STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:	)	CASE NO. 12,381
APPLICATION OF DAVID H. ARRINGTON OIL AND GAS, INC., FOR AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO	)	ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 4th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 4th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

May 4th, 2000
Examiner Hearing
CASE NO. 12,381

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By: J. SCOTT HALL

* * *

WHEREUPON, the following proceedings were had at 4:52 p.m.:

EXAMINER CATANACH: At this time we'll call Case 12,381, the Application of David H. Arrington Oil and Gas, Inc., for an unorthodox gas well location, Lea County, New Mexico.

Call for appearances in this case.

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

EXAMINER CATANACH: Additional appearances?

MR. HALL: Scott Hall, Miller Stratvert Torgerson, Santa Fe, appearing on behalf of Merit Energy Company and Permian Resources, Inc., with one witness.

EXAMINER CATANACH: Will the witnesses please stand to be sworn in?

(Thereupon, the witnesses were sworn.)

DALE DOUGLAS,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. Dale Douglas.

Q. What is your occupation?

A. I'm a petroleum landman.

Q. What is your relationship to Arrington in this case?

A. I perform contract land services for Arrington.

Q. Have you previously testified before the Division?

A. Yes, sir.

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

A. Yes, sir.

Q. And are you familiar with the land matters involved in this case?

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I tender Mr. Douglas as an expert petroleum landman.

EXAMINER CATANACH: Any objection?

MR. HALL: No objection.

EXAMINER CATANACH: Mr. Douglas is so qualified.

Q. (By Mr. Bruce) Mr. Douglas, could you briefly identify Exhibit 1 and tell the Examiner the location of the well we're seeking approval for?

A. Yes, sir, Exhibit 1 is a land plat which depicts the area of where the property is located. It's in Township 16 South, 35 East. The colored tract, being the east half of 14, is the proposed 320-acre unit for this

well, which is proposed to be drilled at a location 330 feet out of the northeast corner.

Q. Okay. Now, Yates is the offset to the north, is it not?

A. That's correct.

Q. And they have an unorthodox well in the southeast southeast of Section 11 which our next witness will discuss; is that correct?

A. That's correct.

Q. What is Exhibit 2 and how does it relate to this case?

A. Exhibit 2 is a copy of a letter, a stipulation and waiver of objection, that Arrington entered into with Yates regarding the drilling of their well, which is at a mirror location to the one proposed by Arrington.

Q. And it provides that, what, Arrington waived objection, and in return Yates will not object to this location, and it provides for penalties; is that correct?

A. That's correct.

Q. In combination with Exhibit 1, does Exhibit 3 list the offset operators or lessees to your proposed well?

A. Yes, it does.

Q. One thing for the Examiner, Section 13 listed as Merit Energy Company, Permian Resources, our opponent here today, is acquiring Merit's interest, to the best of your

knowledge?

A. That's our understanding.

Q. Was notice of this Application given to all of the offset interest owners?

A. Yes, sir, it was.

Q. And is Exhibit 4 my affidavit of notice?

A. Yes, it is.

Q. And what is Exhibit 5?

A. Exhibit 5 is a waiver letter that we obtained from Chesapeake Operating.

Q. One of the offsets?

A. One of the offsetting operators, which waives objection to this proposed location.

Q. And then one final question, what is the -- This well is being drilled up into the Mississippian, I believe?

A. It is Mississippian, yes.

Q. Okay.

A. 12,700 feet.

Q. Okay. I believe that's it for Mr. Douglas.

Mr. Douglas, were Exhibits 1 through 5 prepared by you, under your direction or compiled from Arrington company business records?

A. Yes, they were.

Q. And in your opinion, is the granting of this Application in the interests of conservation and the

prevention of waste?

A. Yes, sir, it is.

MR. BRUCE: Mr. Examiner, I tender the admission of Exhibits 1 through 5.

MR. HALL: No objection.

EXAMINER CATANACH: Exhibits 1 through 5 will be admitted as evidence.

Mr. Hall?

CROSS-EXAMINATION

BY MR. HALL:

Q. Mr. Douglas, to your knowledge is there any surface obstruction or topographical consideration that prevents the drilling of this well at a standard location?

A. From the surface standpoint, none to my knowledge.

Q. Is there any other special circumstance that, in your view, justifies the unorthodox location?

A. Yes, it's based on geological and geophysical evidence.

Q. Purely geological, then; is that correct?

A. And geophysical, yes.

MR. HALL: Nothing further.

EXAMINATION

BY EXAMINER CATANACH:

Q. This is a mirror to a Yates well in Section 11;

is that correct?

A. That is correct.

Q. And that well has been penalized?

A. Yes, it has, it's been penalized by one-half, which was the percentage of encroachment to the lease line.

Q. Fifty-percent penalty, okay.

Do you know if Sections 12 and 13 -- are there any Mississippian wells in those sections that you know of?

A. Sections 12 -- I defer that to the geologist. Not that I'm aware of.

Q. Okay. Has anyone else that was notified of this Application expressed any concern about the location to you?

A. No, sir.

Q. Now, you show on your land exhibit, Section 13, the Merit Energy Company; is that the entire section?

A. Yes, Merit Energy is the operator of Section 13.

EXAMINER CATANACH: Okay, that's all I have.

MR. BRUCE: Mr. Examiner, I will state for the record, I looked at the well files in Section 12. I believe in the southwest quarter there was a Morrow well drilled that was plugged back to the Strawn, I believe, in the east half of 12.

JOHN R. McRAE,

the witness herein, after having been first duly sworn upon

his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Please state your name and city of residence.

A. John McRae, Midland, Texas.

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

A. I work for Arrington Oil and Gas. I'm the exploration manager of the west district.

Q. Have you previously testified before the Division?

A. Yes.

Q. As a geologist?

A. Yes.

Q. Were your credentials as an expert accepted as a matter of record?

A. Yes.

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

A. Yes.

Q. In fact, with the geology in this West Lovington Townsend area?

A. Very well.

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

MR. HALL: No objection.

EXAMINER CATANACH: Mr. McRae is considered qualified.

Q. (By Mr. Bruce) Mr. McRae, could you move on to your Exhibit 6 and discuss the reason for the proposed well location and a little bit of the Morrow geology in this area?

A. Exhibit 6 is a structure map on top of the Morrow lime. It shows our proposed location in the northeast northeast of Section 14. It's a mirror location to the Yates well, located in the southeast southeast of Section 11.

As you can see on the structure map, there's a high ridge that runs east-west through Section 14. As you go to the north and approach our location, there is a structural low.

Then you cross and east-west-trending fault and go downthrown in Section 11. There's two prominent structural features in Section 11. There's a north-south-trending low approximately in the center part of that section, left of that north-south fault. Then there is also another low in the southeast corner of that section.

The Yates well, located in the southeast southeast of Section 11, was an old well that was re-entered and deepened, and they encountered a Morrow sand at the very base of the Morrow section, right on the

Mississippian unconformity.

Because of the penalty imposed on that particular location, they backed up -- set a plug and backed up and did a sidetrack to the northwest. And when they encountered that unconformity of the basal Morrow section, there was no sand, essentially no sand.

Q. So that was at an orthodox bottomhole location?

A. Yes, yes. That well was plugged back, and the original well was then re-entered, deepened back to the original location at 330 from the corner, to produce the sand that was found at the basal Morrow section.

Q. What is the status of that well at this time, to the best of your knowledge?

A. That well has been completed, and personal communication with Yates Petroleum, the well was frac'd either yesterday or today. So they are proceeding ahead to complete and produce that well.

Q. Okay, let's move -- Go ahead.

A. Okay, the only other comment, I just wanted to point out, is that that well is located in that low in the southeast corner of Section 11.

Q. In this area, do you want to drill the structural lows?

A. Yes. What we found is that there's been numerous periods of movement along these faults, and on top of the

Mississippian unconformity or the basal part of the Morrow section, there has been sand deposited in these structural lows, and several wells in the past 12 months have been drilled specifically for these lows.

Q. In what? Sections 10, 11 and to the north of there; is that correct?

A. Yes, that's correct.

Q. And when you're in the high area you don't get as good a well, or you don't make a well at all?

A. That's true.

Q. Let's move on to your Exhibit 7. What is that?

A. Exhibit 7 is an isopach of the Austin Morrow pay. It's the sand at the basal part of the Morrow section, lying right on top of the Mississippian unconformity.

As you can see, the Yates well had a sand thickness of 21 feet. The sidetrack had two feet. And we'll look at a cross-section in a minute, another exhibit. If you use a 10-percent cutoff for the sand value, the sidetracked well had no sand, no pay, zero. And that sand thickness lays along and on the downthrown side of that east-west-trending fault.

Also in Section 14, in the northwest northwest corner, Arrington Oil and Gas drilled a well for a Strawn anomaly. We took it deep, and we encountered seven feet of sand at the basal part of the Morrow section, lying

directly on top of the Mississippian. That well is currently completed, and we're producing half a million a day from that particular zone. Again, the sand is lying right against the fault on the downthrown side.

Q. Even at your proposed location the sand looks pretty thin?

A. That's correct.

Q. Very high-risk project?

A. Well, the Yates sidetracked, moved north and was also in the low and has no sand. So there is substantial risk that there may be very thin or tight sand, or no sand, at that location.

Q. But certainly moving to the south you will get nothing at all?

A. You cross the fault, the entire section thins, and we will see that on the seismic lines that will be shown in a minute. The entire section thins, and the risk is significantly higher that there will be no sand.

Q. Let's move on to your cross-section, Exhibit 8, and could you explain that for the Examiner?

A. This is a cross-section, A-A'. It's a stratigraphic cross-section hung on top of the Morrow limestone, which is the contour horizon for Exhibit 6.

The map is not clear as to where this cross-section goes, so let's start with the center well, which is

the Yates Number 1 Burns "ATL". It's located 330-300 from the corner, southeast corner, of Section 11. And as you can see, that well encountered 21 feet of sand at the basal part of the Morrow, right on top of the Mississippian unconformity.

The sidetracked well, which was drilled in a northwest direction from this Burns Number 1 well, is the well on the left side of the cross-section, and you can see that using a 10-percent cutoff there is no pay. There is just a slight hint of sand in that well at the same location as the Austin pay in the original vertical Burns well.

Our location is located on the right side of the cross-section, and we're drilling at a 330 location so that we will be downthrown and also in the same fault block as the Burns well.

The top of the cross-section, we have the distances. The center well is the R.L. Burns Number 1, the sidetrack was 330 feet to the northwest. The section line is 330 feet to the south of the Burns well, and our location is 330 from the section line, also to the south.

Q. Let's move on to your final exhibit, Mr. McRae. It's got several things on it. Why don't you describe what it is for the Examiner and then maybe go from picture to picture and tell him what it shows.

A. All right, Exhibit 9 is a montage taken right from our 3-D seismic. And I didn't mention before that all of these exhibits are based on our 3-D seismic, and we've pulled out two arbitrary lines here, a time map and just a base map to show the location of the lines.

Let's start in the lower right-hand corner with the time structure, also on top of the Morrow Lime, which is the contour horizon on Exhibit 6, and the marker that's highlighted in blue on the cross-section, which is Exhibit 8.

On this time map, the color code, purple is the deepest, lowest portion of the map, and the yellow is the highest. The white shows the location of the faults, and our geophysicist went through and interpreted each line, north-south, east-west, and arb lines northeast-southwest and northwest-southeast, in an effort to, as accurately as possible, map the location of these faults.

The reason the faults are kind of stairstepped, it's the pixel width of the resolution.

Let's look at cross-line 153, which is in the upper left-hand corner of the montage. That seismic line is a north-south line that goes right through the Yates vertical well, across the section line through our proposed location and shows the location of the fault.

The red line, which is labeled on the right-hand

side, Morrow lime, that's the location of the Morrow lime, based on a synthetic end of Yates' Burns well.

It's very difficult to see, but immediately below the red line, which is the Morrow lime, the next peak down is a blue line, and that represents the top of the Mississippian unconformity.

Q. Is what you're talking about between the red line at 1.600 and then -- in between that line and the green line?

A. Yes.

Q. Okay.

A. On the left-hand side, you can see that there's a well developed trough below the Morrow lime, and then you go into the Austin, which is a peak, and also designated by a blue marker. The location of the fault is marked by the heavy dark line.

And then you go upthrown, and you can notice that the interval from the Morrow lime to the top of the Austin thins significantly, showing that the entire Morrow section is thinned on the upthrown side of that fault.

This seismic line also shows the section line in red. It shows the Yates-Burns location, labeled 1-ATL, and it shows our location 330 off the line and immediately downthrown to that fault, labeled 7-14.

The other arbitrary line that we have displayed

is one that goes through the Yates vertical well, the Yates sidetrack, and through the extreme southeast corner of Section 11 and going into and through the location -- or let's put it this way, a mirror location in the northwest northwest of Section 13.

We've highlighted the Burns vertical well, the black line. It's labeled 1-ATL. We've also located the location of the sidetrack, and that is labeled ATLsdtrk.

As you can see, there's essentially no difference on the Austin horizon, which is the blue line, and that would be about 1.63 seconds -- between the vertical well and the sidetracked well. We cannot see these sands on the seismic. All we can do is say, we're low or we're high, we're downthrown, we're upthrown, and we can pick the location of the faults.

As you go further to the right, you'll see the section line again in red, and approximately one trace southwest of the section line -- I'm sorry, southeast of the section line, you go upthrown onto that south fault block.

Q. Based on the seismic, is the location 330 feet from the north line the only way you can be on the downthrown side of this fault?

A. Yes, that's true. Even where we have picked the fault on the cross-line 153 is risky. Some geophysicists

would even pick it further north than where we have. This is a high-risk location. There's a very good chance we may end up being upthrown. But we see enough reason to show that we will be downthrown and have potential to be in the same sand that Yates is producing from, that we're willing to drill the well.

Q. And again, in order for that Morrow sand to accumulate, you have to be in a structural low?

A. You have to be on the downthrown side of that fault, yes.

Q. Okay. In your opinion, is the granting of this Application the only reasonable opportunity for Arrington to have a reasonable chance of drilling a commercial well in this acreage?

A. Yes.

Q. In your opinion, is the granting of this Application in the interest of conservation and the prevention of waste?

A. Yes.

Q. On your exhibits, Mr. McRae, I notice Bill Baker's name. Is he a geologist at Arrington?

A. Right, we have two geologists, Bill Baker and myself. Bill prepared these exhibits, along with Lou Lint, our geophysicist. I was involved in the process all along. His daughter had surgery today, and he was not able to be

here, so I'm here representing Arrington. I've been very involved in this entire area, and I was involved in the preparation of these exhibits.

Q. And you have reviewed all the data?

A. Yes.

Q. And you agree with their interpretation?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Arrington Exhibits 6 through 9.

MR. BRUCE: No objection.

EXAMINER CATANACH: Exhibits 6 through 9 will be admitted as evidence.

Mr. Hall?

CROSS-EXAMINATION

BY MR. HALL:

Q. Mr. McRae, so the record is clear on the circumstances here, unlike the Yates well, this is a new drill, correct?

A. Yes, that's correct.

Q. So you don't have that special circumstance where you're re-entering a previously drilled well, and it's a different set of economic circumstances that are involved?

A. That's correct.

Q. And I understand you to say that you're not basing your interpretation from any data from the Yates

well, that's simply unavailable at this point, correct?

A. No, that's not. We have access to all of the Yates data. We're in that well, we have a small percentage of that well.

Q. Is there any production data yet?

A. No, they have just -- They completed the well, perforated the well several weeks ago at the rates that I was told were about 300 MCF a day. They had good bottomhole pressure, they were waiting on a frac, communication with Yates today. They either frac'd the well yesterday or today, and he hadn't heard.

Q. Now, you said it's your hope, based upon your seismic interpretation, that you are seeking to drill on the down side of the fault?

A. That's correct.

Q. And from your seismic you can't really tell, as I understood you to say, the direction of the throw on the fault; is that --

A. Oh, you can tell the direction, it's up to the south, down to the north.

Q. Can you tell the amount of the throw from your seismic?

A. You can take time velocities and convert it to an amount of throw. I don't know what that is. Our geophysicist didn't do that.

Q. Yeah, that's not been done here. Can you determine whether or not the fault is a sealing fault for this location?

A. Our interpretation is that the sand exists on the downthrown side of the fault and does not exist on the upthrown side. So the fault really has not bearing as to sealing or not sealing. We know the trap is there. The Yates well is productive from it.

Whether the fault seals it is really not the question. There's a trap there, and we want to drain our fair share.

Q. I understood you to say -- You're talking now about basically a 20-foot Morrow sand section here?

A. That's what's present in the Yates well.

Q. And I understand you to say that you can't really see that with the seismic you have?

A. No.

Q. And therefore this location is risky?

A. That's correct.

Q. Is it any more or less risky than a location at a standard location?

A. It is much more risky, because you'll be upthrown and there's numerous well control, primarily up in Section 3 of this township, to show that when you're high the sand is nonexistent or very, very thin, and in the low the sand

is thicker.

This is an unconformity. The sands were deposited on an erosional surface, and they tend to be deposited in lows.

Q. On your Exhibit 9, your cross-line 153 there, where you've attempted to locate the fault, now, is that your location or the geophysicist's?

A. This is Lou Lint, our geophysicist's, location. But I'm in agreement as to where it should be placed. And this is one line, cross-line 153 -- as you can see, we -- Let's see. Look at the time map. There are multiple lines back to the west where we see the same fault placement.

Q. Well, explain to me how this ought to be read if your wellbore is the heavy black line. That's your proposed location, correct?

A. Which exhibit are you looking at?

Q. Exhibit 153,

A. Cross-line 153 on Exhibit 9.

Q. Yes.

A. Our location is -- At the very top, see where it says 7-14?

Q. Correct.

A. And then right below it is a blue line.

Q. Yes.

A. That is the location of our wellbore. The heavy

black line immediately to the right of that is the location of the fault.

Q. And is there any reason, based on this cross-line, why that fault line isn't located even further north, based on the data displayed on that cross-line?

A. The criteria I use, and that Lou uses, we map the peaks and the troughs that we are very clear on. And if you'll start on the left side of that cross-section, let's go down to the Chester top, which is the green line, the green pick. You can see that all the way through the Yates well, through the section line, and right up to where we have our location picked, the reflection on the Chester is very strong and clear.

Then there's a couple traces right where our wellbore is going to be, where that Chester is not clear. But starting where the fault is located and further back to the right, the Chester is a very strong, very clean pick. The fault zone is right there in that area where the two traces are very dim.

Q. So is it --

A. Our interpretation of the location of the fault is based on this line, numerous other lines, arbitrary lines through the 3-D data set, and this is the best interpretation that we see as to where the fault is actually located.

It is our hope that the sand might be even thicker right along the downthrown side of that fault in that dead zone. We've seen that other places. So it's possible that the sand might be thicker there, and that's why we're drilling in that particular spot.

But as far as the location of the fault, I can give you a zone -- and that's what Lou has done on this map, the time map, and the little white spot is basically that dead zone where we think the fault is located. But we can't pick it exactly. That's why this is a risky location.

Q. Isn't it accurate to say, then, that it's equally probable that the fault could be located north of your proposed wellbore location, based on these traces?

A. I would say that the fault zone, however wide that is, will vary somewhere through that dead zone.

Q. That was my next question. When you're speaking of zone, how large an area are you talking about? Can you say?

A. I have seen many, many field outcrops. I've seen faults basically the width of a knife blade, and I've seen fault zones, you know, a few hundred feet thick, numerous faults -- That's why I call it a fault zone. Those are the areas of weakness areas that are easily eroded, and those are areas where sand generally is deposited.

We are in the fault zone on the downthrown side, according to our interpretation, and that's where we think the sand will be.

We do not want to be on the upthrown side, because the sands generally do not exist on the upthrown side.

Q. Look at your Exhibit 8 in that regard. If you look at the Austin Morrow pay section you've shown there, what is the basis for it to be shown as thinning to the south, toward the section line?

A. Good question. I don't know why Bill did that. We know the sands thicken and thin. It could be thicker, it could be thinner than that. We don't know. We know the sand -- The probability of finding sand is much higher on the downthrown side of the fault than the upthrown side. Yates has a 330 location, and it has sand, nice, thick sand, and 330 is the only location that we can use to protect our correlative rights, and also, we're just barely on the downthrown side of the fault.

Q. Looking at your Exhibit 6, the well in the southwest quarter there, is that an Atoka well or a Morrow?

A. South -- I'm not sure --

Q. Southwest of 14.

A. The southwest southwest of 14?

Q. It looks like it's in the northeast southwest.

A. Northeast southwest. That well penetrated the Morrow lime, did not penetrate the Morrow Austin zone. The one that's colored red?

Q. Yes, sir.

A. Yes, it topped the Morrow lime and quit at that point, and they did not go deep enough to test this particular zone.

Q. You testified briefly that you thought your location was necessary to protect your correlative rights, and I assume you mean from drainage by the Yates well in Section 11?

A. That's correct.

Q. You don't have enough information on hand, today anyway, to say with any certainty that that well will be draining across the section line?

A. We feel that the sand -- if the sand is present at our location at the top of the Mississippian, there is a very high probability that we'll be in communication with the Yates well.

Q. If there is producible sand to the south of the fault line as you've drawn it, will the fault protect you from drainage?

A. Would you repeat that question, please?

Q. If there is a producible Morrow sand section south of the fault line where you've drawn it there --

A. South of the fault line?

Q. Yes, sir.

A. We don't want to drill south of the fault line.

Q. Well, follow my question, though.

A. Okay.

Q. Assuming that you could get a commercial well in a Morrow section south of that fault line, would that production be protected from drainage by the fault?

A. No, because we think the fault cuts up into the Morrow lime section -- I mean the Morrow section, somewhere up into the Morrow. How far up, I'm not sure.

Our geophysicist has drawn the fault cut up above the Morrow lime. I'm not sure if that's based on a very detailed interpretation to time the fault, but it certainly cuts above the Austin, the unconformity.

Q. Is Arrington willing to produce the underlying raw seismic data and interpretation to Permian for further evaluation?

A. That's a management decision that would have to be made by Mr. Arrington, and I'm not at liberty to make that decision.

MR. HALL: Mr. Examiner, we would say that we are entitled under Rule 705, New Mexico Rules of Evidence, to such data, so that we can have an opportunity to evaluate that data and conduct further examination of the geologic

and geophysical witnesses.

MR. BRUCE: Mr. Examiner, I think the Division has ruled in the past that that's confidential and privileged information, that it will not order to turn over.

MR. HALL: I think the rulings in the past have been where a witness testifies that a well location is based solely on seismic, as it is here, and that's the reason for the pick, then they are obliged to disclose their underlying data, particularly where they're basing expert opinion testimony on it.

MR. BRUCE: This is not based solely on seismic. There is the Yates well, there are other wells on this map.

THE WITNESS: We have provided arbitrary line seismic 1 to do that very thing, to show where we see the fault and how it pertains to Section 13.

EXAMINER CATANACH: Exactly what data are you requesting, Mr. Hall?

MR. HALL: We'd like the raw data from the shoots for all of the lines that they're basing their testimony on today, and their process data and any interpretation that is the basis of their testimony here today.

EXAMINER CATANACH: What seismic lines are the basis of your testimony here today?

THE WITNESS: Cross-line 153 and arbitrary line

number 1, as we've presented.

MR. BRUCE: Mr. Examiner, Arrington went to cost to acquire this, as I said, it's been privileged and confidential, and we believe that at a West Lovington-Strawn hearing Mr. Hall himself went to District Court to fight turning over such data to the parties, and I believe -- I don't know what the final resolution was, but the data was never turned over.

MR. HALL: Confidentiality is not a problem. I'm willing to craft a confidentiality agreement, and I think we can limit the data to the northeast corner of Section 14, northeast quarter.

MR. BRUCE: Mr. Examiner, there's enough data for them to look at here today and for you to make a decision. They're just trying to get free data. We would object to turning it over.

THE WITNESS: I might point out that the base map located in the lower left-hand corner of Exhibit 9 is our base map and has our cross-lines and -- all noted as to exactly where the location of these wells are, and they're free to have a geophysicist independently interpret this data. I mean, we have all our shot points noted. So we've basically provided seismic right here.

EXAMINER CATANACH: I'm sorry, Mr. McRae, are you saying that they have all the data they need to make their

own interpretation?

THE WITNESS: Yes, I am. Base map, shot points labeled and two seismic lines fully labeled as to the locations. So...

I didn't mention that about the base map, that we have a base map provided right here.

EXAMINER CATANACH: I think I'm going to deny the request, Mr. Hall, for that data.

MR. HALL: I have no further questions of this witness.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. McRae, have you -- Is Arrington proposing any kind of production penalty on this well?

MR. BRUCE: Mr. Examiner, it would be in accordance with Exhibit 2.

THE WITNESS: I would prefer to defer that to our landman or Jim Bruce.

MR. BRUCE: It does provide for a footage-based penalty. So for instance, if the bottomhole location is 330 feet, there would be a 50-percent penalty on the well's ability to produce.

EXAMINER CATANACH: So it's the same penalty that's applied to the Yates well?

MR. BRUCE: Yes, sir.

EXAMINER CATANACH: Fifty percent production penalty, based on the well's ability to produce?

MR. BRUCE: Which is why Yates drilled the lateral portion on its well, to try to avoid that penalty.

EXAMINER CATANACH: Okay, I have no further questions of this witness.

MR. BRUCE: I have nothing further in this matter.

ROBERT MARSHALL,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, please state your name.

A. Robert Marshall.

Q. Mr. Marshall, where do you live and by whom are you employed?

A. I live in Midland, Texas, and I'm an owner in Permian Resources, Inc.

Q. And what is your professional background?

A. I'm a geologist by education.

Q. Have you previously testified before the OCD in New Mexico?

A. No, I have not.

Q. Would you please give the Hearing Examiner a

brief summary of your educational background and work experience?

A. I have approximately 28 years of work experience. I graduated from Tulane University in 1972 with a bachelor degree, graduated in 1974 from the University of New Orleans with a master's degree, both in geology.

Q. And are you familiar with the geology in the area of the subject lands in this Application?

A. Yes, I am.

Q. And you're familiar with the proposed well location; is that correct?

A. Yes, I am.

Q. You conducted a geological study of the proposed location?

A. Yes.

MR. HALL: At this time, Mr. Examiner, we tender Mr. Marshall as a qualified petroleum land geologist.

MR. BRUCE: No objection.

EXAMINER CATANACH: Mr. Marshall is so qualified.

Q. (By Mr. Hall) Mr. Marshall, why does Permian and Merit oppose the Arrington Application?

A. First of all, Merit originally approved any 330 exception last year because the -- it was an administrative overview on their part because they were in the process of selling all their production, and we are in the process of

acquiring that production.

Permian objects to the 330 exception because we are afraid of any type of drainage which might occur to our correlative rights.

Q. Is it your opinion that there are economic reserves that may be recovered by Arrington's well at a standard drilling location within the drilling window?

A. Yes, it is.

Q. Let's look at what has been marked as Permian Exhibit 1, please, sir, if you would take that in front of you, and what does that exhibit entail?

A. This is a subsurface map of the Atoka section, which sits on top of the Morrow.

Q. And what does this exhibit show?

A. It just shows a gentle northeast nose.

Q. Does exhibit establish that there are drillable locations within the standard drilling window in Section 14?

A. If we're going for the Atoka, yes.

Q. All right, let's look at Exhibit 2. Would you identify that, please, sir?

A. That's a Morrow sand isopach map.

Q. Now, does Exhibit 2 demonstrate the existence of drillable Morrow locations within the standard drilling window for Section 14?

A. In my opinion, yes.

Q. If you would look at the Arrington Exhibit 6 and compare that with your Exhibit 2, please, sir, can you explain the difference in interpretation?

A. Well, my -- His 6 with my 2? They're two different maps. One is a structure map on the top of the Morrow lime, showing an east-west fault down to the north, and my map is just an isopach of the gross sand thickness of the Morrow sand.

Q. Now let's look at Arrington Exhibit 7. Would you compare that with your Exhibit 2?

A. Okay. Now, this is comparing like things now. I did not have -- You have to realize, I did not have the Yates well, which was re-entered, but I came pretty close to it, I think, on my mapping.

I personally think that there are -- these channels are north-south-aligned channels, can be some northeast-northwest alignment. I talked to other geologists who had expressed the same thing. I think that there is a channel that runs in from the northeast.

He shows some sand coming in from the east on his Exhibit 7, in the south half of that Section 12. I show it coming in from the northeast, wrapping around to the production that's in the southwest quarter, which I call Morrow sand. I believe John calls that Atoka -- or

Brunson, yeah, Brunson-Atoka producer. But laying the lots down side by side, they appear to be the same sands.

Q. All right. Do you agree with Mr. McRae's testimony that seismic is not a reliable way to detect Morrow sands of this particular thinness?

A. Well, I agree you can't identify the sands on the seismic section, that's correct.

Q. How do the Morrow sands --

A. Not in this area. You can do it down in Eddy County very easily.

Q. Let's look at Exhibit 3, if you would identify that, please sir.

A. This is a Mississippian structure map, just drawn with available subsurface data, and it shows some north dip, basically, across the questioned acreage. I did not have access to any seismic data when I drew these maps.

Q. I understand. Does Exhibit 3 tend to demonstrate the existence of drillable within the standard drilling window for the west half of Section 14?

A. I think it does, combined with the isopach map of the Morrow sand.

Q. Mr. Marshall, have you had an opportunity to review the structure map and the isopach and seismic exhibits that were utilized in Case Number 12,291, which was the Application for the Yates well in Section 11?

A. Yes, I have.

Q. Let me hand you what's marked Exhibits 4, 5 and 6 from that case.

MR. BRUCE: What are they from, Scott?

MR. HALL: The Yates Application. Let me see if there's another copy in here, Jim.

Q. (By Mr. Hall) Would you review those exhibits for the Hearing Examiner? Bear in mind, he doesn't have a copy, so if you'd like to get up and show those in front of him, feel free to do so.

A. I assume it was Yates Petroleum's consultant or a third party did these. We just located these just recently. But they are a Mississippian structure map, a Morrow isopach map and then a montage of some seismic data, and their seismic interpretation of the area. The well that we were just talking about is this well that was circled right there and has a white dot hear it.

Q. Now, does the geophysical and geologic interpretation in Case 12,291 generally agree with your conclusions with respect to the availability of other drilled locations in Section 14?

A. Yes, this Mississippian map, which underlies the Morrow sand, looks very similar to my map.

Q. Now, with respect to the seismic exhibit, what is the exhibit number there?

A. Exhibit Number 6 in Case 12,291.

Q. What does that show with respect to the location of any fault?

A. The way that it shows here on this 3-D map is that it shows some crowded contour lines well within a 330-foot location on Arrington's acreage, which could indicate a fault right there.

Q. So it's located further north than where Arrington has shown it on their exhibit?

A. That's correct. And if that is correct, then he would be on the upthrown side.

Q. Mr. Marshall, let me ask you, you're aware, are you not, of the Division's policy of strict interpretation for Rule 104, well locations, now?

A. Not really --

Q. Well, let me some specific questions.

A. -- I'll be honest.

Q. Are there any unusual circumstances here that justify the Arrington request?

A. Not that I'm aware of.

Q. There's no topographic or surface situation which justifies the location?

A. I'm not aware of any.

Q. And based on what you're seen with respect to the Arrington geology, geophysical interpretation, do you

believe that that constitutes a special circumstance justifying the request?

A. No, because compared to this seismic, they would be on the upthrown side.

Q. And is it accurate to say that the Arrington interpretation is highly interpretive?

A. I haven't looked at all of it other than what was presented to me.

Q. All right, based on what they presented here today?

A. Well, it looks a little odd, the little fault that comes and makes a little dip to the south looks a little odd to me. But that's why we are all drilling different wells.

Q. Based on your geology, the Arrington geology and the geology that was shown in the Yates case, can you say whether all drillable locations within the standard drilling window in Section 14 have been eliminated?

A. No.

Q. Do you believe that there are locations available that ought to be drilled?

A. I believe, using my interpretation, that there are some, but they are on the upthrown side. They believe that they have to go on the downthrown side. I think that -- I was unaware of any faults. I figured that the

northeast quarter, they're still locations for the Morrow.

Q. Other than the fact that the Yates well was a re-entry, was there any other special circumstance involved in that case?

A. I'm not aware of any, other than they cannot move the borehole.

Q. Do you know if any other operators have expressed a concern over Arrington's proposed location here?

A. No, I am not aware of any.

Q. If Arrington's request is granted, will it trigger an application for a similar offsetting nonstandard location by Permian?

A. Quite possibly, yeah.

Q. And if that is the case, will the established spacing pattern for Morrow wells in the area be disrupted?

A. It will be disrupted quite a bit.

Q. In your opinion, is there any greater likelihood that additional reserves will go unrecovered if the well is drilled at a standard location?

A. Based on my interpretation, no.

Q. And in your opinion, will Arrington be able to recover its fair share of resources at a standard location within the standard drilling window?

A. I think so.

Q. Were Exhibits 1, 2 and 3 prepared by you?

A. Yes.

MR. HALL: We'd move the admission of Exhibits 1, 2 and 3, and we'd request the Examiner to take administrative notice of Exhibits 4, 5 and 6 in Case Number 12,291.

EXAMINER CATANACH: Any objection, Mr. Bruce?

MR. BRUCE: No, sir.

EXAMINER CATANACH: Exhibits 1, 2 and 3 will be admitted as evidence, and we will take administrative notice of Exhibits 4, 5 and 6 in Case 12,291.

Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. On your Exhibit 1, Mr. Marshall, does the structure essentially mirror the structure on Arrington Exhibit 6?

A. Can you hold that up again?

MR. HALL: Six?

THE WITNESS: Oh, here's 6, excuse me. Well, I show -- Let's see. He shows a -- more or less a east-west ridge running in the south half of 14, more or less east-west aligned. I show just a gentle nose going northeast. There could be a little, though, like he's showing up here on the north side of his proposed fault.

Q. (By Mr. Bruce) What about the control point in

the northeast quarter of Section 23? What is the subsea depth of that point?

A. I don't have it. These are -- In 23, the ones in the northeast --

Q. Uh-huh.

A. -- or northwest northeast?

Q. Yes, sir.

A. I do not have it.

Q. Do you have any reason to dispute what's on Exhibit 6 for that data point?

A. You're saying in 23?

Q. Section 23, immediately to the south of Section 14.

A. Well now, we're talking about two different horizons here; we're talking about the top of the Morrow lime and the top of the Atoka. So there is going to be a big variance there, if they're two different animals. It's apples and oranges.

Q. But there is south dip on the Morrow, however, is there not?

A. That's what he shows here.

Q. And you show a low going through the northeast quarter of Section 14, and so does Mr. McRae, does he not?

A. That's correct. Well, it's a real gentle low, yeah.

Q. Okay. Let's move on to your Exhibit 2.

A. Okay.

Q. I'd like to talk about control points you're using here. First off, are there any -- Okay, let's start with Section 11, where the Yates well is, and ignore the existing Yates well, the one we've been talking about here today.

A. Okay.

Q. Are there commercial Morrow wells in Section 11?

A. I believe that the -- They call it Atoka, but it's probably what I'm calling Morrow; it's up in the northwest quarter. I don't know about the one in the southwest quarter.

A. I don't have the information, it hasn't been released. But those are the only two that -- Well, let's see. And then I believe --

Q. So it hasn't been released, so you don't know if it's commercial or not?

A. Yeah, I believe Number 2 was a dual -- according to the scout ticket, was a dual -- in the southeast quarter, was a dual Strawn-Morrow well. If I'm not mistaken. I may be getting mixed up. I think that it was the 2 "ASP".

Q. Do you have type logs on any of these?

A. No, I don't have anything.

Q. You don't have anything?
A. I just -- I go by scout tickets.
Q. Okay, so you don't --
A. It's not of public record yet.
Q. Okay. But you do not know of any commercial Morrow well in Section 11, is what I'm asking you.
A. I haven't seen any production information, other than what is reported in scout tickets.
Q. Okay. Do you know of any commercial Morrow wells in Section 12?
A. In 12, none.
Q. Do you have any control in Section 12 for the Morrow?
A. In the northeast quarter we have a well, the American liberty well, which was a well drilled in the Fifties. P-and-A'd 10-52.
Q. Okay.
A. And I see about 20 foot of sand in that well.
Q. What part of the Morrow? Upper, middle, lower?
A. It's probably a little higher in the section, maybe middle. It's not up in the upper part.
Q. Okay.
A. It's not too far above the Miss.
Q. Okay, but that's the only one in this section?
A. There's another well that Yates drilled in the

southeast quarter, but I don't have any information.

MR. BRUCE: Mr. Examiner, I think the Division's records, which I'd ask you to take notice of, say that that well was completed in the Strawn and not the Morrow.

THE WITNESS: Which one?

Q. (By Mr. Bruce) Are there any --

A. Can I ask you which one you're talking about?

Q. I'm talking about the one in the southeast of 12.

A. Okay.

Q. Are there any commercial Morrow wells in Section 13, the section in which --

A. No.

Q. -- Permian is purchasing an interest?

Are there any commercial Morrow wells in Section 14 that you know of?

A. In what I've called the Morrow, yes, in the south half there's two of them.

Q. So -- but -- Mr. McRae notes those as Atoka producers, does he not?

A. I believe that's what he said, the Brunson zone, yeah.

Q. Okay. And you're calling that Morrow?

A. Yeah they sit about -- less than a hundred feet above the Mississippian lime.

Q. Do you have any type logs on those?

A. No. I have it on a work cross-section, but that wouldn't be admitted.

Q. Let's go to your Exhibit 3 in the Mississippian. Once again, rather than going section by section, Sections 11, 12, 13 and 14, first do you have any control? What are your control points?

A. In 11, nothing. Oh, yeah, we have the well that -- Excuse me, in 12 -- 11, in the southeast southeast, 8128.

Q. Okay, that's just the new Yates well?

A. That's correct.

Q. Okay. It's the only one there?

A. The only one that I have record of. Now, when I go to record, I have to go through a log service, okay? So they don't have it. And they don't have any other well logs here that penetrated this zone.

Q. Okay, so in those four sections that's the only data point?

A. That's correct, that I have.

Q. Okay. What basis do have to alter the structure between the Atoka and the Mississippian, if you don't have any well control?

A. There's one point that kind of sticks out. It's that to -- You mean the difference in the maps? The only difference is one point in the northeast quarter of 23,

which is really outside the area we're talking about but still controls the -- It looks odd.

Q. Mr. Marshall, you were saying that potentially the fault that Arrington shows running across the northern part of Section 14 could be further to the north?

A. That's what it looks like on Yates' data.

Q. And if that's the case, Arrington doesn't believe it would make a well, does it?

MR. HALL: Object, it calls for speculation on what Arrington believes.

Q. (By Mr. Bruce) Then what's the harm in drilling it, if there's no going to be any reservoir there, to you?

A. Well, our interpretation is that there is reservoir there, and even if there is a fault there, if it's in the upthrown side, it could drain our correlative rights.

Q. How many Morrow wells has Permian drilled in New Mexico?

A. None. However --

Q. Did --

A. However --

MR. HALL: Go ahead.

THE WITNESS: However, when I was at Getty, this was my area with Getty. I worked with Florida gas here. I probably drilled four.

Q. (By Mr. Bruce) Did Arrington offer to Permian the same agreement it has with Yates, for an unorthodox location?

A. Did he offer me the agreement?

Q. Did Arrington offer Permian Resources the same agreement it has with Yates?

MR. HALL: I'm going to object. I think offers of compromise and settlement are admissible into evidence under Rule 408.

EXAMINER CATANACH: We'll uphold that objection.

MR. BRUCE: I have nothing further of the witness, Mr. Examiner.

EXAMINATION

BY EXAMINER CATANACH:

Q. I have just a couple. This well, if drilled, will be subject to a 50-percent production penalty. Do you feel that that's not sufficient to protect your correlative rights?

A. Well, we are afraid of the 330. The production penalty would be great if the Commission does allow it, but we are still afraid of the 330. I understand what their interpretation is, but we have -- that's what makes this a ball game. We all have different interpretations.

Q. So you still believe that the production penalty will not sufficiently protect your interest?

A. No.

EXAMINER CATANACH: That's all I have of the witness.

MR. HALL: Briefly, redirect?

REDIRECT EXAMINATION

BY MR. HALL:

Q. Mr. Marshall, in response to a question from Mr. Bruce on your Exhibit 3, the Mississippian structure, I believe you were asked whether you had any well control outside of Section 11. Can you clarify that? Do you have well control for your contours, other than the Yates well of Section 11?

A. No, just the Yates well.

Now, back up. It was not the Yates well, it was the Burns Number 1 width. I do not have a copy of the Yates well.

Q. Mr. Marshall, are your Exhibits 1, 2, 3, in your view, a reasonable interpretation of the geology in the area?

A. Yeah, given the amount of control I have.

Q. Yes. And is your interpretation supported generally by the Yates geologic interpretation in Exhibits 4, 5 and 6?

A. Except for the placement of the fault, yes.

MR. HALL: Nothing further.

MR. BRUCE: Nothing further.

EXAMINER CATANACH: Okay, this witness may be excused.

MR. BRUCE: Mr. Examiner, I would like to ask three questions of Mr. McRae.

EXAMINER CATANACH: Okay. We're going to count them too.

MR. BRUCE: Maybe he can just answer them from here, Mr. Examiner.

JOHN R. McRAE (Recalled),

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. First of all, looking at Permian Exhibits 2 and 3, Mr. McRae, how can you draw these line with a virtual lack of well control in this area?

A. Which is which here?

Q. Exhibit 2 is the Morrow, Exhibit 3 is the Mississippian.

A. I have a real hard time with Exhibit 2. There's no type log, there's no cross-section, there's no way to tie the wells together to show what sands they are discussing.

My knowledge of this area, there's several

different sands. You have the Austin Morrow, which is the sand at the base of the Morrow that sits at the top of this unconformity. There is the Brunson sand up in the Atoka section.

Some of the wells that he's using as a control on his Morrow sand isopach are Brunson wells and didn't even penetrate into the Morrow clastics section. You cannot contour a map unless you use all the same horizons and say that it's a reliable isopach map of a sand.

Q. Second question, the Brunson Atoka you talk about, that Atoka is a recognized pool up in Sections 10 and 11 and in this area, under OCD rules; is that correct?

A. That's correct. And those isopachs have been submitted in the past.

Q. Finally, if Arrington drills its well, does it object to a mirror location, mirror penalty, for Permian in Section 14?

A. No, we do not.

MR. BRUCE: I've used up my quota.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. McRae, let me ask you one. You targeted that basal sand in the Morrow for your well. Have you identified any Morrow sands up from that basal sand that you think are there?

A. On Exhibit 8 it has the entire Morrow Section, and it goes from the top of the Morrow lime to the base of the Austin Morrow pay, and within that section there are no additional pay zones. Most of it is limestone. So there's -- In this particular area there's no additional sands in the Morrow that are recognized.

Above the Morrow lime, approximately 30 to 40 feet is the Brunson interval, and in this particular well, the Yates Burns "ATL" Number 1, there is no Brunson pay, and there are no Atoka sands in this whole portion of the log that's presented that appear to be pay.

So we see no Atoka pay and no Morrow pay in this Yates well. We don't expect it in our well.

Q. Even if you end up on the upthrown side of that fault, you don't expect to encounter any additional sands?

A. If we're on the upthrown side of the fault, we would expect a thinner section than what's in this well, and no sand, or very thin.

You don't know till you drill the well, but if you do a detailed analysis of all the well control in here -- and I've been involved in 20 to 30 wells in this area -- every high well is thin. The thicker wells that are in the lows have more sand. Some of those sands are tight and some are productive.

If you drill a high spot, you've increased your

risk to have reservoir sand substantially. And we feel that we can get on that downthrown side of the 330 location, and we're willing to take that risk, because some of these Austin Morrow sands are very productive.

That's it.

EXAMINER CATANACH: Okay, I have nothing further.

Anything further?

MR. BRUCE: No, sir.

MR. HALL: Mr. Examiner, I wonder if you could allow some flexibility. I need to clarify some of Mr. Marshall's testimony. There's a possibility he may have misunderstood a question I asked, or I misstated it. But if I could briefly clarify that with him?

EXAMINER CATANACH: All right.

ROBERT MARSHALL (Recalled),

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

DIRECT EXAMINATION

BY MR. HALL:

Q. Mr. Marshall, I asked you with respect to Exhibits 2 and 3 whether you had any well control outside of Section 11. Do you, in fact?

A. Yes, I do.

Q. Can you identify some of that?

A. There's wells in 12, there's three wells in

Section 13, there are three wells in Section 14.

Q. And that's for both Exhibits 3 and 2; is that correct?

A. That's correct.

MR. HALL: Thank you, Mr. Examiner.

EXAMINER CATANACH: Anything further, gentlemen?

MR. HALL: Brief statement?

EXAMINER CATANACH: Brief. Mr. Hall?

MR. HALL: Mr. Examiner, I would request that you take administrative notice of the Division's memorandum of October 25, 1999, interpreting the new amendments to Rule 104.

I'd also ask you to take notice of Order Number R-11,364 in Case Number 12,370, which so far as I'm aware is one of the first cases interpreting and making application of the Division's policy of what is, in fact, a strict interpretation of the amendments to Rule 104. And if you look through that order, it articulates the factors that the Division is to look to when evaluating an unorthodox location application.

And among those, you will see that the rule was intended to decrease the number of applications for nonstandard locations by granting operators greater latitude in expanding the drilling window for standard locations, and that was based -- took into consideration

improved 3-D seismic technology.

So what Arrington seeks has already been accommodated by the order, and I think their application runs counter to the intent of the order and that they think the rule is not flexible enough.

The order also articulates that an applicant is to show substantial justification or unusual circumstances, and it sets forth some factors, the first and most important of which is whether all locations within the standard window have been eliminated.

And I think the evidence produced by Arrington in this case falls short of that. To the contrary, the evidence produced by Permian in this case shows that there are drillable locations within the standard window.

The other factor you're to take into consideration, whether there is geological justification, and I think the testimony from all witnesses here is that there is agreement that this is highly interpretive geology, and it's based on highly interpretive seismic that was produced by a third party nonwitness that we weren't able to cross-examine today.

It's our view that that geology, the geologic case presented by Arrington does not constitute the substantial justification or the unusual circumstances which justifies the request of Arrington.

That's all I have, Mr. Examiner.

EXAMINER CATANACH: Thank you, Mr. Hall.

Mr. Bruce?

MR. BRUCE: Do I have to?

EXAMINER CATANACH: No.

MR. BRUCE: Mr. Examiner, I've just seen this order on the Marbob case. I'd just point out it states, page 4, geologic considerations are not the basis for Marbob's request. I'd toss that order aside.

Mr. Examiner, I know you haven't done all the hearings in the Lovington Townsend area, but enough to be painfully aware that Mr. McRae has been involved in this area for years and years and years, and he is one of the main reasons people are drilling successful wells out here, is one of the primary reasons people are drilling successful Atoka and Morrow wells in this area. He knows what he's doing.

Absolutely, we need this unorthodox location to have any reasonable chance of success. The unorthodox location should be approved with the penalty as provided in the Yates-Arrington stipulation, our Exhibit Number 2. That is the only we can protect ourselves, number one, to drill a commercial well, number two, protect ourselves from drainage by Yates. We need it to protect our correlative rights.

Based on the faulting that you see on these exhibits, there will be zero effect on Permian in Section 13, because of the faulting.

We ask that the Application be approved as applied for.

EXAMINER CATANACH: Okay. There being nothing further in this case, Case 12,381 will be taken under advisement.

And this hereby is adjourned.

(Thereupon, these proceedings were concluded at 6:20 p.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12381 heard by me on May 4 2000.

David K. Catanach, 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 May 20th, 2000.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002