

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date MAY 31, 2001 Time 8:15 A.M.

| NAME | REPRESENTING | LOCATION |
|---------------------|-------------------------------------|-------------|
| PAUL R. OWEN | MONTGOMERY & ANDREWS | SANTA FE |
| Lynda Townsend | Ches. Oper., Inc | OKC |
| DOMNIE MICHAEL | COI (CHESAPEAKE) | MIDLAND, TX |
| William A. Carr | Holland & Hart LLP | Santa Fe |
| ROBERT A. DEFNER IV | CHESAPEAKE | OKC, OK |
| W. Kellerman | Kellerman & Kellerman Santa Fe | Santa Fe |
| Joe Fitzgerald | Patterson Petroleum | Midland |
| Truitt Matthews | Ventana Exploration, Inc. + PPLP | Dallas, TX. |
| Bill Baker | Azzington Oil & Gas | MIDLAND TX |
| Dale Douglas | Azzington Oil | MIDLAND TX |
| S. Carr | Stratton & Carr | Alb, NM |

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 PATTERSON PETROLEUM,)
L.P., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 12,668

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 31st, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 31st, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

OIL CONSERVATION DIV.
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I N D E X

May 31st, 2001
 Examiner Hearing
 CASE NO. 12,668

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* * *

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

MONTGOMERY & ANDREWS, P.A.
 Attorneys at Law
 325 Paseo de Peralta
 P.O. Box 2307
 Santa Fe, New Mexico 87504-2307
 By: PAUL R. OWEN

ALSO PRESENT:

RICHARD EZEANYIM
 NMOCD Chief Engineer

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

3
4
5 EXAMINER STOGNER: This hearing will come to
6 order for Docket Number 18-01. Please note today's date,
7 Thursday, May 31st, 2001. I'm Michael Stogner, appointed
8 Hearing Examiner for today's cases.

9 At this time I'll call Case Number 12,668, which
10 is the Application of Patterson Petroleum, L.P., for
11 compulsory pooling, Lea County, New Mexico.

12 At this time I'll call for appearances.

13 MR. OWEN: May it please the Examiner, my name is
14 Paul Owen. I'm with the Santa Fe law firm of Montgomery
15 and Andrews, appearing on behalf of the Applicant,
16 Patterson Petroleum, L.P.

17 EXAMINER STOGNER: Any other appearances?

18 Do you have any witnesses, Mr. Owen?

19 MR. OWEN: I have two witnesses in this matter,
20 Mr. Examiner.

21 EXAMINER STOGNER: Will the witnesses please
22 stand to be sworn at this time?

23 (Thereupon, the witnesses were sworn.)

24 MR. OWEN: My first witness in this matter is Mr.
25 Joe Fitzgerald.

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JOE FITZGERALD,

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

DIRECT EXAMINATION

BY MR. OWEN:

Q. Mr. Fitzgerald, why don't you tell us your full name and where you live?

A. Joe Fitzgerald, I live in Midland, Texas.

Q. Who do you work for?

A. I work for Patterson Petroleum.

Q. What do you do for Patterson?

A. I'm a landman.

Q. Have you previously testified before the Division and had your credentials as a petroleum landman accepted and made a matter of record?

A. Yes.

Q. Has it been some time since you so testified?

A. Yes.

Q. Why don't you summarize for the Examiner your education and experience as a landman?

A. I have a BBA in petroleum land management from the University of Texas. I've been a practicing landman for 21 years, and I'm a certified petroleum landman.

Q. Are you familiar with the Application filed in this case?

1 A. Yes.

2 Q. Are you familiar with the lands in the subject
3 area?

4 A. Yes.

5 MR. OWEN: Mr. Examiner, are the witness's
6 qualifications acceptable?

7 EXAMINER STOGNER: Mr. Fitzgerald is so
8 qualified.

9 Q. (By Mr. Owen) Mr. Fitzgerald, why don't you tell
10 us what Patterson seeks with this Application?

11 A. We are seeking an order pooling all of the
12 mineral interests from the surface to the base of the
13 Morrow in the south half of Section 31, Township 17 South,
14 Range 34 East, New Mexico prime meridian, to form a 320-
15 acre spacing unit including but not necessarily limited to
16 the undesignated Vacuum-Morrow Gas Pool.

17 I would like to point out that this south half
18 has two lots, Lots 3 and 4, so they're short. So it will
19 be a 310.69-acre tract if it's all pooled.

20 Also, the southeast quarter as to all formations
21 for 80 -- 160-acre spacing. The Application also asks for
22 40s, but all the ownership in the 40s is voluntarily pooled
23 under a JOA, so we don't have to include that. And the
24 spacing unit is to be dedicated to Patterson's proposed
25 Gach "31" State Number 1, to be drilled at standard

1 location in the southwest of the southeast of Section 31.

2 Q. All right. Did you bring some exhibits for use
3 in this case, Mr. Fitzgerald?

4 A. Yes.

5 Q. Why don't we turn to your first exhibit? Can you
6 explain that exhibit for the Examiner, please?

7 A. That's the C-102 that we filed with the State,
8 showing the proposed 320, 160 and 40-acre proration unit.
9 The location of the well is 660 from the south, 1650 from
10 the east, and it indicates on that plat -- it says "North
11 Vacuum; Atoka", but the State corrected that to just be
12 Vacuum. We were too far away, so it's just supposed to be
13 in the Vacuum-Morrow.

14 Q. Mr. Fitzgerald, if I might interrupt you, is the
15 location actually -- Is it 660 or 990 from the south line?

16 A. 990. Did I say 660?

17 Q. Yes, sir. All right, and there are a couple of
18 other maps attached to this.

19 A. The next one is the vicinity map, just showing
20 the location of Section 31 in the general area. We're
21 between Buckeye and Maljamar.

22 And then the second -- or the map behind that is
23 a topo map, just showing the topography of the area and the
24 location.

25 And then behind that is the ownership of the area

1 with Section 31 in the middle and the nine sections
2 surrounding it.

3 And then attached to that is a Midland Map map,
4 indicating the most current wells located in the area, and
5 the south half of 31 is highlighted in yellow.

6 Q. All right. What's your primary objective with
7 this well?

8 A. Morrow.

9 Q. Is that in the Vacuum-Morrow Gas Pool?

10 A. Yes.

11 Q. All right. Let's turn to your Exhibit Number 2.

12 Can you please tell the Examiner what that is?

13 A. That is the detailed ownership of the south half
14 of Section 31.

15 Q. All right. Now, is this the -- This is a
16 complete ownership breakdown; is that correct?

17 A. Yes.

18 Q. What percentage of that acreage is voluntarily
19 committed to the well?

20 A. It's the part that I've credited to Patterson
21 Petroleum, L.P. It's 74.25086.

22 Q. Okay. Let's turn to Patterson Exhibit Number 3.

23 Can you explain that for the Examiner, please?

24 A. That's our AFE, which was prepared by our
25 engineer. It calls for the well to be drilled to 13,600.

1 To drill and test is \$1,522,870, and to drill and complete
2 for a total of \$1,787,550.

3 Q. Okay. Are these costs in line with what's been
4 charged by other operators in the area?

5 A. Yes.

6 Q. And have you drilled other -- Has Patterson
7 drilled other Morrow wells in the immediate area?

8 A. Yes, we drilled a total of -- I have to think
9 about them now. -- four -- We drilled five wells in this
10 area. This will be our sixth.

11 Q. Okay. And will the technical expert that
12 Patterson is calling as a witness in a few minutes be
13 explaining the details of those other wells?

14 A. Yes.

15 Q. Okay. And are these charges that are reflected
16 on the -- or proposed charges on your AFE, Exhibit Number
17 3, in line with what Patterson has actually encountered in
18 drilling those other Morrow wells?

19 A. Yes.

20 Q. Okay. What efforts have you made to obtain the
21 voluntary joinder of all the working interest owners in the
22 proposed spacing unit?

23 A. When we started drilling wells out in this area a
24 while back, we of course checked the records. And a little
25 over a year ago we were trying to put Section 31 together.

1 And at that time we contacted the owners that we're pooling
2 today, or asking for a pooling order today, and that was in
3 March and April of 2000.

4 I had a broker, a land broker that I had hired to
5 help check the records, contact Robert Statton and his
6 partners. From our previous experience dealing with this
7 group of people we knew that Robert was the man that made
8 the decisions and would determine their group's intentions.

9 And so we continued to talk to him on three or
10 four different occasions during April and May -- March and
11 April, excuse me, of 2000. Those conversations and
12 meetings, although they were fruitful, they did not come to
13 any agreements. And the decision that Robert made was, at
14 the time that we get to a place where we can drill a well
15 that will include their acreage, to come back to them and
16 then they would talk to us about either joining or
17 something else.

18 So we didn't contact them again until April of
19 this year, and at that time we told him we would like to
20 form a unit to drill a well. He said, Put it in writing,
21 along with any other offers you have of other than joining.

22 So we sent on April 25th the letter which we'll
23 show as Exhibit 4. And in that letter we proposed this
24 well, we offered -- We attached a joint operating agreement
25 and an AFE asking them to join. We also offered to

1 purchase a term assignment. We also offered them terms to
2 farm out.

3 And then on May 4th, I followed up with a phone
4 call to make sure they got the information and if they
5 needed any more information, and if they would like to have
6 a meeting at which we would be more than happy to show them
7 all of our geology, our production data and anything else
8 they'd like to see that we had.

9 And at that time he said, I'll have to get back
10 with you.

11 On May 11th I called again, and Mr. Statton said
12 he was still talking with his partners and that they'd have
13 to get back with me. I asked to set up a meeting again.

14 On May 18th I called again, and we agreed to set
15 up a meeting for May 23rd.

16 On May 23rd, myself and Truitt Matthews met with
17 Mr. Statton, Ben Taylor and W.D. Kennedy in our offices.
18 All the other people that were on the list were also
19 invited, but those were the only three that elected to
20 come.

21 At that meeting we showed them all of our
22 geologic, well data, logs, production, all the data we had,
23 land, we discussed the JOA. And at that meeting it was
24 determined that they still weren't sure what they wanted to
25 do, but they would get back to us.

1 And so consequently wee are now here.

2 Q. Okay, and I think you indicated that Mr. Robert
3 Statton indicated that he was negotiating on behalf of the
4 other individuals who have not joined; is that correct?

5 A. Right, he said he would keep them informed and
6 that he was the one to talk to.

7 Q. And you stated that you sent a letter dated April
8 25th to the interest owners who haven't joined.

9 A. Right.

10 Q. Is that Patterson Exhibit Number 4?

11 A. Yes.

12 Q. And did you just send that to Mr. Statton, or did
13 you send that to all of the interest owners indicated on
14 Exhibit Number 2?

15 A. All of the interest owners.

16 Q. Okay, there's a JOA attached or included within
17 Exhibit Number 4. Is that the same JOA to which the
18 interests indicated by Patterson, 74 percent in Exhibit
19 Number 2 -- is that the same JOA to which --

20 A. Yes.

21 Q. -- those interest owners are committed?

22 A. Yes.

23 Q. Okay. In your opinion, have you made a good
24 faith effort to obtain a voluntary joinder of all the
25 working interest and mineral interest owners who have not

1 joined in this project so far?

2 A. Yes.

3 Q. Is Exhibit Number 5 an affidavit and letters
4 giving notice of this hearing today?

5 Okay, Mr. Examiner, the witness indicated he
6 doesn't have a copy of that particular exhibit in front of
7 him, and I'm handing that to him.

8 A. Yes.

9 Q. Now, have you made an estimate of the overhead
10 and administrative costs to be incurred while drilling and
11 producing the well if it's successful?

12 A. Yes, we have. We usually base that off the Ernst
13 and Young surveys. The latest one, the 2000-2001 survey,
14 for a well at this depth in New Mexico, would allow us --
15 if we used their rates, would allow us to charge \$6750 for
16 drilling well rates and \$700 for producing well rates,
17 although with our agreements with our previous partners in
18 this area, and as provided in the JOA that we submitted, we
19 are proposing a drilling well rate of \$5000 and a producing
20 well rate of \$650.

21 Q. And those terms, that \$5000 and \$650, are
22 included within the current JOA; is that correct?

23 A. Right.

24 Q. And those terms have been made available to the
25 interest owners who have not yet joined?

1 A. Yes, although, you know, we would like to have an
2 escalator for --

3 Q. Okay. And are you asking for an escalator in
4 this case?

5 A. Yes.

6 Q. Okay. Are those costs in line with what's being
7 charged by other operators in the area?

8 A. Yes.

9 Q. Are they in line with what you've actually
10 experienced in drilling and producing the other Morrow
11 wells in the immediate area?

12 A. Yes.

13 Q. Okay. Does Patterson seek to be the designated
14 operator of the well?

15 A. Yes.

16 Q. Do you recommend that your drilling and your
17 overhead and administrative costs be incorporated into the
18 order which results from this hearing?

19 A. Yes.

20 Q. Mr. Fitzgerald, were Exhibits 1 through 5
21 prepared by you or compiled under your direction and
22 supervision?

23 A. Yes.

24 MR. OWEN: Mr. Examiner, I tender Exhibits 1
25 through 5.

1 EXAMINER STOGNER: Exhibits 1 through 5 will be
2 admitted into evidence at this time.

3 Q. (By Mr. Owen) Mr. Fitzgerald, do you request
4 that an order in this case be expedited?

5 A. Yes, due to the drilling schedule. We have a rig
6 coming August 15th, and I'm told by our contract
7 representatives if I don't take it at that time it will be
8 eight months or longer before I'll see it again, and it
9 will probably be at a higher drilling rate.

10 Q. So you need to have your order out by mid-July to
11 have the time to join the well expire before you need to
12 spud the well; is that correct?

13 A. Yes, sir.

14 Q. Okay. And did you say it's going to be eight
15 months after July if you don't get the well --

16 A. Eight months after August.

17 Q. After August, okay.

18 A. At a minimum. I mean, it may be much more than
19 that.

20 MR. OWEN: Okay, that's all the questions that I
21 have at this time.

22 EXAMINER STOGNER: Thank you, Mr. Owen.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Mr. Fitzgerald, in Exhibit Number 1, the last

1 page -- this is the copy of the Midland map -- there
2 appears to be the Burgundy Oil and Gas Operator South
3 Vacuum Unit that takes in that 80 acres be force-pooled
4 today. What's the status of that unit, and what area does
5 it cover?

6 A. It's my understanding it covers the area outlined
7 there, but it only goes down to, I believe, 5500 feet.
8 Then all the rights below that are owned by various owners.
9 The Burgundy Group is the Statton Investor Group that's
10 listed on my exhibit. Bob Statton is Burgundy.

11 Q. Now, the interest owners in Exhibit Number 2, are
12 they also part of that unit as a whole, or just that 80
13 acres? I guess I don't quite understand.

14 A. Well, the purview of that list is just for the 80
15 acres, but it's my understanding those are also the same
16 owners that own the unit, the shallow unit, yes, sir.

17 Q. So they would have the same interest, whether it
18 be shallow or deep in this particular 80 acres?

19 A. That's my understanding, yes.

20 Q. Now, the royalty interest underlying the south-
21 half equivalent of Section 31, that's all state land; is
22 that correct?

23 A. Yes, sir.

24 Q. Is there a lease deadline?

25 A. No, sir. It's all HBP.

1 Q. When I review Exhibit Number 4, was this the
2 first written correspondence to the leasehold owners that
3 are being force-pooled today?

4 A. Yes, sir.

5 Q. Okay. You had mentioned something about a March
6 and April, 2000 --

7 A. Yes, sir. We drilled a well in the north half of
8 Section 31 a year ago. Well, it wasn't a year ago, we were
9 putting it together a year ago. We drilled a well in the
10 south half of 30, a little over a year -- a year and a half
11 ago.

12 Then we started putting together the north half
13 of 31 to drill a well there, which we have drilled and
14 completed, and it's producing. Truitt will speak to that
15 here in a little bit.

16 And then -- But we were putting 31 together back
17 in March and April of 2000, and at that time we approached
18 Burgundy for this 80-acre tract and had numerous
19 discussions through my broker, and he had one meeting with
20 Bob, and they discussed joining or farming out or term
21 assignments at that time, and the decision was, when we
22 actually were closer to drilling a well that would include
23 their acreage in our unit, to come back to them at that
24 time. And that's when we went back to them, in April of
25 this year.

1 Q. Any other -- between any other correspondence --
2 phone calls, I should say, between April of 2000 and April
3 of 2001?

4 A. No, sir.

5 Q. Now, when you said Bob, you were talking about
6 Mr. Robert Statton?

7 A. Yes, sir.

8 Q. At first appearance, April 25th and May 31st,
9 that doesn't seem like a very long time to try to reach
10 some sort of voluntary agreement.

11 A. It wasn't -- What caused all that was, the window
12 for the drilling rig came available, and so the drilling
13 contract rep said -- gave me -- told me the date that he
14 could get me the rig, and that's when I started scrambling
15 to get everything done.

16 Prior to that we thought it was going to be a
17 fourth-quarter well, but he couldn't guarantee me that I'd
18 have a rig even then. That was just a wish, and this was
19 more of a guaranteed time slot. And so that's why we
20 started scrambling.

21 Of course, from our previous conversations with
22 Mr. Statton the year before, we didn't think we would --
23 you know, what he informed us was that when we got closer
24 to drilling a well that would include their acreage in the
25 unit, we didn't think we would even be here.

1 Q. This meeting with Mr. Statton, Kennedy, and who
2 was the third party, at the May 23rd meeting --

3 A. W.D. Kennedy.

4 Q. -- and Mr. Kennedy, Mr. Statton, and who else
5 again?

6 A. Ben Taylor.

7 Q. Ben Taylor. -- was this issue brought up, or did
8 they have any concerns about the --

9 A. No, the meeting was very copacetic, very
10 informative on both parties. Everybody was quite congenial
11 and cooperative at the meeting. But just no decisions had
12 been made on their part, so...

13 Q. Were they aware -- well, yeah, they aware that --
14 May 23rd, that there was going to be a hearing set for
15 today?

16 A. Yes, sir, and I brought it up at the May 23rd
17 meeting also, that this hearing was going to take place
18 this week.

19 Q. And what was their reaction?

20 A. They said, Good -- go ahead.

21 Q. The overhead charges of \$5000/\$650 --

22 A. Yes, sir.

23 Q. -- that's \$5000 drilling, \$650 while producing --

24 A. Yes, sir.

25 Q. -- is that the rates that were charged on the

1 other five wells that you have previously drilled in this
2 area?

3 A. Yes, sir.

4 Q. And they were all of equivalent depth?

5 A. Yes, sir, they're all Morrow tests.

6 EXAMINER STOGNER: Any redirect, Mr. Owen?

7 MR. OWEN: Very briefly, Mr. Examiner.

8 FURTHER EXAMINATION

9 BY MR. OWEN:

10 Q. Mr. Fitzgerald, I want to clarify one issue. On
11 Exhibit Number 1, that Midland Map Company map which
12 indicates the Burgundy Group -- well the Burgundy unit,
13 South Vacuum Unit -- is it your understanding that the
14 ownership of the rights above 5500 is different than the
15 ownership and the rights below 5500 feet?

16 A. No, I believe that's the same group.

17 Q. Well, do they hold the same percentage interest
18 in the shallow rights as they do in the deep rights?

19 A. My purview, my takeoff, was just for rights below
20 5500, so I can't 100-percent say that, but that's what my
21 understanding is --

22 Q. Okay.

23 A. -- that they're the same, but...

24 Q. Okay. And to clarify, you're no longer seeking
25 pooling of the shallow rights; is that correct?

1 A. Correct, I don't need the 40-acre.

2 Q. Okay, and you're seeking pooling of the 160 and
3 320 acres --

4 A. Correct.

5 Q. -- is that correct?

6 All right. And a couple of questions about your
7 meeting with Mr. Statton and the Burgundy Group. Was only
8 Mr. Statton, or everybody that's indicated on Exhibit 2,
9 invited to that meeting?

10 A. Everyone was invited.

11 Q. Okay. And did you show them the same
12 information, and all the information upon which Patterson
13 is basing its decision to drill this well?

14 A. Yes.

15 Q. Okay. Did they indicate that they needed any
16 additional information from you?

17 A. No. And we left that door open, if they thought
18 of something else they'd like to see, they'd let us know.

19 Q. Did they indicate that any alternate location
20 would be more appropriate than this location?

21 A. No.

22 Q. Did they indicate that the proposed drilling and
23 operating costs contained within the proposed JOA were
24 unreasonable?

25 A. No.

1 MR. OWEN: That's all the questions I have, Mr.
2 Examiner.

3 EXAMINER STOGNER: I have no other questions of
4 this witness.

5 Are there any other questions, gentlemen, of this
6 witness?

7 MR. EZEANYIM: Just one question.

8 EXAMINATION

9 BY MR. EZEANYIM:

10 Q. I didn't understand, when you look at Exhibit 2,
11 how many agreed to your proposals?

12 A. Exhibit 2?

13 Q. Yes.

14 A. And the question again?

15 Q. I said, when you had the meeting, how many agreed
16 to your proposals?

17 A. Of the group that covers the east half of the
18 southeast, no one has agreed to anything yet. As to this
19 group that covers 74.25086, that is all subject to a joint
20 operating agreement.

21 Q. And they didn't have any objection to the AFE?

22 A. None.

23 MR. EZEANYIM: Okay.

24 THE WITNESS: Thank you.

25 MR. OWEN: Thank you, Mr. Fitzgerald.

1 EXAMINER STOGNER: If there's no other questions
2 of Mr. Fitzgerald, he may be excused.

3 Mr. Owen?

4 MR. OWEN: Mr. Examiner, my next witness is Mr.
5 Truitt Matthews.

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

9 DIRECT EXAMINATION

10 BY MR. OWEN:

11 Q. Mr. Matthews, would you please tell us your name
12 and where you live and spell your name for the court
13 reporter, please?

14 A. Yes, my name is Truitt Matthews. That's
15 T-r-u-i-t-t Matthews, M-a-t-t-h-e-w-s, and I'm with Ventana
16 Exploration in Dallas, Texas.

17 Q. What do you do for Ventana?

18 A. I'm a petroleum geologist.

19 Q. What's your connection with Patterson in this
20 case?

21 A. We're a partner in the project responsible for
22 prospect generation and geologic interpretation.

23 Q. Have you previously testified before this
24 Division?

25 A. No, I have not.

1 Q. Why don't you tell us briefly your education and
2 experience?

3 A. I have a BS in geology, 1983, from Baylor
4 University and a master's of petroleum geology, 1985, from
5 Baylor University, and I'm also a certified petroleum
6 geologist and going on 16 years of experience.

7 Q. Who have you worked for?

8 A. I worked for Bass Enterprises Production Company
9 out of Fort Worth for nine years, and I've been with
10 Ventana for six years now.

11 Q. And in both of those positions was your position
12 a petroleum geologist?

13 A. Yes, I was a petroleum geologist, exploration,
14 production, exploitation.

15 Q. Did you study the lands in southeastern New
16 Mexico during that time?

17 A. Yes, sir.

18 Q. Are you familiar with the Application filed in
19 this case?

20 A. Yes, sir.

21 Q. Have you made a technical study of the area
22 that's the subject of this Application?

23 A. Yes, I have.

24 Q. Are you prepared to share the results of that
25 study with the Examiner?

1 A. Yes, sir.

2 MR. OWEN: Mr. Examiner, I tender Mr. Matthews as
3 an expert in petroleum geology.

4 EXAMINER STOGNER: Mr. Matthews is so qualified.

5 Q. (By Mr. Owen) Mr. Matthews, have you prepared
6 certain exhibits for presentation in this case?

7 A. Yes, I have.

8 Q. And before we get into the exhibits, are you
9 prepared to make a recommendation to the Examiner as to the
10 risk penalty that should be assessed against the
11 nonconsenting interest owners?

12 A. Yes.

13 Q. What is that?

14 A. Two hundred percent.

15 Q. Is that cost plus 200 percent?

16 A. Cost plus 200 percent, yes, sir.

17 Q. Let's go ahead and turn to your exhibits. I
18 think your first exhibit is a production map. Would you
19 please review that for the Examiner?

20 A. Yes, sir.

21 Q. Is that Patterson Exhibit Number 6?

22 A. Yes, it is.

23 Q. Okay.

24 A. This is a -- we call it our Maljamar/Vacuum area.
25 This is a four-township production map. It's on a one-to-

1 four scale. We're looking in the northeast quarter of this
2 map, Township 17 South, Range 34 East. In Section 31
3 you'll notice the southeast quarter of Section 31, there is
4 our location.

5 And also these are the wells just greater than or
6 equal to 11,000 feet. The top of the Morrow is roughly
7 going to be 12,950 at this location. The yellow highlights
8 are Morrow producers, and the orange is Atoka producers.

9 And I just want to call attention to the three
10 wells lined up north-south in Sections 19, 30 and 31.
11 Those were the Patterson wells that were drilled. The one
12 in Section 19 is the Tomahawk well, which we'll look at
13 later. It was followed by the dry hole in Section 20. And
14 in Section 30 is the Hawkeye well. In Section 31, then,
15 that's the Uncas. And then our location is in the
16 southeast quarter of Section 31.

17 And the next thing I'd like to note is the deep
18 well control, very sparse. And there's three wells, one
19 southwest in Section 11 that penetrated the top of the
20 Morrow, then in Section 18 of 18-34, and then in Section 9
21 of 18-34. Those are the three nearest well-control points
22 to the south that penetrated the Morrow formation. And
23 each of those are anywhere between 2.3 to 2.7 miles away.

24 Q. Is that lack of deep well control in the area to
25 the south significant in your calculation of the risk

1 associated with the drilling of this well?

2 A. It certainly is very risky.

3 Q. Okay. Let's go ahead and move to Patterson
4 Exhibit Number 7. Can you explain this Exhibit to the
5 Examiner, please?

6 A. Yes, sir, this is a structure map. It's a 1-to-
7 2000, the contour interval is 50 feet. Highlighted in
8 yellow is the Morrow producers on this map.

9 You'll notice the -- highlighted in blue are the
10 key wells that we'll also look at a cross-section in just a
11 little while. But you'll notice a north-south-trending
12 structural ridge with dip to the west, east and south, and
13 it would also occur to the north also if it was included on
14 the map. So we're looking at a structural ridge that is
15 controlling part of the control on the production here in
16 the Morrow, with our location being in the southeast
17 quarter of Section 31.

18 Q. Okay. Is that north-south trending of the Morrow
19 also reflected in Patterson Exhibit Number 8?

20 A. Yes, sir, it is.

21 Q. Why don't you explain that exhibit to the
22 Examiner, please?

23 A. This map here is a net sand isopach. Once again,
24 it's a 1-to-2000 scale, the contour interval here is 10
25 feet. And what I am contouring here on this isopach is

1 porosity greater than or equal to 5-percent porosity. And
2 this is a net sand map of the gross Morrow sand interval.

3 And what I want to notice here -- once again,
4 highlighted in yellow is the Morrow production -- is a
5 north-south or northeast-southwest-trending Morrow sand
6 thick, and it's trending sort of in a north-south
7 direction, into our Gach State Number 1 location in the
8 southeast quarter of Section 30.

9 Q. Okay, and I think you indicated that this is a
10 gross interval for the Morrow; is that correct?

11 A. It's a net sand isopach of the gross Morrow
12 interval, yes, sir.

13 Q. And have the different wells which you've plotted
14 on your cross-section encountered Morrow production from
15 different sands within the Morrow?

16 A. Yes, sir, all three of the Patterson-operated
17 Morrow wells, the Tomahawk, Hawkeye and Uncas, are all in
18 three different Morrow sands.

19 Q. Okay, and is that reflected on Patterson Exhibit
20 Number 9 --

21 A. Yes, sir.

22 Q. -- the cross-section?

23 A. You'll notice on all -- the isopach and the
24 structure map, the cross-section line is posted on there.
25 And also I have a land plat with the cross-section

1 designation A-A'; it's a north-south section.

2 On this -- It's a stratigraphic section hung on a
3 datum above the Atoka sand. I also have the top of the
4 Morrow lime, the base of the Morrow lime and then top of
5 the Mississippian unconformity posted on this cross-
6 section, correlated across.

7 And you'll notice the presence of the Morrow sand
8 highlighted on the map. The perforations are in red,
9 showing where the productive intervals are within the
10 Morrow.

11 And each of the wells, would you like me to give
12 a brief --

13 Q. Yes, starting on the left side, the Tomahawk
14 well, why don't you explain where you encountered that
15 Morrow production --

16 A. Yes, sir.

17 Q. -- and the characteristics of each well?

18 A. Yes, sir.

19 This well was the first well drilled in this
20 project, in May of 1999. We encountered two Morrow sands.
21 We initially produced at a sand at 13,450 feet, and that
22 particular zone depleted over the course of a couple of
23 months. And then we went up to the other zone at 13,250,
24 and that's where it is currently completed in at this
25 point.

1 The well has cumulatively produced around 70
2 million cubic feet of gas and about 3500 barrels of
3 condensate. It has been off line due to pipeline variation
4 since January of this year. It is a low-productive sand,
5 low-volume-type sand production.

6 Q. All right, do you anticipate bringing that well
7 back on line?

8 A. Yes, sir. Plans are ongoing right now to get
9 that well back on line, yes, sir.

10 Q. Okay. Let's go on to the next well there.

11 A. The next well on the cross-section is the Magua
12 State Number 1, and that was drilled in May of 2000. And
13 we encountered a very thin Morrow section there, as far as
14 the net sand goes, and we attempted -- We did run a DST in
15 the Atoka formation, proved the Atoka wet there.

16 We drilled the well on down, saw no significant
17 chance for commercial production, and that well has been
18 P-and-A'd.

19 Q. Okay. Did you run any DSTs in any of the shallow
20 zones?

21 A. No, sir.

22 Q. Why not?

23 A. There were no significant shows --

24 Q. Okay.

25 A. -- that would have led us to do that.

1 Q. Let's go on to the next well, the Hawkeye well.

2 A. The Hawkeye State Number 1 was drilled in
3 February of last year and placed on production in March of
4 2000. That well has cumulatively produced to date -- this
5 is to May 20th of this year -- has produced 1.86 BCF of gas
6 and 111,000 barrels of condensate.

7 You'll notice here we're completed in a lower
8 Morrow sand. We have 19 feet of perforations opened up
9 there at 13,450 to -70, in that interval. And you'll
10 notice highlighted in yellow above there are other Morrow
11 sands where we had significant drilling breaks and shows
12 within the Morrow interval. And that well to date, as
13 you'll note on the isopach, has the thickest Morrow
14 interval at this time.

15 Q. Okay, and the next well there is the Lea 23 well.
16 That's not a Patterson well, is it?

17 A. No, sir, this well was drilled in 1968 by
18 Phillips Petroleum and was one of the key wells to this
19 prospect generation. You'll notice in yellow -- I mean in
20 orange -- I mean, excuse me, red, the perforations in that
21 well.

22 In 1968 Phillips ran a DST over an upper sand,
23 flowed at rates of 600 MCF a day. They later went back
24 after drilling the well. They perforated all these
25 intervals together and they had a CAOF of 565 MCF a day.

1 Q. By all the intervals, you mean all the Morrow
2 sands?

3 A. Yes, all the Morrow sands that you see noted in
4 red.

5 Q. Okay.

6 A. The perforations. At that point they saw no
7 commercial production, and they left that zone at that
8 point. So it was never placed on line.

9 Q. Did that well produce any hydrocarbons?

10 A. Yes, sir, they made a Wolfcamp completion up at
11 approximately 10,300 feet. It only cum'd plus or minus
12 6000 barrels.

13 Q. Is the Wolfcamp a target in the Gach well?

14 A. No, sir, it's not a target, it is not prospective
15 for that.

16 Q. Have you encountered significant Wolfcamp
17 reservoirs in any of the other Patterson wells in the area?

18 A. No, sir, only very slight shows within the
19 Wolfcamp. No drill stem tests have been run or anything.

20 Q. Okay. And then finally the last well indicated
21 on -- other than the line for the proposed well, the last
22 well indicated on Patterson Exhibit Number 9 is the Uncas
23 well; is that --

24 A. Yes, sir, this is the Uncas "31" State Number 1.
25 It was just drilled in February of this year. It was

1 completed in March into a low-pressure line and was then
2 put into a high-pressure line in the middle of April. And
3 cumulative production to date -- this is also May 20th of
4 this year, this is the latest production we have -- is 93
5 million cubic and sixty- -- six thousand one hundred
6 barrels of condensate.

7 Q. Six thousand one hundred?

8 A. Yes, sir.

9 Q. How much sand did you encounter in that Morrow?

10 A. Net sand, we had approximately -- Well, we had 19
11 feet of net sand were completed. Some of that was
12 tightish. We're completed in an eight-foot zone currently.

13 Q. Okay. Now, again, I want to call the Examiner's
14 attention to the fact that these Morrow wells indicated on
15 your cross-section all indicated Morrow production in
16 different Morrow sands; is that right?

17 A. Yes, sir.

18 Q. Do you anticipate encountering any one of these
19 sands in particular in the Gach "31" well?

20 A. No, sir, we would hope to encounter as much as
21 possible. That's why the mapping method looked at the
22 gross Morrow interval.

23 Q. Okay. Do you think there's a chance that you
24 could drill a well at the proposed location that would not
25 be a commercial success?

1 A. Certainly.

2 Q. Okay. And in your opinion, will granting this
3 Application be in the best interests of conservation, the
4 prevention of waste and the protection of correlative
5 rights?

6 A. Yes, sir.

7 Q. Mr. Matthews, were Patterson Exhibits 6 through 9
8 prepared by you or compiled under your direction?

9 A. Yes, sir.

10 MR. OWEN: Mr. Examiner, I move the admission of
11 Exhibits 6 through 9.

12 EXAMINER STOGNER: Exhibits 6 through 9 will be
13 admitted into evidence at this time.

14 MR. OWEN: And that's all the questions I have of
15 this witness at this time, Mr. Examiner.

16 EXAMINER STOGNER: Thank you, Mr. Owen.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Matthews --

20 A. Yes, sir.

21 Q. -- concerning the shallower zones, what
22 approximate depth do I find the base of the San Andres?

23 A. The base of the San Andres would be approximately
24 5500 feet.

25 Q. So the formations in which are being force pooled

1 today, that includes the Yates, the Seven Rivers and Queen,
2 that's below that San Andres zone, is it not?

3 A. All those zones you just mentioned will be above
4 the San Andres.

5 Q. Will be above it.

6 A. We'll be looking at zones below that, yes, sir.

7 Q. But yet today you're still requesting a force
8 pool of those shallower intervals if they're spaced on gas;
9 is that correct?

10 A. No, sir.

11 EXAMINER STOGNER: Oh? Okay, so Mr. Owen, I'm
12 assuming that we can dismiss the 160-acre spacing unit.
13 You just want the 320; is that correct?

14 MR. OWEN: Mr. Examiner, may I have just a minute
15 with my client?

16 EXAMINER STOGNER: Oh, okay.

17 (Off the record)

18 MR. OWEN: Mr. Matthews, do you still want the
19 pooling of those shallower formations if they're based on
20 gas rather than oil?

21 THE WITNESS: If they're based on gas, yes, sir.

22 MR. OWEN: Okay.

23 EXAMINER STOGNER: Okay, so we have that correct.

24 MR. OWEN: Correct. So, Mr. Examiner, the answer
25 to your question to me is, we would prefer that the

1 intervals, the shallower intervals which are based on gas,
2 not be dismissed from the pooling of this action.

3 EXAMINER STOGNER: Okay, I have no other
4 questions of this witness.

5 MR. OWEN: Okay.

6 EXAMINER STOGNER: I want to recall your landman,
7 though.

8 Gentlemen, are there any questions of Mr.
9 Matthews?

10 MR. BROOKS: No, thank you.

11 EXAMINER STOGNER: Okay, thank you, sir.

12 MR. OWEN: Thank you, Mr. Matthews.

13 EXAMINER STOGNER: Would you recall Mr.
14 Fitzgerald?

15 MR. OWEN: Mr. Examiner, I recall Mr. Joe
16 Fitzgerald.

17 Mr. Fitzgerald, do you have a copy of the
18 exhibits?

19 MR. FITZGERALD: Yes.

20 JOE FITZGERALD (Recalled),
21 the witness herein, having been previously duly sworn upon
22 his oath, was examined and testified as follows:

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Mr. Fitzgerald, I'm looking at Exhibit Number

1 1-D, and I've drawn here that Burgundy unit, and I'm
2 looking at particular Arco has 100-percent participation in
3 a few of its leases that's within this unit. Now, is Arco
4 a part of this particular 320 acres? Have you got -- Are
5 they a part of the party in which has joined you in this
6 lease today?

7 A. Let me get that back out.

8 Well, Arco is in Section 32.

9 Q. Yeah, but they're a part of the unit, what I
10 understood your testimony to be.

11 A. No, they only own deep rights. If you notice
12 above, it says as to rights below the base of the San
13 Andres.

14 Excuse me, I should have pointed that out
15 earlier.

16 Q. Okay. So that's just for this particular
17 acreage --

18 A. Yes, sir.

19 Q. -- that deep right? Okay.

20 So the Burgundy, as I understand it -- this is
21 what's confusing me --

22 A. Yes --

23 Q. -- I'm not sure that I have that correct --

24 A. Yes.

25 Q. -- it's just the Statton parties, as shown on

1 Exhibit Number -- what? Two, I believe.

2 A. Yes, sir.

3 MR. OWEN: It's all the parties below the
4 interest indicated by the Patterson group; is that correct,
5 Mr. Fitzgerald?

6 THE WITNESS: Yes, sir.

7 Q. (By Examiner Stogner) So the Arco is not a part
8 of that unit in the shallow in which that Burgundy unit --

9 A. Correct.

10 EXAMINER STOGNER: That satisfies me, Mr. Owen.

11 Any other questions of this witness?

12 Thank you, Mr. Fitzgerald, you may be excused.

13 Mr. Owen, do you have anything further in this
14 matter?

15 MR. OWEN: Mr. Examiner, the only thing I would
16 like to stress is that given the selling price of
17 hydrocarbons recently, the availability of drilling rigs is
18 significantly limited.

19 The drilling opportunity that the Patterson group
20 has in this case is very limited, and if it's not taken
21 advantage of at this time it will lose a significant amount
22 of time and production.

23 We do ask that the order in this case be
24 expedited, and we will do anything we can to assist you in
25 that endeavor.

1 EXAMINER STOGNER: So noted, Mr. Owen. Is there
2 anything further in this matter?

3 MR. OWEN: That's all that I have in this case,
4 Mr. Examiner.

5 EXAMINER STOGNER: Case 12,688 will be taken
6 under advisement.

7 (Thereupon, these proceedings were concluded at
8 9:05 a.m.)

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I hereby certify that the foregoing is
a complete and correct transcript of the
proceedings of the hearing on Case 12668
heard by me on 31 May 2001.
Michael E. Stogner, Examiner
Of Conservation Division

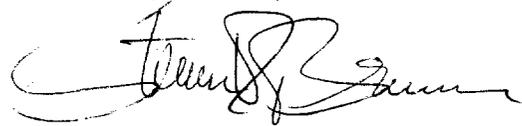
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL June 2nd, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002