

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

OIL CONSERVATION DIV.
99 DEC -2 PM 3:18

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF BURLINGTON RESOURCES OIL)
AND GAS COMPANY FOR COMPULSORY POOLING,)
SAN JUAN COUNTY, NEW MEXICO)

CASE NO. 12,290

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER 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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Examiner Hearing
CASE NO. 12,290

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A P P E A R A N C E S

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 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:57 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 12,290.

5 MR. CARROLL: Application of Burlington Resources
6 Oil and Gas Company to amend the special rules and
7 regulations for the Basin-Dakota Gas Pool for purposes of
8 changing well location requirements for Dakota wells, Rio
9 Arriba and San Juan Counties, New Mexico.

10 EXAMINER STOGNER: Call for appearances.

11 MR. KELLAHIN: Mr. Examiner, my name is Tom
12 Kellahin and I'm with the Santa Fe law firm of Kellahin and
13 Kellahin. I'm appearing on behalf of the Applicant, and I
14 have two witnesses to be sworn.

15 EXAMINER STOGNER: Are there any other
16 appearances in this matter?

17 Will the witnesses please stand to be sworn?

18 (Thereupon, the witnesses were sworn.)

19 EXAMINER STOGNER: Mr. Kellahin?

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

21 On behalf of Burlington Resources, Mr. Examiner,
22 we're asking the Division to consider modifying the Basin-
23 Dakota Gas Pool rules. It is our purpose to make them
24 operable to the Blanco-Mesaverde Pool rules.

25 I have two witnesses to present.

1 Mr. Alan Alexander is the first witness. He's
2 one of the petroleum landmen with Burlington, residing in
3 Farmington, and we want to discuss the various rules and
4 why we think it's appropriate to make some changes.

5 ALAN ALEXANDER,

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

8 DIRECT EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Alexander, for the record, sir, would you
11 please state your name and occupation?

12 A. Yes, my name is Alan Alexander. I'm currently
13 employed with Burlington Resources Oil and Gas Company in
14 their Farmington, New Mexico, office.

15 Q. On prior occasions have you testified before the
16 Division?

17 A. Yes, sir, I have.

18 Q. As part of your responsibilities as a landman for
19 Burlington, have you been involved in preparing and
20 presenting the various exhibits and proposed testimony in
21 this matter?

22 A. Yes, sir.

23 Q. Are you familiar with the Blanco-Mesaverde Pool
24 Rules and the Basin-Dakota Pool Rules?

25 A. Yes, sir, I am.

1 MR. KELLAHIN: We tender Mr. Alexander as an
2 expert petroleum landman.

3 EXAMINER STOGNER: So qualified.

4 Q. (By Mr. Kellahin) Mr. Alexander, let's turn to
5 the exhibit book, and within the context of the exhibit
6 book, let me have you identify for us what you did with
7 regards to notifying affected parties of the proposed rule
8 change. What did you do, sir?

9 A. Yes, sir, if you would turn behind Exhibit Tab
10 Number 2, you will see our affidavit of mailing, and the
11 notices were sent out on October the 26th. And then
12 immediately behind that affidavit of mailing you will see a
13 listing of approximately 152 operators in the San Juan
14 Basin. And the top of the list, if you'll notice up there,
15 it says "Basin Dakota and Basin Fruitland Coal" operators.
16 Originally, we were thinking we were going to hear a case
17 this morning on Fruitland Coal, and it was simply just
18 cheaper and more efficient to include both advertisements
19 in the same mailing. So that's the reason why you see the
20 Fruitland Coal listed in that mailing.

21 Behind the listing of the operators that we
22 notified you'll see copies of the certified receipt green
23 cards that are attached.

24 Q. Where did you get the list?

25 A. I obtained the list from the Aztec office of the

1 Conservation Division.

2 MR. KELLAHIN: Mr. Examiner, the Fruitland Coal
3 gas rule change was inadvertently admitted from this
4 docket, and it will show up on the December 2nd docket, so
5 if you'll simply ignore the Fruitland reference here.

6 Q. (By Mr. Kellahin) These, in fact, Mr. Alexander,
7 do include, to the best of your knowledge, what the
8 Division records in Aztec show to be the operators in the
9 Basin-Dakota Pool?

10 A. Yes, sir, at a very minimum, and then also we
11 notified other operators that were in the coal pool.

12 Q. All right. Following the notice information,
13 let's turn to Exhibit Tab Number 3 and have you identify
14 for the record what is contained behind Exhibit Tab Number
15 3.

16 A. The exhibit behind Exhibit Tab Number 3 is a
17 summary of the history of the Basin-Dakota Pool rules,
18 specifically dealing with well locations. And Mr. Kellahin
19 did the research for us over here at the Division records
20 to come up with this history for the benefit of the
21 Examiner.

22 Q. Let's turn behind Exhibit Tab Number 4 and look
23 at the first foldout display. Identify that for me,
24 please.

25 A. These are maps that I thought would be valuable

1 in considering our Application this morning. We requested
2 the pool outlines from New Mexico Tech of the various pools
3 that we thought should be discussed this morning. You'll
4 see down in the legend under the first map that the red
5 outline is the Blanco-Mesaverde Pool, the blue outline is
6 the Basin-Dakota Pool, and the green outline is the Basin-
7 Fruitland Coal Pool.

8 We would like to illustrate by this exhibit how
9 these pools tend to overlie each other, and I think that
10 will become more important later in the discussion.

11 Behind that map I have simply included individual
12 maps that show the outline of the Basin-Dakota Pool.

13 Q. Let's turn to that display. When we look at the
14 map outline that shows the Basin-Dakota Pool, how was this
15 prepared?

16 A. This was also -- all of these -- These are the
17 same outlines, they have just been enlarged, and they also
18 show well spots, but we obtained all of these pool outlines
19 from New Mexico Tech.

20 Q. And the first display is the composite one, the
21 second one is Basin-Dakota, and the final one in this
22 exhibit set is the Blanco-Mesaverde Pool?

23 A. Yes, sir, that's correct.

24 Q. All right. Subsequent to receiving the pool
25 outline from Socorro, were you aware or did you become

1 aware that the pool outline may have some clerical errors
2 in it?

3 A. Yes, sir, we were in communication with Mr.
4 Simmons, I believe it is, from the Ute Mountain Ute Tribe.
5 He was inquiring about the Basin-Dakota Pool. Our initial
6 conversations, we thought we were talking about Barker Dome
7 area that's up on the hogback, is not part of the Basin-
8 Dakota Pool, but he clarified that and he was actually
9 talking about some Basin-Dakota wells that are located in
10 the extreme southeast corner of 32 North, 14 West.

11 Well, if you look on those maps, the pool outline
12 does not cover those particular wells. However, we looked
13 at those wells and I consulted with our geologist, and in
14 fact they should be included in the Basin-Dakota Pool
15 outline. They are Basin-Dakota wells.

16 Q. So the Examiner needs to recognize that there is
17 the opportunity for an error in this display?

18 A. Yes, sir, that's correct.

19 Q. Apart from the inquiry by Mr. Simmons on behalf
20 of the Jicarilla Tribe, did you receive any other inquiries
21 from any of the parties to whom you sent notice?

22 A. The -- Mr. Simmons is with the Ute Mountain Ute
23 Tribe --

24 Q. I'm sorry.

25 A. -- just for clarification.

1 We did talk with Conoco, since they are
2 interested and have been interested in the Dakota
3 formation. I think as the Examiner may be aware, they are
4 pursuing a pilot project in the San Juan 28 and 7 Unit, and
5 so they are very much interested in any rule changes that
6 would affect the Dakota.

7 We talked with Conoco, and they are in agreement
8 with the setback changes that we are proposing.

9 Q. Let me ask you this, then: Did anyone contact
10 you with any objection with regards to the rule change?

11 A. No, sir, no objections had been noted.

12 Q. Did you provide Mr. Simmons with a copy of your
13 proposed exhibits?

14 A. Yes, sir, we did.

15 Q. To the best of your knowledge, is there any
16 objection by Mr. Simmons or the client for whom he
17 represents?

18 A. I have not heard of any.

19 Q. Let's talk about the proposed rule change. If
20 you'll turn with me behind Exhibit Tab Number 5, Mr.
21 Alexander, let's illustrate what the proposal is. If
22 you'll turn to the display, help me understand and
23 illustrate for us what you're depicting by this
24 information.

25 A. Well, this represents the surface area involved

1 in the current rules and in the proposed rules. I have
2 provided an example in a four-section area. It's a generic
3 example of both laydown and standup units.

4 The current Basin-Dakota drilling windows are
5 illustrated in the solid blue color, and our proposed rule
6 change is illustrated in the hached green color.

7 The current rules provide that the drilling
8 windows for the Basin-Dakota Pool are 790 feet from the
9 quarter-section lines and 130 feet from the interior
10 quarter-quarter section lines.

11 And we would like to change those, in large part,
12 to match the Basin -- the Blanco-Mesaverde Pool so that
13 they would be located 660 feet from the spacing unit and
14 ten feet from the -- any interior quarter-quarter or half-
15 section lines.

16 Q. One of the other items that Burlington has
17 requested the Division consider with regards to a rule
18 change for the pool is to provide further flexibility for
19 wells located in federal units?

20 A. Yes, sir, that's correct.

21 Q. Describe for Mr. Stogner what is the proposal,
22 and then we'll talk to you about the reasons for that
23 proposal.

24 A. We would basically like to adopt the same rules
25 that we have in the Blanco-Mesaverde Pool that would allow

1 any well drilled inside a federal unit to be located ten
2 feet off of any governmental line in there. We think, as
3 we --

4 Q. Well, let me qualify that. That's with regards
5 to interior lines?

6 A. Yes, sir.

7 Q. There is still an outer buffer with regards to
8 the exterior boundaries of the federal unit?

9 A. That is correct.

10 Q. Now, let me ask you, with regards to any
11 potential correlative-rights violation, a lot of these
12 federal units are divided units where you have
13 participating areas. Describe for me what your opinion is
14 with regards to the potential, if any, for the violation of
15 correlative rights with regards to drillblocks versus
16 participating areas.

17 A. I don't believe that will happen, and it will
18 certainly be minimized in any regard, because in the
19 federal units up in the San Juan Basin, we have two basic
20 types up there. We call them the township units, such as
21 the San Juan 28-7 Unit.

22 We also have what we call named units, and an
23 example of that would be, for instance, the Canyon Largo
24 Unit.

25 But in these units, they provide for

1 participating areas so that people share in the production
2 from the wells. Now, if we located one of these wells ten
3 feet from a boundary line inside the unit and it was in the
4 participating area, we see no problem there because all of
5 the parties that would be affected are participating in
6 that well.

7 Now, the other thing that would happen and can
8 happen is that you would drill a well located outside of
9 the participating area but inside the federal unit
10 boundaries and not on the buffer zone. The well would be
11 drilled initially on a drillblock basis. For instance, for
12 the Dakota it would be drilled on a 320-acre drilling
13 block. And then the well would either be deemed commercial
14 or noncommercial.

15 Well, if the well was deemed commercial, all the
16 production from that well, beginning with the date of first
17 production, would come into the participating area. Hence,
18 I do not believe that a correlative-rights situation would
19 occur there.

20 Now, the other thing that could happen is that
21 the well would be deemed noncommercial. And if the well is
22 deemed noncommercial, that means that it's of such poor
23 quality in its production that we would not expect -- we
24 would expect very minimal drainage to occur to the
25 adjoining properties anyway.

1 The third thing that helps resolve that situation
2 is that in these federal units, in the deeper formations
3 like the Dakota, they -- we can, as operators and the
4 working interest owners, can bring in additional adjoining
5 acreage, and we call that geologic inference.

6 So in other words, if we had a drilling tract
7 offsetting a tract where we drilled a Dakota well, and it
8 was deemed commercial, we can and many times do bring in
9 the adjoining tracts into the participating area. And that
10 again would eliminate or very much reduce any chance of any
11 correlative-rights problems.

12 Q. Let me ask you to turn to a different topic. If
13 we'll go behind Exhibit Tab Number 7, we're going to skip 6
14 for a moment and come back to that later, with another
15 witness. Let's look at 7.

16 One of the issues under consideration is to
17 minimize the filing of unorthodox well locations for Dakota
18 wells between the 790 footage and the 660 footage. Have
19 you compiled for us, to the best of your knowledge, a list
20 of applications filed by Burlington with regards to
21 unorthodox well locations?

22 A. Yes, sir, I received this list from our
23 regulatory people, and that is the list you'll see behind
24 Exhibit Tab Number 7, and I thought that would be of
25 interest to Mr. Stogner.

1 Q. To the best of your knowledge, Mr. Alexander, are
2 you aware of any of the administrative applications that
3 have been filed to move Dakota locations up to 660 but not
4 closer, for which there has been an objection filed?

5 A. We have had locations that moved 660 and in that
6 range and a little closer, and I'm sorry, I did not
7 research to see if we had an objection filed on those
8 particular locations.

9 Q. All right. Within the context of what you have
10 researched, describe for us what you have done and what you
11 conclude.

12 A. The listing that I provided is a listing of the
13 nonstandard location applications that we have submitted to
14 the Division since 1994, with particular inference to the
15 Dakota and the Mesaverde-Dakota, either commingled or
16 dually completed. And I have provided that list.

17 The activity -- There has been a large activity
18 with Dakota and Mesaverde completions, and this is
19 illustrative of the fact of that activity, and we would
20 expect that activity to continue on in the future.

21 Q. As a landman for Burlington, what do you
22 anticipate to be the benefit of the rule change?

23 A. I believe it would be largely administrative in
24 terms of time expended on filing for nonstandard locations.
25 It would help us to eliminate the filing of those

1 applications, because a lot of this Dakota, we believe,
2 will be developed along with the Mesaverde formation. And
3 since the Mesaverde rules allow us to drill 660 feet from a
4 gas proration unit, the fact that we would like to
5 commingle or dually complete that well with the Dakota and
6 recover those marginal reserves, in a lot of instances,
7 would result in the need to file for a nonstandard
8 administrative location, and that is principally what we
9 would hope to alleviate.

10 MR. KELLAHIN: Mr. Examiner, that concludes my
11 examination of Mr. Alexander.

12 We move the introduction of the exhibits he's
13 sponsored, which are Exhibits 1 through 5 and then Exhibit
14 7.

15 EXAMINER STOGNER: Exhibits 1 through 5 and
16 Exhibit Number 7 will be admitted into evidence.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Alexander, Exhibit Number 4, the blue, as I
20 understand it, what you're telling me is that's the Basin-
21 Dakota Pool boundaries as established by the New Mexico Oil
22 Conservation Division?

23 A. Yes, sir, and again we did derive these from New
24 Mexico Tech. They provided us with these pool boundaries.

25 Q. How come you didn't provide -- How come you

1 didn't check with the Aztec office that this was the pool
2 boundaries? Why did you go to Tech?

3 A. They provide that service to the industry, and we
4 have used them in the past, and we're currently using them
5 in the commingling workshop committee that we're working
6 on, and that's -- We already had these from that committee,
7 and I used them since we already had those pool outlines in
8 house.

9 Q. You didn't answer my question. Why didn't you
10 verify the pool boundaries with the Aztec office of the New
11 Mexico Oil Conservation Division?

12 A. Well, Mr. Stogner, I didn't intend on using the
13 pool boundaries for legal description, I just -- I wanted
14 to show you how these pools tended to overlap between the
15 Dakota and the Mesaverde formations. But I didn't intend
16 on making any legal determinations about them, so I didn't
17 -- I guess I just didn't -- I didn't think that it would be
18 necessary to verify the outline to that degree.

19 Q. You're proposing to change special pool rules,
20 and you didn't think it was necessary to check the whole
21 pool; is that what you're telling me?

22 A. Well, no, sir. For the Basin-Dakota Pool we are
23 -- we would like to change the setbacks for the pool. I
24 didn't intend this exhibit to show the legal boundaries of
25 the pool.

1 Q. Why not?

2 A. I guess I just didn't provide you with -- I would
3 -- if -- I should have provided you, perhaps, then, with a
4 legal description listed out of the pool boundary.

5 Q. How about for notification purposes? Did you
6 just notify the parties within the blue area, or within the
7 blue boundaries as established by the New Mexico Oil
8 Conservation Division?

9 A. No, sir, I notified the operators that were on
10 record over in -- and I got the list from the Aztec office
11 of the OCD, and those are the operators that I notified.

12 Q. So some of these operators are outside your blue
13 area; is that correct?

14 A. They may be, yes, sir, outside of this blue
15 outline.

16 Q. There seems to be a discrepancy here, Mr.
17 Kellahin, because I'm not sure. This does not depict
18 correct -- As Mr. Alexander should know, this does not
19 demonstrate the actual boundaries of the Basin-Dakota Pool.

20 So therefore that brings up the notification
21 question, of its being right.

22 (Off the record)

23 EXAMINER STOGNER: As I was saying, Mr. Kellahin,
24 there seems to be a little bit of a problem here with
25 notification because that brings it up into question. Also

1 in the presentation, such as it is, people could be led to
2 believe that these special pool rules are just going to be
3 limited to this particular area, unless that's what
4 Burlington is proposing.

5 MR. KELLAHIN: No, sir, Mr. Examiner. May I
6 respond?

7 EXAMINER STOGNER: Well, I'd like to hear from
8 the witness here.

9 Q. Is that what you're proposing, Mr. Alexander?

10 A. No, sir. No, sir, we would propose the rule
11 change be applied to the entire Basin-Dakota Pool.

12 Q. Would you be surprised for me to tell you that
13 this does not depict the pool boundaries as designated by
14 the Aztec office?

15 A. Yes, sir. Well, I'm aware of the one area that
16 they didn't include in the pool boundaries, but I did
17 assume --

18 Q. I'm going to give you plenty of time to get me
19 the pool boundaries, and also to double-check the
20 notification issue, because these are for special pool
21 rules and not just a portion of the pool; is that correct?

22 A. Yes, sir.

23 Q. Okay. That should be pretty easy to find from
24 the Aztec office. You're not too far from Aztec, are you?

25 A. No, sir.

1 Q. And also you probably have the R.W. Byram's and
2 Associate books; is that correct?

3 A. Yes, sir, we do.

4 EXAMINER STOGNER: Okay. I'm going to continue
5 this matter to January the 6th.

6 MR. KELLAHIN: May I suggest a procedure, Mr.
7 Examiner?

8 EXAMINER STOGNER: Okay.

9 MR. KELLAHIN: Under the new notice rules, as you
10 know, the requirement is to send notice to the operators of
11 wells in the pool. Regardless of the map, the notice list
12 was compiled based upon the Aztec records. That's as
13 reliable a list as we have. We will reconfirm to make sure
14 that the Aztec office list of operators is as accurate as
15 we can make it.

16 In addition, when we return at the continued
17 hearing, we will correct this map so that you will then
18 have a map, to the best of our knowledge, that depicts all
19 the acreage in the pool.

20 I personally think those are two different
21 issues. The issue of notification has been sent to all
22 those parties who are operators of the pool. No one has
23 seen this map until you saw it today, and we have described
24 for you that we are aware that it's a map that has some
25 errors in it. We apologize for that, we will give you a

1 corrected map.

2 If you will allow us, we will finish our
3 presentation with an engineering witness, and then we'll
4 return back in January and describe for you if there's any
5 issue has arisen with regards to the change of the map.

6 MR. CARROLL: Mr. Kellahin --

7 MR. KELLAHIN: Yes, sir.

8 MR. CARROLL: -- the notice requires not only to
9 operators in the pool but within one mile of the pool
10 boundaries.

11 MR. KELLAHIN: Yes, sir.

12 MR. CARROLL: Would there be additional operators
13 besides the list you obtained from Aztec?

14 MR. KELLAHIN: Mr. Carroll, we will reconfirm
15 that to make sure that we have not made any mistakes.

16 MR. CARROLL: Okay.

17 EXAMINER STOGNER: I will allow the continuance
18 of this matter today to take on additional evidence, but I
19 still want you to re-verify.

20 MR. KELLAHIN: Yes, sir, I'd be happy to do that.

21 Q. (By Examiner Stogner) Okay, back to the
22 participating areas, now, you said something about a buffer
23 zone in these participating areas. What is this buffer
24 zone?

25 A. Mr. Stogner, I was referring to the buffer zone

1 that was set up in the Blanco-Mesaverde Pool. That is a
2 buffer between the outside boundaries of the federal units
3 and that acreage that's outside of the federal unit, that
4 would not be involved in the federal unit. Those rules
5 provided for a buffer zone, I believe, of one-half mile,
6 that you could not locate a well as to the 10-foot setback
7 from any governmental boundary line.

8 Q. Okay. So that was referring to what the special
9 pool rules recognize as a buffer area, and not what's
10 included in some sort of a participating area buffer zone?

11 A. Yes, sir, that's correct.

12 Q. Okay. All right, now, I'm not that familiar with
13 these participating areas, so let's say that I have one of
14 these township units and you have joinder with all interest
15 in there, within the township unit. How did the
16 participating area -- Do they single out acreage that's not
17 within a participating area? Does that mean that person's
18 interest, even though they're within the unit but outside
19 of the participating area, they would be a participant in
20 the production?

21 A. The way it starts, Mr. Stogner, is, early in the
22 beginning of these units you don't have any participating
23 areas. And then you would drill a well, for instance, for
24 the Mesaverde formation, and that well was deemed
25 commercial by the regulatory agencies and the operator,

1 then they would constitute a participating area of that
2 320-acre drilling block. That would be the initial
3 participating area.

4 Then, as more wells were drilled and those wells
5 are deemed commercial, then those 320-acre drilling blocks
6 are added to the participating area, and all parties in the
7 enlarged participating area share in production. That
8 process continues until you've developed all of the federal
9 unit for that particular formation and all the wells have
10 either been deemed commercial or, if they are
11 noncommercial, they are excluded from that participating
12 area.

13 Q. Now, when an exploratory unit is formed, is part
14 of the requirement that you have 100-percent participation?

15 A. No, sir, you can have less than 100-percent
16 participation. Sometimes we have some royalty owners that
17 didn't join in the unit, for instance. So you can form a
18 federal exploratory unit without 100 percent of
19 participation.

20 Q. How would those tracts be identified or handled,
21 let's say -- Let's take Section 1, for instance, and the
22 well is drilled in the west half, and this nonparticipating
23 acreage or nonunitized acreage is in the east half. So
24 you're proposing that because these new rules would allow
25 for the drilling of that well ten foot to that east-west

1 line?

2 A. Yes, sir, we're proposing that.

3 Q. Okay, how would their correlative rights be
4 protected?

5 A. Well, for the -- For instance, if we had a
6 royalty owner that elected not to be joined into a federal
7 unit, his acreage, his revenue, is only derived from any
8 well that would be drilled upon his acreage, and he does
9 not share in any surrounding production, since he chose to
10 exclude himself from the federal unit.

11 Q. Right. But you still want -- But you're still
12 proposing that you can drill ten foot to that line?

13 A. Yes, sir, that's correct. That royalty owner --

14 Q. Is that punishment or something, because he
15 didn't join the unit, or what?

16 A. Well, no, sir, not really. I mean, he should
17 have joined the unit, but you can -- that royalty owner can
18 join in the unit at a later date. He can request to be
19 brought into the federal unit, and I believe that offers
20 him some protection in that regard.

21 Q. So likewise, that person would be able to produce
22 his acreage if he chose and drill ten foot to your line?

23 A. Yes, sir.

24 Q. And you wouldn't have a problem with that?

25 A. No, sir, because the rest of the royalties -- Say

1 he's not the only royalty owner, but the rest of the
2 royalty owners and the working interest owner have joined
3 in the federal unit, and they would derive that benefit
4 along with him.

5 Q. Or if you drilled that well ten foot from that
6 line and you take a downhole survey and it's over on his
7 property, then therefore the ownership of that well reverts
8 to him?

9 A. If that well was completed on the adjacent
10 property, yes, sir, I believe that would happen.

11 Q. So you all wouldn't have a problem with turning
12 the well over to him and just -- Okay, we don't object
13 because now the well is on his side, even though we drilled
14 it and everything, you're not going to have a problem with
15 that?

16 A. Well, the well would still be a federal unit
17 well, because the other working interest owners are in the
18 federal unit. But he would derive the royalty from that
19 well. That's what would happen in that instance, if we did
20 that.

21 Q. Oh, the east-half proration unit wouldn't be
22 formed?

23 A. Yes, sir --

24 Q. That wouldn't be an east-half proration unit?

25 A. Yes, sir, it should be formed for that well. But

1 it would still be a federal unit well. It's just that his
2 royalty wasn't committed, so he would derive the royalty
3 from that well at that point.

4 Q. Okay, how about working interest? Does the
5 federal unit require 100 percent working interest
6 participation?

7 A. If the working interest owners do not agree to
8 join in the federal unit, that land would have been
9 excluded from the federal unit boundary.

10 Are you asking me if all of the working
11 interest -- Maybe I didn't respond to you correctly. You
12 can have a portion of the working interest in a lease, not
13 joined in the federal unit, just as you can have for a
14 royalty owner.

15 Q. Okay. Now, you talked about a geologic
16 inference, and you said that "we" could take in adjoining
17 tracts. Who's "we"?

18 A. The unit operator would normally make that
19 initial decision, and then he would notify the other
20 working interest owners and the regulatory agencies that
21 that acreage was being included by geologic inference,
22 based upon the completion of a commercial well.

23 Q. So if one of these wells was ten feet from --
24 into a participating area, but ten foot from a
25 nonparticipating area, could there be other parties to

1 request that that acreage come on in case, oh, the unit
2 operator isn't as prudent as, say, you're referring that
3 Burlington is? Maybe there's another operator out there in
4 the unit that's not as prudent as Burlington, and they
5 either ignore bringing in these adjoining tracts -- how
6 would -- So could some other party or could the BLM or the
7 State Land Office, if it was state land, be requested to be
8 brought in?

9 A. Yes, sir, they could, and other working interest
10 owners on occasion have requested that the operator file
11 that type of designation.

12 Q. But how would they know if the well was ten feet
13 from their line, if they weren't out there to actually see
14 the spudding of the well?

15 A. We notify -- We file a plan of development every
16 year for the federal units, and --

17 Q. Spot well locations, to that degree?

18 A. Pardon me? Yes, sir.

19 Q. Really?

20 A. And then we also provide the working interest
21 owners with the completion reports and the APDs and the
22 other notices that are filed.

23 Q. So you're telling me that every year you've got
24 well spots picked?

25 A. Yes, sir, when we file our APDs we --

1 Q. No, you told me when you file your annual report
2 you have well spots picked.

3 A. Oh, I see your question. We may not -- When we
4 file our report, we may not have -- with the regulatory
5 agencies, our plan of development, we may not have an
6 actual location listed on that plan of development. What
7 we will list on that plan of development is the drilling
8 unit, the spacing unit for that well.

9 Q. So I ask again, how does that nonparticipating
10 party, or that party that's in that nonparticipating area,
11 know that they've got a well ten feet from their line?

12 A. We do file -- With all of the working interest
13 owners in the federal unit, we have listings of those
14 parties that would like to receive copies of all of the
15 filings, the sundry notices and the APDs. They are
16 entitled to see all of those types of information. Some of
17 those parties have elected not to receive a complete packet
18 on all of that information, but the parties that have
19 elected to receive that, we do furnish them with all of
20 that information.

21 Q. So if I elected not to receive this, how would I
22 know a well is ten feet from my line?

23 A. Unless you were following through commercial
24 services or otherwise, Mr. Stogner, you wouldn't know that.

25 Q. So if the prudent operator in this instance

1 failed or didn't want to bring an adjoining acreage in, nor
2 were they unaware of it, could that lead to correlative-
3 rights violations?

4 A. Well, the opportunity is there to eliminate that.
5 The other parties do have the right to request that acreage
6 be brought in under geologic inference. And they also have
7 the right to propose the drilling of a well on that
8 adjoining acreage, which would allow them, if the well was
9 drilled and deemed commercial, would allow them to
10 participate in the production from that well and the other
11 wells that are in the participating area.

12 Q. Again, I ask that question. Wouldn't that
13 violate his correlative rights?

14 A. No, sir, not initially, I don't believe so,
15 because with the formations that we're dealing with here,
16 they're very tight, and he has ample opportunity, I
17 believe, to prevent any violation of correlative rights
18 from happening, because the drainage from these wells, you
19 know, is very slow. And I think that gives him sufficient
20 time to evaluate his position if -- and many times the
21 operator has a program -- For instance, if that well was
22 drilled and deemed commercial, then the operator many
23 times, or the working interest owner, is going to propose
24 another well to be drilled on that offset acreage.

25 Q. So you're proposing two wells within 20 feet of

1 each other?

2 A. No, sir, I don't think that they would have two
3 wells within 20 feet of each other, but I believe they
4 would propose a well on a drilling block at the optimum
5 location to recover the reserves there. And then it
6 becomes -- If the well is commercial, it becomes part of
7 the participating area.

8 Q. So we're getting into a situation here where
9 tracts, offset acreage and -- I'm sorry, setback
10 requirements are put in place to make sure that there's an
11 adequate pattern of development. I don't see how this kind
12 of freedom is going to ensure that kind of a pattern and
13 good engineering practices being established out in a pool.
14 Could you maybe talk about that a little bit?

15 A. Well, we've experienced some of those problems.
16 As we're drilling in a fairly mature basin, we have a lot
17 of wells already drilled out in the Basin, and the
18 remaining spots to drill and recover these reserves, we're
19 getting into areas where we have a lot of topographical and
20 archaeological concerns that causes us to move these wells
21 around quite a bit. And that was one of the reasons we
22 requested the flexibility in the Mesaverde Pool, so that we
23 would have the ability to locate these wells with regard to
24 those surface constraints.

25 And also with regard to the drainage patterns

1 that our studies are indicating to us that exist out there,
2 it gives us the opportunity to move them around to optimize
3 the remaining unrecovered reserves, especially for the --
4 When we're dealing with Mesaverde wells we have the
5 opportunity to come in and add the Dakota in those kind of
6 wellbores. And the Mesaverde tends to drive many of those
7 situations, because we don't develop the Dakota very much
8 on a stand-alone basis. It tends to get developed, for the
9 most part, in connection with Mesaverde wells that we'll be
10 drilling in the future.

11 Q. Do most of these exploratory units take in all
12 formations from the surface down?

13 A. Yes, sir, a vast majority of them are unitized
14 all the way down.

15 Q. In Exhibit Number 7, you had some tabs back here
16 that's talking about single, commingle or dual-completion
17 wells?

18 A. Yes, sir.

19 Q. How does this commingling play into what you're
20 trying to show in this exhibit?

21 A. I furnished this exhibit just to show the
22 activity that Burlington currently has underway, and a lot
23 of the other operators are also pursuing this type of
24 activity. We're drilling these wells as -- in the three
25 types, as single completions, and you will see some single

1 Dakota completions that we drilled. But you'll see a
2 majority of those are drilled either as dual completions or
3 as commingle completions, mainly with the Mesaverde
4 formation.

5 And we would like to match up -- in that regard,
6 we would like to match up with the Mesaverde setback rules,
7 so that we can eliminate or at least greatly reduce the
8 number of nonstandard locations that we would ask the
9 Division to approve.

10 Q. Okay, how about Pictured Cliffs formations? Now,
11 that's under the new statewide rules that require 660 from
12 the quarter-section line, essentially. That was what I'm
13 kind of leading up to.

14 Do most of these wells -- are they recompleted
15 uphole after the Basin Dakota or to include in downhole
16 commingling or dual completions the Pictured Cliffs
17 formation?

18 A. We haven't to date. I've visited with our
19 Pictured Cliffs teams this week, and we are going to
20 propose some Mesaverde PC commingles. And the way that it
21 looks like those are going to be developed is that they
22 would be -- the Mesaverde and the PC would be proposed for
23 commingle, and then initially dually completed with the
24 Dakota.

25 Or we would do the other thing, and we would do

1 that to get a baseline production on some of the wells to
2 get a better reservoir handle on them. Or in the instances
3 where we think we have sufficient information, we would
4 even propose to trimingle and include the Pictured Cliffs
5 with the three zones. I didn't list any in this one
6 because in 1999 we didn't do any of those types of wells.
7 But it will be very helpful that the PC is on 660s to
8 combine it with the Mesaverde formation, even if we don't
9 combine it with the Dakota formation.

10 Q. Well, wouldn't it still require a nonstandard
11 location application for the PC?

12 A. For 660s?

13 Q. Yes, 160s. 160-acre spacing for the PC --

14 A. Yes.

15 Q. -- if you dual-completed one of these wells
16 that's ten feet from a line, wouldn't that still require a
17 nonstandard location?

18 A. Yes, sir, it would, if it's ten feet.

19 Q. Or anywhere between the ten foot and the 660
20 line?

21 A. Yes, sir.

22 Q. And it's been established and being established
23 now that just because the deeper horizon is standard, it is
24 not a reason to drill a shallower zone at an unorthodox
25 location. We're beginning to see that, especially down in

1 the deep area, and we've seen it here too.

2 With that in mind, do you think operators -- And
3 this is not just a Burlington application, this is an
4 application to change all the rules in the Basin-Dakota
5 Pool. Having the deepest zone -- Essentially the Basin-
6 Dakota is one of the deeper horizons that produce; is that
7 correct --

8 A. Yes, sir.

9 Q. -- in the San Juan Basin?

10 A. It's the most prospective of the deeper horizons,
11 yes, sir.

12 Q. To ensure integrity of these rules and
13 regulations and make sure that we don't get any useless
14 nonstandard locations because somebody drilled to a deeper
15 horizon, perhaps the Basin-Dakota should mirror the
16 Pictured Cliffs as far as the offset from 660 from a
17 quarter-section line and do away with this exploratory
18 waiver in which you're requesting, exploratory-unit waiver,
19 to assure people or at least staying on some kind of a
20 pattern?

21 A. Perhaps, Mr. Examiner, but I think there are
22 remedies available inside a federal exploratory unit, and
23 it would give us some flexibility to match those
24 particularly with the Mesaverde. And we're not opposed to
25 filing for nonstandard locations in there, but we thought

1 it would be beneficial to both the operators and the
2 Division.

3 EXAMINER STOGNER: What's your next witness? Is
4 he a geologist or a reservoir engineer?

5 MR. KELLAHIN: I have a reservoir engineer, Mr.
6 Examiner, to talk about some of the reser- --

7 EXAMINER STOGNER: Explore --

8 MR. KELLAHIN: I'm sorry?

9 EXAMINER STOGNER: -- that aspect, drainage
10 aspect, with that particular, I'm sure that's what
11 you're --

12 MR. KELLAHIN: Yes, sir.

13 EXAMINER STOGNER: -- going to talk about.

14 Q. (By Examiner Stogner) Since the Blanco-Mesaverde
15 Pool rules have been adopted, how many geological-inference
16 adjoining tracts has Burlington requested be brought in on
17 these wells that were drilled ten feet from a line or
18 somewhere close to a line? How many within the Blanco-
19 Mesaverde? Or have you had the opportunity to do that?

20 A. I don't know that we've had the opportunity.
21 There's two differences there that you might be aware of.
22 In the -- what we call the township units -- for instance,
23 like the 28-and-7 Unit, the Mesaverde is not a geologic
24 inference formation; it's developed strictly on
25 drillblocks. So one drillblock is added at a time as each

1 well is drilled.

2 Now, in the named units you can, in fact, do
3 geologic inference on Mesaverde formation. But there is a
4 difference there.

5 Q. So we're already allowing this ten-foot -- being
6 ten foot within a proration unit line without any recourse
7 or ability for this geological inference to be included and
8 participating there in the Blanco-Mesaverde; is that what
9 I'm hearing?

10 A. Yes, sir, in some of the units.

11 Q. So we haven't seen any -- Obviously, we haven't
12 seen anybody object to their correlative rights being
13 violated?

14 A. No, sir, I have not.

15 Q. So this geologic inference that you told me about
16 is only available in those named unit areas?

17 A. No, sir, it's available in -- For the Dakota
18 formation, it's available in both of the types of units.
19 For the Mesaverde, it's available in one of the -- It's
20 available in the named units.

21 EXAMINER STOGNER: Mr. Stogner, I have no other
22 questions of Mr. Alan Alexander at this time, but I do
23 request you to bring him back on January the 6th --

24 MR. KELLAHIN: Yes, sir.

25 EXAMINER STOGNER: -- and so that way he can

1 enlighten me of what the pool rules are --

2 MR. KELLAHIN: Yes, sir, the pool boundary --

3 EXAMINER STOGNER: -- and I want to make sure
4 that he knows what a pool is.

5 MR. KELLAHIN: Yeah. The pool boundary, you
6 mean?

7 EXAMINER STOGNER: Yes, sir.

8 MR. KELLAHIN: Yes, sir. We'll be here.

9 EXAMINER STOGNER: I'm very disturbed that
10 Burlington has not exhibited that knowledge to me today.
11 But like I said, we'll go ahead and continue this case and
12 re-open it on January the 6th.

13 So next witness?

14 RALPH L. NELMS,

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

17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q. Mr. Nelms, for the record would you please state
20 your name and occupation?

21 A. My name is Ralph L. Nelms. My occupation is
22 petroleum engineer. I'm currently employed by Burlington
23 Resources in Farmington, New Mexico, as a senior reservoir
24 engineer.

25 Q. Mr. Nelms, you spell your last name N-e-l-m-s?

1 A. That is correct, sir.

2 Q. Have you testified on prior occasions before the
3 Division?

4 A. I have not.

5 Q. Summarize for us your education.

6 A. I have bachelor of science degrees in petroleum
7 engineering and mining engineering from Colorado School of
8 Mines. I have a master's of science degree in petroleum
9 engineering from Colorado School of Mines. I'm a
10 registered professional engineer in the State of Colorado.

11 Q. During the course of your profession, Mr. Nelms,
12 have you studied and analyzed the Dakota reservoir?

13 A. I have.

14 Q. Is that part of your current employment
15 responsibilities with Burlington?

16 A. It is.

17 Q. At my request, have you made a study of various
18 issues with regards to the Dakota formation?

19 A. I have.

20 MR. KELLAHIN: We tender Mr. Nelms as an expert
21 petroleum engineer, Mr. Stogner.

22 EXAMINER STOGNER: Mr. Nelms is so qualified.

23 Q. (By Mr. Kellahin) Mr. Nelms, I have asked you to
24 address some issues with regards to the potential impact of
25 the rule changes. And one of the things I asked you to

1 look at is to characterize for us some of the essential
2 components so that we could compare the Dakota to the
3 Mesaverde reservoir.

4 A. Correct.

5 Q. Before we get into that discussion, generally
6 describe for me what is the concept of your company with
7 regards to using the same wellbore to access both the
8 Mesaverde and the Dakota reservoirs.

9 A. We see a very strong economic opportunity to
10 develop the Dakota in areas where the Dakota reservoir is
11 marginal when we drill new Mesaverde wells. In areas where
12 the Dakota would not be justified economically as a stand-
13 alone well, we can justify developing those Dakota reserves
14 by adding them to an existing new Mesaverde well.

15 Q. Mr. Nelms, is it a fair characterization of the
16 Dakota in the San Juan Basin to say that except for limited
17 occasions you would not see a stand-alone Dakota well
18 drilled?

19 A. Most of the higher-permeability and higher-EUR
20 Dakota reserves have been drilled so far, so the majority
21 of the remaining Dakota potential is in this marginal area.

22 Q. One of the issues is whether or not the Mesaverde
23 footage rules should be the same as the Dakota footage
24 rules, and when you talk about reducing the Dakota footage
25 setbacks from 790 to 660, one of the issues is whether or

1 not there is enough similarity in the two reservoirs so
2 that there is not an adverse consequence in terms of
3 drainage or correlative rights?

4 A. Correct.

5 Q. In analyzing that issue, is there a standard that
6 you can describe for us in terms of reservoir permeability
7 that would give us an understanding of whether or not there
8 would be an effect if we changed the rules?

9 A. Exhibit 6 shows the average gas permeabilities in
10 the Blanco-Mesaverde Pool and the Basin-Dakota Pool. These
11 are average, representative permeabilities. The Mesaverde
12 formation has an average permeability of about .15
13 millidarcy to gas. The Dakota has an average permeability
14 of about .05. What this shows is that these both are tight
15 gas sand reservoirs, and they both have similar
16 permeabilities, and therefore their production performance
17 should also be similar in nature.

18 Q. If the rules have been changed, then, for the
19 Mesaverde, do you see any permeability distinction of
20 significance that would cause you not to change the Dakota
21 spacing rules to be equivalent to the Mesaverde?

22 A. I do not. Since both formations exhibit similar
23 permeabilities, the changing of the spacing rules should
24 not have an adverse or detrimental effect to the production
25 or the way the wells are produced.

1 Q. Can you generally characterize for us what kind

2 of initial rates and estimated ultimate recoveries that you
3 are experiencing for Dakota wells?

4 A. Initial rates on Dakota wells will come in as
5 high in some areas as a million a day. They'll rapidly
6 decline at 60-percent exponential rate down to a rate of
7 several hundred a day. At that point in time they'll
8 decline exponentially at a very low production rate, as low
9 as 4 to 5 percent exponentially, and that rate will
10 continue for 40 to 50 years.

11 Mesaverde, very similar. Our IPs on our
12 Mesaverde wells are sometimes as high as 700, 800. They
13 also will decline very quickly with a one- or two-year time
14 period, level off at a very low production rate of 150 or
15 200 a day. They'll then decline exponentially about 5
16 percent for very extended time periods, 40 to 50 years.

17 So both reservoirs exhibit these similar tight
18 gas sand production characteristics.

19 Q. Can you generally characterize for us the shape
20 of the drainage patterns that you see in the Mesaverde and
21 either compare or contrast that to what you see to be the
22 drainage shapes or configurations for the Dakota formation?

23 A. I think it's pretty generally accepted that the
24 Mesaverde drainage shape is elliptical, and this shape is
25 on a strike of approximately north 10 east. The Dakota

13

1 drainage shape is also elliptical, as the Mesaverde, and
2 oriented in this same north 10 east pattern. So both
3 reservoirs have similar permeability and also exhibit
4 similar-shaped drainage patterns.

5 Q. Let's turn to Exhibit Tab 8. I'm not going to
6 ask you to go through each of these displays, but I want
7 you to generally characterize what your point is in having
8 this information submitted under this exhibit.

9 A. Since we have the opportunity when we're going in
10 and drilling 80-acre Mesaverde infill wells to drill to
11 these marginal Dakota areas that have not been exploited,
12 the Exhibit 8 shows what our costs are to do a stand-alone
13 Dakota well.

14 There's a well presented in Exhibit 8 by the name
15 of the San Juan 30-and-6 Unit 128 A. This is a stand-alone
16 Dakota. The complete drilling cost for this well would be
17 \$608,000. In order to justify an expenditure of \$608,000,
18 we would need gas reserves of approximately 1.2 B's, to
19 make this an economic project.

20 Also in Exhibit 8 there's an example of a Dakota-
21 Mesaverde dual well, which is entitled the San Juan 27-5
22 Unit 83 M. The Mesaverde cost for this well would be
23 \$381,000, the Dakota cost would be \$310,000. Complete cost
24 for both zones would be \$682,000. As you can see, that
25 lower cost for the Dakota of \$310,000 enables us to exploit

1 reserves as low as 600 million, which would not be
2 economically feasible to drill as a stand-alone Dakota.

3 The final economic evaluation presented on the
4 Exhibit 8 is for a Mesaverde stand-alone well, that's the
5 Quinn 5 B. To do a Mesaverde by itself is approximately
6 \$500,000.

7 So what this shows is that by completing these
8 wells in both the Mesaverde and Dakota in the same
9 wellbore, we can recover those reserves from 600 million to
10 1.2 B's, which would have been waste because it would not
11 have been economically justifiable to develop those
12 reserves as a stand-alone Dakota.

13 Q. As a reservoir engineer, Mr. Nelms, who's studied
14 both of these pools and formations, do you recommend that
15 the Dakota well-location rules be similar to the Mesaverde
16 rules?

17 A. I do. I think that will present a strong
18 economic incentive to develop those marginal Dakota
19 reserves which now are uneconomic to develop and thereby
20 prevent waste.

21 MR. KELLAHIN: That concludes my examination of
22 Mr. Nelms, Mr. Stogner.

23 We move the introduction of his Exhibits 6 and 8.

24 EXAMINER STOGNER: Exhibits 6 and 8 will be
25 admitted into evidence.

EXAMINATION

1
2 BY EXAMINER STOGNER:

3 Q. Your Exhibit Number 6, those permeability
4 figures, are they *in situ*, or are you getting these from
5 some core tests in the laboratory, or --

6 A. The values used for the Mesaverde were the same
7 values presented in the 80-acre Mesaverde infill
8 application, and there's also a second page in Exhibit 6,
9 which is taken directly from that application. Those
10 permeabilities would be *in situ* effective permeability to
11 gas.

12 Q. How about for the Dakota?

13 A. Those numbers are taken from pressure tests and
14 buildup tests we've conducted and also from analysis of
15 core data that we completed, and I believe that those are
16 also *in situ* effective permeability to gas.

17 EXAMINER STOGNER: I don't have any other
18 questions, Mr. Kellahin.

19 Does anybody else have any other questions of
20 this witness?

21 MR. KELLAHIN: No, sir, that concludes our
22 presentation.

23 THE WITNESS: Thank you, sir.

24 EXAMINER STOGNER: Mr. Kellahin, since we're re-
25 opening in January --

1 MR. KELLAHIN: Yes, sir.

2 EXAMINER STOGNER: -- this discussion that we've
3 had about the participating areas and this geological
4 inference, there's been a lot of data, and there's really
5 nothing written down.

6 Could you provide me a brief between now and
7 then, or at the January 6th, discussing -- We can even use
8 the Blanco-Mesaverde, because it's already instituted,
9 perhaps what we've already seen out there about the
10 correlative rights in these participating areas, or outside
11 of these participating areas. Is it adequate enough to
12 protect those parties?

13 And Mr. Alexander brought up -- in fact, he
14 inferred to a lot of -- it gives them an opportunity to
15 protect themselves and drill another well. Of course,
16 that's the whole idea of correlative rights and the
17 development of patterns, is to alleviate the need in that.
18 I'd like to see something within the record in this matter
19 that discusses in detail these participating areas.

20 I'm not as familiar with the federal exploratory
21 units as I am the previous case that we had today about
22 state exploratory areas down in the southeast, so that
23 might help enlighten me. Also, I think it would make a
24 complete record in this instance, should, in the future, we
25 have a problem with correlative rights, that will be clear

1 on the record.

2 MR. KELLAHIN: Yes, sir.

3 EXAMINER STOGNER: That would help make sure that
4 we've covered this issue in detail, and it would also, if
5 this comes up in the future, to whatever court case, some
6 kind of -- or if there's a discussion about this, at least
7 we'll have it in detail.

8 Perhaps we should have done that more so in the
9 Blanco-Mesaverde area. I'd have to look at my records on
10 that. I just wasn't aware that those numbered units out
11 there had the provision for that, or didn't have the
12 provision for it. But now we've got an actual laboratory
13 going on out there in this particular instance.

14 So could you provide that to me --

15 MR. KELLAHIN: Yes, sir.

16 EXAMINER STOGNER: -- on the January 6th?

17 MR. KELLAHIN: We'd be happy to do that.

18 EXAMINER STOGNER: At that time I'd also like you
19 to provide me a rough draft order. And in looking at what
20 you have proposed in your Application, I know we have put
21 this in the general rules down in the deep-gas area of
22 southeast New Mexico, about any density variations would
23 require a hearing in those instances.

24 Now, in this particular instance, in your
25 Application, I didn't see where that occurred. And I think

1 in the past we have seen where the Blanco-Mesaverde and
2 Basin-Dakota, back in the years previous, where the
3 original intent was to have two wells. But then we have
4 proration units where three and four wells snuck in, where
5 I don't think that was the original intent, but they got
6 started and we had to verify those at one time.

7 So perhaps something should be -- I think
8 something should be included. At least that's what I'd
9 like to have in my rough draft, something that makes that
10 very clear, that at this time we're only limiting it to one
11 well in each quarter section. If there's any of those that
12 exist out there, they'll naturally grandfather in. But I
13 think that needs to be clear and verified. And I'm afraid
14 if we don't include that in there, then it will be
15 interpreted in the future that, oh, it's okay because the
16 rules are silent on that, until such time as perhaps in the
17 future we'll have this 80-acre infill established in the
18 Basin-Dakota.

19 MR. KELLAHIN: You may remember, that's part of
20 the Conoco study for that pilot project in the Dakota. It
21 certainly is not our intent to increase well density in a
22 Dakota spacing unit with this Application, Mr. Stogner, and
23 we'll make that very clear in the proposed order.

24 EXAMINER STOGNER: Okay. But I think we're on
25 the road to that.

1 MR. KELLAHIN: All right, sir.

2 EXAMINER STOGNER: With that, then this case will
3 be continued to the January 6th -- That's the year 2000.
4 This is my last hearing of the millennium.

5 Okay, let's take a 15-minute recess at this time.

6 (Thereupon, these proceedings were concluded at
7 10:10 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12290
heard by me on 15 Nov 1999.
Michael E. Stogner, Examiner
Oil Conservation Division

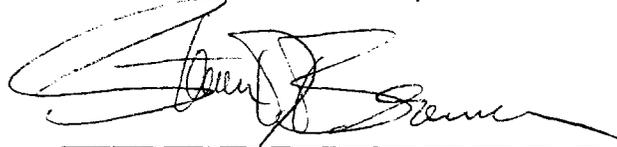
CERTIFICATE OF REPORTER

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 November 24th, 1999.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002