provision marked paragraph 2, November 1, 1997, to March
16 31, 1999, although it was in the body of this order in this
17 attachment, it did not allocate production between Tracts
18 14 and 15 as had been agreed among -- by the parties. And
19 the proposal that was attached to the Application filed a
20 month ago, and as will be in the proposed order, it will
21 allocate among Tracts 14 and 15, which are the Hanley
22 Petroleum tracts.

23 Then Attachment B, of course, will change because
24 with the newest wells drilled, you know, some of these
25 tracts drop out, and the percentage participations which

1 are set forth in an attachment to the Application will be
2 inserted.

3 Attachment C to the order would remain the same,
4 there are no changes.

5 And then Attachment D to the order concerns
6 Exhibits 8 and 9, which I have just submitted to you.

7 And finally, Mr. Examiner, Exhibit 10 is simply
8 an affidavit of notice under which notice was sent to all
9 interest owners, whether working or royalty owners, in the
10 unit. I would also note that the notice was also sent to
11 people who would have an interest under Order R-10,864-A.

12 Q. (By Mr. Bruce) With that, Mr. Mladenka, were
13 Exhibits 4 through 10 prepared by you, under your direction
14 or compiled from company records?

15 A. They were.

16 Q. And in your opinion is the expansion of the West
17 Lovington-Strawn Unit, to include the acreage shown on
18 Exhibits 1 and 2, in the interests of conservation and the
19 prevention of waste?

20 A. That is correct.

21 MR. BRUCE: Mr. Examiner, I'd move the admission
22 of Exhibits 4 through 10.

23 EXAMINER STOGNER: Any objections?

24 MR. HALL: ~~Mr. Examiner, we do not object to~~
25 ~~Exhibits 1 through 8 or 10. We do object to Exhibit 9 to~~

1 the extent that there's no evidentiary basis in the record,
2 to support the change to the operating agreement that this
3 exhibit would purport to effect. ~~On that basis, we object~~
4 to that particular exhibit.

5 EXAMINER STOGNER: Okay. Mr. Bruce, what was
6 provided by Mr. Hall to Gillespie? Just Exhibit 8?

7 MR. BRUCE: Exhibit 8.

8 EXAMINER STOGNER: Just Exhibit 8. Okay, any
9 comments to Mr. Hall?

10 MR. BRUCE: If I could ask a question of Mr.
11 Mladenka.

12 Q. (By Mr. Bruce) Mr. Mladenka, looking at ~~Exhibits~~
13 ~~8~~ and 9, do you have those in front of you?

14 A. Yes, I do.

15 Q. You've seen what is -- at the top it says "Draft
16 VI", before? *(Ex 8)*

17 A. Correct.

18 Q. And that was also provided to you by Energen, was
19 it not?

20 A. Correct.

21 Q. They drafted that up themselves?

22 A. Yes.

23 Q. And Exhibit 9 was drafted -- Well, you had a hand
24 in drafting that, did you not?

25 A. Yes.

1 Q. What's the difference between the two?

2 A. The difference between the two is that ^{in Exhibit 9} all owners
3 of a well would receive a compensation of the maximum of
4 100 percent of actual payout costs, to bring a well into
5 the unit.

6 Q. In Exhibit 9?

7 A. In Exhibit 9, whereas Exhibit 8 provides for only
8 the working interest owner to recoup 200 percent actual
9 cost.

10 Q. How were the prior wells that were brought into
11 unit with the first expansion treated?

12 A. The Hanley Petroleum, which is Well Number 13,
13 had paid out two and a half times, if I understand your
14 question, and the West Lovington-Strawn Unit 12, which is
15 the State "S" that Yates Petroleum had an interest in, and
16 Energen -- or Enserch and Gillespie, it paid out five and
17 half times prior to payout.

18 Q. Did the royalty and overriding royalty owners
19 share in that payout?

20 A. That's correct, the expansion was effective
21 November 1st of 1997, and all proceeds were distributed
22 among all owners until those wells were brought into the
23 unit.

24 Q. So Exhibit 9 would treat other wells just like
25 the Chandler and State "S" wells were treated.

1 A. They would benefit more so than -- Well, it would
2 treat them more fairly.

3 Q. It would treat the interest owners as in the
4 first expansion?

5 A. That is correct.

6 MR. BRUCE: Mr. Examiner, with that I'd move the
7 admission of Exhibit 9.

8 MR. HALL: Opportunity to cross-examine?

9 EXAMINER STOGNER: Go ahead.

10 CROSS-EXAMINATION

11 BY MR. HALL:

12 Q. Mr. Mladenka, Exhibit Number 9 was not discussed
13 with the technical committee, was it?

14 A. It had been in front of the technical committee.
15 It was not approved by the technical committee.

16 Q. When you say "it", are you referring to this
17 particular exhibit or simply the concept?

18 A. The concept, with the actual cost that the unit
19 owners would have to -- say \$600,000 a well, the unit
20 owners would have to come up with \$1.2 million plus
21 whatever the royalty interest would. That payout was shown
22 to the technical committee, and I believe at a working
23 interest owners' meeting also.

24 Q. So until today the language in Exhibit 9 has not
25 been shared with anyone else except Gillespie; is that

1 ~~correct?~~

2 A. ~~Except through verbal communication with the~~
3 ~~royalty owner, with -- we would want the language in there~~
4 ~~for the royalty owner, or all interest owners.~~

5 Q. So Exhibit 9 is language that's, in fact,
6 proposed by a royalty owner?

7 A. It is language proposed by Charles B. Gillespie,
8 Jr., to include all interest owners.

9 Q. What is the purpose of including the royalty
10 ownership?

11 A. To treat the new wells that are coming into the
12 unit under the same basis as the previous two wells, the
13 State "S" and the Hanley well, were brought into the unit.

14 Q. The royalty owners under those tracts, for those
15 wells, were whom?

16 A. Yes.

17 Q. No, the question is, who was the royalty owner
18 for those wells?

19 A. Under the Hanley and the State "S"?

20 Q. Yes.

21 A. I don't know. I think there was a bank under the
22 Hanley well, and I don't know who the owners were under the
23 State "S".

24 Q. It's your testimony what whoever those royalty
25 interest owners are, they received a portion of the payout

1 costs attributable to those two wells; is that correct?

2 A. All the revenues.

3 Q. I'm sorry, let me restate that question.

4 A. Okay.

5 Q. It's your testimony that those royalty interest
6 owners received a portion of production proceeds that were
7 to be attributable to payout costs; is that clear?

8 A. They received their interest throughout the
9 period of the time the wells produced until they were
10 brought into the unit, which equated to a two-and-a-half
11 payout to the working interest owner, on the Hanley well.

12 And then the royalty owners under the State "S"
13 continued to receive royalty payments based on the
14 production proceeds from the date of first production to
15 the date it was brought in the unit, which amounted to the
16 working interest owner receiving five and a half times
17 payout, which the royalty owner shared in that
18 proportionally.

19 Q. And at the same time those royalty interest
20 owners did not share in well drilling and completion --

21 A. That's correct, they did not share.

22 Q. Is there some contractual obligation between
23 Gillespie and Snyder Ranches that obligates Gillespie to
24 share in payout proceeds with that royalty interest owner?

25 A. Absolutely not.

1 Q. Was Gillespie asked to provide the language in
2 Exhibit 9 by Snyder Ranches?

3 A. No.

4 Q. Does the inclusion of the royalty interest in the
5 participation of production proceeds prior to payout have
6 the effect of extending the payout?

7 A. Yes.

8 MR. HALL: No further questions.

9 EXAMINER STOGNER: Thank you, Mr. Hall.

10 Mr. Carr, Mr. Kellahin?

11 MR. CARR: No questions.

12 MR. KELLAHIN: Mr. Examiner, thank you.

13 EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. Mladenka, do you have a copy of Mr. Stogner's
16 order that was issued in September of this year?

17 A. I will shortly.

18 Q. All right, sir, if you'll turn to Attachment A --

19 A. Okay.

20 Q. -- I'd like you to help me understand how this is
21 supposed to work.

22 A. Attachment A --

23 Q. Are you with me on it?

24 A. Yes.

25 Q. All right. This is Article -- or Section 13.

1 We're dealing now with the issue of modifying Mr. Stogner's
2 order that's attached to include additional wells and to
3 change the acreage configuration, correct?

4 A. That is correct.

5 Q. Step back a moment, and let's deal with the first
6 expansion. The first expansion took in the Chandler 1 well
7 in Tract 14, correct?

8 A. That is correct.

9 Q. And it included what is the State "S" 1 well in
10 Tract 12?

11 A. And 13, correct.

12 Q. And 13. Those were the two new wells that were
13 drilled after the original approval and that caused the
14 expansion to occur, right?

15 A. That is correct.

16 Q. By the time those wells were added to the unit,
17 the "S" 1 well had paid out five and a half times its cost?

18 A. That is correct.

19 Q. And the revenues paid for that production were
20 distributed to all categories of owner?

21 A. That is correct.

22 Q. The Chandler 1 well paid out how many times?

23 A. Two and a half times.

24 Q. Two and a half times. And by the time it was
25 added to the first expansion, all the interest owners in

1 that spacing unit participated in that production?

2 A. That is correct.

3 Q. Okay. When I get down to the second expansion,
4 it says "effective April 1st", do you see that?

5 A. Correct.

6 Q. All right. Since April 1st of 1999, what
7 additional wells have been drilled and proposed to be added
8 to the unit?

9 A. The Energen Beadle well, the Gillespie-operated
10 Snyder "F" 3 well, and since the new unit well, WLSU Number
11 14 well, three wells.

12 Q. And based upon that new data subsequent to April
13 1st of 1999, the technical committee has reconfigured the
14 hydrocarbon pore volume map, have they not?

15 A. That is correct.

16 Q. What, if anything, do you suggest we do about
17 having an effective date that precedes the drilling of all
18 these wells and the accumulation of the new data that
19 resulted in the change in the pore volume map?

20 A. I have really no opinion on that. I have no idea
21 how to work that effective date in.

22 Q. Let's see what consequence, if any, about the
23 effective date. If you'll look on Paragraph 3, it says
24 effective date of April 1st. There's a tract participation
25 factor here, 80 percent times hydrocarbon pore volume plus

1 20 percent of WF, and WF is the wellbore factor?

2 A. Yes, that is correct.

3 Q. Okay. The wellbore factor is calculated based
4 upon six consecutive months of production, true?

5 A. That is correct.

6 Q. Do you have six consecutive months of production
7 for the Beadle well?

8 A. No.

9 Q. How are you going to assign a wellbore factor to
10 that tract in order to get its participation?

11 A. The technical committee opted, in the interest of
12 putting the expansion together in a timely fashion to avoid
13 damage to the reservoir, of not assigning a well factor to
14 the Beadle and the "F" 3.

15 Q. All right, so it's -- the "F" 3 and the Beadle 1
16 don't get a wellbore factor, but you finished the
17 calculation?

18 A. Correct.

19 Q. And they participate based upon --

20 A. -- hydrocarbon pore volume.

21 Q. -- hydrocarbon pore volume. Has that proposal
22 been accepted by Energen and Gillespie?

23 A. Correct.

24 Q. Okay. How are the -- When you look at the rest
25 of the calculation, then, that tract will come into the

1 unit after it receives a certain volume of production,
2 right?

3 A. Yes.

4 Q. There's a payout component, if you will?

5 A. Correct.

6 Q. All right, it's 200 percent, is it not?

7 A. Correct.

8 Q. Is the 200-percent number, which we debated
9 several hearings ago -- Is there now consensus on using
10 200-percent payout of the well costs before the well and
11 its tract come into the unit? Is that still an issue?

12 A. Either way. I think we could allow the well to
13 pay out 200 percent or immediately bring it on the
14 effective date into the unit, reimburse all owners that
15 cost. That's my -- It's one or the other.

16 Q. My question, is there any debate among the
17 interest owners with regards to 200 percent?

18 A. I don't believe so.

19 Q. Okay. When we look at the Beadle well, it has
20 not achieved 200-percent payout, right?

21 A. That's correct.

22 Q. And the Snyder "F" 3 has not?

23 A. That's correct.

24 Q. Of the other three wells to be brought into the
25 unit, have any of those achieved 200-percent payout?

1 A. The Snyder "C" 4 most likely has, the Snyder "EC"
2 Com has -- based on the well factor, it has received its
3 portion of the 200-percent payout, or will very shortly.

4 Q. So of all the wells to be added by this
5 expansion, only the "C" 4 is in a position where those
6 interest owners have been paid --

7 A. Correct.

8 Q. -- more than 200 percent?

9 A. Correct.

10 Q. And those interest owners include the royalty and
11 the overrides and the working interest?

12 A. That is correct.

13 Q. When we look at the calculation of an effective
14 date, if we go back to April 1st of 1999, are the interest
15 owners in the "C" 4 well now going to be debited with the
16 difference in production that's occurred?

17 A. I don't know how that will be handled. I don't
18 have an idea how that should be handled.

19 Q. Is it a problem?

20 A. I don't think you're going to -- Well, I don't
21 know. I don't know what the royalty owner is going to be
22 liable for, I don't know what the other participating
23 interest owners will be liable for. That was not addressed
24 at the technical committee.

25 Q. Okay. So if Examiner Stogner approves this April

1 1 effective date with this expansion, then a potential
2 issue is the one I've just described to you?

3 A. I agree.

4 Q. And you don't have an answer to how to fix that?

5 A. No, I don't.

6 Q. When we look over in Tract 24, in Section 32,
7 it's proposed to add Tract 24 into the unit's east half,
8 east half of 32, right?

9 A. That's correct.

10 Q. All right. Are you aware that the Gillespie Baer
11 well in the southwest southeast is an 80-acre spacing unit,
12 and the 80 acres is the south half of the southeast of 32?

13 A. Yes, sir, I am.

14 Q. So what's your proposed solution for including
15 for including only 40 acres of a spacing unit that's
16 already committed to a producing Strawn well?

17 A. I believe we -- treat it the same way as our
18 State "D" 8. We'll form a nonstandard proration unit. It
19 should have no net effect on the production of the Baer or
20 the State "D" 8. Top allowable for both those wells are
21 450. They're less than 20 barrels a day each. It should
22 not have any net effect to the production or revenue from
23 both those wells.

24 Q. All right. So there's a solution available to
25 the fact that currently on paper there is an inconsistency

1 in how that well is going to be handled?

2 A. Correct.

3 Q. So you'll have to fix that and rededicate acreage
4 to the Baer well?

5 A. That is correct.

6 Q. There is no intention to expand the unit and
7 include the Baer well?

8 A. No.

9 Q. That's in a different reservoir?

10 A. Exactly.

11 Q. Okay. ~~Let me come back to Exhibits 8 and 9, Mr.~~
12 ~~Mladenka. When I look at Exhibit 9, is this your~~
13 ~~recommendation as to what Examiner Stogner ought to do to~~
14 ~~achieve equity in terms of how the expanded area is handled~~
15 ~~in relation to the original area of expansion?~~

16 A. Yes, sir.

17 Q. ~~The consequence of Exhibit 9, if I understood~~
18 ~~you, is that the recoupment of the cost plus 200 percent is~~
19 ~~going to be distributed to all categories of owners in the~~
20 ~~spacing unit for that well?~~

21 A. ~~That is the intent of Exhibit 9.~~

22 Q. ~~And that would be consistent with how the~~
23 ~~Division has approved and allowed the first expansion to~~
24 ~~occur?~~

25 A. The effect will be the same.

1 Q. All right. Do you see a reason or a basis to
2 exclude the royalty and overrides from participation in the
3 payout, as proposed by Energen in Exhibit Number 8?

4 A. No.

5 MR. KELLAHIN: No further questions.

6 EXAMINER STOGNER: Thank you, Mr. Kellahin.
7 Mr. Bruce?

8 MR. BRUCE: I have a couple of follow-up things,
9 but if Mr. Hall has some questions, let him go ahead.

10 EXAMINER STOGNER: Mr. Hall?

11 FURTHER EXAMINATION

12 BY MR. HALL:

13 Q. Mr. Mladenka, with respect to royalty
14 participation in the payout, can you explain to us how the
15 accounting would work for that? How do you know when
16 you've reached payout?

17 A. We know the cost of the well, and it will change
18 based on the monthly -- I haven't really thought it
19 completely out, but there's a way to do it. It will be an
20 accounting process. All costs will be summed, all revenue
21 will be accounted for, the royalty owners, 200 percent will
22 pay out, since he's bearing no working interest cost. The
23 royalty owner and the overriding royalty interests that
24 bear no working interest cost will pay out first, and
25 that's when everyone shares at the same oil price, same gas.

1 price.

2 The 200 percent of their interest will -- And the
3 way I envision it, and this may change, but the well will
4 come in when the royalty owner reaches 200 percent, either
5 we pay as working interest owners pay the 200 percent to
6 all interest owners before the wells actually pay out.
7 They'll be billed, and those wells will come in, based on
8 any difference between what revenue they have received and
9 the 200-percent number.

10 If these wells are allowed to produce until they ,
11 reach 200 percent, before they come into the -- fall under ,
12 the unit operatorship, the royalty owner will be brought in
13 under the 200 percent, and any remaining balance between
14 the working interest owners' 200 percent and the actual
15 payout occurred will then be reimbursed to the owner.

16 Q. I'm not sure I understand that.

17 A. It's -- It's complicated.

18 Q. In any event, Exhibit 9 does not explain any of
19 that, does it?

20 A. No, it does not.

21 Q. And is there any further explanation in the COPAS
22 language to the unit agreement?

23 A. No, it does not.

24 Q. As I understand what you said, the payout for the
25 royalty burden and the working interest share are on

1 different schedules; is that correct?

2 A. It has -- I see it that way, just because the
3 royalty owner is not paying a portion of the -- Currently,
4 let's just take for the Beadle. You all have assigned --
5 Energen has already incurred an overhead charge and a
6 pumping and so forth for the one or two months that it has
7 produced, which the royalty owner did not pay for.

8 The payout -- Total costs of that well were known
9 when it was drilled and completed, but it is incurring a
10 continuous monthly expense due to normal operations, and so
11 the -- If the well was completed, the day it was completed,
12 brought in the unit for 200 percent, the royalty owner and
13 the working interest owner would be treated -- the payouts
14 would be identical time, at 200 percent.

15 And as the well stays out of the unit, its -- the
16 actual cost of the well goes up due to the working interest
17 cost.

18 Q. Let me make sure I understand. The unit
19 participants, then, their unit production proceeds are
20 being used to service paydown on well payout costs for what
21 would have been up to then non-unit wells. Do you follow
22 me so far?

23 A. Say that again.

24 Q. Unit -- The interest owners in the unit are, in
25 effect, having their participation in unit proceeds being

1 used to pay down the payout costs for these new wells being
2 brought into the unit. That's coming out of the unit
3 working interest owners' hide, correct?

4 A. Correct.

5 Q. At the same time, the owners of the royalty
6 burden in the new wells being brought into the unit are not
7 bearing those costs at all?

8 A. Correct.

9 Q. Yet they're allowed to participate in those
10 operating-cost subsidy revenues, if you will, even though
11 they've not participated in those costs at all?

12 A. This is just an accounting thing. I think we can
13 -- I know we can get to it on an average basis, and that's
14 one reason why a working interest owners' meeting was not
15 called showing this, because you set up something for an
16 order that may be issued or not, and we can address the
17 accounting of the 200 percent where they shall receive no
18 more -- no owner shall receive 200 percent more than what
19 they are due.

20 Q. But by adopting the language in Exhibit 9, asking
21 the Hearing Examiner to include such language in the order,
22 it is, in effect, an amendment to the operating agreement,
23 and it provides for a new accounting mechanism that is not
24 otherwise addressed in the unit agreement, operating
25 agreement, COPAS agreement?

1 A. I would think that if the Commission feels that
2 an accounting procedure is provided for this order, I see
3 no problem between parties to devise a procedure.

4 Q. Even though one has not been proposed today,
5 correct?

6 A. What?

7 Q. You see no problem, even though no --

8 A. Yes --

9 Q. -- procedure --

10 A. -- I see no problems, correct.

11 Q. And you're not proposing such a mechanism or
12 accounting provision to the Hearing Examiner?

13 A. I have no presentation.

14 Q. Let me ask you about Tract 22 there. Do you know
15 the current royalty burden on that tract?

16 A. Not to the exact decimal point.

17 Q. Tell the Hearing Examiner what you understand it
18 to be generally.

19 A. I believe the royalty owner -- the lease -- the
20 royalty owner is 25 percent, and there is an overriding
21 royalty. I'm not sure what that number is, but I think the
22 net revenue interest to the working interest owner is 70
23 percent, plus or minus. So the burden is 30 percent, close
24 to it.

25 Q. Can you give us any idea at all how much longer

1 payout would necessarily be extended in order to divert a
2 portion of production proceeds to pay not only working
3 interest portion of the well costs of that unit, but the
4 royalty burden as well, under Exhibit 9?

5 A. I can't really say that, but -- You know, it's
6 all based on rate of production and from a time standpoint
7 and prices of everything. If the Beadle has only an 87.5
8 net revenue lease, royalty burden of 12.5, and the Snyder
9 "F" 3 has the 30-percent burden, and the producing rates
10 are the exact same thing, the "F" 3 will take longer to
11 recoup the 200-percent payout.

12 Q. So isn't it fair to say that 30 percent of the
13 revenues being received by Tract 22 will not be applied to
14 satisfy drilling, completion and operation costs --

15 A. Correct.

16 Q. -- payout costs?

17 A. Correct.

18 Q. So it is not in dispute, then, that payout will
19 be extended as a consequence?

20 A. That's very obvious.

21 Q. So it's not in dispute that the working interest
22 owners in the unit, in order to pay down the payout costs,
23 will be required to pay more money over a longer period of
24 time under the language proposed by Exhibit 9 than is the
25 custom and practice in industry, anyway?

1 A. They will be required to pay more for that -- if
2 it's identical costs to the Beadle and the "F" 3, the
3 ultimate cost to the unit owners will -- if the wells are
4 brought in immediately, will be more for the "F" 3 than the
5 Beadle well, based on that additional royalty burden.

6 Q. And that is not fair to the interest owners in
7 the present unit, is it?

8 A. It still is a good deal for the unit owners to
9 bring that well in. It will be an economical move for the
10 unit to incorporate that well into the unit.

11 Q. But economics will be adversely affected, don't
12 you agree, if the royalty burden is entitled to share in
13 payout proceeds?

14 A. Unfortunately, that's the case. These burdens
15 were in place many years before that well was drilled.

16 MR. HALL: No further questions.

17 EXAMINER STOGNER: Thank you, Mr. Hall.

18 Any redirect?

19 MR. BRUCE: Just a few questions.

20 REDIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Mladenka, either Exhibit 8 or 9 is an
23 amendment to the unit operating agreement, is it not?
24 Either one will be an amendment to the --

25 A. Yes, that is correct.

1 Q. -- unit operating agreement, will it not?

2 Was Exhibit 8 presented to the working interest
3 owners in the unit?

4 A. No.

5 Q. It was drafted by Energen?

6 A. Correct.

7 Q. Okay. What were the costs of the "F" 3 well,
8 roughly?

9 A. Around \$600,000.

10 Q. Do you have an idea what the rough costs were for
11 the Beadle well?

12 A. I have not been informed --

13 Q. Okay.

14 A. -- of that cost.

15 Q. If the costs of the Beadle well were higher than
16 the "F" 3 well, then conceivably the Beadle well could take
17 longer to payout than the "F" 3 well?

18 A. As in the case of any lease or well, the cost,
19 unless it was a turnkey situation, would be different.

20 Q. So -- And you don't have any idea what the
21 royalty and overriding royalty burdens are on the Beadle
22 well?

23 A. I do not.

24 Q. But it's not only the royalty burden that factors
25 into payout; it's absolute well cost?

1 A. That is correct.

2 Q. And then just a couple of clean-up items, Mr.
3 Mladenka. Looking at Exhibit 2, Mr. Kellahin asked you
4 about the Baer well in Section 32. At this point you have
5 not yet applied to the Division for a nonstandard unit or
6 to reorient the unit; is that correct?

7 A. That is correct.

8 Q. Because Tract 24 is not yet in the unit?

9 A. That is correct.

10 Q. But you will take that action at such time as
11 Tract 24 is brought into the unit?

12 A. That is correct, and also Tract 20.

13 Q. Okay, and we'll get to that in a minute, but what
14 you're proposing is that -- under what you're proposing,
15 whether it's a nonstandard unit or re-orienting the unit,
16 no interest in the Baer well will be altered?

17 A. That is correct.

18 Q. Everybody will receive the same percentage of
19 revenue for the well?

20 A. That is correct.

21 Q. And if it was a nonstandard unit, that well is
22 not producing all that much currently, is it?

23 A. That's correct.

24 Q. So if it had to go on a reduced allowable, based
25 on the depth bracket allowable, it would not be affected by

1 that reduced allowable?

2 A. No, sir, it would not.

3 Q. And then finally on the Gillespie State "D" 8
4 well, we carved out ten acres there. That well is
5 definitely not in communication with the West Lovington-
6 Strawn Pool; is that correct?

7 A. That is correct.

8 Q. It is over in what, the South Big Dog-Strawn?

9 A. That is the pool that the Commission has placed
10 it in.

11 Q. Okay. But it's clearly not in pressure
12 communication?

13 A. That is absolutely correct.

14 Q. And so the same thing, you will deal with that
15 once the unit is expanded?

16 A. That's correct.

17 MR. BRUCE: And the only other thing, Mr.
18 Examiner, is, I would note that Exhibit 9 was provided to
19 Mr. Hall on October 26th. And with that I would again move
20 the admission of Exhibit 9, along with the other exhibits,
21 4 through 10.

22 MR. HALL: Just for the record, I would state
23 that I was not provided with Exhibit 9 before today. I
24 don't recall receiving it.

25 MR. BRUCE: Mr. Examiner, after the hearing I

1 will submit the letter by which I gave this exhibit to Mr.
2 Hall.

3 EXAMINER STOGNER: If you'll provide that, we'll
4 just attach it to Exhibit 9.

5 Any other questions, Mr. Hall?

6 MR. HALL: (Shakes head)

7 EXAMINER STOGNER: Mr. Kellahin, Mr. Carr?

8 MR. KELLAHIN: No, sir.

9 MR. CARR: (Shakes head)

10 EXAMINER STOGNER: No further questions.

11 MR. BRUCE: I have no further questions and
12 nothing further in this matter, Mr. Examiner.

13 EXAMINER STOGNER: Thank you, Mr. Bruce.
14 Mr. Hall?

15 MR. HALL: Brief statements.

16 EXAMINER STOGNER: Okay.

17 MR. HALL: I won't present a witness today, this
18 is the appropriate time for statements.

19 EXAMINER STOGNER: If you don't plan to present a
20 witness, then I'll let you go ahead and start, and Mr.
21 Kellahin will come next, and then I'll leave it open for
22 Mr. Bruce to end it.

23 MR. HALL: Mr. Examiner, on behalf of Energen
24 Resources Corporation, I think the status of this case was
25 fairly well in hand before today. I think there's -- the

1 evidence shows there's agreement among the working
2 interests about the allocations of pore volume to the
3 tracts, and then the pool boundaries no longer seems to be
4 in issue.

5 We're surprised to learn today for the first time
6 that the payout matter will become an issue again. We had
7 thought that had been resolved.

8 If you will refer to the record in Case 12,086,
9 Mr. Examiner, we had provided you with an Exhibit 1 there,
10 which we supplemented at a subsequent hearing with
11 Supplemental Exhibit 1, which provides a chronology of
12 events related to the payout issue. And I think what
13 you'll find when you look at that exhibit, you'll recall
14 that the payout matter became an issue at the prior hearing
15 on the unit expansion on May 27th.

16 Immediately ~~subsequent to that hearing~~, Energen
17 and Gillespie representatives met in my office here in
18 Santa Fe and hammered out what we thought was a reasonable
19 compromise of that issue. That compromise ultimately
20 became Attachment D to Order Number R-10,864-A. That
21 exhibit was not a surprise to any of the participants in
22 this case.

23 On June 22nd, copies of Attachment D were
24 circulated to all counsel of record, and there was a
25 written request to you, the Hearing Examiner, to

1 incorporate this matter into the record and, in the absence
2 of objection, go ahead and make that part of the order.

3 The record will show that no objection to
4 Attachment D to that order, Article 10.4, payout provision
5 amendment, was received by anyone, that I'm aware. So
6 today is the first day that we are provided with
7 alternative language. And I don't mean to represent to you
8 that Mr. Bruce did not send me the language shown in
9 Exhibit 9; I just have not seen it, that's all I'm saying.

10 Draft VI, the Exhibit 8, was prepared by Energen.
11 The record should indicate that we did not ask for this
12 language to be presented to you today. We were content to
13 rely on the existing language, Attachment D to Order
14 R-10,864-A. We don't necessarily object to Draft VI,
15 Exhibit 8, but we think the existing language is perfectly
16 suitable.

17 For the record, we do object to the inclusion of
18 the Exhibit 9 language in any order that results from this
19 hearing.

20 That's all I have, Mr. Examiner.

21 EXAMINER STOGNER: Mr. Kellahin?

22 MR. KELLAHIN: Mr. Examiner, the discussions you
23 had before you were by working interest owners and how they
24 discuss and negotiate and deal with each other. Mr.
25 Squires as a royalty owner has no one to protect him in

1 that process. You are his only protection in order to

2 determine what is fair and reasonable and equitable.

3 We are asking that you adopt Exhibit 9, which is
4 a very equitable way to handle the payout of this well,
5 simply because it's the same way the Chandler well was
6 handled and the "S" well. We think it's inappropriate to
7 change the rules in the middle of the game, and we would
8 ask that you incorporate and adopt Exhibit 9, because
9 that's the only way Mr. Squires is going to be treated in
10 the same fashion as the other royalty interest owners.

11 I invite your attention to the discussion I had
12 with Mr. Mladenka about the effective date of the unit. I
13 would ask that you and Mr. Carroll examine the Statutory
14 Unitization Act and determine whether or not it's
15 appropriate to have a retroactive effective date for a unit
16 that precedes the drilling of at least three wells, data
17 that was used by subsequent wells after April 1st in order
18 to create pore-volume distribution, all evidence and
19 information post-April 1st, 1991.

20 You need to pay attention to that effective date,
21 because there's language in Section 70-7-8 that gives me
22 pause and concern. It says, No order of the Division
23 providing for unit operation shall become effective unless
24 and until it is approved by the Division in writing, and it
25 goes through an approval process. It appears to me the

1 language in the statute mandates that you make these
2 changes prospective, and so you'll have to figure out a
3 date that does that. I'm concerned the April 1st effective
4 date has got some glitches in it.

5 I described with Mr. Mladenka what I think is one
6 of the major issues. He says he saw it as a problem, he
7 has no solution. I suggest the solution is easily
8 accomplished: You make the effective date the first day of
9 the month following approval by the State Land Office if
10 you're land management, and ratification by the appropriate
11 percentage of interest owners. I think that's how you're
12 supposed to do it.

13 Thank you.

14 EXAMINER STOGNER: Mr. Carr?

15 MR. CARR: May it please the Examiner, the only
16 thing that I would add is that I think it is important that
17 you review the Statutory Unitization Act as you evaluate
18 this entire matter.

19 It is true that the order prescribes for
20 certain -- contains certain provisions governing the
21 ratification of a unit order, but I think it's important to
22 remember when you look at the Act, you will find that it is
23 ratification not of the unit agreement but of the
24 Division's order. And when you look at the provisions of
25 the statute, they outline Division Order Subparagraph I,

1 and Section 70-7-7 provides that among the things the order
2 shall contain is the time when unit operations shall
3 commence.

4 I think it's important that you look at the
5 statute, you review the testimony in this case, and in
6 doing it, I think you have the authority in your order to
7 set a date, but you have to consider, as you go about that,
8 the effect of that date on the involved interest owners.

9 EXAMINER STOGNER: Thank you, Mr. Carr.

10 Mr. Bruce?

11 MR. BRUCE: The only thing I want to comment on
12 is Attachment D to the prior order, Mr. Examiner, and I
13 would point out that there was testimony on Mr. Gillespie's
14 behalf at the May, 1999, unit expansion hearing regarding
15 well payout, which would have included royalty owners.

16 Exhibit D, as Mr. Hall said, was submitted in
17 affidavit form after the hearing. I believe the record had
18 already been closed. This was adopted by the Division.
19 But I don't think there's anything in the record to support
20 this attachment.

21 Attachment D also omits -- or would not include,
22 let us say -- the "F" 3 well. I'd just point that out. As
23 a result, I submitted today two proposals. I'll let the
24 Division decide to see how it wishes to treat the new wells
25 coming into the unit.

1 With that, I will draft up a proposed order, if
2 the Examiner so desires, containing revisions to Order
3 R-10,864-A and provide it to all the parties and let them
4 make their comments.

5 EXAMINER STOGNER: What time frame do you propose
6 that --

7 MR. BRUCE: I will -- I'm going to be out of the
8 office tomorrow. I will get it to the parties by Tuesday
9 of next week.

10 EXAMINER STOGNER: Tuesday of next week.

11 MR. BRUCE: Perhaps earlier, perhaps this
12 weekend, but Tuesday at the latest, Mr. Examiner, if I
13 could.

14 EXAMINER STOGNER: I believe that's the 23rd; is
15 that correct?

16 MR. BRUCE: That's the 23rd, you are correct.

17 EXAMINER STOGNER: Mr. Hall, do you have any idea
18 what time frame you would like to have to review that if he
19 gives it to you Tuesday?

20 MR. HALL: I'd like till December 2nd, Mr.
21 Examiner. And in that regard I'd also ask that Case Number
22 12,086 be continued to that date, until I've had an
23 opportunity to consult with my client and see what we want
24 to do.

25 EXAMINER STOGNER: Mr. Kellahin, do you have any

1 comments concerning the --

2 MR. KELLAHIN: No, sir.

3 EXAMINER STOGNER: -- time frame?

4 MR. CARR: Mr. Stogner, I'd request that Case
5 12,086 also be continued to the same date as the companion
6 case.

7 EXAMINER STOGNER: I won't be available for the
8 December 2nd, so I'm happy with that date.

9 (Laughter)

10 EXAMINER STOGNER: If there's nothing further in
11 Case Number 12,289 --

12 MR. ADAMS: Sir --

13 EXAMINER STOGNER: Yes?

14 MR. ADAMS: I wanted to thank you for your
15 kindness to us in the past, the royalty owners of the
16 Beadle Number 8. We depend on you to treat the royalty
17 owners fairly.

18 EXAMINER STOGNER: Okay, sir, for the record,
19 could you identify yourself?

20 MR. ADAMS: My name is Glen Adams. My father
21 Pete acquired his little interest in that acreage in 1938.

22 EXAMINER STOGNER: Thank you, Mr. Adams, do
23 appreciate your coming today and being included in the
24 record.

25 With that, that concludes this matter. However,

1 I will leave the record open only for the rough draft order
2 and the comments. So hopefully by December the 2nd I will
3 be prepared to issue an order in this matter at that time.

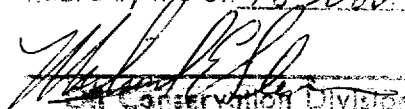
4 With that, Case Number 12,086 will be continued
5 to December the 2nd. Keep in mind, that will be another
6 Hearing Examiner.

7 And if there's nothing further in this matter,
8 let's take about a five-minute recess to clear the room and
9 regroup and see what we have coming up.

10 (Thereupon, these proceedings were concluded at
11 11:45 a.m.)

12 * * *

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16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 12289
19 heard by me on 18 Nov. 1999.

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Michael P. Allen, Examiner
CCR Conservation Division

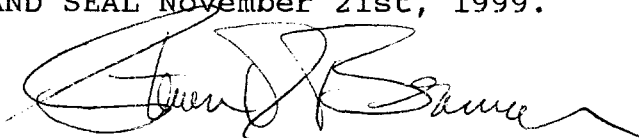
CERTIFICATE OF REPORTER

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 November 21st, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002