

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:)
)
 APPLICATION OF RICKS EXPLORATION, INC.,)
 FOR POOL CREATION AND SPECIAL POOL RULES,)
 LEA COUNTY, NEW MEXICO)

CASE NO. 12,538

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

November 16th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV
 NOV 30 PM 10:57

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, November 16th, 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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 Examiner Hearing
 CASE NO. 12,538

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A P P E A R A N C E S

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FOR MIKE FIELD, FIELD CIRCLE 7 RANCH MINERAL PARTNERSHIP,
and THE FIRST NATIONAL BANK OF BROWNSVILLE, TEXAS,
SUCCESSOR TRUSTEE FOR ANITA FIELD TRUST AGREEMENT:

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By: ERNEST L. PADILLA

* * *

1 WHEREUPON, the following proceedings were had at
2 11:25 a.m.:

3 EXAMINER ASHLEY: This hearing will come to order
4 now for Docket 34-00. Please note today's date, October
5 16th, 2000. I'm Mark Ashley, one of the appointed Hearing
6 Examiners for today.

7 And before we call the first case I'd like to
8 review the docket for continuances and dismissals.

9 (Off the record)

10 EXAMINER ASHLEY: The Division calls Case 12,538,
11 Application of Ricks Exploration, Inc., for pool creation
12 and special pool rules, Lea County, New Mexico.

13 Call for appearances.

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

17 MR. PADILLA: Mr. Examiner, Ernest L. Padilla,
18 Santa Fe, New Mexico, for Mike Field, Field Circle 7 Ranch
19 Mineral Partnership, and the First National Bank of
20 Brownsville, Texas, successor trustee for Anita Field Trust
21 Agreement.

22 EXAMINER ASHLEY: Do you have any witnesses?

23 MR. PADILLA: I don't have any witnesses.

24 EXAMINER ASHLEY: Any other appearances?

25 Will the witnesses -- Since you're already

1 standing, please prepare to be sworn in.

2 (Thereupon, the witnesses were sworn.)

3 CHET COLLIER,

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

6 EXAMINATION

7 BY MR. BRUCE:

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

10 A. Chet Collier, Oklahoma City, Oklahoma.

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

12 A. Ricks Exploration, Inc., as landman.

13 Q. Have you previously testified before the
14 Division?

15 A. No, I haven't.

16 Q. Would you summarize your educational and
17 employment background for the Examiner?

18 A. I'm a graduate of the University of Kansas.

19 After graduating the University of Kansas, I went to work
20 for my family's oil and gas lease brokerage business, then
21 went to work for Union Oil Company of California; after two
22 years with Union Oil Company of California, resigned and
23 went back to work as an oil and gas lease broker, running
24 my own business, representing Union Oil Company of
25 California again, until basically 1995 when I went to work

1 for Ricks Exploration, where I've been since.

2 Q. How many years of experience do you have in the
3 oil and gas business?

4 A. Twenty-five.

5 Q. Primarily as a landman or lease broker?

6 A. Right, right.

7 Q. And are you familiar with the land matters
8 involved in this Application?

9 A. I am.

10 CHAIRMAN WROTENBERY: Mr. Examiner, I'd tender
11 Mr. Collier as an expert petroleum landman.

12 EXAMINER ASHLEY: Mr. Collier is so qualified.

13 Q. (By Mr. Bruce) Mr. Collier, briefly, what does
14 Ricks Exploration seek in this case?

15 A. Ricks is seeking to form a new pool called the
16 North Trinity-Devonian Pool, which will be 160 acres,
17 covering the southeast quarter of Section 22. We'd request
18 also that the wells be no closer than 660 feet from the
19 quarter section line or 330 feet from the quarter-quarter
20 section line.

21 Q. And Ricks is requesting 160-acre spacing, is it
22 not?

23 A. That's correct?

24 Q. What is Exhibit 1?

25 A. Exhibit 1 is a land plat showing the acreage and

1 the nine surrounding sections also.

2 Q. The 160 acres you propose for the pool is
3 highlighted in yellow?

4 A. That's correct.

5 Q. And the well we're concerned about, the discovery
6 well, is the Burrus Well Number 1, which is -- what? In
7 the southwest quarter of the southeast quarter?

8 A. Right, it's 900 feet from the south line and 1859
9 from the east line.

10 Q. Okay. And the geologist and engineers will
11 discuss the basis for the pool-rules request?

12 A. They will.

13 Q. Okay. What about -- Looking at this map, are
14 there existing Devonian wells within a mile of the proposed
15 pool?

16 A. There is. There's one in the southeast quarter
17 of Section 28, and that's operated by Charles B. Gillespie.

18 Q. Or the southwest quarter of Section 27; is that
19 correct?

20 A. Oh, yeah, pardon me, southwest quarter of 27.

21 MR. BRUCE: Okay. And also, Mr. Examiner, I
22 don't know that there's a Devonian well in the southeast
23 quarter of Section 28. There is an APD on file with the
24 Division regarding a Devonian well in the southeast quarter
25 of Section 28. I don't think that well has been drilled.

1 And that was filed by J.P.H. Oil Producers of Lovington.

2 Q. (By Mr. Bruce) These offset operators have been
3 notified of this hearing, have they not?

4 A. Yes, they have.

5 Q. Have they expressed any opposition to the
6 Application?

7 A. No, they haven't.

8 Q. Okay. Mr. Gillespie's office has called -- has
9 contacted us and has expressed no opposition; is that
10 correct?

11 A. That's correct.

12 Q. Okay. Now, looking at Exhibit 1, it looks like
13 the east half of the southwest quarter and the southeast
14 quarter of Section 22 is common mineral ownership?

15 A. They are.

16 Q. Okay. What is Exhibit 2?

17 A. Exhibit 2 is a listing of the breakdown of the
18 owners inside of the Burrus Unit for the Burrus well.

19 Q. Okay, so this is a listing of interest owners for
20 the Burrus Well Number 1. In particular for the -- what?
21 The southwest quarter, southeast quarter; is that correct?

22 A. It's for the entire southeast quarter and the
23 east half of the southwest quarter of Section 22.

24 Q. Okay. So interest ownership is uniform
25 throughout that -- what? 240 acres, correct?

1 A. Correct.

2 Q. So if spacing is increased, there will be in
3 alteration in the interest out of revenue that people will
4 receive?

5 A. No, there will not.

6 Q. Okay. If these pool rules are granted, do you
7 request that they be temporary?

8 A. Yes.

9 Q. For a year, would that be sufficient?

10 A. One year is fine.

11 Q. Okay, so that additional data can be gathered.

12 Were all of these interest owners notified of the
13 hearing, the interest owners listed on Exhibit 2?

14 A. Yes, they were.

15 Q. And is Exhibit 3 my affidavit of notice with the
16 notice letters, et cetera?

17 A. Yes, it is.

18 Q. Now on your Exhibit 2, right at the very top of
19 page 1, there are two interest owners without addresses.
20 Who are they and what is their status?

21 A. They're royalty owners, and we have not been able
22 to locate them. And in fact, according to our title
23 opinion they may not be owners. We just tried to locate
24 them out of the abundance of caution.

25 Q. Okay. But you've had a title opinion done,

1 you've searched the county records, and you have been
2 unable to locate these people?

3 A. That's correct.

4 MR. BRUCE: Mr. Examiner, as a result, Exhibit 4
5 is a copy of an advertisement or notice that was published
6 in the Hobbs newspaper, the *Hobbs Daily News-Sun*. I do not
7 have the affidavit of publication back, but I request
8 permission to submit that after the hearing.

9 EXAMINER ASHLEY: That would be fine.

10 MR. BRUCE: And this directed to those two
11 unlocatable interest owners.

12 Q. (By Mr. Bruce) One final thing here, and I think
13 the next witness is going to get into this a little bit
14 too, but looking at your Exhibit 1, Mr. Collier, Mr.
15 Padilla is here representing some royalty owners, and I
16 believe the Division has been provided with a letter by O7
17 or Circle Seven Ranch, stating that -- at least Circle
18 Seven Ranch stated that they don't want 160-acre spacing.
19 They weren't averse to 80-acre spacing, but they discuss
20 development obligations in your lease. Could you just
21 briefly explain that and explain why that isn't really much
22 of an issue?

23 A. Well, the oil and gas lease covers 240 acres, and
24 it has a continuous-development provision, 40 acres, we
25 have to drill one well every 180 days, six months. It's

1 not an issue here because we've already staked a location
2 to drill another well to the Wolfcamp. This is for the
3 Devonian, and we just feel like one well, they'll get into
4 it -- we'll -- is adequate to drain the Devonian.

5 Q. So your development is ongoing on this lease?

6 A. Our development is ongoing on this. We've
7 already staked a location for another well.

8 Q. Okay, and you anticipate a well in the southeast
9 of the southeast being spudded within what? About 30 or 40
10 days?

11 A. Hopefully by the end of the year.

12 Q. Okay. Were Exhibits 1 through 4 prepared by you
13 or under your supervision or compiled from company business
14 records?

15 A. Yes.

16 Q. And in your opinion, is the granting of Ricks
17 Exploration's Application in the interest of conservation
18 and the prevention of waste?

19 A. It is.

20 MR. BRUCE: Mr. Examiner, I'd move the admission
21 of Exhibits 1 through 4.

22 EXAMINER ASHLEY: Exhibits 1 through 4 will be
23 admitted as evidence at this time.

24 Mr. Padilla?

25 MR. PADILLA: I don't have any questions of the

1 witness. I'd like, however -- I think the other witnesses
2 probably are people who I would want to cross-examine.
3 Should they not answer my questions and I have a question,
4 I'd like to recall Mr. Collier later.

5 EXAMINER ASHLEY: Okay.

6 MR. BRUCE: I don't have any further question --

7 EXAMINER ASHLEY: Okay.

8 MR. BRUCE: -- unless the Examiner does.

9 EXAMINER ASHLEY: Just a minute.

10 EXAMINATION

11 BY EXAMINER ASHLEY:

12 Q. Are you familiar with the letter from Sarah
13 Burrus sent to the Division?

14 A. I saw it this morning, yes, sir.

15 Q. Can you explain to me what her concerns are here?

16 A. It has to do, I believe, with the continuous-
17 development provision in our oil and gas lease. We have to
18 have another well spudded six months after the last rig
19 release of our last rig, or our last well. So you know, if
20 the lease expires, which it does in February, our leases
21 will expire unless we drill another well, and then we'll
22 get another six months. So she just wants to make sure
23 that we're continuing to develop the acreage.

24 Q. Okay, she made a reference to the lease agreement
25 and the addendum, paragraph 11. Have you looked at that?

1 A. I know what --

2 Q. Okay.

3 A. -- I believe I know what paragraph --

4 Q. And she makes reference to the standard proration
5 units, and it says here that it's agreed that in the
6 absence of proration units by governmental authority, such
7 units shall be not greater than 40 acres for oil and 640
8 for gas.

9 A. Correct.

10 Q. Is she concerned about that? Is that what she
11 is --

12 A. Well, when we drilled it, it was unspaced, and we
13 didn't know what we were going to get and how big the field
14 was going to be. So, you know, in the absence of the
15 spacing, then it will expire and it will be allocated to 40
16 acres.

17 Q. Have you drilled the well?

18 A. We have drilled the well.

19 Q. And you drilled it as a Devonian oil well?

20 A. We drilled it as a Devonian oil well, yes, sir.

21 Q. Okay, so it was spaced on 40 acres when you
22 drilled it, then?

23 A. That's right.

24 EXAMINER ASHLEY: Okay, all right. Okay, I have
25 nothing further. Thank you.

1 MR. PADILLA: Mr. Collier, based on your
2 questions, I think I --

3 EXAMINER ASHLEY: Okay.

4 MR. PADILLA: -- might ask some questions now.

5 EXAMINER ASHLEY: That's fine.

6 MR. PADILLA: I'm sorry, Mr. Ashley.

7 EXAMINATION

8 BY MR. PADILLA:

9 Q. Mr. Collier, when you entered into an oil and gas
10 lease with my clients, 80-acre spacing for the Devonian was
11 what was called for in that area, right?

12 A. I believe it's 40-acre spacing.

13 Q. Forty-acre?

14 A. Yes, sir.

15 Q. What Devonian fields do you know are spaced on
16 160 acres?

17 A. I'm not -- I haven't worked enough in New Mexico
18 to know exactly where there are 160-acre spacing units. I
19 understand there are 160-acre spacing units for oil in New
20 Mexico, but I can't point to any one in particular.

21 Q. Do you know whether any Devonian pools in this
22 area of southeast New Mexico are spaced on higher than 40
23 acres?

24 A. I'm not aware of where they would be. I can't
25 answer that question.

1 Q. If the Application is granted, paragraph 11 to
2 the lease agreement is rendered meaningless as far as the
3 Devonian Pool is concerned, right?

4 A. We would not have any more work to do in the
5 Devonian Pool. But we're -- There's still 80 acres outside
6 of the Devonian Pool which will not be affected. That will
7 be the east half of the southwest quarter.

8 Q. As far as the southeast quarter is concerned,
9 there would be no further requirement to develop or drill
10 additional wells under the paragraph 11, if this
11 Application is granted, correct?

12 A. That's correct.

13 Q. Would you have an obligation to drill the east
14 half of the southwest quarter if this Application would be
15 granted?

16 A. We would.

17 Q. How would that obligation occur?

18 A. Well, after we get through drilling the next well
19 -- Well, in the absence of the next well being drilled,
20 which is the Burrus 2, then our lease will expire on
21 February 14th as to the east half of the southwest quarter.

22 Q. Okay, but as far as the Devonian formation or the
23 Devonian pool is concerned, would you have any further
24 obligation to drill the remaining acreage under the oil and
25 gas lease, which would be the east half of the southwest

1 quarter of Section 22?

2 A. We would lose -- If we do not drill another well
3 between now and the expiration of the primary term, and in
4 the absence of this order being granted to us, then -- or
5 say this is given to us, then we will still lose the east
6 half of the southwest quarter of 22. This hearing doesn't
7 affect the east half of the south half of 22 at all. Are
8 we confused?

9 Q. I'm a little confused now.

10 A. Okay.

11 Q. Okay, looking at your land plat here, assuming
12 this Application is granted, you would have no further
13 obligations to drill any well at all in the southeast
14 quarter of Section 22?

15 A. That's correct.

16 Q. Okay. Would you have any obligation to drill the
17 east half of the southwest quarter of Section 22 if this
18 Application is granted?

19 A. Yes. I mean, we would have to drill in the east
20 half of the southwest quarter to keep that acreage. The
21 only acreage that would be held by no further drilling
22 would be the southeast quarter of 22. We'd still be
23 subject to -- I mean, if we don't drill another well, the
24 east half of the southwest quarter will expire on February
25 22nd, unless we drill another well; then we'll have six

1 months from the day of the rig release to move in and drill
2 that.

3 Q. Where is that well, the second well, scheduled to
4 be drilled?

5 A. Well, we staked the location in the southeast
6 quarter. It will be in the east offset to the Burrus
7 Number 1, but it will only be to the Wolfcamp.

8 Q. So your plans are not to develop any of the
9 southwest quarter at this point?

10 A. It depends on the outcome of the next well, sir.
11 Not to the Devonian, no, sir, but that doesn't mean that we
12 won't drill additional wells in the Wolfcamp.

13 Q. Is it your opinion that by drilling the well to
14 the Devonian -- well, the Burrus Number 1, that you would
15 hold all of the acreage in the southwest quarter held by
16 this lease?

17 A. No, we won't hold any of the acreage in the
18 southwest quarter, only the acreage in the southeast
19 quarter.

20 Q. If this Application is granted, you would only be
21 required to drill one well to the Devonian in the southwest
22 quarter of Section 22, right?

23 A. We have to drill another well. It would not
24 necessarily have to be to the Devonian.

25 Q. But as far as the Devonian is concerned, based

1 on -- Well, assuming this Application is granted, you would
2 only have to drill one well in the southwest quarter in
3 order to keep a well -- or keep the lease covering the
4 southwest quarter?

5 A. Well, we'd have to drill -- We would be able to
6 keep 160 -- Pardon me, we would be able to keep 40 acres.
7 We'd have to drill two wells in the southwest quarter.
8 We'd have to drill the southeast-southwest, and if that was
9 good, we would have to drill the northwest-southwest. It's
10 on -- The lease provides for 40-acre development.

11 Q. I understand, but my question is premised on the
12 assumption that this Application is going to be granted.

13 A. And it only covers the southeast quarter. We --
14 As Bill testified to, we believe that the Devonian pool
15 only covers the southwest-southeast quarter. It doesn't go
16 any further west. And that's what our geologist will show.

17 Q. Well, I won't get into geology.

18 A. Thank you.

19 Q. But you're essentially telling me the pool is
20 limited to the southeast quarter?

21 A. Exactly. Yes, sir, that's our strong belief.

22 Q. But by virtue of the rules that -- Well, let me
23 ask you this --

24 A. Yes, sir.

25 Q. -- with an adjoining well in the southwest

1 quarter to the Devonian, that would be governed by the new
2 pool rules, right?

3 A. No, no, they would be 40 acres. That's already
4 established.

5 MR. BRUCE: If I could, Mr. Examiner, Mr. Padilla
6 -- Ricks is asking that the 160-acre spacing, at least
7 during this temporary one-year period, be strictly limited
8 to the southeast quarter, and not to wells within a mile of
9 that southeast quarter, until we can gain more data on the
10 Pool.

11 MR. PADILLA: That's all I have, Mr. Examiner.

12 EXAMINER ASHLEY: Mr. Collier --

13 THE WITNESS: Yes, sir.

14 EXAMINER ASHLEY: First of all, Mr. Bruce, did
15 you have anything else?

16 MR. BRUCE: No, sir.

17 FURTHER EXAMINATION

18 BY EXAMINER ASHLEY:

19 Q. If I understand this right, even though this is
20 one continuous 240-acre lease, part of it can expire?

21 A. Right, right, by the terms of the oil and gas
22 lease?

23 Q. Okay.

24 A. Yes, sir.

25 Q. Okay, so your plans are to drill a Wolfcamp well

1 in the east half --

2 A. Correct.

3 Q. -- of the southwest quarter?

4 A. No, the east half of the southeast quarter.

5 We're moving east from this location.

6 Q. Okay. Then what are your plans for the east half
7 of the southwest quarter?

8 A. They may expire. If we miss on the next well, we
9 may not drill any more wells out there. And so by the
10 terms of the oil and gas lease they'll expire.

11 EXAMINER ASHLEY: Okay. Anything further?

12 MR. PADILLA: Well, another question, I guess.

13 FURTHER EXAMINATION

14 BY MR. PADILLA:

15 Q. If your second well is going to the Wolfcamp,
16 wouldn't that be based on -- you'd have to dedicate 320
17 acres?

18 A. It's 40.

19 Q. Forty --

20 A. It's a shallower zone. It will be --

21 Q. Forty for the Wolfcamp?

22 A. Yes, sir.

23 Q. Is it an oil projection?

24 A. Yes, sir.

25 Q. To the Wolfcamp?

1 A. Yes, sir.

2 MR. PADILLA: Okay, that's all I have.

3 EXAMINER ASHLEY: Mr. Bruce?

4 MR. BRUCE: (Shakes head)

5 EXAMINER ASHLEY: Thank you, Mr. Collier.

6 THE WITNESS: Okay.

7 GREG WILSON,

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

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

14 A. Greg Wilson, Yukon, Oklahoma.

15 Q. Who do you work for?

16 A. Ricks Exploration, Inc.

17 Q. What's your job at Ricks?

18 A. I'm a geologist and geophysicist.

19 Q. Have you previously testified before the
20 Division?

21 A. No, I have not.

22 Q. Would you summarize your educational and
23 employment background?

24 A. I have a master of science from West Texas A&M,
25 Canyon, Texas. I've been employed in various places and

1 took years -- about 20 years of experience, the last five
2 years with Ricks Exploration, Inc.

3 Q. Does your area of responsibility include
4 southeast New Mexico?

5 A. In addition to many others.

6 Q. And are you familiar with the geology and
7 geophysics involved in this Application?

8 A. Yes, sir, I am.

9 Q. Before I qualify you, are you a geologist or a
10 geologist and geophysicist?

11 A. I'm basically -- I consider myself a geologist,
12 but through about the last 15 years of work I've basically
13 -- and for Ricks I do all the geophysical work --

14 Q. Okay.

15 A. -- interpretation.

16 MR. BRUCE: Mr. Examiner, I would ask to qualify
17 Mr. Wilson as both an expert petroleum geologist and
18 geophysicist.

19 EXAMINER ASHLEY: Mr. Wilson is so qualified.

20 Q. (By Mr. Bruce) Mr. Wilson, could you look at
21 Exhibit 5, identify it for the Examiner, discuss the
22 Devonian geology in this area and your future plans in the
23 Wolfcamp?

24 A. Okay. This is a blow-up, and this is a depth
25 subsea map on the top of the Devonian, based on 3-D

1 seismic. And basically it's on a 25-foot contour. And our
2 interpretation of the Devonian in this area was that based
3 on the extra thickness of the section on the isochron, that
4 there is a little reef development here that covers about
5 80 acres, and it's situated to where it kind of corners
6 within this 160-acre unit that we were looking at
7 proposing, and it would be real difficult to drill an
8 offset and not fall off about 80 to 100 feet in any
9 direction.

10 Q. Structure is extremely important in the Devonian,
11 isn't it?

12 A. It is.

13 Q. And looking at this map, you tried to drill this
14 well pretty much at the top of the structure?

15 A. Yes, sir, we did.

16 Q. If you lose sufficient structure, what do you hit
17 instead of oil?

18 A. Well, there's a good probability that we'll hit
19 water.

20 Q. Okay. Now, looking at this map, you said this
21 reservoir -- kind of odd-shaped, but it covers roughly 80
22 acres?

23 A. Right, it does.

24 Q. Now, you're here asking for 160-acre spacing.
25 What is the reason that you're seeking the larger spacing?

1 A. Because it's centered more towards the southwest
2 corner of the 160, but the size of it, it kind of
3 overlaps -- the edges of it overlap into the other three
4 40-acre units.

5 Q. Okay, so parts of this reservoir, parts of the
6 productive portion of the reservoir are in each quarter-
7 quarter section?

8 A. They are.

9 Q. And as the engineer will testify, there's really
10 only need for one well in this reservoir, is there not?

11 A. Right.

12 Q. Really just a couple of final questions. Looking
13 in the southeast quarter of the southeast quarter, you have
14 a white circle. What does that indicate?

15 A. That is the location of the Burrus 2 that -- We
16 were drilling another well in northern Lea County. Now we
17 plan to move the rig directly to this location and drill a
18 9600-foot Wolfcamp test. And our Wolfcamp would be a new
19 discovery also, and it's a good Wolfcampian zone that
20 produces to the south, and it usually covers some areal
21 extent. And so there's a good chance that we wind up with
22 Wolfcamp wells on every 40 acres within this lease, so --
23 and we also have offset acreage too.

24 Q. And your best estimation -- and this goes back to
25 Mr. Padilla's question -- is that the Wolfcamp would be an

1 oil zone in this area?

2 A. Right.

3 Q. Not a gas zone?

4 A. Correct.

5 Q. So if the Number 2 well works out, there could
6 well be additional wells in other directions?

7 A. Right, we'll probably plan to drill each of the
8 40-acre locations within this 160 and potentially step out
9 to the west, into the east half of the southwest of 22.

10 Q. Okay. Just one final matter on this map. This
11 map kind of cuts off on the north and cuts off to the
12 southeast. What is the reason for the blank spaces?

13 A. Well, there's additional prospects on the 3-D
14 seismic that we didn't want to disclose.

15 Q. Okay, and in some cases it's the limit of your
16 seismic data, is it not?

17 A. Right, correct, where we're losing the contours
18 here is -- I'm not extrapolating geologically past that;
19 we're just using the actual 3-D data tied to the wells, and
20 the contours stop at the edge of our definable 3-D data.

21 Q. Okay. Move on now to Exhibit 6. Just briefly,
22 what does that exhibit show?

23 A. Exhibit 6, I believe, is just a plat with the
24 locations, and it has -- I don't see -- Here it is, okay,
25 thanks. And it has a cross-section A-A' that Tom Robertson

1 prepared, and I believe he was going to discuss.

2 Q. Okay, and it has little squares around the only
3 Devonian wells?

4 A. Correct, there's a Devonian well in the southwest
5 of 27 and an additional Devonian well in the southeast of
6 35.

7 Q. Okay, so there isn't a lot of Devonian control
8 around here?

9 A. No, there is not.

10 Q. Okay, which is why your map is based on seismic?

11 A. Right.

12 Q. Okay. Was Exhibit 5 prepared by you or under
13 your supervision?

14 A. Yes, it was.

15 Q. And in your opinion, is the granting of Ricks'
16 Application in the interests of conservation and the
17 prevention of waste?

18 A. Yes, it is.

19 MR. BRUCE: Mr. Examiner, I tender the admission
20 of Ricks Exploration Exhibit 5.

21 EXAMINER ASHLEY: Not 6?

22 MR. BRUCE: I'll introduce that with the next --

23 EXAMINER ASHLEY: Exhibit 5 will be admitted as
24 evidence at this time.

25 Mr. Padilla?

EXAMINATION

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BY MR. PADILLA:

Q. Mr. Wilson, looking at your Exhibit 5 here, in the southeast quarter of Section 22 the salmon color or the deepest color is what?

A. The salmon color would start at about minus 8275 on the subsea contour.

Q. Does that depict the very top of the structure, or does that show that this is the meat of the reservoir?

A. Well, it's basically -- This is on top of the Devonian, so -- In cross-section, what you'll see on the cross-section, you'll see, is just kind of cone-shaped reservoir, and it steeply dips off in each direction on structure.

Q. So if you're looking at a bird's-eye view, you're essentially looking -- this is looking at a bird's-eye view of what the structure looks like and what the pool or --

A. Yes, sir.

Q. -- looks like?

A. Yes, sir.

Q. And would you agree with me that that is pretty much in the southwest quarter of the southeast quarter?

A. The majority of the feature lies in the -- actually in the south 80 acres, the pool would lay in the southern 80 acres, laydown, of the 160.

1 Q. Okay. Without quarreling with you, essentially,
2 this shows that the north half really contributes nothing
3 to this pool, right?

4 A. Well, if you draw a line separating east-west
5 through the middle of the 80 acres, very small, probably 15
6 percent of the pool would lie within the northern half of
7 the 160.

8 Q. What other Devonian pools are located in this
9 area?

10 A. Well, there's this Gillespie well to the south,
11 and I did not bring my map with all of the names of pools,
12 but there's a really large Gladiola field just to the north
13 and west. And then there's various pools, small one-well
14 fields, located all around the area.

15 The Bronco field is situated -- This well to the
16 south in 35, I believe, is on the edge of the Bronco Pool,
17 just to the south of us.

18 Q. All of those are Devonian pools?

19 A. They are Devonian pools, and Wolfcamp.

20 Q. And what are they spaced at?

21 A. I am not positive on the spacing on those wells.
22 I have not really looked at the spacing.

23 Q. Do you know, do you have any knowledge whether
24 they're spaced on any other than 40-acre spacing?

25 A. I know that in looking at some of the work that

1 we've been doing, that we're looking at some -- They're
2 drilling a well right now in northern Lea County that will
3 be spaced on 80 acres, and --

4 Q. How far away is that from here?

5 A. Oh, it's about 15 miles north.

6 Q. In this immediate area, to your knowledge is
7 there any pool that is developed on other than 40 acres?

8 A. I cannot answer that question, because that
9 doesn't really fall within my -- what I look at. I never
10 look at spacing units.

11 Q. Well, you would agree with me that it would be
12 good to know whether or not other Devonian pools are spaced
13 on 160 or 80 acres or higher than 40 in this area, right?

14 A. I think -- Yes, sir, I would.

15 Q. It would be a good thing to know?

16 A. But you know, actually, what we're looking at is
17 just trying to control this one pool. We know we're
18 already making water in the reservoir, so we're not wanting
19 to drill additional wells to this real small little
20 pinnacle reef, is all that we're looking at. We don't
21 think it would be in our best interest to spend about \$1.2
22 million right now to drill another well in light of the
23 fact that we're almost within a few feet of the apex of the
24 structure, probably, and already producing water at this
25 time, so...

1 Q. I'm not trying to get into your business
2 decisions, but -- as to whether or not to drill another
3 well or not to drill another well, but the effect of the
4 Application would be to hold acreage that may not be
5 productive, by your own admission here?

6 A. Right, we would be satisfied, probably, with the
7 south half of the 160 to control the majority of the
8 feature.

9 MR. PADILLA: I don't have any further questions,
10 Mr. Ashley.

11 EXAMINATION

12 BY EXAMINER ASHLEY:

13 Q. So Mr. Wilson, you're saying that you really only
14 need 80 acres then?

15 A. Well, in light of the fact that the well is
16 already making water, which is just a recent development
17 within the last couple of weeks, I mean, I would say that
18 I'd rather not leave additional acreage to the north open,
19 but in light of the fact that I don't know anybody else
20 that would drill a well, knowing the facts that we're on
21 the apex of the structure, would drill an offset to the
22 north as a flank well.

23 Q. Has the Number 2 well been drilled yet?

24 A. No, it's supposed to spud -- in about 30 days
25 we're drilling another well, and it's moving to this

1 location. And then if this is successful, we have a good
2 DST on the Burrus Number 1.

3 And we would be willing to supply the owners with
4 some information on the size of our -- I mean, we don't
5 know what we have in the Wolfcamp until we drill it, that
6 we can show them evidence it is a larger potential pool and
7 that we are planning on developing that.

8 And in light of the way our company works, if
9 this well is successful, and the other one, we'll probably
10 schedule rigs, as long as we're having success on our
11 schedule, which rigs are really difficult right now, to
12 probably move in and develop on a real rapid pace.

13 Q. The Wolfcamp?

14 A. The Wolfcamp.

15 Q. Did you test the Wolfcamp in the Number 1 well?

16 A. We did.

17 Q. And -- ?

18 A. It was a successful drill stem test with oil and
19 no water. And that same zone produces in the southwest of
20 35. It's exactly the same, and those were 200-barrel-a-
21 day-type wells, with not as good a DST as we had.

22 Q. The southwest quarter of Section 35, those two
23 Texaco wells, Number 1 and Number 3?

24 A. Yes, sir.

25 Q. Those are both Wolfcamp wells?

1 A. Yes, sir. And the well in the southeast of 28
2 and the northeast of 21 were Wolfcampian, but they were
3 Wolfcampian zones around 9600 feet, not around 9000; it's
4 not the same equivalent horizon.

5 Q. Did you say there's a Devonian well in Section
6 35?

7 A. Yes, there is. It's in the southeast quarter.

8 Q. Which one of the wells is that?

9 A. That would be that Texaco Harris Number 2.
10 There's Devonian and Wolfcamp in both.

11 Q. So it's completed as a dual-completed well in
12 Devonian and Wolfcamp?

13 A. Yes.

14 Q. I'm still a little confused about what you said
15 earlier, that really all you need to drain this structure
16 is the south half of the southeast quarter.

17 A. Well, we believe one well will drain the entire
18 structure, and I'm just saying that I'm not sure -- All we
19 were looking for was protection. We didn't want to give up
20 the rights to the Devonian and allow somebody else to
21 potentially come in and drill what we only needed one well
22 to drain, was our reasoning behind the 160.

23 Q. So do you have data to support that this will
24 drain 160 acres?

25 A. I'll have to defer that to the engineer.

1 Q. Okay.

2 A. I can say that one of the problems we have in
3 here is, most of the successful Devonian completions, you
4 top-set it and go open hole, so we have very little
5 information on the reservoir quality and what it's like,
6 the porosities, the water saturations and everything. It's
7 real difficult. Because a lot of times if you drill
8 through the Devonian you don't get a cement job and you
9 don't make as -- near as good a reserves. And so we
10 generally top-set these wells to stay away from that
11 problem.

12 And so you're not going to see -- Most people
13 enter into the Devonian and test it, get shows and drill
14 stem test it and quit right there. And so the wells that
15 have information are wells that had unsuccessful DSTs, and
16 they drilled deeper. And the reservoir rock that we're
17 looking at there, because we think some of these are
18 potentially small bank or reef developments, that rock is
19 not present in the offset, that didn't contain that
20 additional growth of the section.

21 And so all I'm saying is, it's real difficult to
22 define the reservoir parameters here, because we don't have
23 the data. I mean, we're here to make money, not look for
24 the pure science. And there's lots of history, if you
25 drill through these, that you do not make a good well. So...

1 Q. Is the Gillespie Number 1 in the southwest
2 quarter of Section 27 a similar-type structure --

3 A. Yes, sir.

4 Q. -- as to what your Burrus Number 1 is?

5 A. It is. It's approximately 100 feet low to us at
6 the top of the Devonian, but it's on a little isolated
7 structure, and it was also top-set and open hole.

8 And we're real disappointed in the results of the
9 Burrus well. We were -- In relationship to the Gillespie
10 well versus this on the additional structure, we're not
11 real happy with the results of the well, so -- We just did
12 not have the extra porosity and permeability we were
13 looking for.

14 EXAMINER ASHLEY: Mr. Padilla, Mr. Bruce,
15 anything further?

16 FURTHER EXAMINATION

17 BY MR. BRUCE:

18 Q. I just had one final question, Mr. Wilson. For
19 instance, if you didn't get an increase in spacing, there
20 is conceivably an orthodox location in the southeast of the
21 southeast that somebody could drill to the Devonian, could
22 they not?

23 A. There is.

24 Q. And that would have a severe impact upon your
25 well?

1 A. It could.

2 EXAMINER ASHLEY: Mr. Padilla?

3 FURTHER EXAMINATION

4 BY MR. PADILLA:

5 Q. Mr. Wilson, if that's the case, I mean, it seems
6 to me like you're making a case for money rather than for
7 science. Are you admitting that you don't have the science
8 to decide whether or not this should be 40-acre spacing or
9 160-acre spacing?

10 A. Well, I'm saying that -- We have the science
11 based on the 3-D seismic, I'm saying that we just don't
12 have the reservoir data to prove that. But in light of
13 most of these features that I looked at across Lea County
14 and into Yoakum County, that are one-well features, any
15 additional attempts to drill wells around them have proven
16 to be noncommercial. You may make some additional oil, but
17 you're just accelerating and not really increasing the
18 reserves. And it takes -- The current process is not so
19 bad, but normally -- These wells are very expensive.

20 Q. I understand that, but right now you don't know,
21 you really don't know without some production history what
22 the extent of the reservoir might be?

23 A. We don't on this one. You know, we're asking for
24 only a year, one year, temporary rules until we get more
25 additional data on the Devonian to really tell. I mean, if

1 we determine that there is additional reserves left, we
2 will drill it.

3 Q. The only thing the one year does is, you're
4 circumventing the deal you have with -- under the --

5 A. No, we're not, within next year we could have
6 potentially five or six more wells on these peoples' land.

7 Q. I'm talking about the Devonian. I mean, you'd
8 hold the entirety of the Devonian with this one well if
9 this Application is granted.

10 A. Exactly, for the one year, and we need that time
11 to determine whether it's economic to do any additional
12 work here in the Devonian. And in the meantime, we plan on
13 doing, if successful, considerable development of the
14 lease.

15 Q. But doesn't your 3-D seismic, which -- Well, let
16 me ask this: This 3-D seismic really doesn't show the
17 extent of the reservoir, right?

18 A. Yes, it does, because as you will see in the
19 cross-section, when you get outside this structure, you
20 have Devonian extends outside of that, but it's going to be
21 wet. Right here at 8317, only seven feet low to the
22 Gillespie well here, Cities Service was unable to obtain
23 production in this feature over here. So --

24 MR. BRUCE: You mean to the east of the Burrus
25 well?

1 THE WITNESS: To the east of the Burrus. So the
2 well that we're looking at drilling right now to the Burrus
3 2, we discussed taking to the Devonian, but I've made the
4 determination there was a good chance that it would be wet.
5 And we're looking at about an additional probably \$350,000
6 to go on down and test that.

7 And so I'm thinking that at that location, which
8 is kind of the legal location away from the Burrus 1 on
9 this feature, we're already so far off the feature that
10 we're going to be in the water. So it's irrelevant what
11 the reservoir quality is. It's just -- It's wet.

12 Q. (By Mr. Padilla) Yeah, but if you're left with
13 40-acre spacing, you're still going to produce the same
14 amount of oil that you're saying you're going to produce
15 out of the Burrus Number 1, right? This Application simply
16 protects your acreage all around you?

17 A. I don't know that because I'm not qualified to
18 really say what it will drain, so -- I just know that I'm
19 defining the extent, rather accurately, of the reservoir.
20 We'll have to let the engineers discuss that.

21 MR. PADILLA: That's all I have.

22 EXAMINER ASHLEY: Mr. Bruce?

23 MR. BRUCE: No further questions.

24 EXAMINER ASHLEY: I have nothing further.

25 Thank you, Mr. Wilson.

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TOM ROBERTSON,

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. My name is Tom Robertson.

Q. Where do you reside?

A. I live in Oklahoma City, Oklahoma.

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

A. I work for Ricks Exploration as a petroleum
geologist.

Q. Have you previously testified before the
Division?

A. No.

Q. Would you summarize your educational and
employment history for the Examiner?

A. I got a BS degree in geology from Oklahoma State
University in 1981, have worked as a petroleum geologist
and done some accounting and an environmental geologist
since then, have worked for Ricks for the last about three
years.

Q. Does your area of responsibility include
southeast New Mexico?

A. Yes.

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

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I tender Mr. Robertson
5 as an expert petroleum geologist.

6 EXAMINER ASHLEY: Mr. Robertson is so qualified.

7 Q. (By Mr. Bruce) Mr. Robertson, first of all,
8 Exhibit 6, did you prepare that production map or well
9 plat?

10 A. No, I didn't.

11 Q. Or was it prepared --

12 A. Yeah.

13 Q. -- by Ricks under your supervision?

14 A. Sure, yes.

15 Q. And that's simply to show the wells in the area
16 and your cross-section?

17 A. Yes.

18 Q. Okay. Why don't you move on to your cross-
19 section, Exhibit 7, and describe what the reservoirs are
20 like in this area?

21 A. Well, I prepared cross-section Number 7 here. It
22 goes from, of course, A to A' on the plat, three-well
23 cross-section. And this is a cross-section hung on -- It's
24 a structural cross-section hung on 8000 feet below sea
25 level. I've got an acoustic velocity log, a sonic log, on

1 the Texaco well to the west -- sorry, the Mobil well to the
2 west. There's the Ricks Burrus Number 1 in the middle, and
3 then there's a Cities Service, the well to the east, is on
4 the, of course, the right.

5 And if you notice down there, whenever the logs
6 -- the Burrus, we had about 100 feet of fill, so I had to
7 take a sample out of the bottom of there, because we
8 couldn't get the logs to TD. So our well there is actually
9 a sonic log and a sample log sort of put together.

10 Q. Okay. Now, you're not only using the well logs
11 here, but you're also using the -- incorporating the
12 seismic in this?

13 A. Correct, correct, the structure map.

14 Q. Yes, from the structure map. And does this -- It
15 indicates a couple of things. For instance, once you go
16 downdip you're just not going to make a well; is that
17 correct?

18 A. That's correct. If you notice over here on the
19 Cities well, they're downdip from the -- on the top of the
20 Devonian there, downdip from us, and they didn't -- There's
21 no tests at all on that, not even a DST on the Devonian
22 there.

23 Q. Okay. And are these reservoirs typically
24 discrete reservoirs, separated from others?

25 A. Very discrete, that's what I was -- the cross-

1 section and the structure map shows, is that even though --
2 and that's why it was hung on the structure, is that even
3 though the well to the west there is updip from our well,
4 they DST'd 5000 feet of salt water, which -- I mean,
5 there's got to be a separation between their well and ours.

6 Q. If there wasn't, then your well would be wet too?

7 A. Right, exactly. Or theirs would be productive.

8 Q. Okay.

9 A. Yes.

10 Q. So from a geologic standpoint, it only makes
11 sense in these reservoirs of this type to really drill one
12 well?

13 A. Correct.

14 Q. Were Exhibits 6 and 7 prepared by you, under your
15 supervision, or compiled from company business records?

16 A. Yes.

17 Q. And in your opinion, is the granting of Ricks'
18 Application in the interests of conservation and the
19 prevention of waste?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I tender the admission
22 of Exhibits 6 and 7.

23 EXAMINER ASHLEY: Exhibits 6 and 7 will be
24 admitted as evidence at this time.

25 Mr. Padilla?

EXAMINATION

BY MR. PADILLA:

Q. Mr. Robertson, correct me if I'm wrong, but you're essentially saying that these are very limited reservoirs, right?

A. Yes.

Q. They're not continuous in nature, right? I mean, the formation may be there, but the reservoir where you find oil is very limited in size?

A. It can be very limited, yes.

Q. And this is a very limited reservoir?

A. Yes, could very well be.

Q. From what you're saying, you're afraid to drill anywhere else in this 160-acre tract in the Devonian, because you'd probably encounter water?

A. I am at this time, yes.

Q. So you would recover as much oil if you're on 40-acre spacing as you would on 160-acre spacing, right?

A. You know, from the -- I'm not ready right now to drill another well, but I think there's more data to be gathered. Does that --

Q. What experience do you have with other Devonian pools in this area of southeast New Mexico?

A. Just basically the ones there on that nine-section plat.

1 Q. Have you been involved in drilling any other
2 wells in the Devonian pool?

3 A. No.

4 Q. Do you know whether the other Devonian pools in
5 southeast New Mexico, in this area, are developed in other
6 than 40-acre spacing?

7 A. I don't know.

8 Q. So if I asked you -- Well, what are the other
9 pools in the area there that -- I think Mr. Collier
10 mentioned those.

11 A. There's the Bronco.

12 Q. Do you know whether that's developed on 40-acre
13 spacing?

14 A. I don't know.

15 Q. There's another one out where the Gillespie well
16 is drilled, right?

17 A. Right.

18 Q. Do you know whether that one is developed on 40-
19 acre spacing?

20 A. No, I don't.

21 Q. What's its name?

22 A. Bronco East -- I'm sorry, I can't recall it right
23 now.

24 Q. And there's a third Devonian pool here in the
25 immediate area, right?

1 A. Up to the northeast there's one.

2 Q. And what pool is that?

3 A. I don't know the name of that one either.

4 MR. PADILLA: Okay, I don't think I have any
5 further questions.

6 EXAMINATION

7 BY EXAMINER ASHLEY:

8 Q. Mr. Robertson, do you have any data on any of the
9 other Devonian wells in this area regarding drainage
10 radiuses or anything like that?

11 A. No, I don't.

12 Q. Is there somebody that will testify as to
13 drainage?

14 A. I believe so.

15 EXAMINER ASHLEY: Okay. I have nothing further.
16 Thank you.

17 MR. BRUCE: I have one follow-up question.

18 FURTHER EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Robertson, just looking at geology, geology
21 can't tell what area is going to be drained, just looking
22 at the geology, whether it's going to be 40, 80 or 160 --

23 A. No.

24 Q. -- you can't determine that from the data you
25 review?

1 A. That's right.

2 Q. That has to be left to the engineers?

3 A. Correct.

4 MR. BRUCE: Thank you.

5 FRANK SCHROEDER,

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

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

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

11 A. My name is Frank Schroeder.

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

13 A. I'm the reservoir engineer for Ricks Exploration.

14 Q. Have you previously testified before the
15 Division?

16 A. No, sir, I have not.

17 Q. Would you summarize your educational and
18 employment background for the Examiner?

19 A. I have a bachelor of science in petroleum
20 engineering from the University of Tulsa, and I have spent
21 the last nine years involved in reservoir engineering for
22 different firms, the past year with Ricks.

23 Q. Does your area of responsibility include
24 southeast New Mexico?

25 A. As far as reservoirs and drainage area, that's

1 correct.

2 Q. And are you familiar with the engineering
3 involved in this Application?

4 A. I am.

5 MR. BRUCE: Mr. Examiner, I'd tender Mr.
6 Schroeder as an expert reservoir engineer.

7 EXAMINER ASHLEY: Mr. Schroeder is so qualified.

8 Q. (By Mr. Bruce) Mr. Schroeder, could you identify
9 Exhibit 8 and tell the Examiner what that is?

10 A. Exhibit 8 is a plot of our production on the
11 Burrus well. The well IP'd in July for a little over 250
12 barrels a day and is currently making about 75 barrels a
13 day.

14 Q. What is Exhibit 8B?

15 A. 8B is just a tabular list of our production on
16 the well by day.

17 Q. Okay. Could you identify Exhibit 9, a three-page
18 exhibit, go through it --

19 A. Okay.

20 Q. -- and tell the Examiner what it says about not
21 only the drainage in this area but the economics of
22 drilling another well in this reservoir.

23 A. Okay. Exhibit 9 is the reserves on the Burrus
24 well as of November 1st of 2000. I am estimating
25 conservatively that there will be 100,000 barrels in this

1 reservoir of oil. We've cumulatively produced about 12,000
2 barrels.

3 Page 2 is a plot of my forecast. The line in
4 2000 that goes downward is actual production. The well is
5 currently making around 70 barrels a day, that's where the
6 projection starts. So if you see that there's a little
7 space there, that's why. We had mechanical problems in the
8 well, we feel we've got a little better handle on those,
9 and that's what the well is doing right now.

10 Page 3 is an estimate of drainage area. It is
11 conservative, based on the fact that, for one, we don't
12 have a good handle on what our net pay is. As Greg
13 testified, we did not have a chance to run a logging suite
14 through this zone. We top-set it.

15 Based on recovery factors in the area of about 22
16 percent -- that's based on the two offset Devonian pools --
17 I estimated that for 80 acres there would be about 100,000
18 barrels of oil in place. That's a conservative number when
19 you look at the rate forecast, because it's fairly steep.
20 Most of these, the decline on them is a lot shallower.

21 Q. So you believe this well will produce about
22 100,000 barrels of oil?

23 A. Yes, sir, at least.

24 Q. If another well is drilled in there, would
25 additional reserves be recovered?

1 A. It would be my recommendation to Ricks not to
2 drill another well in this area, to the Devonian.

3 Q. Okay. So although it might gain a few additional
4 reserves, not enough to make it economic?

5 A. Exactly.

6 Q. Now, your calculation shows that on a
7 conservative basis you believe it would drain approximately
8 80 acres; is that correct?

9 A. That's correct, uh-huh.

10 Q. So that at this point, at least, based on the
11 shape of the reservoir, there should be at least an 80-acre
12 spacing approved for this pool?

13 A. Yes, I would agree.

14 Q. Okay. And of course, it's only got a few months'
15 production data. You would like additional time to obtain
16 additional data which would help you further calculate
17 drainage in this area?

18 A. Exactly. If you look at that production plot on
19 Exhibit 8A, you notice the erratic behavior. And as I
20 indicated earlier, we have had mechanical problems with the
21 well, with the pump sanding up, it's been pulled, we've
22 acidized it. You can see now that we have water
23 production. We're concerned about that.

24 So until we get a real good handle on what our
25 production is going to be and it levels out, we really

1 don't know what this thing is going to drain.

2 Q. Finally, what is Exhibit 10?

3 A. Exhibit Number 10 is an AFE that was prepared for
4 the cost of drilling the Burrus Number 1.

5 Q. And what was the approximate well cost?

6 A. The cost on the AFE was \$916,000. The actual
7 cost was, I think, \$935,000.

8 Q. And so unless you could recover, say, another
9 100,000 barrels, you wouldn't want to spend another million
10 dollars --

11 A. Exactly.

12 Q. -- to drill another well?

13 A. Exactly.

14 Q. In your opinion, is the granting of this
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes, it is.

18 Q. And were Exhibits 8A through 10 prepared by you
19 or under your supervision, or compiled from company
20 business records?

21 A. Yes, they were.

22 MR. BRUCE: Mr. Examiner, I'd move the admission
23 of Exhibits 8A, 8B, 9 and 10.

24 EXAMINER ASHLEY: 8A, 8B, 9 and 10 will all be
25 admitted as evidence at this time.

1 Mr. Padilla?

2 EXAMINATION

3 BY MR. PADILLA:

4 Q. Mr. Schroeder, turning to your last exhibit,
5 Exhibit 9 --

6 A. Uh-huh.

7 Q. No, I'm sorry, Exhibit 9 --

8 A. Okay.

9 Q. -- because you had 10 exhibits, is 80 acres all
10 you can come up with as far as drainage is concerned?

11 A. That's just a conservative estimate. I base that
12 80 acres on what we saw from the seismic, what I've seen
13 from comparable recoveries in the area. But as far as the
14 ultimate of this well, you know, I'm just guessing. We
15 don't have a trend in the data that would allow me to draw
16 decline curves yet.

17 Q. Did you use data from any other Devonian pool
18 experience in the area?

19 A. Yes, I did, the recovery factor.

20 Q. How about drainage factors?

21 A. I calculated the drainage on the other wells, and
22 I can tell you what those would be. On the H.H. Harris
23 Number 2, I calculated an 80-acre drainage on that, with a
24 22-percent recovery based on the ultimate.

25 And then on the Hodge Number 1, which is the

1 Gillespie well, I calculated a 28-acre drainage. But the
2 problem with that well is, it's a seismic structure much
3 like or Burrus well. And based on the ultimate and what
4 Greg and I consider net pay, on a 20-percent recovery
5 that's what it came out to be.

6 Q. That's 22 acres?

7 A. Twenty-eight acres.

8 Q. Twenty-eight acres.

9 A. But based off what we've seen in our seismic,
10 that's what the size of the reservoir looks like. And
11 based off the decline curve, that fits.

12 Q. Wouldn't 40-acre spacing be appropriate, then,
13 based on that Harris data?

14 A. For the Harris well, it would, based on the
15 seismic that the structure is a lot smaller than ours. But
16 from our seismic, our structure is a lot bigger than that
17 one. So I feel like that 40 acres would be too small.

18 Q. Any other wells you used to make comparisons
19 from?

20 A. No, I just used those two Devonian wells in the
21 area.

22 Q. And is spacing in those other pools 40 acres?

23 A. Sir, I have no idea.

24 Q. Did you look to see whether spacing in of the
25 Devonian pools out there was 40 or higher?

1 A. No. I do no that -- as Greg mentioned, that the
2 well that we're drilling 15 miles to the north, the spacing
3 is 80 acres. But as far as the immediate area, I did not
4 research that.

5 Q. And there are other Devonian pools in the area
6 that you're aware of?

7 A. Correct, the two that I just mentioned.

8 Q. How many Devonian wells did you look at?

9 A. Those were the only two in that nine-square-mile
10 area that I could get data on.

11 Q. Are there other Devonian pools that you could
12 have looked at to get data from?

13 A. I'm sure there are. But based on what data we
14 had as far as seismic and our knowledge of the area, we
15 felt like that these two would be more representative of
16 our reservoir.

17 Q. What is your knowledge in the area?

18 A. As far as the Devonian?

19 Q. As far as the Devonian.

20 A. Our knowledge is limited to the Burrus --

21 Q. I'm asking what your knowledge is.

22 A. Well, I've just looked at these three wells.

23 MR. PADILLA: That's all I have, Mr. Examiner.

24 EXAMINER ASHLEY: Mr. Bruce?

25 MR. BRUCE: (Shakes head)

EXAMINATION

BY EXAMINER ASHLEY:

Q. Mr. Schroeder, you mentioned the Hodge well had 28-acre drainage?

A. Yes, sir.

Q. Then there was the Harris well?

A. Yes.

Q. Now, which one is the Harris well?

A. The H and H Harris Number 2 is the -- I believe on your map it's called a Texaco. It's currently operated by Bristol Resources.

Q. And where is that located?

A. That well is down to the southeast, I believe, in the southeast corner.

Q. Of Section 35?

A. Yes, sir.

Q. And what's the drainage of that well?

A. That well I estimated at 80 acres.

Q. Can you tell me what would be the benefit of having this well spaced on 160 acres?

A. Temporarily, for one year, it would give us time to acquire more data. You know, as far as I'm concerned I'm watching the drainage area on this, and if it fits our profile we would like to drill another well in the area.

But right now, based on the limited amount of

1 production data we have and the water production that has
2 started, we're not sure what exactly we want to do. So
3 that's why we would like a year to watch this well and
4 figure out exactly what our plan of action needs to be.

5 Q. And after that year's time, if you feel another
6 Devonian well is justified, you would drill it at that
7 time?

8 A. Definitely, definitely.

9 Q. Can you estimate what percentage of this
10 reservoir exists outside the south half of the southeast
11 quarter?

12 A. I could not estimate that. That would be more
13 Greg's --

14 Q. Okay.

15 A. -- expertise. I believe that, looking at his
16 structure map, that there is portions of the reservoir that
17 exist in every quarter-quarter section, so...

18 Q. Now, say if this was spaced on 80 acres and you
19 had just maybe the south half dedicated to -- the south
20 half of the southeast quarter dedicated to that, the north
21 half of that southeast quarter, you could potentially -- if
22 you didn't drill something there, that portion of the lease
23 could expire?

24 A. Yes.

25 Q. Did the water production that you have on Exhibit

1 8A start after you stimulated the well?

2 A. Yes, that's correct.

3 Q. And what was the stimulation on the well?

4 A. We broke it down with acid.

5 Q. Okay.

6 A. Actually twice.

7 EXAMINER ASHLEY: I have nothing further. Are
8 there any other questions?

9 MR. PADILLA: No.

10 MR. BRUCE: (Shakes head)

11 EXAMINER ASHLEY: Thank you.

12 MR. BRUCE: I would like to make a brief
13 statement, but I would go second.

14 MR. PADILLA: I'm glad to go first.

15 EXAMINER ASHLEY: Okay. Could you also state
16 your client's position in this?

17 MR. PADILLA: My client's position is what I
18 expressed earlier in cross-examination of the land witness,
19 Mr. Collier. It's my client's position that this
20 Application is brought solely for the purpose of thwarting
21 the paragraph 11 of the oil and gas lease, which requires a
22 continuous drilling program, as has been testified here.

23 By going to 160-acre spacing, they simply are not
24 required to drill any further wells in the southeast
25 quarter, and I'm not sure whether, in fact, they would be

1 required to drill any wells as to that portion of the lease
2 covering the east half of the southwest quarter of Section
3 22.

4 The problem that I see with this Application,
5 your Honor, is that at the very minimum they have made a
6 minimal case for 80-acre spacing. And even at that, these
7 witnesses are unfamiliar with the Devonian formation in
8 this part of southeast New Mexico. They have not
9 researched the production characteristics of other Devonian
10 pools in southeast New Mexico and have not presented any
11 testimony whatsoever, other than the cross-section, which
12 covers a larger portion of the area. All the cross-section
13 shows is that the Devonian formation exists in that area,
14 and some of it's wet and some of it's not. It depends on
15 structure.

16 The Exhibit Number 5 shows that this well could
17 be spaced on 40 acres and that their main productive area,
18 according to the 3-D seismic, is a 40-acre tract covering
19 the southwest quarter of the southeast quarter. There has
20 been no *prima facie* case made here to establish or make
21 such a large departure from spacing in southeast New
22 Mexico, for the Devonian pool of 40 acres to a jump of 160
23 acres.

24 So going back to everything in our position, a
25 case hasn't been made for 160-acre spacing. In fact, if

1 160-acre spacing would be appropriate, then they would have
2 coverage throughout this whole exhibit. But this is real
3 damaging, I believe, to their case, simply covers a 40-acre
4 tract. Yes, if it starts going off in various directions,
5 but what that does is simply justify some excuse on an
6 economic basis not to drill further wells.

7 But even if they decide not to drill any further
8 wells, they're going to recover as much oil, by their own
9 admission, on 40 acres as they would on 160-acre spacing.
10 The only problem is that under 160-acre spacing they would
11 be allowed to retain all of the lease and not have to
12 release any of the portion of the lease that isn't drilled.

13 So again, I don't think any of this data
14 presented here today shows that 160-acre spacing is
15 appropriate, I don't think 80-acre spacing is appropriate,
16 and if you take the last two -- Mr. Schroeder's testimony
17 that his estimates on two other wells, one is 28 acres --
18 and I believe that by itself shows that spacing should not
19 be increased beyond 40 acres, because they don't have the
20 information and the data to show that 40-acre or 160-acre
21 spacing or even 80-acre spacing would be appropriate.

22 So with that, we ask that the Division deny this
23 Application.

24 EXAMINER ASHLEY: Mr. Bruce?

25 MR. BRUCE: Mr. Examiner, the oil and gas lease

1 in question does provide for 40-acre oil well spacing, but
2 the lease is made subject to the conservation laws of the
3 State of New Mexico. Therefore, if the state increases
4 spacing, whether it's to 80 or 160 acres, that spacing
5 order will supersede the 40-acre provision of the lease.

6 The Division has always tried to prevent the
7 drilling of unnecessary wells, which is why we're here
8 today. This Application is absolutely not driven by land
9 considerations. It is driven solely by geology and
10 engineering.

11 Mr. Wilson's map shows a reservoir that is
12 contained within each portion of each quarter-quarter
13 section of the southeast quarter of Section 22. Mr.
14 Schroeder got up and testified that it looks like this
15 well, on a conservative basis, is draining 80 acres. There
16 is no contradictory testimony whatsoever. Therefore, at
17 the very least, spacing should be increased to 80 acres.

18 If 80-acre spacing is granted, what Ricks would
19 probably do is form a south-half, southeast-quarter well
20 unit. Would that give it any advantage? Absolutely not,
21 because within 30 days it's going to drill a Wolfcamp well
22 in the southeast quarter, southeast quarter. So just that
23 alone will not hold any additional acreage. But what they
24 are looking at is to avoid having to drill unnecessary
25 wells.

1 They have a reservoir which, preliminarily, they
2 believe will produce about 100,000 barrels of oil. To
3 drill another well on that reservoir may not add much in
4 the way of additional reserves, but would cost a million
5 dollars. That is an unnecessary well, which the Division
6 is mandated to prevent the drilling of.

7 The royalty owners can be pretty brave in saying
8 this should only be on 40 acres but, you know, they're not
9 the ones out there spending a million dollars a well. It's
10 Ricks Exploration that's spending that money.

11 If they were going to be spending that additional
12 money themselves, I don't think they would be looking for
13 40-acre spacing. The fact of the matter is, the reservoir
14 covers -- if you look at this map, Exhibit 5 -- at least 80
15 acres. The engineering shows that it's draining at least
16 80 acres.

17 There should not be another well drilled at this
18 time. All we are asking for is a temporary one-year period
19 to determine additional reservoir properties, and that's
20 what should be granted.

21 If the spacing is increased, what will be the net
22 effect on the royalty owners? Nothing. Nothing. Because
23 Ricks has an ongoing development plan in this area. If
24 they don't drill, they'll lose the acreage; they already
25 know that.

1 If 160-acre spacing is granted, it's only on a
2 temporary basis. We'll be back in front of you in a year,
3 and the royalty owners can come in and at least present
4 some evidence that it's not draining 160 acres. Certainly
5 we'll be back to prove what we think is correct.

6 If it's 80 acres, as I said, and I've got to
7 repeat this again, we are not holding any additional
8 acreage which would not otherwise be held, because two
9 wells are already going to be drilled in the south half of
10 this quarter section with the existing well and the new
11 well to be spudded before year end.

12 What you look at is not land considerations in
13 this matter, because interest ownership is uniform. What
14 you look at is the technology, the geology and the
15 engineering.

16 The reservoir is there. Any assertion that it
17 should be 40 acres based on the Gillespie well to the south
18 is ridiculous. Mr. Wilson already said, that's a much
19 smaller reservoir, based on seismic. If it's a smaller
20 reservoir, yeah, it's going to drain less acreage. This is
21 a bigger reservoir, the well is going to drain more
22 acreage.

23 We ask you to review this and grant an increase
24 in spacing to prevent the drilling of unnecessary wells.

25 Thank you.

1 EXAMINER ASHLEY: Thank you. There being nothing
2 further in this case, Case 12,538 will be taken under
3 advisement.

4 (Thereupon, these proceedings were concluded at
5 12:45 p.m.)

6 * * *

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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
the Examiner hearing of Case No. 12538,
17 heard by me on 11-16-00
18 Mark Bellin Examiner
Off Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 23rd, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

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. 12,538
)
APPLICATION OF RICKS EXPLORATION, INC.,)
FOR POOL CREATION AND SPECIAL POOL RULES,)
LEA COUNTY, NEW MEXICO)

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

November 16th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, November 16th, 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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