

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. 12,571
)
APPLICATION OF BWB PARTNERS I FOR)
COMPULSORY POOLING, LEA COUNTY,) ORIGINAL
NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 11th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday January 11th, 2001, 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.

OIL CONSERVATION DIVISION
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* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

January 11th, 2001
 Examiner Hearing
 CASE NO. 12,571

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR BTA OIL PRODUCERS:

HOLLAND & HART, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

MICHAEL E. STOGNER, NMOCD Hearing Examiner

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 9:01 a.m.:

3

4

5

6 EXAMINER CATANACH: At this time I will call Case
7 12,571, the Application of BWB Partners I for compulsory
8 pooling, Lea County, New Mexico.

9 Call for appearances in this case.

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

14 EXAMINER CATANACH: Additional appearances?

15 MR. CARR: May it please the Examiners, my name
16 is William F. Carr with the Santa Fe regional office of the
17 law firm Holland and Hart. We represent BTA Oil Producers.
18 I have no witnesses.

19 EXAMINER CATANACH: Any additional appearances?

20 Will the two witnesses please stand to be sworn
21 in?

22 (Thereupon, the witnesses were sworn.)

23 MR. KELLAHIN: Mr. Examiner, our first witness is
24 Mr. William Bennett. Mr. Bennett is a general partner for
25 the Applicant. The Applicant is BWB Partners I.

1 WILLIAM H. BENNETT,

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

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. For the record, Mr. Bennett, would you please
7 state your name and occupation?

8 A. William H. Bennett, landman.

9 Q. Where do you reside, sir?

10 A. Midland, Texas.

11 Q. What is your relationship to the Applicant?

12 A. Partner, equal partner with Andy Burleson.

13 Q. Andy Burleson and you are the partners in BWB
14 Partners I?

15 A. Yes, sir.

16 Q. As a petroleum landman, have you been involved in
17 your professional life in determining the ownership of the
18 working interests for various spacing units and then
19 negotiating with those owners in an effort to try to reach
20 a voluntary agreement?

21 A. Yes, I have.

22 Q. Have you and Mr. Burleson been involved in wells
23 in this area in the past?

24 A. Yes, we have.

25 Q. And within the proposed area that we're

1 discussing here this morning, you and Mr. Burleson are the
2 active interest owners that have proposed the well in the
3 spacing unit?

4 A. Yes, we have.

5 Q. Have all the negotiations and efforts to
6 consolidate the interest owners been done by you on behalf
7 of the partnership?

8 A. Yes, it has.

9 MR. KELLAHIN: We tender Mr. Bennett as an expert
10 petroleum landman.

11 EXAMINER CATANACH: Mr. Bennett is so qualified.

12 Q. Mr. Bennett, let's orient the Examiner as to what
13 you're attempting to accomplish. If you'll look at Exhibit
14 1 for me and identify that.

15 A. Exhibit 1 is a land map showing the proration
16 unit that we want to try to form today.

17 Q. There's an area outlined in yellow on that
18 display?

19 A. Yes.

20 Q. That is located where, sir?

21 A. It's the east half of Section 23.

22 Q. All right. Within the east half of Section 23,
23 what types or kinds of leases are we dealing with? Are
24 they state, federal, fee leases?

25 A. They're all fee leases.

1 Q. When we look in the east half of 23, is the
2 leasehold one leasehold in the east half, or is it
3 subdivided?

4 A. It's subdivided.

5 Q. And how is it subdivided?

6 A. It's subdivided by the west half of the east half
7 of Section 23 and the east half of the east half.

8 Q. When we look in the east half of 23 there is a
9 gas well symbol. You see that down in the southwest of the
10 northeast, it says "Amoco Best"?

11 A. Yes.

12 Q. All right. What is the status of that Amoco Best
13 gas well?

14 A. It's plugged.

15 Q. In addition, are there any gas wells below the
16 top of the Wolfcamp in the east half of 23?

17 A. Yes.

18 Q. And where -- Is there just a single well?

19 A. It's a single well.

20 Q. Where is it located?

21 A. It's located in Unit H. It's the BTA Byers
22 Number 1 well, currently producing from the Wolfcamp.

23 Q. All right. The BTA Byers Number 1 well produces
24 only from the Wolfcamp?

25 A. Yes.

1 Q. You're attempting, then, to consolidate the east
2 half of 23 primarily for a Morrow test, are you not?

3 A. Yes.

4 Q. Have you and Mr. Burleson been involved in any
5 other Morrow gas wells drilled in the immediate vicinity?

6 A. Yes, we have.

7 Q. And where would that property be, or well?

8 A. It would be in the east half of Section 14, just
9 due north of this acreage.

10 Q. And we're going to talk about that well in a
11 minute. How is that well identified?

12 A. Neuhaus Number 3 well, operated by Manzano.

13 Q. All right, Manzano is the operator of the Neuhaus
14 well, but you and Mr. Burleson were involved as interest
15 owners in that well?

16 A. Yes.

17 Q. Okay. Let's set aside Exhibit 1 and have you
18 refer now to the tabulation of interest owners that's
19 marked on Exhibit Number 2.

20 A. Okay.

21 Q. What are we looking at here?

22 A. Ownership of the east half of Section 23, broken
23 down by the west half of the east half and the east half of
24 the east half, and also indicating the ownership in the
25 shallow formations in the northeast quarter and the deeper

1 formations containing the entire east half of Section 23.

2 Q. All right. Let's start at the bottom of the
3 display --

4 A. Okay.

5 Q. -- and look at the 320 gas proration unit
6 configuration for the east half, for formations below
7 11,920. Now, why is 11,920 of importance?

8 A. Because the east half of the east half of Section
9 23 is severed below 11,920 feet. The west half of the east
10 half is not severed. It calls all depths by the Manzano --
11 excuse me, by the BTA 23 Number 1 well.

12 Q. The BTA Wolfcamp well was drilled to 11,920?

13 A. Yes.

14 Q. And then perforated and completed in the
15 Wolfcamp?

16 A. Yes.

17 Q. All right, so we're looking at the deep gas
18 intervals excluding the Wolfcamp --

19 A. Yes.

20 Q. And for depths below 11,920, the ownership is
21 indicated on the bottom of the display?

22 A. Yes.

23 Q. Let's go down that list and start first of all
24 with BTA Oil Producers, and then you've said *et al.*

25 A. Okay.

1 Q. What do you mean?

2 A. There are approximately 60 owners that BTA has
3 assigned a portion of that 37 1/2 percent to.

4 Q. So when we refer to BTA Oil Producers, we're
5 collectively referring to BTA and all the individuals or
6 entities with whom they have made assignments?

7 A. Yes.

8 Q. All right. And that collective interest
9 represents what percentage of the spacing unit?

10 A. Thirty-seven and a half percent.

11 Q. And then read on down, what are the rest of the
12 divisions?

13 A. M. Brad Bennett owns 6 percent, Hayes Land
14 Corporation owns 3 percent, Hayes Land and Production
15 Company owns 3 percent, and BWB Partners I owns 50.50
16 percent.

17 Q. As of this morning's hearing, identify for us
18 what interest owners have not committed themselves to a
19 voluntary agreement to participate in your well.

20 A. BTA Oil Producers, et al., with 37 1/2 percent,
21 M. Brad Bennett with 6 percent, and Hayes Land Corporation
22 with 3 percent.

23 Q. All right. Let's go up to the shallow gas in the
24 northeast of 23. The primary objective is the Morrow, but
25 in the unlikely event that there is shallow gas production,

1 you've shown the division of the northeast quarter for a
2 160-acre spacing unit and how that interest would be
3 shared?

4 A. Yes.

5 Q. All right. And you're seeking to have a pooling
6 order as to the shallow zones if there's any gas
7 production?

8 A. Yes, we are.

9 Q. All right. Let's turn now to the documentation
10 that supports your tabulation of ownership. If you'll
11 identify for me what is marked as Exhibit Number 3.

12 A. It's a drilling title opinion prepared by Lynch
13 Chappell & Alsup, covering the east half of Section 23.

14 Q. All right. Contained within this summary of the
15 title opinion is a breakout of the individual working
16 interest owners for the various tracts?

17 A. Yes.

18 Q. And there are approximately 60 of the assignees
19 of BTA listed on here?

20 A. Yes.

21 Q. All right, let's turn to Exhibit Number 4, Mr.
22 Bennett, and have you take us to the point in time where
23 you have first proposed the Morrow gas well. When did you
24 do that?

25 A. On October 26th, 2000.

1 Q. And how did you do it?

2 A. We wrote a letter notifying both M. Brad Bennett
3 and BTA Oil Producers of our intent to drill a well. We
4 sent them an AFE.

5 Q. All right. The written well proposal included an
6 AFE?

7 A. Yes.

8 Q. At the time you proposed this well, you have
9 proposed it as a Morrow well, and you have given a footage
10 location of 990 from the north, 1980 from the east.

11 A. Yes.

12 Q. And this letter included the AFE, did it not?

13 A. Yes, it did.

14 Q. All right, let's look at Exhibit Number 5. What
15 does that represent?

16 A. That is the same -- the letter to M. Brad
17 Bennett, Hayes Land Corporation, proposing the well, and we
18 also sent an AFE attached with it.

19 Q. And then Exhibit Number 6, what's that?

20 A. It is our proposal to BTA Oil Producers, Robert
21 Crawford, and all his et als.

22 Q. All right, sir. At the time you proposed this to
23 BTA, you attached to it a list of what you believe to be
24 the assignees of BTA as to the interest in the spacing
25 unit?

1 A. Yes, we did.

2 Q. Have you dealt with BTA on behalf -- Has BTA
3 dealt with you on behalf of BTA Oil Company and all these
4 assignees?

5 A. Yes, they have.

6 Q. And why did that happen?

7 A. I spoke with their land manager, Robert Crawford,
8 and he asked me not to individually serve all these people,
9 that he would speak on behalf of all of them.

10 Q. And have you done that?

11 A. Yes, I have.

12 Q. Let's turn to Exhibit 7 and have you identify
13 that exhibit for us.

14 A. This is our AFE for the well.

15 Q. To the best of your knowledge and experience, Mr.
16 Bennett, is this AFE representative of what you believe to
17 be the accurate reasonable cost for your proposed well?

18 A. Yes, it is.

19 Q. Have BTA or any of the parties to be pooled
20 complained or objected about any of the costs you've
21 proposed in your AFE?

22 A. No, they have not.

23 Q. Have BTA or any of the parties to be pooled
24 complained about the well proposal?

25 A. No, they have not.

1 Q. Have they complained about the proposed location
2 of the well?

3 A. No, they have not.

4 Q. Have they complained about BWB Partners I being
5 the operator or BWB Partners I designee as an operator,
6 operating this well?

7 A. No, they have not.

8 Q. Let's turn to Exhibit 8 and have you identify
9 that for us.

10 A. It's a letter from BTA Oil Producers requesting
11 an assignment of 75 percent of the interest that BWB
12 Partners I acquired in the east half of the east half of
13 Section 23, subject to an area of mutual interest that they
14 believe that we had.

15 Q. All right. And identify for us what Exhibit 9
16 is.

17 A. It's identical from Hayes Land Corporation.

18 Q. Did you respond to BTA and Hayes Land Corporation
19 concerning the concern they had about being entitled to
20 assignments of a certain portion of the leases within the
21 spacing unit?

22 A. Yes, I did.

23 Q. And when did you do that?

24 A. On November 9th.

25 Q. And how did you do that?

1 A. I wrote them a letter just basically saying that
2 the acreage was excluded from the area of mutual interest,
3 it was not covered by that area of mutual interest, and
4 again invited them to participate in the drilling of the
5 well.

6 Q. You're referring to what is marked as Exhibit 10?

7 A. Yes, I am.

8 Q. All right, let's turn to the last paragraph of
9 Exhibit 10. You've responded to the two inquiries, and
10 then in the last paragraph you again invite them to
11 participate in the well?

12 A. Yes, I did.

13 Q. You set a time frame for a response. You
14 indicate in the letter that by November 26th you would like
15 them to respond to the October 26th well proposal, true?

16 A. Yes, I did.

17 Q. Did they do so?

18 A. No, they did not.

19 Q. Up until this week, have you had a response from
20 BTA, or any of the parties to be pooled, to your well
21 proposal?

22 A. No, I have not.

23 Q. This week, who contacted you?

24 A. Bob Crawford.

25 Q. All right. Were you and Mr. Crawford able to

1 reach a voluntary agreement with regards to BTA Oil
2 Producers or any of their assignees?

3 A. No, we were not.

4 Q. Let's refer to Exhibit 11. What is that, sir?

5 A. It's a letter to M. Brad Bennett and Hayes Land
6 Corporation revising our location, changing the location.

7 Q. Now, I referred earlier to the Manzano-drilled
8 Neuhaus well in the southeast quarter of 14. That's a well
9 that you were involved in, right?

10 A. Yes, we were.

11 Q. All right. What is the status of that well at
12 this time?

13 A. It's currently waiting on a completion unit.

14 Q. On December 5th, why did you revise the location?

15 A. Basically Andy Burleson, the engineer, revised it
16 after reviewing the logs from the Manzano Neuhaus Number 3
17 well.

18 Q. Have the logs from the Manzano Neuhaus well been
19 made available to BTA and Hayes Land Corporation, to the
20 best of your knowledge?

21 A. Yes, they have.

22 Q. And you have revised the location, then, and
23 advised them of that revision?

24 A. Yes, I have.

25 Q. Did you receive any objection or comment

1 concerning the revised location from either BTA Oil
2 Producers or Brad Bennett or Hayes Land Corporation?

3 A. No, I have not.

4 Q. Mr. Bennett, as a working interest owner in the
5 BTA-operated Wolfcamp well, what is BTA currently charging
6 you for overhead rates for that Wolfcamp gas well?

7 A. \$7900 for drilling and \$790 for operating.

8 Q. What do you propose to charge BTA and other
9 interest owners pooled for your Morrow gas well?

10 A. The exact same, \$7900 drilling and \$790
11 operating.

12 Q. At this point, Mr. Bennett, do you believe you've
13 exhausted all good-faith opportunities to obtain a
14 voluntary agreement and have simply not been able to do so?

15 A. Yes, I have.

16 MR. KELLAHIN: Mr. Examiner, with the inclusion
17 of Exhibit 13, which is the certificate of notification, we
18 move the admission of the Applicant's Exhibits 1 through
19 13, and that concludes my examination at this point.

20 EXAMINER CATANACH: Exhibits 1 through 13 will be
21 admitted as evidence.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Bennett, have you reached an agreement with
25 -- I believe there was one party that you did reach an

1 agreement with; is that correct?

2 A. Yeah, Hayes Land and Production Company.

3 Q. Hayes Land and Production Company. That's a
4 different entity from Hayes Land Corporation?

5 A. Yes.

6 Q. Okay. Does BWB Partners operate any other wells
7 in this area?

8 A. No, we do not.

9 Q. Do you operate any wells at all?

10 A. No, we do not.

11 Q. And you've participated in the drilling of wells,
12 but -- is that correct?

13 A. Yes, we have.

14 Q. Has BWB drilled any wells?

15 A. Operated?

16 Q. Drilled?

17 A. Yes.

18 Q. And this is an approximately 13,450-foot oil
19 test?

20 A. Yes, it is.

21 Q. And those drilling rates are based on rates that
22 are currently in effect in this area?

23 A. Yes, the BTA Byers 23 Number 1 located in this
24 east half of Section 23 is operated by BTA, and that's what
25 they're currently charging for that well.

1 Q. Are you talking about the overhead rates?

2 A. Yes, drilling and overhead.

3 Q. There is no dispute with regards to BTA's -- BTA
4 contends that they can speak for all of their assignees; is
5 that correct?

6 A. Yes, that's what I've been notified.

7 MR. CARR: Mr. Catanach, I represent BTA, and
8 that is correct. BTA speaks for all those other --

9 EXAMINER CATANACH: Okay, I'm sorry, Mr. Carr,
10 did you have any questions of this witness?

11 MR. CARR: I have just one, whenever.

12 EXAMINER CATANACH: Okay.

13 MR. CARR: It's not very -- can be taken at any
14 time.

15 Q. (By Examiner Catanach) I'm just curious, is
16 there any relation to Mr. Brad Bennett?

17 A. Yes, he's my brother.

18 Q. With regards to the overhead rates, has Hayes
19 signed a JOA with those overhead rates in that agreement?
20 Have they signed a JOA or any kind of agreement with you?

21 A. No, they have not.

22 Q. Have they objected to any of the proposed
23 overhead rates that you're --

24 A. No, they have not. They've agreed to them.

25 Q. Has anyone expressed any protest over your rates?

1 A. No, they have not.

2 Q. Do you anticipate reaching an agreement with
3 these parties?

4 A. No, I do not.

5 EXAMINER CATANACH: Mr. Kellahin, on your notice
6 letter --

7 MR. KELLAHIN: Yes, sir.

8 EXAMINER CATANACH: -- Exhibit 13, was that --

9 Q. (By Examiner Catanach) Oh, I'm sorry, Hayes Land
10 Corporation is Mr. Brad Bennett; is that correct?

11 THE WITNESS: That's the same -- Yes.

12 MR. KELLAHIN: What we're going to propose to do
13 at the conclusion, Mr. Examiner, is have you continue the
14 case to the first hearing in February. Because I did not
15 get the green card back from Hayes and Bennett, I wanted to
16 make absolutely certain that he was served. And so if I
17 don't get the green card back tomorrow, I will serve him
18 again to make sure that I do have service on him.

19 And then I will confirm with Mr. Carr that the
20 title opinion which we received after filing the
21 Application correctly reflects what BTA says or their
22 assignees so that we don't have any gaps in terms of the
23 parties to be pooled.

24 EXAMINER CATANACH: Okay. Do you have anything?

25 MR. STOGNER: Yeah, a have some other questions

1 here.

2 EXAMINATION

3 BY MR. STOGNER:

4 Q. Concerning the shallow gas portion, why are you
5 seeking 160 acres in the Eumont Gas?

6 A. For shallower zones, Bone Springs.

7 Q. Are you saying the Eumont is spaced on 160-acre
8 spacing, or is that all available to you?

9 A. I'm not saying that.

10 MR. STOGNER: Mr. Kellahin, do you want to
11 address this issue, because you don't have a nonstandard
12 proration unit request in the Eumont Gas.

13 MR. KELLAHIN: Yes, sir, it would not include the
14 Eumont Gas. It is just those that might be available for
15 current 160 gas spacing. We think that's highly unlikely
16 possibility, maybe for Bone Springs. My research shows
17 that the Bone Springs well is removed from the spacing
18 unit, but it was my choice to ask for the shallow gas
19 because of that possibility.

20 MR. STOGNER: So you're requesting that the
21 Eumont be excluded from the force-pooling provisions?

22 MR. KELLAHIN: Yes, sir, if Eumont's available,
23 then we'd have to come back and amend the order.

24 MR. STOGNER: Yes.

25 MR. KELLAHIN: And do some other things too.

1 MR. STOGNER: I'm assuming that BWB Partnership
2 is aware that the Eumont is on 640-acre spacing.

3 MR. KELLAHIN: Yes, sir, I understand.

4 MR. STOGNER: Okay, good. No other questions.

5 EXAMINER CATANACH: Mr. Carr?

6 EXAMINATION

7 BY MR. CARR:

8 Q. Mr. Bennett, there is a joint operating agreement
9 for the BTA Wolfcamp well on this acreage, is there not?

10 A. Yes, there is.

11 Q. And that is limited, though, only to the 11,920-
12 foot depth?

13 A. Yes, it is.

14 Q. So you're seeking to pool anything not covered by
15 an agreement on the property?

16 A. Yes, we are.

17 MR. CARR: Okay, that's all.

18 FURTHER EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. That JOA just covers the Wolfcamp formation?

21 MR. CARR: Mr. Examiner, it's my understanding it
22 was limited, though, it was to the surface to the Wolfcamp,
23 and below that it is not applicable because those rights
24 were not earned by the drilling of the well, and I just
25 want to be sure that it is clear that the old JOA didn't

1 cover everything but it cut off at that 11,920-foot depth.

2 So there are intervals that aren't covered.

3 THE WITNESS: Yes, that is true, as well as the
4 east half of the east half, below 11,920 feet.

5 MR. CARR: Correct.

6 Q. (By Examiner Catanach) Your well is going to be
7 in the same quarter quarter section as the BTA well; is
8 that correct?

9 A. Yes, it will be in Unit H. I'm sorry, it will be
10 in Unit --

11 Q. Okay.

12 A. -- G. I apologize. It will be in the same unit
13 as the Amoco Best Number 2 well, Unit G.

14 Q. Well, where's the BTA well?

15 A. It's in Unit H.

16 Q. H, okay. So I guess the JOA for the BTA well,
17 does that include the shallow gas? Am I misunderstanding
18 that? Are you able to complete your well in a shallow gas
19 zone if it's covered in BTA's JOA?

20 A. No, I'm not, unless we pool it.

21 Q. Okay, I think I understand.

22 A. The JOA covers down to 11,920 feet in the east
23 half.

24 Q. So it covers all the shallow gas too?

25 A. Yes, it does.

1 Q. So wouldn't BTA have the right under the JOA to
2 complete in a shallow gas zone in that northeast quarter?

3 A. If we don't pool them.

4 MR. KELLAHIN: Let me do this, Mr. Examiner: I'm
5 not certain if that operating agreement covers the shallow
6 gas, so let me do that. On the conclusion of the hearing,
7 Mr. Carr and I will look at that operating agreement to see
8 if it's necessary to pool the shallow gas or if that
9 contract covers shallow gas.

10 MR. CARR: Mr. Catanach --

11 MR. KELLAHIN: We'll advise you.

12 MR. CARR: -- I'll work with Mr. Kellahin on
13 that. My purpose of the question was to show there are
14 zones that are not covered by that. And there have been
15 questions about it, and I think we're in agreement, BTA and
16 BWB, as to what the title situation is in this. I'll work
17 with Mr. Kellahin so we can advise you.

18 EXAMINER CATANACH: Okay, that's fine. Thank
19 you. I have no further questions of this witness.

20 MICHAEL A. SENECH,

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

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q. All right, sir. Mr. Senech, would you please

1 state your name and occupation?

2 A. Michael A. Senech, independent petroleum
3 geologist.

4 Q. Mr. Senech, where do you reside, sir?

5 A. Midland, Texas.

6 Q. As a consulting geologist, have you been retained
7 by the Applicant to make a geologic examination of the
8 opportunities for a successful Morrow gas well at this
9 location?

10 A. Yes, sir.

11 Q. And based on that request, have you completed
12 your study?

13 A. Yes, sir.

14 Q. As a result of that study, do you have an opinion
15 as to the appropriate risk factor penalty to be recommended
16 to the Examiner for inclusion in the pooling order?

17 A. Yes, sir.

18 MR. KELLAHIN: We tender Mr. Senech as an expert
19 petroleum geologist.

20 EXAMINER CATANACH: He is so qualified.

21 Q. (By Mr. Kellahin) Mr. Senech, what is your
22 opinion?

23 A. We believe that this is a 200-percent penalty.

24 Q. Let's look at the reasons that support that
25 opinion. If you'll turn to what we've marked as -- This

1 will be Exhibit 14. It's the log cross-section, and then
2 you have a -- on the right side of the cross-section you
3 have a structure map, and you've put certain information
4 about the wells on that. Let's look at that part of
5 Exhibit 14.

6 A. Okay.

7 Q. What are we looking at on the display? What is
8 it?

9 A. This is basically a north-south stratigraphic
10 section of the middle Morrow, datum'd on the middle Morrow
11 lime. And to the right side of the cross-section is a
12 generalized structure map with the location of pertinent
13 wells as described on the cross-section.

14 Q. When we start at A in the north and go down to A'
15 towards the south, start with the first well, the second
16 well, in purple, is the Manzano Neuhaus well that Mr.
17 Bennett was talking about earlier, right?

18 A. That's correct.

19 Q. And then the next one is the location for the new
20 proposed well that's the subject of this hearing, correct?

21 A. Correct, small circle, yellow.

22 Q. And then adjacent to that is the Amoco Best well?

23 A. Correct.

24 Q. All right. Based upon your study, Mr. Senech,
25 what are the reasons that you find that support

1 justification for the maximum penalty? Give us a general
2 idea of what supports that.

3 A. From the cross-section I've developed here with
4 the relationship of the wells, I've tried to within the
5 middle Morrow trace laterally correlative zones, sand-prone
6 zones.

7 And within those sand-prone zones -- that I've
8 color-coded here for the sake of clarity orange, green,
9 brown and purple -- you'll see that the sands within those
10 zones are laterally discontinuous, very characteristic of
11 the middle Morrow in this particular area. You can see
12 that in some adjacent wells you'll have thick sands, and
13 then you'll thin dramatically to the next well in line.

14 So what I see here is an opportunity for sand
15 development through this area, but the laterally
16 discontinuous nature of these sands doesn't give you a good
17 feeling of an expectation, 100 percent, that you're going
18 to have a solid sand right there at any location.

19 Q. So how does that discontinuity and erratic nature
20 of the continuity of the sand affect the risk?

21 A. It affects the risk from the standpoint that you
22 can map the area and have a reasonable assuredness that you
23 have a good likelihood of sand development, you're just not
24 sure of the quality of the sand in that particular spot.

25 Q. And therein lies the risk of finding commercial

1 gas production?

2 A. Correct.

3 Q. In any of the Morrow stringers?

4 A. Correct.

5 Q. All right. Let's look at what's happened with
6 the Manzano Neuhaus well, the well that's now been drilled
7 and tested in Section 14. Do you have that log section on
8 the cross-section?

9 A. Yes, I do.

10 Q. All right, let's look at the log section. It's
11 the second from the left?

12 A. Correct.

13 Q. Evaluate the log for us in terms of the
14 opportunity in the Morrow.

15 A. You look down through that log, you'll see that
16 in the first zone at the top of the orange zone, compared
17 to the well to the left there's no sand development
18 whatsoever and just a very little bit of sand to the well
19 at the -- the Amoco AG to the north, virtually no sand,
20 then, developed in the Manzano Neuhaus.

21 The zone 2, the green zone below it, is not
22 developed at all, no sand-prone character whatsoever with
23 that well, despite the fact that in the immediate offset to
24 the northwest that's the zone of production in that
25 particular well.

1 Moving down to the brown zone, again a very
2 limited interval, about two to four feet of relatively
3 clean rock but no good sand development.

4 Finally, the lowermost zone, the purple zone, is
5 where they did get some sand development, and it's
6 demonstrated there relative to the offset to the northwest.

7 Q. All right. Zone 4, then, in the Manzano well, at
8 least on the log, looks like it's worth testing?

9 A. Yes, sir.

10 Q. All right. As a result of the test, turn to
11 Exhibit 15 and tell us what happens.

12 A. What we have here is two logs from the same well,
13 a density neutron log and a resistivity log, correlated to
14 and color-coded in the same fashion as the cross-section to
15 show the brown zone at the top there with no sand
16 development and the purple zone showing sand development
17 there.

18 And what I've done with this is to demonstrate
19 that the water-saturation calculations that you can derive
20 from these zones show that the zones are probably wet and
21 not likely very gas-productive.

22 Q. Does the possibility of water or sands that
23 calculate to be too wet to be commercially productive
24 influence or affect the risk involved in drilling the
25 subject well?

1 A. Absolutely, yes, sir.

2 Q. I see it's in close proximity to the old Amoco
3 Best well. And I've forgotten the vintage of that; I think
4 it's about 1980-something. What's happened with the Amoco
5 Best well? It's been plugged and abandoned, has it not?

6 A. Yes, sir.

7 Q. All right. And what's the objective for
8 offsetting the Amoco Best well?

9 A. In the Amoco Best well, you can see on the cross-
10 section there next to the proposed location, in the brown
11 Number 3 zone you have a very well developed sand, very
12 good gas sand character to it, on the order of 15, 20 foot
13 thick in one sand and then a smaller sand immediately above
14 it in the same zone. It appears at that particular spot
15 they had a good opportunity for gas sand production.

16 Q. And what happened to that well?

17 A. When they tested the well, they had initial rates
18 that did indeed flow gas, but they quickly diminished and
19 could not sustain commercial production from the Morrow.

20 Q. Okay. What are the various possible explanations
21 for the failure of the Amoco Best well?

22 A. The possibilities are that the sands could be
23 drawn down and depleted. Other possibility is that they
24 could have mechanical failure as a result of completing the
25 well open hole.

1 Q. What are the chances of the other zones being
2 present and productive?

3 A. I think those would be fairly limited. You can
4 look to the southwest for the Watkins B Gas Com and you'll
5 see that the sands there are confined to the number 2 zone,
6 relatively thin -- they did make a commercial well out of
7 it, but relatively thin there.

8 And you didn't get any development to the north
9 in the Neuhaus well. It appears that the Number 3 would be
10 the primary target, and others would be very little
11 likelihood.

12 Q. Mr. Senech, have you evaluated this location for
13 any shallow gas potential?

14 A. No, I have not.

15 Q. Mr. Senech, have you evaluated this location for
16 any shallow gas potential?

17 A. No, I have not. I've focused on the Morrow.

18 EXAMINER CATANACH: Okay. I have no further
19 questions.

20 MR. KELLAHIN: That concludes our presentation,
21 Mr. Examiner.

22 If you'll continue the case to the first February
23 hearing -- is that the 8th? --

24 EXAMINER CATANACH: I believe it is.

25 MR. KELLAHIN: -- then we'll reconfirm our

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notifications and advise you at that time.

EXAMINER CATANACH: Okay, this case will be continued to the February 8th hearing.

Let's take a break, ten minutes.

(Thereupon, these proceedings were concluded at 9:40 a.m.)

* * *

100-12571
January 11, 2001
David K. Catnach
Examiner

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 January 14th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002