

## NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date JULY 27, 2000 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
David Pearson	Gates Pet	Artesia, NM
Keith McKamey	David Pet.	Roswell, NM
William F. Carr	Campbell, Carr, Foy + Gordon	Santa Fe
Bill Hardie	Pogo Producing	Midland
Gary Lang	Pogo Producing	Midland
Ron Casser	Pogo Producing	MIDLAND, TX
SCOTT WALL	MILLER LAW FIRM	SF
PAUL OWEN	MONTGOMERY + ANDREWS	SF
Bob Campbell	BTA Oil Producers	Midland
James Blum	—	SF
PT D. Smith	Santa Fe Snyder	midland
Steve D. Hogg	"	"
Herold Mandy	Ocean Energy	Houston
Frank Messa	"	"
Bob Silver	Ocean Energy	Houston
Bryan Saunders	"	"

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. 12,449

APPLICATION OF SANTA FE SNYDER )  
 CORPORATION FOR COMPULSORY POOLING, )  
 LEA COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 27th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.  
00 AUG 10 AM 6:57

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner on Thursday, July 27th, 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

July 27th, 2000  
 Examiner Hearing  
 CASE NO. 12,449

	PAGE
EXHIBITS	3
APPEARANCES	4
STATEMENTS:	
By Mr. Hall	6
By Mr. Carr	8
APPLICANT'S WITNESSES:	
<u>CURTIS D. SMITH</u> (Landman)	
Direct Examination by Mr. Hall	12
Cross-Examination by Mr. Carr	23
Further Examination by Mr. Hall	29
Examination by Examiner Catanach	31
Further Examination by Mr. Carr	32
<u>STEVEN D. HULKE</u> (Geologist)	
Direct Examination by Mr. Hall	33
Cross-Examination by Mr. Carr	41
Examination by Examiner Catanach	51
CLOSING STATEMENTS:	
By Mr. Carr	58
By Mr. Hall	60
REPORTER'S CERTIFICATE	64

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	13	23
Exhibit 2	14	23
Exhibit 3	15	23
Exhibit 4	16	23
Exhibit 5	16	23
Exhibit 6	17	23
Exhibit 7	17	23
Exhibit 8	18	23
Exhibit 9	18	23
Exhibit 10	19	23
Exhibit 11	19	23
Exhibit 12	20	23
Exhibit 13	21	23
Exhibit 14	21	23
Exhibit 15	21	23
Exhibit 16	-	41
Exhibit 17	40	41
Exhibit 18	40	41
Exhibit 19	-	41
Exhibit 20	57	-
Exhibit 21	57	-

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BTA	Identified	Admitted
Exhibit 1	26	29

\* \* \*

## A P P E A R A N C E S

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By: J. SCOTT HALL

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Santa Fe, New Mexico 87504

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:37 a.m.:

3  
4 EXAMINER CATANACH: Okay, at this time we'll call  
5 Case 12,449, which is the Application of Santa Fe Snyder  
6 Corporation for compulsory pooling, Lea County, New Mexico.

7 Call for appearances.

8 MR. HALL: Mr. Examiner, Scott Hall, Miller  
9 Stratvert Torgerson law firm, Santa Fe, on behalf of Santa  
10 Fe Snyder Corporation. I have two witnesses this morning.

11 MR. CARR: May it please the Examiner, my name is  
12 William F. Carr with the Santa Fe law firm Campbell, Carr,  
13 Berge and Sheridan. We represent BTA Oil Producers in  
14 opposition to the Application. I do not intend to call a  
15 witness.

16 EXAMINER CATANACH: Will the two witnesses please  
17 stand to be sworn in? I'm sorry, Mr. Bruce?

18 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
19 representing Southwestern Energy Production Company. I have  
20 no witnesses.

21 EXAMINER CATANACH: Southwestern Energy  
22 Production Company?

23 MR. BRUCE: Production Company.

24 EXAMINER CATANACH: Okay, will the witnesses  
25 please stand to be sworn in?

1 (Thereupon, the witnesses were sworn.)

2 MR. CARR: May it please the Examiner, there is a  
3 motion pending before the Division filed by BTA to dismiss  
4 this Application.

5 EXAMINER CATANACH: Let's see if I can find it.

6 Let's take a short break so we can review these  
7 quickly, re-review them.

8 MR. CARR: Yes, sir.

9 (Thereupon, a recess was taken at 9:40 a.m.)

10 (The following proceedings had at 9:43 a.m.)

11 EXAMINER CATANACH: Before we start the case, we  
12 would like just a summary on the current situation in this  
13 case, and a summary of the motions to dismiss.

14 MR. HALL: Mr. Examiner, the record should  
15 reflect that I've substituted my appearance for Mr.  
16 Kellahin on behalf of the Applicant, and Mr. Kellahin has  
17 filed a response to the BTA motion to dismiss.

18 In addition to this case, there was a parallel  
19 case brought by Southwestern, a competing case to pool the  
20 east half.

21 The synopsis of the situation, for everyone, is  
22 that Santa Fe Snyder is proposing a standard proration unit  
23 consisting of the east half of Section 18 in 23 South, 34  
24 East. That requires the consolidation of fee and federal  
25 interests.

1           Mr. Carr's client, BTA, owns two separate federal  
2 oil and gas leases in the south half of Section 18. It's  
3 my understanding that BTA has held that acreage in the  
4 south half since 1978 or 1980 or so, and it has not been  
5 developed at all.

6           November 15th, 1999, Santa Fe first proposed an  
7 east-half well to BTA, and it's my understanding that BTA's  
8 response was to go to the BLM and file an APD for a well in  
9 the southeast quarter for a south-half laydown unit, and  
10 the parties were unable to agree on an orientation to the  
11 unit or to BTA's participation in an east-half well. And  
12 that's where we are today.

13           It's also my understanding that BTA has done  
14 nothing more than file for an APD with the BLM. There has  
15 apparently been no NOS filing made, and there is no  
16 consolidation of the two federal leases. A communitization  
17 is required for that south-half acreage before it could be  
18 drilled and produced, and that's not been done.

19           So it doesn't appear that BTA is ready to go  
20 forward with development of the acreage.

21           On the other hand, Santa Fe has committed  
22 capital, it's ready to proceed, it's succeeded in  
23 consolidating a great many of the interests for an east-  
24 half unit, and that's where we are today.

25           Mr. Carr had filed a motion contending that the

1 filing of an APD with the BLM renders that acreage  
2 unavailable for pooling, and I think that is incorrect.  
3 The filing of an APD with the BLM is simply a ministerial  
4 act. It is not an adjudication that would have the effect  
5 of making the acreage in the southeast quarter unavailable.

6 The BLM will not override the OCD's determination  
7 of what the proper orientation of a unit is in a compulsory  
8 pooling case or otherwise.

9 In addition, as I mentioned, absent a  
10 communitization of those two federal leases, they can't  
11 proceed to develop the south half anyway.

12 So I think what you'll find, Mr. Examiner, that  
13 BTA is not ready to proceed, Santa Fe Snyder is.

14 This identical issue has come up before in Case  
15 Number 11,887. Phillips Petroleum Company filed a similar  
16 motion against an application Santa Fe Energy Resources had  
17 brought, asserting the very same thing, that the filing of  
18 an APD made acreage unavailable. The motion in response to  
19 that.

20 The ruling in that case was that that assertion  
21 was incorrect, and that motion was denied by Examiner  
22 Stogner.

23 EXAMINER CATANACH: Mr. Carr?

24 MR. CARR: May it please the Examiner, BTA comes  
25 before you not with a competing pooling case, because they

1 don't need to. They're the working interest owner of  
2 record, the leaseholder of record, of 100 percent of the  
3 working interest in the south half of this section.  
4 They've held the lease for some time.

5 But in the adjoining Section 17 there has been  
6 recent activity, and all of a sudden this area becomes an  
7 area in which those who hold mineral interests are  
8 interested in developing the same.

9 What BTA has proposed, and has an APD as Mr. Hall  
10 referenced, is to develop its acreage with a well at a  
11 standard location on a standard unit. They propose a  
12 south-half unit for a well in the southeast quarter.

13 What Santa Fe proposes is a standup unit for a  
14 well in the northeast quarter. The north half is  
15 available.

16 If Santa Fe decided to go forward and drill their  
17 well on their land to develop their interest, they could do  
18 it with a north-half unit. The well would be at the same  
19 location, it would produce the same reserves, and they  
20 would have and avail themselves of their opportunity to  
21 produce their fair share of the reserves in the pool.

22 But what they have decided to do is not to  
23 develop the north half, but to come in and tie up the east  
24 half. And they are before you with a compulsory pooling  
25 application.

1           And I would suggest you should remember the  
2     purpose of compulsory pooling. Compulsory pooling is an  
3     exercise of the police power of the State to assure that  
4     minerals are developed, to put together appropriate spacing  
5     units so wells can be drilled.

6           Santa Fe isn't before you today trying to put  
7     together a tract so a well can be drilled. They could do  
8     that with a north-half unit, they could do it, they could  
9     prevent waste, they could protect their correlative rights  
10    and drill the well they propose to drill.

11           They're not trying to do that here today.  
12    They're trying to use the compulsory pooling process, not  
13    to see that wells are drilled, but to prevent BTA from  
14    developing the minerals which it owns with a well at a  
15    standard location on a standard spacing and proration unit.  
16    And we submit to you that in this case BTA's rights and the  
17    APD should be honored and not be overridden by a compulsory  
18    pooling order.

19           This whole thing becomes moot the day we drill,  
20    and if we have to, we will. We will drill during the term  
21    of the APD, and it runs through the end of the year. So  
22    we, I think as a prudent operator would, are waiting to see  
23    what happens to the well in Section 17. I can represent to  
24    you today that within the term of the APD we will spud a  
25    well on this tract.

1           And we believe that the compulsory pooling effort  
2   is nothing more than an attempt to misuse compulsory  
3   pooling, not to see that wells are drilled, but to see that  
4   BTA does not have from this agency its statutory  
5   correlative rights and to deny BTA the opportunity to  
6   produce its fair share of the reserves.

7           EXAMINER CATANACH: Mr. Carr, what is the status?  
8   Do you know if BTA has applied for a communitization  
9   agreement for the south half?

10          MR. CARR: I don't know, I do not.

11          EXAMINER CATANACH: But they have an approved  
12   APD; is that correct?

13          MR. CARR: They have an approved APD. It's two  
14   federal leases.

15          EXAMINER CATANACH: Mr. Hall, is there a geologic  
16   component to the orientation of the spacing unit in this  
17   case?

18          MR. HALL: Yes, there is, and I would suggest to  
19   you that you ought to deny the motion and defer -- or at  
20   least defer ruling until you see the geology case we would  
21   present.

22          EXAMINER CATANACH: I would agree, and we will  
23   defer the motion for the time being and go ahead and hear  
24   testimony in this case.

25          MR. HALL: We would call Curtis Smith.

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CURTIS D. SMITH,

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, state your name, please, sir.

A. My name is Curtis Smith.

Q. Mr. Smith, where do you live and by whom are you employed and in what capacity?

A. I live in Midland, Texas. I am employed by Santa Fe Snyder Corporation, I am division land manager.

Q. And you've previously testified before the Division and had your credentials accepted as a matter of record?

A. Yes, right.

Q. And you are familiar with the lands that are the subject of this application?

A. Yes, I am.

MR. HALL: Mr. Examiner, we tender Mr. Smith as an expert petroleum landman.

EXAMINER CATANACH: Mr. Smith is so qualified.

Q. (By Mr. Hall) Mr. Smith, would you please briefly summarize for the Examiner what Santa Fe Snyder seeks by its Application?

A. Yeah, Santa Fe Snyder seeks an order pooling all

1 mineral interests from the surface to the base of the  
2 Morrow formation underlying the east half of Section 18,  
3 Township 23 South, Range 34 East. We're also seeking  
4 pooling of any proration units that would require a 160-  
5 acre or 40-acre spacing, for the Paloma Blanco "18" Federal  
6 Well Number 1. Also, we're asking the Examiner to consider  
7 the cost of drilling and completing the well and the  
8 allocation of the costs, operating costs and charges for  
9 supervision, and designation of Santa Fe Snyder Corporation  
10 as the operator, and also a charge for risk involved in  
11 this well.

12 Q. And your primary objective is the Strawn; is that  
13 correct?

14 A. The Morrow formation.

15 Q. Morrow, I'm sorry.

16 A. 13,700-foot Morrow.

17 Q. Is the acreage that's the subject of your  
18 Application reflected on Exhibit 1?

19 A. Yes, Exhibit 1 is our land plat showing the  
20 proration unit, the east half of Section 18, Township 23  
21 South, Range 34 East, outlined in green.

22 The red, of course, is our proposed legal  
23 location for the Paloma Blanco "18" Fed Number 1 well.

24 The yellow indicates the acreage that Santa Fe  
25 Snyder Corporation has purchased in our Paloma Blanco

1 prospect. The south half of Section 18, of course, is the  
2 BTA acreage where Conoco is the record title holder of the  
3 leasehold.

4 Q. Let's look at Exhibit 2, Mr. Smith. Would you  
5 identify that, please?

6 A. Exhibit 2 is the breakdown of the working  
7 interest ownership in the east half of Section 18. What we  
8 have is, we have it broken down by the northeast quarter of  
9 Section 18, which represents basically the non-BTA partners  
10 in the east half of Section 18.

11 The southeast quarter, including pages 2 through  
12 10, represent the BTA partners. I think there's over 90  
13 different partners under BTA's southeast quarter of Section  
14 18.

15 The parties that we wish to force pool in this  
16 hearing are Southwestern Energy Production Company, that's  
17 shown on this exhibit; Sugarberry Oil and Gas Corporation;  
18 Ocean Energy, Inc.; Alice J. Dickey; John J. fleet. All  
19 the other parties in the northeast quarter have either  
20 leased to us or signed an AFE.

21 And by the way, most of the parties that I just  
22 named off as the parties we're force-pooling in the  
23 northeast quarter, we had at least a verbal commitment from  
24 them but nothing in writing yet, so it's necessary to go  
25 ahead and include them in this compulsory pooling.

1           And also we're seeking to force pool the BTA  
2 partners in the southeast quarter for a total interest that  
3 we're force pooling of 59.2-percent working interest. And  
4 I would say that of the northeast quarter we're nearly at  
5 100 percent, if you include, of course, the verbal  
6 commitments.

7           Q.   Let's look briefly at Exhibit 3. It appears that  
8 we have multiple copies of this same exhibit, but is that  
9 your AFE for the proposed well?

10          A.   Yes, this is our AFE.

11          Q.   Would you review those cost figures for the  
12 Examiner, please, sir?

13          A.   Yeah, this is an AFE for the Paloma Blanco "18"  
14 Fed Com Number 1 well, and the dryhole cost is \$1.175  
15 million, completed well cost \$1.408 million.

16          Q.   And are these costs in line with what's being  
17 charged by other operators in the area?

18          A.   Yes, we have participated in several Morrow wells  
19 in this area, and these costs are comparable to the costs  
20 of other operators, as well as our other wells that we  
21 operate.

22          Q.   And do they compare favorably with the rates set  
23 forth in the Ernst and Young survey?

24          A.   Yes, it is, as far as drilling costs and overhead  
25 rates that we are seeking. They are in line with that.

1 Q. All right. Let's talk about the efforts Santa Fe  
2 Snyder has made to secure the joinder of all the working  
3 interests shown on your Exhibit 2.

4 A. Okay. On November 15th, Santa Fe hand-delivered  
5 a letter to BTA, our initial well proposal for the Paloma  
6 Blanco "18" Fed Com Number 1 well.

7 Q. And is that Exhibit 4?

8 A. This is Exhibit 4, a letter dated November 15th,  
9 1999. This was, like I said, the initial well proposal.  
10 And by the way, the initial location, you'll note, is 660  
11 from the south line and 660 from the east line, which later  
12 we decided to change that location, and our geologist will  
13 testify to the reasons why we decided to change the  
14 location.

15 Exhibit 5 is a letter to BTA dated February 17th,  
16 2000. This letter was sent certified mail. It's a request  
17 for a term assignment, \$200 per acre, and it addresses the  
18 burdens created by the Conoco-BTA farmout, dated October  
19 11th, 1979. So this was a fair offer to BTA in case they  
20 did not want to participate in the well that we had  
21 proposed.

22 Q. What was the response?

23 A. No response to date in writing. I will say this,  
24 that there may have been some conversations between Steve  
25 Smith, the author of these letters, who is no longer with

1 Santa Fe, but Steve worked directly for me. There may have  
2 been conversations between Steve Smith and Bob Crawford  
3 that I either don't recall or don't know about.

4 Q. It's your understanding, anyway, that they didn't  
5 agree to participate?

6 A. Exactly. Exhibit 6 is a letter dated February  
7 25th, 2000. This is our revised well proposal, changing  
8 the location to 1980 feet from the north line and 660 feet  
9 from the east line of Section 18. And also we attach the  
10 AFE that's referred to in the second paragraph of the  
11 letter. That AFE is the same AFE as Exhibit 3 for this  
12 hearing.

13 Also, the bottom paragraph of this first page, we  
14 give them an alternative to consider the term assignment  
15 that we have requested.

16 Exhibit 7, letter dated February 28th, 2000, in  
17 Exhibit 7 there's actually three letters. The first letter  
18 is February 28th, 2000, addressed to Sugarberry Oil and Gas  
19 Corporation, proposing the well and also, if they don't  
20 elect to participate, to give us a term assignment -- I'm  
21 sorry, an oil and gas lease on the minerals.

22 Q. The interest owners evidenced by the Exhibit 7  
23 letters are not BTA interest owners?

24 A. Correct, they're the northeast quarter owners,  
25 mineral owners.

1           And the second letter, February 28, 2000, is to  
2 John J. Fleet, individually and as Executor of the Estate  
3 of Carl W. Fleet and as trustee for Alice J. Dickey, the  
4 same letter, proposing the well or requesting a lease,  
5 which, by the way, we have the terms as outlined in this  
6 letter agreed upon with Sugarberry and John J. Fleet.

7           The letter dated April 5th, 2000, is to  
8 Southwestern Energy Production Company, proposing the well  
9 at the northeast quarter location, and an AFE attached  
10 which is our Exhibit 3.

11           April 7th letter -- I'm sorry, Exhibit Number 8  
12 is our April 7th, 2000, letter. And this is -- this was,  
13 of course, a mass-mailing of all the BTA partners, and they  
14 were sent certified mail. And it's a well proposal for the  
15 location, the northeast quarter. We also attached the well  
16 cost estimate, which is Exhibit 3. And there are several  
17 letters in Exhibit 8 dated April 7th.

18           Exhibit 9 -- Oh, let me add this about Exhibit 8.  
19 These letters were sent to each individual's address,  
20 either their office or residence.

21           Exhibit 9, we duplicated the Exhibit 8 letter and  
22 sent letters to all the BTA partners, care of BTA Oil  
23 Producers at their address in Midland, which we were  
24 advised earlier that that was the way BTA wished that we  
25 correspond, through BTA or their partners.

1 Q. So is your understanding that BTA had represented  
2 to Santa Fe Snyder that it was authorized to speak for the  
3 BTA interest owners in the southeast quarter?

4 A. Yes, and that was told to us even on a letter  
5 dated May 8th of 2000, which I have if we need to enter  
6 that as an exhibit.

7 MR. HALL: Mr. Examiner, let me interject at that  
8 point. We have available copies of all of the letters to  
9 the BTA interest owners that went directly to BTA on April  
10 7th. They're available. I didn't intend on introducing  
11 them, but if you wish them they are this thick.

12 EXAMINER CATANACH: It's just a copy of this  
13 letter?

14 MR. HALL: Yes, sir.

15 EXAMINER CATANACH: No, I don't think we need  
16 that.

17 THE WITNESS: Exhibit 10 is our well proposal to  
18 Ocean Energy, which as you recall in Exhibit 3 -- Exhibit  
19 2, I'm sorry, they're one of the working interest owners in  
20 the northeast quarter of Section 18. Once again, there's  
21 an offer to participate in the well or grant Santa Fe a  
22 lease, which we have a verbal commitment deal made on that.

23 Exhibit 11 is a response to Southwestern Energy  
24 Production Company. Southwestern Energy Production Company  
25 stated that they would agree to participate in our proposed

1 well under the condition that we spud the well on or before  
2 June 20th of 2000.

3 After examining title, ordering the abstracts and  
4 getting a title opinion, it came to our attention how  
5 diverse the ownership is in Section 18. So therefore, in  
6 light of the most likely compulsory pooling hearing, we  
7 could not agree to a spud date of June 20th. We just  
8 didn't feel like we could perform because of the  
9 complications.

10 April 28th, 2000, letter, Exhibit Number 12, this  
11 is a letter submitting the JOA to all of the potential  
12 partners in the east half of Section 18, as promised in  
13 other letters earlier. We had delivered the JOA for the  
14 partners' review and comments or execution, which we have  
15 not received, comments or execution of the JOA by any  
16 partners.

17 However, we did receive a signed AFE from one of  
18 the BTA partners, Constance Cartwright. She's listed on  
19 Exhibit 2, and she did sign the memorandum of JOA that was  
20 attached to the JOA, but she didn't actually sign the JOA.  
21 So therefore we're including her in the compulsory pooling  
22 request, since she has not fully executed all the documents  
23 required.

24 Q. (By Mr. Hall) The JOA that you tendered, was it  
25 a standard industry form?

1           A.    Yes, AAPL Model Form JOA.

2                   Exhibit Number 13 is a hand-delivered letter  
3   dated May 1st, 2000, to BTA delivering the JOA, the cover  
4   letter.  It was received by Larry Franklin on May 1st,  
5   2000.

6                   Exhibit Number 14 is another letter to John J.  
7   fleet, a letter dated May 15th, 2000.  Once again, a well  
8   proposal and a lease request.

9                   Exhibit Number 15 is a letter requesting response  
10  from John J. fleet, which we've had verbal responses from  
11  Mr. Fleet and are about to come to terms on a lease.

12                   And let's see -- The other exhibits are  
13  geological exhibits after this.

14           Q.    As of today, anyway, you've not been able to  
15  secure the voluntary participation of BTA; is that correct?

16           A.    That's correct.

17           Q.    Or the other interest owners you've notified and  
18  proposed the well to?

19           A.    That's correct.

20           Q.    In your opinion, Mr. Smith, have you made a good-  
21  faith effort to secure the voluntary joinder of all of  
22  those interest owners?

23           A.    Yes, Santa Fe Snyder has.

24           Q.    By the way, do you have some familiarity with the  
25  lease ownership of BTA in the south half of Section 18?

1           A.    Yes, we do.  We've started a title opinion, it's  
2   not complete yet.  There are something like 95 separate  
3   owners.  The record title holder of the lease is Conoco.  
4   BTA and its partners have an assignment of operating rights  
5   that apparently had no reversionary clause back to Conoco  
6   for lack of production or performance.

7           Q.    Do you know how long BTA has held those operating  
8   rights?

9           A.    I know at least since 1980.  Their farmout  
10  agreement was dated, I think, in 1979, and then I believe  
11  they assigned out to their various partners in, I believe,  
12  1982.

13          Q.    Has Santa Fe Snyder drilled other Morrow wells in  
14  the area?

15          A.    Yes, we've drilled 11 wells in this area, and  
16  "this area" you can define as the area which will be  
17  outlined on -- that is outlined on Exhibit 16, that will be  
18  introduced when Steve Hulke gives his testimony.  And we're  
19  currently -- We've drilled 11 wells in that area.

20                We're currently drilling one well, which  
21  incidentally that well is located in the north half of  
22  Section 17, Township 23 South, Range 34 East, and we're on  
23  day six of the drilling of that well.

24          Q.    Have any of those Morrow wells been dry holes or  
25  noncommercial wells?

1           A.    Yes, we've drilled three dry holes, and in  
2 addition to that we have one noncommercial well.

3           Q.    So from your perspective as a landman anyway,  
4 there is a certain element of risk associated with drilling  
5 Morrow wells in this area?

6           A.    Yes, there are.

7           Q.    And are you seeking the 200-percent risk penalty  
8 against the nonconsenting interest owners in this case?

9           A.    Yes, we are.

10          Q.    Were Exhibits 1 through 15 compiled by you or at  
11 your direction?

12          A.    Yes, they were.

13               MR. HALL:  Mr. Examiner, we would move the  
14 admission of Exhibits 1 through 15 and pass the witness.

15               EXAMINER CATANACH:  Any objection?

16               MR. CARR:  No objection.

17               EXAMINER CATANACH:  Exhibits 1 through 15 will be  
18 admitted as evidence.

19               Mr. Carr?

20                               EXAMINATION

21 BY MR. CARR:

22          Q.    Mr. Smith, you would agree with me that Santa Fe  
23 does not own any working interest in the south half of this  
24 section; isn't that right?

25          A.    Yes, I agree with that.

1 Q. And if a south-half unit were developed by a well  
2 drilled as proposed by BTA in the southeast quarter, Santa  
3 Fe would bear no costs related to the development of that  
4 property; isn't that correct?

5 A. That's correct.

6 Q. The north half of this section would be available  
7 for laydown standard Morrow gas spacing, would it not?

8 A. That's correct.

9 Q. And Santa Fe elected not to develop the north  
10 half of the section; is that right?

11 A. That's correct.

12 Q. Were you involved in the decisions to go with an  
13 east half, as opposed to a north half?

14 A. Yes, I was.

15 Q. And can you tell us generally the reasons for  
16 going with the east-half unit?

17 A. Well, with the east-half unit, if you look at the  
18 geology -- and I'll defer that testimony to our geologist,  
19 of course -- it's more reasonable to have an east-half  
20 proration unit. And really, that's one of the main reasons  
21 that we based our decision on the east-half proration unit.

22 Q. At this time you've reached no agreement with BTA  
23 or with any of the BTA partners?

24 A. Well, with the exception of Constance Cartwright,  
25 that's correct. She has signed the AFE.

1           Q.    Do you have a joint operating agreement with any  
2 of the interest owners in the southeast quarter of the  
3 section?

4           A.    No.  However, like I said, Constance Cartwright  
5 signed the memorandum and JOA.  Once we contact her and  
6 tell her which signature pages she needs to sign, we'll  
7 have one with her...

8           Q.    Now, in terms of the well which you proposed to  
9 drill on this pooled unit, that well will be located in the  
10 northeast quarter of the section, will it not?

11          A.    That's correct.

12          Q.    And with a laydown north-half unit, you still  
13 could drill a well at the exact place?

14          A.    It's still a legal location for the north half.

15          Q.    And so what we're talking about here, really, is  
16 not the well location but the orientation of the spacing  
17 unit?

18          A.    Uh-huh.

19          Q.    Is it Santa Fe's position that the best location  
20 to first develop in this section is in the northeast  
21 quarter?

22          A.    I'll let Steve Hulke answer that question.

23          Q.    You went through your efforts to put together the  
24 east-half unit, and as landman, that's your job --

25          A.    Uh-huh.

1 Q. -- to try and put these together?

2 A. Uh-huh.

3 Q. In the course of your testimony you referenced a  
4 letter dated May 8th from BTA. That's not included in your  
5 exhibit packet, is it?

6 A. No.

7 Q. Do you have a copy of that letter?

8 A. Yeah.

9 Q. I don't have a copy that isn't marked up, but I'd  
10 like to have that in the record of the case, if we could.  
11 I don't mind if it's marked as BTA Exhibit 1, and I'll mark  
12 it immediately after.

13 By the May 8th letter, BTA advised you that they  
14 had assigned their interest to --

15 A. -- copy of that?

16 Q. I'm sorry. Do you have a copy there?

17 A. Uh-huh.

18 Q. By their letter of May 8th, BTA advised Santa Fe  
19 that they had assigned their interest to partners in the  
20 south half of this section --

21 A. Uh-huh.

22 Q. -- correct?

23 They also advised you that those assignments were  
24 subject to a joint operating agreement?

25 A. Uh-huh.

1 Q. And that BTA was the operator and represented the  
2 partners?

3 A. Right.

4 Q. Attached to that letter was a copy of the APD  
5 that had been obtained?

6 A. That's correct.

7 Q. Were you aware of the APD prior to that time?

8 A. No.

9 Q. When you saw the APD, you could see that they had  
10 the APD approved back in January of this year --

11 A. Uh-huh.

12 Q. -- correct?

13 BTA also advised you they would have no problem  
14 with a north-half unit, right?

15 A. Oh, yeah. Yeah, they said that.

16 Q. If we take a look at the ownership of Santa Fe  
17 and the spacing units or the potential spacing units in  
18 this tract, what is Santa Fe's working interest in an east-  
19 half unit?

20 A. In an east-half unit, once we sign the leases  
21 that we have negotiated, we will have -- By the way, Ray  
22 Westall in the northeast quarter has signed an AFE, so  
23 we'll have essentially 47-point-some-odd working interest.

24 Q. In the entire spacing unit?

25 A. In the east half, if BTA and partners participate

1 with their 50 percent.

2 Q. And in that circumstance, BTA would still be the  
3 largest working interest owner in the east half of the  
4 section; isn't that correct?

5 A. Well, no. BTA is not a record title holder.

6 Q. BTA's partners and those it represents --

7 A. BTA's collective mass partners' percentage,  
8 collected together, would represent 50 percent, but any one  
9 owner under that BTA partner group barely has over -- well,  
10 Barry Beal has 6.8 percent.

11 Q. Do you have any reason to think that BTA doesn't  
12 represent the owners of 50 percent of the working  
13 interest --

14 A. No, I know they do, as Mr. Crawford said in his  
15 letter.

16 Q. How soon do you propose to drill a well on this  
17 east-half unit if the Application is approved?

18 A. We're on day six of a 56-day well in the north  
19 half of Section 17 with the McVeigh 8 rig, which puts us at  
20 September 15th for rig release. If we had an order, a  
21 timely order, we could move that rig to the east half of  
22 Section 18 and spud our well.

23 Q. Do you have any lease expirations or anything  
24 that -- any title changes that are driving drilling the  
25 well at any particular --

1           A.    No.

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

3           I would move the admission of what we will mark  
4 BTA Exhibit 1, which is a copy of their May 8th letter with  
5 an attached APD.

6           EXAMINER CATANACH:   Do you want that as BTA  
7 Exhibit Number 1?

8           MR. CARR:   Yes, sir.

9           EXAMINER CATANACH:   Okay, BTA Exhibit Number 1  
10 will be admitted as evidence.

11          MR. HALL:   Mr. Examiner, may I have the  
12 opportunity to elicit some additional direct testimony with  
13 respect to the overhead rates?

14          EXAMINER CATANACH:   Please do.

15                       FURTHER EXAMINATION

16 BY MR. HALL:

17          Q.    Mr. Smith, have you made an estimate of the  
18 overhead and administrative costs while drilling and  
19 producing the well?

20          A.    Yes, the producing overhead rate, fixed overhead  
21 rate, we are requesting \$6000 per month -- That's the  
22 drilling overhead rate. The producing overhead rate is  
23 \$600 per month. And those costs fall in line with other  
24 operations in the area and also fall in line with the 1999-  
25 2000 Ernst and Young Fixed Rate Overhead Rate Survey.

1 Q. And you're recommending those rates be  
2 incorporated into an order that issues from --

3 A. Yes, I am.

4 Q. When did Santa Fe Snyder make the management  
5 decision to commit capital to the development of the east  
6 half?

7 A. We put the Paloma Blanco "18" well in our 1999  
8 budget, so you could say January of 1999. But we started  
9 purchasing leases in this area roughly mid-1998, and of  
10 course we're currently drilling a well in the north half of  
11 Section 17.

12 Q. And does Santa Fe Snyder also have an approved  
13 APD for its location?

14 A. Yes, we have an APD approved by the OCD. The  
15 approval date is January 13th, 2000, roughly a week after  
16 BTA's -- ten days after BTA's APD approved by the BLM of  
17 January 3rd, 2000, so...

18 Q. And have you also filed your notice of staking of  
19 the well?

20 A. Yes, there was a notice of staking filed in  
21 December. It's attached to the APD, December of 1999.

22 Q. All right. And do you have any information, or  
23 do you know whether BTA has filed its notice of staking?

24 A. Yeah, I don't know if BTA filed an NOS.

25 Q. And is Santa Fe Snyder ready to commence the well

1 as soon as possible?

2 A. Yes.

3 Q. Mr. Smith, in your opinion will the Application  
4 be in the interest of conservation, the prevention of waste  
5 or protection of correlative rights?

6 A. Yes, sir.

7 MR. HALL: That's all, Mr. Examiner.

8 MR. CARR: May it please the Examiner, will there  
9 be additional testimony on waste and correlative rights, or  
10 is Mr. Smith the witness who will be handling that?

11 MR. HALL: We'll have a geologist coming.

12 MR. CARR: To address those things?

13 MR. HALL: Yes.

14 MR. CARR: Thank you.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Smith, have you, in fact, now reached an  
18 agreement with Southwestern, or is that not --

19 A. Not in writing. Verbally.

20 Q. They had also intended to drill the east half in  
21 a companion case, but they've dismissed that; is that your  
22 understanding?

23 A. That's correct. They had proposed a well. They  
24 bought a 9-percent working interest in the northeast  
25 quarter, or probably the north half, from Osborn, and I

1 believe they're in support of our proposal.

2 Q. Who, in fact, is authorized -- Within the  
3 southeast quarter, are the individual interest owners that  
4 you've contacted, do they have the right to negotiate a  
5 deal with you? Is that your opinion?

6 A. That's my opinion, yes.

7 Q. It's --

8 A. There's nothing of record that says that they  
9 can't.

10 Q. And so BTA cannot speak for each of those  
11 interest owners?

12 A. In my opinion, based on the materials that I have  
13 reviewed, that's correct.

14 Q. And you've received one approval from one  
15 interest owner?

16 A. That's correct.

17 EXAMINER CATANACH: Okay, I have nothing further  
18 of this witness.

19 MR. CARR: May I follow up, one question?

20 EXAMINER CATANACH: Sure.

21 FURTHER EXAMINATION

22 BY MR. CARR:

23 Q. Mr. Smith, have you reviewed the joint operating  
24 agreement dated November 22nd, 1978, which governs BTA's  
25 relationship --

1           A.    No, I have not. I don't know if Mr. Crawford  
2 gave a copy to Mr. Steve Smith, the landman working for me  
3 at the time. I'm not sure if Steve Smith received a copy  
4 of that JOA. He may have, but I have not reviewed it.

5           Q.    Wouldn't you want to see that --

6           A.    Oh, yeah.

7           Q.    -- before you concluded whether or not BTA was  
8 speaking for these other owners?

9           A.    I would like to see that JOA.

10          MR. CARR: Thank you.

11          MR. HALL: At this time we would call Steve  
12 Hulke.

13                         STEVEN D. HULKE,  
14 the witness herein, after having been first duly sworn upon  
15 his oath, was examined and testified as follows:

16                         DIRECT EXAMINATION

17 BY MR. HALL:

18          Q.    For the record, please state your name.

19          A.    My name is Steven Delbert Hulke.

20          Q.    And Mr. Hulke, where do you live and by whom are  
21 you employed and in what capacity?

22          A.    I live in Midland, Texas. I'm employed by Santa  
23 Fe Snyder Corporation as a senior staff geologist.

24          Q.    And have you previously testified before the  
25 Division and had your credentials accepted as a matter of

1 record?

2 A. Yes, sir, I have.

3 Q. And are you familiar with the Application and the  
4 lands that are the subject of this case?

5 A. Yes, sir, I am.

6 Q. And are you familiar with the geology of the  
7 area?

8 A. Yes, I am.

9 MR. HALL: At this time we would tender Mr. Hulke  
10 as an expert petroleum geologist.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Hall) Mr. Hulke, if you would, would you  
13 provide the Hearing Examiner with a geologic overview of  
14 the Morrow in the area?

15 A. Sure. We have four exhibits here, two maps and  
16 two cross-sections. The two maps are -- They both cover  
17 the same area, an area of four miles by -- four miles east-  
18 west, eight miles north-south, which includes the fully  
19 developed Gaucho area to the north, which is our analogue  
20 area for the Paloma Blanco prospect to the south. The two  
21 maps cover the same area, there's a structure map, there's  
22 a porous sand map.

23 I also have cross-section A-A' through the Gaucho  
24 area, our analogue area, and I have cross-section B-B',  
25 which is through our prospect area.

1 Q. Mr. Hulke, where is the proposed location for  
2 this well?

3 A. The proposed location is in the northeast quarter  
4 of Section 18.

5 Q. And is it located 660 feet off the east line?

6 A. That's correct, 1980 from the north.

7 Q. And why are you proposing that specific location?

8 A. That's a long explanation. Let me give the  
9 simple explanation first.

10 In the Gaucho area, in our analogue area, we have  
11 six Grama Ridge sand producers which have made about 21 BCF  
12 to date. The best wells up there are the highest wells,  
13 and in that analogue area it's the well in the southwest  
14 quarter of Section 29 and the well in the southwest of  
15 Section 20.

16 The well in the southwest quarter of Section 20  
17 was drilled later than these other wells, but its  
18 production shows that it will be the best well in the area.  
19 So in addition to the sand map, you'll see that the  
20 productive wells all have porous sand in the Grama Ridge  
21 greater than 10 feet. Our best wells have 31 feet of  
22 porous sand and 24 feet of porous sand. So the best wells  
23 are thick and high.

24 Down at the Paloma Blanco prospect, there are two  
25 key wells in the west half of Section 18 and the west half

1 of Section 19 which look very much to us like those wells  
2 had shows. They look very much like the well in the east  
3 half of Section 30, in the Gaucho area. There's  
4 insufficient sand to be a commercial producer.

5 So we believe that the west half of Section 18  
6 and the west half of Section 19 have show wells, they've  
7 been tested, we need to be in the east half of Section 18  
8 and Section 19. If the sand -- The sand must be thicker  
9 than is present in the two show wells in 18 and 19, at  
10 Paloma Blanco, and we believe that thicker sand can be  
11 found a half mile to a mile to the east of those wells.

12 Q. And do you have mud well control -- If you look  
13 at your sand map, do you have much well control to base  
14 that on to the east?

15 A. Yeah, to the east I have mostly zeros. There's a  
16 forest of zeros over there, and the reliability of the  
17 contours on the east side is far less than the reliability  
18 of the contours on the west side.

19 Let me additionally say that the 10-foot contour  
20 on the sand map, one might consider to be the magic  
21 contour. It's desirable to drill on the thick side of the  
22 10-foot contour, not on the thin side of it. The well in  
23 Section 30, which is a key well in understanding this  
24 prospect, had exactly 10 feet of porous sand, and it was  
25 noncommercial even though it was high enough to produce.

1 The wells in Section 18 and 19 both have six feet of porous  
2 sand, clearly insufficient reservoir to get commercial  
3 production.

4 So we need better than 10 feet of sand.

5 Q. So is it correct to say that there is some risk  
6 associated with your well located in an east-half unit?

7 A. Yes, certainly.

8 Q. And is it also correct to say that it is perhaps  
9 even more risky for you to orient the well or move the well  
10 to the west?

11 A. Yes, I want to stay away from the tight well in  
12 the west half, that's correct.

13 Q. And what do you know about Morrow production to  
14 the east of your location? Is there much?

15 A. To the east -- On this map, to the east of these  
16 wells there are no wells that produce from the Grama Ridge  
17 sand. There is some production in Section 8 from the "A"  
18 sand, and there's some production much further to the  
19 south. But the Grama Ridge sand does not produce east of  
20 the Section 18 and 19 wells.

21 Q. All right. In your opinion, is a standup  
22 orientation to a spacing and proration unit more  
23 appropriate for this acreage?

24 A. Yes, I believe so, because the west half of 18  
25 and 19 have been tested. The well in the west half of 18

1 is a dry hole. I want to stay away from that well. If the  
2 sand trends approximately north-south as it does at Gaucho,  
3 the sand will be present in the east half -- it's highly  
4 probable that it will be present in the east half but not  
5 in the west half.

6 Q. Now, does the geology justify a south-half  
7 orientation for this acreage?

8 A. A south-half well would only -- Only the  
9 southeast quarter of a south-half well would have reservoir  
10 adequate enough to get commercial production.

11 Q. Will a single well, say, in the southeast  
12 quarter, is that sufficient to drain the entire geologic  
13 structure?

14 A. Our experience at the Gaucho area tells us that a  
15 single well will drain 320 acres. So a single well drilled  
16 in the east half would drain all of the east half.

17 Q. All right. Is it reasonable to conclude that a  
18 well located in the southeast quarter would require the  
19 drilling of an additional well in the north half, were a  
20 south-half unit approved? Do you understand my question?

21 A. Please repeat it.

22 Q. Let me rephrase it.

23 A. Yes.

24 Q. Presume we have a south-half unit. Would that  
25 necessarily require the drilling of an additional well to

1 recover reserves in the northeast quarter?

2 A. A well anywhere in the east half, the southeast  
3 quarter or the northeast quarter, would drain 320 acres, so  
4 it would drain the entire half section, in my opinion.

5 To me, because the best wells at Gaucho are the  
6 highest wells, if we look at the structure map, the  
7 northeast quarter is higher than the southeast quarter. So  
8 I believe that to get the best well, it's preferable to  
9 drill in the northeast quarter.

10 Q. Were a well drilled on a south-half unit by BTA,  
11 would Santa Fe Snyder be obliged to drill a second well --

12 A. Absolutely.

13 Q. -- in the northeast quarter --

14 A. Absolutely.

15 Q. -- to protect its acreage?

16 A. No question about it.

17 Q. And in your opinion, would the drilling of a  
18 second well like that in this circumstance constitute  
19 economic waste?

20 A. Of course. Two more wells are more wasteful than  
21 a single well to drill the same reserves.

22 Q. In the event the Morrow is dry or noncommercial,  
23 does Santa Fe Snyder plan to evaluate zones uphole?

24 A. Yes, the -- Well, if we look at the cross-  
25 sections for a second --

1 Q. You're referring to Exhibit 17?

2 A. Looking at cross-section A and cross-section B,  
3 we've been talking about the Grama Ridge sand, the yellow  
4 sand on the cross-sections. There are other sands colored  
5 orange and green on the cross-section, which are secondary  
6 objectives in the Morrow. The big reward appears to be in  
7 the Grama Ridge, but we also have a chance of obtaining  
8 production in the middle Morrow "A" and the middle Morrow  
9 "C" sands.

10 In addition to those secondary sands in the  
11 Morrow, there is secondary potential in the Atoka. On this  
12 map in Section 9 there is Atoka bank production from that  
13 lime-colored blue towards the top of the cross-section.

14 Additionally, there is potential in the Bone  
15 Spring, the Bone Springs sand produces nearby. These are  
16 not commercial wells in the Bone Spring, in my opinion.  
17 Further to the south, the Bone Spring certainly is  
18 commercial.

19 Drilling in the area we've also seen shows in the  
20 Strawn, Wolfcamp and Delaware.

21 So yes, there are secondary objectives.

22 Q. Summarizing your geologic testimony, is it your  
23 opinion that there is a risk that the Morrow well or its  
24 proposed may not be a commercial success?

25 A. Oh, yes.

1 Q. And that is the basis of your recommendation for  
2 a 200-percent risk penalty?

3 A. Yes, it is.

4 Q. Mr. Hulke, in your opinion will granting the  
5 Application be in the interest of conservation, the  
6 prevention of waste and the protection of correlative  
7 rights?

8 A. Yes.

9 Q. And were Exhibits 16 through 19 prepared by you?

10 A. Yes, they were.

11 MR. HALL: We'd move the admission of Exhibits 16  
12 through 19 --

13 MR. CARR: No objection.

14 MR. HALL: -- and that concludes our direct.

15 EXAMINER CATANACH: Exhibits 16 through 19 will  
16 be admitted as evidence.

17 Pass the witness, Mr. Carr?

18 CROSS-EXAMINATION

19 BY MR. CARR:

20 Q. Mr. Hulke, in preparing your geologic study of  
21 this area, are these maps prepared strictly from well  
22 control, or have you integrated seismic information into  
23 these maps?

24 A. This is subsurface well control, no seismic.

25 Q. And so when we look at the pod, the formation in

1 the Morrow that you're attempting to drill the proposed  
2 well into, we really are looking at information that you  
3 have from a couple of wells on the eastern flank of what  
4 you believe to be this structural high?

5 A. I assume you mean down in the prospect area?

6 Q. Yes, I'm --

7 A. Yes, that's correct.

8 Q. As opposed to the Gaucho area. You've got the  
9 two wells on the western side of the structure, and then  
10 you have at B' -- Is that a dry hole in the Morrow?  
11 There's a well that is at the B' signal down in the project  
12 area.

13 A. Oh, that is -- That made a little bit of gas in  
14 the Morrow. That's the Monsanto Back Basin well. It made  
15 a little bit of gas from the "A" sand, but not -- If you're  
16 talking about the Grama Ridge sand, yes, that's correct, it  
17 was dry in the Grama Ridge.

18 Q. But they did have a show in the "A" sand?

19 A. It had a little bit of production, .06 BCF from  
20 the "A" sand, so certainly noncommercial.

21 Q. And so your interpretation is really based on  
22 looking at the Gaucho area as the analogue and then coming  
23 down with this bit of information, and we hope we have a  
24 similar feature down in this area?

25 A. Yes. If you look at the cross-sections, on A-A'

1 the leftmost well looks incredibly like the two wells that  
2 are westernmost in the B-B' cross-section, so if this area  
3 is like the analogue area, the thicker sand is to the east.

4 Q. The Paloma Blanco "17" Federal Number 1 well, the  
5 well currently drilling --

6 A. Yes, sir.

7 Q. -- that is the first well in this new prospect  
8 area, is it not?

9 A. Yes.

10 Q. And there is high risk associated with that,  
11 because not only -- I mean, you would agree with me, the  
12 Morrow is generally high risk?

13 A. Yes.

14 Q. And here there is limited data; you're hoping you  
15 can do what you were able to do in the Gaucho area?

16 A. Yes, sir. Yes, there's lots of -- There's a  
17 large area, so it's a large potential opportunity.

18 Q. When we look at your 20-foot contour in the  
19 prospect area on Exhibit 19, as you pull that 20-foot  
20 contour off to the east in Section 17, again that is just  
21 interpretation, correct?

22 A. It is not just interpretation.

23 Q. What --

24 A. Further to the south, there's another thick well,  
25 so that thick is aiming at a thick well down in Section 3.

1 Q. And yet, because of the well in the southeast of  
2 20, you've pulled the contours in. Is that how you did it?

3 A. Please repeat your question.

4 Q. I mean, you've got a thick on the east, you find  
5 that from information you had in Section 30, but you did  
6 have to pull the contours to the west in Section 20 because  
7 you're honoring well data there?

8 A. Yes, in the southeast of 20 that zero point, yes,  
9 sir.

10 Q. If the well in Section 17 that you're now  
11 drilling is unsuccessful, can you commit as to whether or  
12 not you would also attempt a well in Section 18?

13 A. I certainly can't commit to it. There's a large  
14 universe of potential outcomes for that well in 17. At  
15 this point we are extremely enthusiastic about the well in  
16 17 and the well in 18. It's certainly possible that the  
17 "17" 1 could dampen or heighten our level of enthusiasm.

18 Q. If you drilled well as you're proposing, in the  
19 northeast of 18, and it was a marginal well, that would  
20 still tie up the entire interest in the 320-acre east half  
21 of Section 18, would it not?

22 A. That's a land question, I guess.

23 Q. My question is, you believe that based on the  
24 data you have, one well will drain 320 acres?

25 A. Yes.

1 Q. You're proposing to drill a well as you propose  
2 it in the northeast quarter of this section?

3 A. Yes.

4 Q. If that well is marginal, at that point in time  
5 you would have to decide if any further development was  
6 necessary in that section, based on the data you then --

7 A. Yes, new data.

8 Q. And if a second well was warranted, then that  
9 would be a decision that Santa Fe is the operator; wouldn't  
10 that -- Correct?

11 A. We will change the maps and our interpretation  
12 well by well, yes, as new data is available.

13 Q. If I look at this map, a location in the  
14 southeast quarter, wouldn't it be as good if you were as  
15 far east on that section as the proposed well location?

16 A. I believe it would be as good with respect to  
17 finding sand. It would not be as good -- It would not be  
18 as high --

19 Q. Okay.

20 A. -- and I would prefer to be higher.

21 Q. When I look at Section 18, you would agree with  
22 me that there are some reserves in the west half of the  
23 section; isn't that right?

24 A. Yes, the 10-foot contour appears to go pretty  
25 much down the north-south dividing line between the east

1 and west half of the section. Perhaps it wanders a little  
2 bit to the west.

3 Q. And the well you're proposing, is it your  
4 testimony, would drain those reserves? Would the well that  
5 you're proposing drain the reserves in the west half of the  
6 section?

7 A. It would drain -- Based on what we know in the  
8 Gaucho area, it would drain about 320 acres.

9 Q. And I'm not trying to ask you to make -- an  
10 unfair question, but you're not a person who, with the data  
11 available right now, could make any commitment as to what  
12 the development ultimately will be or would be required to  
13 be in Section 18?

14 A. No.

15 Q. This is the first step down the road in the  
16 prospect area?

17 A. Yes. We are faced with potential rig-  
18 availability problems which make it desirable to think  
19 several steps ahead.

20 Q. Were you involved with the decision to go with a  
21 standup unit, as opposed to a laydown unit?

22 A. I did the geology that geology that went into  
23 that decision.

24 Q. Is it fair to say your concern is that you  
25 believe that two wells will not be needed in this section?

1 A. Yes.

2 Q. And that is based on your experience in the area  
3 and the analogue area?

4 A. That's correct.

5 Q. It is fair to say that when you complete your  
6 well in Section 17, you may want to delay the drilling of  
7 the well until you have a chance to evaluate that, or are  
8 you prepared to say that you're ready to move immediately  
9 to the location in 18?

10 A. Yes to both potential outcomes. It just depends  
11 on what we see.

12 Q. And so you're not here committing to drill this  
13 well in September; you're going to look at the data and do  
14 what a prudent operator does, then go forward with your  
15 plan?

16 A. If the well comes in precisely as mapped, I'm  
17 sure we would move to Section 18 --

18 Q. And --

19 A. -- but there's risk --

20 Q. -- a surprise --

21 A. Yes, I have been surprised before. It may happen  
22 again.

23 Q. Now, did you testify that correlative rights  
24 would be protected if this Application is approved?

25 A. I don't know if I testified to that or not.

1 Okay, yes I did.

2 MR. HALL: You said it was in the interest of  
3 protective rights.

4 THE WITNESS: Okay, yes.

5 Q. (By Mr. Carr) Do you understand the term -- I  
6 don't want to ask you questions and push you someplace  
7 where you're not comfortable. Do you understand the term  
8 "correlative rights"?

9 A. No, not entirely.

10 Q. In New Mexico, correlative rights is the  
11 opportunity afforded operators to producers to produce the  
12 reserves under their --

13 A. Okay.

14 Q. If this Application is approved, certainly Santa  
15 Fe would have an opportunity to go out and drill a well and  
16 produce its reserves, would it not?

17 A. Yes.

18 Q. Would BTA?

19 A. I would assume that BTA -- If I were representing  
20 BTA, I would participate in this well in a second.

21 Q. But that --

22 A. So they would have a chance to participate in  
23 producing those reserves.

24 Q. By joining in a well proposed by Santa Fe?

25 A. Yes.

1 Q. At a different location?

2 A. Yes.

3 Q. And doing it now when there is a chance that you  
4 might not even drill a well up there?

5 A. Yes. I would also say they would have a chance  
6 to participate in a well that's in a further updip  
7 location. So again based on the analogue, that's a  
8 preferred location, rather than the location for the  
9 downdip.

10 Q. If that's what it looks like when we're ready to  
11 spud it, correct?

12 A. I would say that there is a very small likelihood  
13 that the structure map will change appreciably. I have a  
14 lot more confidence in the accuracy and precision of the  
15 structure map than I do in the sand map.

16 Q. But if your Application is approved, the only way  
17 Santa Fe could actually develop its reserves is by agreeing  
18 with your location and your proposal, correct?

19 A. The only way.

20 MR. HALL: Mr. Examiner, I think I'll object.  
21 This is getting beyond the scope of direct at this point,  
22 beyond the scope of geologic expertise. I think it's --

23 MR. CARR: Mr. Hulke --

24 MR. HALL: -- lapsing over into the realm of  
25 legal argument at this point.

1 MR. CARR: Well, Mr. Hall did say that he would  
2 have another witness who would talk about correlative  
3 rights, and I'm just trying to confirm if they have any  
4 idea or any plan on the part of Santa Fe whereby BTA has  
5 any option other than being pooled or participating in the  
6 well as they've proposed it if, in fact, the Application is  
7 granted. If you can't answer that, just tell me.

8 MR. HALL: He can speak to correlative rights  
9 within the scope of his geologic expertise, but these are  
10 land and legal questions.

11 Q. (By Mr. Carr) In terms of the geology of this  
12 area, when you complete the Paloma Blanco "17", the geology  
13 may change, correct?

14 A. Yes.

15 Q. When you complete the well, if this Application  
16 is granted in 18, the geology may change, correct?

17 A. That's correct.

18 Q. Your geologic interpretation is based on well  
19 control, correct?

20 A. That's correct.

21 Q. The wells that you're looking at are two wells,  
22 one in Section 18 and one in Section 19, on the western  
23 flank of the Morrow in this area, correct?

24 A. That's correct.

25 Q. And then you have a well that was dry in the

1 Grama Ridge sand on the eastern side of this project area,  
2 right?

3 A. I assume you're talking about the well in the  
4 southeast quarter of Section 20?

5 Q. I am.

6 A. Yes, sir.

7 Q. And then between those two well points with no  
8 seismic, this is interpretation?

9 A. That's correct.

10 Q. Based on that interpretation, you picked the  
11 northeast over the southeast?

12 A. That's correct.

13 Q. And based on that interpretation, you believe the  
14 rights of people in this area will be best protected from a  
15 geologic point of view with the well where you propose it?

16 A. That's correct.

17 MR. CARR: That's all I have.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Hulke, which wells did you guys drill in the  
21 Gaucho area?

22 A. All of those wells with the large gas symbols.

23 Q. A total of seven wells?

24 A. We've drilled 11 wells in this area, and I'll  
25 tell you which ones those are. I guess that's your

1 question.

2 First off, to the north in Section 17, we drilled  
3 a dry hole in the southwest of 17.

4 Q. Uh-huh.

5 A. That was wet.

6 We drilled a gas well which produces from a  
7 different Morrow sand in the southeast corner of 17.

8 We drilled both wells in Section 20.

9 We drilled the 21 well.

10 Both wells in Section 29.

11 We drilled the single well in Section 30, in the  
12 east half of 30.

13 We drilled a well in Section 32.

14 We drilled both wells in Section 4, further to  
15 the south, in the next township, the 5/2 and the 0/0.

16 By my count that's 11 wells.

17 Q. Okay. You keep referring to your experience in  
18 this area with what these wells will drain. Is it your  
19 opinion these wells will drain 320 acres?

20 A. Yes.

21 Q. But you have no evidence to present at this  
22 hearing to substantiate that?

23 A. No, I have no engineering data.

24 Q. So what is it based on? You just -- Is it  
25 something that you guys have in house, that you've just --

1           A.    The engineer I work with has worked on that facet  
2 of the problem. We looked very hard at additional infill  
3 drilling in the Gaucho area, and it's fully developed.

4           Q.    Would you be able to submit something to me that  
5 shows, maybe, what the drainage area of those wells are, at  
6 a later time?

7           A.    Sure, I would have someone else submit it, the  
8 appropriate engineer.

9           Q.    That would be fine.

10                  So in your opinion, this whole trend is one  
11 continuous sand that just trends north-south.

12           A.    I would tiptoe around the word "continuous" I  
13 believe that you can correlate a continuous sand from north  
14 to south here. In fact, I've done it.

15                  The problem is, the presence of the sand is not  
16 as critical as the presence of the porosity. And once the  
17 sand gets less than 10 feet thick, once the amount of  
18 porous sand defined by 8 percent or better porosity gets  
19 less than 10 feet thick, it tends not to be a single blocky  
20 sand; it tends to break into, say, two fours and a two-foot  
21 sand, and that is inadequate reservoir. If it's a single  
22 10-foot zone, that's beautiful. But that isn't what  
23 happens. When the sand gets thinner, it tends to break up  
24 into a number of thinner sands.

25                  So certainly the wells in Section 5 and Section

1 6, where it gets very thin, you can correlate a continuous  
2 yellow zone, say, from north to south. But it is not a  
3 pipeline-type sand. It's very, very tight in Sections 5  
4 and 6, it gets very tight in Section 9.

5 So I hope you understand why I want to tiptoe  
6 around the word "continuous". The stratigraphic interval  
7 is continuous, the porosity in the sands is not continuous;  
8 let's say it that way.

9 Q. Okay. Given the orientation or trending of that  
10 sand in that north area there, is it likely that that  
11 trending direction will change in the south area?

12 A. We have reason to believe that it will remain  
13 north-south.

14 Q. And that is the geologic well control that you  
15 have down in the south?

16 A. Yes, yes. We have additional control further to  
17 the south here, where there is well control that shows that  
18 it's thick again.

19 Q. So this sand continues down to the south?

20 A. Yes. But my only wells with Grama Ridge sand  
21 developed are in the west half of 18 and the west half of  
22 19.

23 Q. So the Grama Ridge sand disappears as it moves  
24 south? Is that what you're saying?

25 A. No, I just have land control there in Section 18

1 and 19. I don't have -- I'm just agreeing with you, yes, I  
2 do not have thick sand control in the prospect area.

3 Q. Okay. Now, this map, you have that listed as  
4 porous sand, now. Is this, in fact, the Grama Ridge sand  
5 you've mapped here?

6 A. Yes, it's the yellow sand on the cross-sections.

7 Q. Okay.

8 A. It's the Grama Ridge sand, yes. And only the  
9 Grama Ridge sand.

10 Q. Have you experienced any -- Is there any water  
11 component in this reservoir to the north, in the Gaucho  
12 area?

13 A. The well up in Section 17 is extremely wet. It  
14 calculates 100-percent water saturation. The water  
15 saturation in the productive wells, say in Section 20,  
16 Section 29, the water-saturation is in the 20s to 30  
17 percent. We are not experiencing water production there.  
18 We don't have water problems.

19 Q. Okay. So the wells that are structurally higher  
20 just produce better -- Is it better porosity, permeability?

21 A. I think that's what it is, yeah. I think there's  
22 probably some paleostructure implication here that  
23 controlled the porosity development or made porosity  
24 development higher or better in the higher locations.

25 Q. And your northeast-quarter location should be

1 about how much higher structurally than a southeast  
2 quarter?

3 A. About 100 feet. My contour interval is 100.  
4 Between their location ours may be 80 feet, I'm sorry.

5 Q. In your opinion, does that make a big difference?

6 A. At Gaucho it seems to make a difference. We can  
7 look in Section 20 -- I'm sorry, Section 29. The 2Y has  
8 made 7, nearly 8 BCF. And going down 20 -- 60 feet, the  
9 Number 1 well, which was drilled earlier, has made only 5  
10 BCF, and the 2Y is still going strong. That's probably  
11 going to be an 8- to 10-BCF well. And the Number 1 is on  
12 the feather edge. It's made about 5 BCF, and it might make  
13 5.5. So what is that? 50-percent greater production  
14 between those two?

15 Q. As far as the sand numbers you've got next to the  
16 wells, is that net and gross?

17 A. Yes, if you look down at the bottom in the  
18 legend, the first number is clean sand, using a gamma-ray  
19 cutoff of 50 API.

20 Q. Okay.

21 A. The second number is 8-percent or better  
22 porosity.

23 Q. Okay. That well in Section 19 to the south did  
24 produce some amount of gas, 340 million?

25 A. Yes, it made about .3 BCF from the Grama Ridge

1 sand.

2 Q. And that's currently -- or has been plugged?

3 A. Yes, that is the first well on the B cross-  
4 section. Yes, it's the Continental Bell Lake Unit Number  
5 10, completed in 1965.

6 Q. Okay.

7 A. I'm sorry, it was completed in the Devonian in  
8 1965, they came back up to the Morrow in 1976.

9 EXAMINER CATANACH: Okay, I believe that's all  
10 the questions I have of this witness.

11 Is there anything else?

12 MR. HALL: That concludes our direct case, Mr.  
13 Examiner.

14 I'd also tender Exhibits 20 and 21. They are Mr.  
15 Kellahin's notice affidavit. Exhibit 21 is a letter to BTA  
16 that Mr. Kellahin sent, asking that they agree that  
17 notification of the hearing to all of the 90-some-odd BTA  
18 interest owners be handled by Mr. Crawford at Midland. We  
19 understand that there's no disagreement over notice to BTA  
20 group.

21 MR. CRAWFORD: I don't know that I've received  
22 that letter.

23 MR. CARR: Mr. Catanach, Mr. Crawford is here and  
24 advises that he never even received that letter. I'm not  
25 aware of it. We can confirm that quickly for you.

1           MR. HALL: I would also point out BTA's Exhibit  
2 1, their only exhibit in this case, their May 8th letter  
3 where BTA advised Santa Fe that it would be representing  
4 all of the 97 interest owners.

5           EXAMINER CATANACH: Okay, so we can stipulate to  
6 that. Okay.

7           MR. CARR: Mr. Catanach, I'd like to make a very  
8 brief statement. We do have a motion to dismiss pending.

9           EXAMINER CATANACH: Why don't you go ahead and  
10 make your comments?

11          MR. CARR: Mr. Catanach, Santa Fe is before you  
12 seeking an order pooling the east half of Section 18,  
13 Township 23 South, Range 34 East. They come before you  
14 with a new prospect area, an area in which they've had  
15 limited data on the reservoir.

16          As you know, they've presented no drainage  
17 information. The data they will present will be from other  
18 wells in the area, wells to the north, wells that may not  
19 be reflective of what occurs in the prospect area, data  
20 which, if it does show larger drainage areas in the north,  
21 is inconsistent with the statewide spacing units for the  
22 Morrow in this particular area.

23          And they're asking you to come in and issue an  
24 order which, in essence, not only overrides the BLM's APD  
25 but sets aside the plans of Santa Fe to develop their

1 recoverable reserves under the acreage that they represent  
2 here today with a standard spacing unit and a well at a  
3 standard location.

4 But we submit to you that in this case you have a  
5 correlative-rights issue before you. Are you in this case  
6 going to deny them the opportunity to produce their  
7 reserves on a standup spacing unit? And they're prepared  
8 to do it, they're drilling in the Gaucho area, they will  
9 have a rig available to drill the well before the  
10 expiration in January of the APD.

11 The only thing available to BTA, if you grant  
12 Santa Fe's Application, is to either sign on or be  
13 nonconsent. And the problem with that is that we have a  
14 unit we want to go forward with, a spacing unit we want to  
15 develop, and we're asking you to give us the opportunity to  
16 do that. They can go ahead and develop the north half.

17 What we propose in no way infringes on their  
18 correlative rights. They can go develop their reserves  
19 under their acreage with their well.

20 We're asking you to let us develop our reserves  
21 under our acreage with our well. And we believe we have a  
22 statutory, guaranteed right to do that. It's called  
23 correlative rights. And that's what we're asking you to  
24 protect, either by dismissing the Application or by ruling  
25 against this Application when you enter an order in this

1 case.

2 MR. HALL: Mr. Catanach, by their opposition to  
3 Santa Fe's well proposal in this Application BTA is putting  
4 you in the position of having to decide whether this  
5 acreage can be developed with two wells or one well. If  
6 they insist that a south-half unit is the only way to go,  
7 then necessarily two wells will have to be drilled so that  
8 Santa Fe Snyder can protect its own correlative rights.  
9 But the unrefuted evidence is, that would result in  
10 economic waste.

11 BTA has also complained that they will be  
12 prevented from developing their acreage. Well, I think the  
13 truth is quite obvious: They won't be prevented; they  
14 won't develop. What BTA has sought to do is simply sit on  
15 operating rights it's owned since at least 1980, while  
16 other operators such as Santa Fe who are willing to risk  
17 capital and go forward with developing prove up acreage all  
18 around them. That is obvious, what's happening.

19 They also say that an order from you approving an  
20 east-half proration unit will somehow damage their property  
21 rights in an APD. Don't forget, Santa Fe Snyder also has  
22 an approved APD. And the fact of the matter is, legally  
23 there is no property right in an APD.

24 Don't forget that BTA has done nothing to promote  
25 the development of its acreage. They have not communitized

1 their two separate federal leases. Until they do so, their  
2 APD is worthless.

3 Now, Santa Fe Snyder came before you, presented  
4 evidence that it's ready to go, and they are actually  
5 developing acreage to the east, and they have a rig  
6 available.

7 BTA had a witness available today, but they made  
8 the affirmative election that they would present no  
9 evidence to you. I would submit to you that if anything  
10 else, you decide this case based upon a preponderance of  
11 the evidence.

12 The evidence shows that an east-half unit is  
13 justified. BTA has provided absolutely no evidence that a  
14 south-half unit is justified. You must find in favor of  
15 Santa Fe Snyder's Application.

16 And you will also recall, Mr. Examiner, that you  
17 presided over a case with similar ramifications, where  
18 Mewbourne and Devon had a dispute over the development of a  
19 proration unit, and in that case all the things were fairly  
20 equal with respect to ownership. Geology was not an issue  
21 in that case, location was not an issue in that case.

22 But the deciding factor was where an operator had  
23 made a showing that it was willing to risk capital and  
24 would actually develop resources, that would be the  
25 deciding factor. I suggest that factor should also be

1 given considerable weight here, and evidence that shows an  
2 operator who sits on its property rights should be  
3 discarded, and that sort of conduct should not be rewarded.

4 That's all I have, Mr. Catanach.

5 EXAMINER CATANACH: Mr. Carr, I'm going to deny  
6 your motion to dismiss the case and go ahead and consider  
7 whether to grant or deny the Application, based on the  
8 evidence that we've received here today.

9 MR. CARR: Do you desire proposed orders?

10 EXAMINER CATANACH: I do not. I would, however,  
11 request that you get that additional evidence to me as far  
12 as the drainage to the north, and also provide that to Mr.  
13 Carr.

14 MR. HALL: Will do.

15 EXAMINER CATANACH: And if you can get that in --

16 MR. CARR: On receipt of that, we may want to  
17 respond to it. I mean, you're taking evidence into  
18 consideration we can't cross on.

19 EXAMINER CATANACH: Respond in what fashion?

20 MR. CARR: We'll have to see the evidence before  
21 we can tell you that. But if you're going to be  
22 considering drainage information that wasn't presented here  
23 today, we would just advise that if there is something  
24 we're concerned about, we may request an opportunity to  
25 respond to that.

1 EXAMINER CATANACH: Well, you've already stated  
2 that you believe that that evidence is not relevant to the  
3 case.

4 MR. CARR: I've stated that I don't believe the  
5 evidence can be relevant, but we haven't seen it.

6 EXAMINER CATANACH: Okay, fair enough.

7 MR. CARR: I mean, it's as gray as the technical  
8 data to support the location.

9 EXAMINER CATANACH: Okay, we'll allow you the  
10 opportunity to respond to that when you receive it, Mr.  
11 Carr.

12 Is there anything further?

13 MR. HALL: Nothing further, Mr. Examiner.

14 EXAMINER CATANACH: All right, there being  
15 nothing further in this case, Case 12,449 will be taken  
16 under advisement.

17 (Thereupon, these proceedings were concluded at  
18 11:04 a.m.)

19 \* \* \*

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I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 2449  
heard by me on 7/27/ 1900.  
David R. Catanch, Examiner  
Of 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 July 30th, 2000.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002