

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. 12,715  
)  
APPLICATION OF PERMIAN RESOURCES, INC., )  
FOR COMPULSORY POOLING, LEA COUNTY, NEW )  
MEXICO )  
\_\_\_\_\_ )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID BROOKS, Hearing Examiner

September 6th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV  
01 SEP 20 AM 10:11

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID BROOKS, Hearing Examiner, on Thursday, September 6th, 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.

\* \* \*

## I N D E X

September 6th, 2001  
 Examiner Hearing  
 CASE NO. 12,715

|  | PAGE |
|--|------|
| EXHIBITS                               | 3    |
| APPEARANCES                            | 3    |
| APPLICANT'S WITNESSES:                 |      |
| <u>WILLIAM L. PORTER</u> (Landman)     |      |
| Direct Examination by Mr. Hall         | 4    |
| Examination by Examiner Brooks         | 12   |
| <u>MICHAEL L. STEWART</u> (Engineer)   |      |
| Direct Examination by Mr. Hall         | 17   |
| Examination by Examiner Brooks         | 23   |
| Examination by Examiner Catanach       | 26   |
| Further Examination by Examiner Brooks | 28   |
| REPORTER'S CERTIFICATE                 | 30   |

\* \* \*

## E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1   | 7          | 12       |
| Exhibit 2   | 7          | 12       |
| Exhibit 3   | 8          | 12       |
| Exhibit 4   | 10         | 12       |
| Exhibit 5   | 18         | 23       |
| Exhibit 6   | 20         | 23       |
| Exhibit 7   | 19         | 23       |
| Exhibit 8   | 21         | 23       |
| Exhibit 9   | 20         | 23       |
| Exhibit 10  | 21         | 23       |
| Exhibit 11  | 22         | 23       |
| Exhibit 12  | 28         | 29       |

\* \* \*

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

FOR THE APPLICANT:

MILLER, STRATVERT and TORGERSON, P.A.  
 150 Washington  
 Suite 300  
 Santa Fe, New Mexico 87501  
 By: J. SCOTT HALL

ALSO PRESENT:

DAVID R. CATANACH  
 Hearing Examiner  
 New Mexico Oil Conservation Division  
 1220 South Saint Francis Drive  
 Santa Fe, NM 87501

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:54 a.m.:

3 EXAMINER BROOKS: Okay, at this time we will call  
4 Case Number 12,715, Application of Permian Resources, Inc.,  
5 for compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. HALL: Mr. Examiner, my name is Scott Hall,  
8 Miller, Stratvert and Torgerson, P.A., Santa Fe, on behalf  
9 of the Applicant, Permian Resources, Inc.

10 I have two witnesses this morning.

11 EXAMINER BROOKS: Okay, would the witnesses  
12 please stand to be sworn? Would you please identify  
13 yourselves for the record?

14 MR. PORTER: I'm William L. Porter.

15 MR. STEWART: I'm Michael Stewart.

16 (Thereupon, the witnesses were sworn.)

17 EXAMINER BROOKS: Are there any other  
18 appearances? Very well. Mr. Hall, you may proceed.

19 MR. HALL: Thank you, Mr. Examiner.

20 WILLIAM L. PORTER,  
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. HALL:

25 Q. Mr. Porter, for the record would you please state

1 your name?

2 A. William Porter.

3 Q. And where do you live, Mr. Porter, and how are  
4 you employed?

5 A. In Midland, Texas. I'm employed by Permian  
6 Resources, Inc., as a land manager.

7 Q. I understand you've not previously testified  
8 before the Division; is that correct?

9 A. That's correct.

10 Q. Would you please give the Examiner a brief  
11 summary of your educational background and work experience?

12 A. I will. I received a bachelor of business  
13 administration from Texas Tech University in 1984 with a  
14 petroleum land management major, have been a practicing  
15 landman for 17 years and am a certified petroleum landman.

16 Q. And you've worked in the Permian Basin before?

17 A. Yes.

18 Q. You're familiar with the Application that's been  
19 filed in this case?

20 A. I am.

21 Q. And you're familiar with the lands that are the  
22 subject of the Application?

23 A. I am.

24 MR. HALL: At this point, Mr. Examiner, we tender  
25 Mr. Porter as an expert petroleum landman.

1 EXAMINER BROOKS: So qualified.

2 Q. (By Mr. Hall) Mr. Porter, if you would, please,  
3 summarize what it is Permian seeks by its Application.

4 A. We seek to pool the mineral owners that have not  
5 voluntarily joined our unit to drill in the Wolfcamp  
6 formation in the southeast quarter of Section 7, 16 South,  
7 36 East, Lea County, New Mexico.

8 Q. There's no working interest ownership you seek to  
9 pool today; is that correct?

10 A. That is correct.

11 Q. Dealing only with unleased mineral interests?

12 A. Yes.

13 Q. All right, tell us about the well and its  
14 location.

15 A. Our well is located in the north half of the  
16 southeast quarter of Section 7, and it is at a legal  
17 location.

18 Q. All right, and is it the Chambers Number 2 well?

19 A. It is the Chambers Number 2 well.

20 Q. All right. What is the surface location for the  
21 well?

22 A. The surface location for the well is 2310 feet  
23 from the south line and 330 feet from the east line of the  
24 section.

25 Q. All right. And what is your bottomhole location?

1           A.    Our bottomhole location is 1980 feet from the  
2 south line, 2310 feet from the east line.

3           Q.    Let's refer to Exhibit 1, if you would explain  
4 that to the Hearing Examiner, please, sir.

5           A.    Exhibit 1 is a land plat showing the location of  
6 the acreage in Lea County, New Mexico, approximately a mile  
7 and a half from -- west of Lovington.

8           Q.    All right. And Exhibit 2, if you would explain  
9 that, please, sir.

10          A.    Exhibit 2 is a proration schedule that we're  
11 going to use to drill our Strawn well and our Wolfcamp  
12 well.

13          Q.    And does it show the current pool boundaries for  
14 the applicable pools?

15          A.    Yes.

16          Q.    And what are those pools?

17          A.    The pools for the Strawn in the Northeast Shoe  
18 Bar-Strawn Field is 80 acres, and the proration for the  
19 Wolfcamp out of the North Shoe Bar Field is 160 acres.

20          Q.    All right. Now, is this undesignated Northeast  
21 Shoe Bar-Strawn?

22          A.    That's correct.

23          Q.    And you are within the current boundaries of the  
24 Wolfcamp --

25          A.    Yes, we are.

1 Q. -- Shoe Bar-Wolfcamp?

2 A. Yes, we are.

3 Q. Now, what's your primary objective for the well?

4 A. Our primary objective for the well is the Strawn  
5 formation at approximately 11,500 feet.

6 Q. And what is the current leasehold ownership in  
7 the Strawn?

8 A. In the north half of the southeast quarter, which  
9 is our proration unit, we have a 100-percent working  
10 interest position.

11 Q. All right, so you're going to have a laydown 80-  
12 acre Strawn unit; is that correct?

13 A. That is correct, yes.

14 Q. All right, let's refer to Exhibit 3, please, sir.  
15 What is that exhibit?

16 A. Exhibit 3 is an ownership report for the  
17 southeast quarter of Section 7. The first part is the  
18 south half of the southeast quarter, which is a listing of  
19 the mineral owners upon which I personally took oil and gas  
20 leases. Not all of these owners leased to me voluntarily.

21 The second part of the report, on page 3 at the  
22 bottom, breaks down our current leasehold ownership based  
23 on the results of my leasing efforts. Again in the north  
24 half of the southeast quarter we have a 100-percent  
25 interest. The south half of the southeast quarter we have



1 approximately 96, 97 percent surface to 100 feet below the  
2 base of the Wolfcamp and 66 percent as to depths below 100  
3 feet below the base of the Wolfcamp.

4 Q. All right. Now, for the benefit of the Examiner,  
5 would you identify the specific interest owners whose  
6 mineral interests you seek to pool?

7 A. I will. On page 1, James I. Holden, Jr.; Mary  
8 Van Wyk; Nancy Fox; David Marshall.

9 On page 2, please, third one down, Miriam P.  
10 Christopher.

11 On page 3 -- you'll have to bear with me on the  
12 pronunciation of these names -- at the top of the page  
13 Sotirios Papadopoulos, next one is Erikles Papadopoulos;  
14 next one is Kostas Rallis, the next one is Sotirios Rallis,  
15 the next one is Andrei Rallis, the next one is Lesta  
16 Rallis.

17 Q. And the total quantum of the interest you seek to  
18 pool is somewhere in the neighborhood of 4 percent; is that  
19 correct?

20 A. Yes, that's correct.

21 Q. All right. Would you summarize your efforts to  
22 secure the joinder of these particular mineral interest  
23 owners?

24 A. I will. In the normal course of leasing activity  
25 I start out with approaching every mineral owner with a

1 standard-offer letter. From that, owners will apply to  
2 agree to terms to lease, and I'll lease those. Then there  
3 will be some that will negotiate with me. Then I'll have  
4 mineral owners that I cannot locate or never respond to my  
5 inquiries to lease at all, and I do that through sending  
6 certified mail and that sort of thing, and trying to make  
7 phone contacts with the owners.

8 Q. Now, is Exhibit 4 a compilation of your letters,  
9 correspondence, lease instruments you sent to those mineral  
10 interest owners seeking their participation?

11 A. Yes, these letters are sent to the owners that  
12 have not voluntarily agreed to terms.

13 Q. All right. Generally, what were the terms that  
14 you offered to lease from these individuals?

15 A. I started out at \$75 an acre bonus consideration,  
16 a 3/16 royalty, and a three-year term paid up oil and gas  
17 lease.

18 Q. All right. And what responses did you receive  
19 from each of them?

20 A. From these individuals?

21 Q. Yes.

22 A. From Holden, Van Wyk, Fox and Marshall, they told  
23 me they were not interested in leasing, selling or  
24 participating whatsoever in our efforts out there.

25 Miriam P. Christopher had agreed to terms

1 initially. I sent her a lease. Approximately four months  
2 has passed and I haven't received my lease back, and no --  
3 I've tried to call numerous times, no response to my phone  
4 calls.

5 Sotirios Papadopoulos in Sydney, Australia, I  
6 never received any letters back at all whatsoever from him.

7 Erikles Papadopoulos has agreed to terms. I have  
8 not received a lease back from him or her in approximately  
9 five months.

10 Kostas Rallis, I have never received anything  
11 back at all from any of my inquiries.

12 Sotirios Rallis has agreed to terms. Four months  
13 have approximately passed, no lease has been returned to  
14 me.

15 Andrei Rallis, I have been unable to locate, no  
16 response whatsoever from any of my inquiries.

17 And Lesta Rallis has agreed to terms,  
18 approximately four to five months has passed, and no lease  
19 has been returned to me.

20 Q. Now, did Permian offer to send you to Australia  
21 and Greece to track down these interest owners?

22 A. No, they did not, unfortunately.

23 Q. All right, Mr. Porter, does Permian request that  
24 the Division pool some of these mineral interests with an  
25 assumed 1/8 royalty interest and 7/8 working interest?

1 A. Yes, we do.

2 Q. And does Permian seek the imposition of a 200-  
3 percent risk penalty against the assumed 7/8 working  
4 interest for these mineral interest owners?

5 A. Yes, we do.

6 Q. And Permian seeks to be designated operator of  
7 the well?

8 A. Yes, we do.

9 Q. In your opinion, has Permian made a good-faith  
10 effort to secure the voluntary participation of all its  
11 unleased mineral interest owners?

12 A. We have.

13 Q. And were Exhibits 1 through 4 prepared by you or  
14 at your direction?

15 A. Yes, they were.

16 MR. HALL: Move the admission of Exhibits 1  
17 through 4, and that completes my direct of the witness.

18 EXAMINER BROOKS: Exhibits 1 through 4 admitted,  
19 and I just wanted to clarify a couple of things here.

20 EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. The well is to be located, you said, in the north  
23 half, northeast quarter?

24 A. No, sir, the north half --

25 Q. North half of the southeast quarter?

1           A.    That is correct, yes, sir.

2           Q.    And the well shown with the number 1 in the south  
3 half, is that the Chambers Number 1?

4           A.    Yes, sir.

5           Q.    And was that a producing well?

6           A.    No, sir, it's not. And can I explain about that?

7           Q.    Please.

8           A.    Okay. We acquired this property from an  
9 acquisition of Merit Energy. After our acquisition we  
10 discovered that that well had been down for a number of  
11 months. Merit tried a Strawn recompletion in that well and  
12 was unsuccessful, and I felt like his land manager,  
13 Permian, enough time had elapsed under the rework provision  
14 of the existing leases, that being 90 days, no work had  
15 been performed on the well, so I felt the leases were in  
16 jeopardy.

17                   So therefore I recommended to my management that  
18 we secure new leases on the south half of the southeast  
19 quarter, and they agreed, and that's what I have done.

20           Q.    You did so except for these people that you've  
21 been unable to --

22           A.    That's correct, yes, sir.

23           Q.    -- get cooperation from?

24           A.    Yes, sir.

25           Q.    And has the Chambers Number 1 well been plugged

1 and abandoned?

2 A. It has not, no.

3 Q. And is it completed at all? Is there any  
4 completion in it?

5 A. I'm going to have to refer that to our engineer.

6 Q. Okay, very good --

7 A. I don't know the exact details --

8 Q. -- we'll pursue that.

9 A. Okay.

10 Q. Are you seeking any cost recovery in connection  
11 with the Number 1 well?

12 A. Again, to my engineer -- Yes, we are, and I'll  
13 refer that to our engineer on more detail.

14 Q. That is the only well located on the unit, is the  
15 Chambers Number 1?

16 A. Yes, sir.

17 Q. And -- Now, let me get the footages here correct.  
18 The surface location is 2310 from the south line and 330  
19 from the east line?

20 A. Let me -- Bear with me here. Here we go, I'm  
21 sorry. The surface location is 2310 feet from the south  
22 line and 330 feet from the east line of the section.

23 Q. 2310 from the south and 330 from the east?

24 A. Yes, sir.

25 Q. And the bottomhole location is 1980 from the

1 south line and how far did you say from the east?

2 A. 2310 feet from the east line, yes, sir. This  
3 will be a horizontal -- obviously a horizontal well.

4 Q. And what -- is it in the east half, or the -- Is  
5 it in the northeast quarter or the northwest quarter, the  
6 bottomhole?

7 A. The bottomhole location will be, oh, probably in  
8 the middle of the quarter section, pretty close to the  
9 middle of the quarter section.

10 Q. Okay, yeah. Obviously the surface location is to  
11 the northeast quarter.

12 A. Yes, sir, that's correct.

13 Q. The -- I would think it would be -- yeah, it  
14 would have been northwest quarter, would it not --

15 A. Yes, that's correct --

16 Q. -- the bottomhole location?

17 A. -- yes, sir.

18 Q. Now, you said that the North Shoe Bar-Strawn was  
19 spaced on 80 acres?

20 A. Yes, sir.

21 Q. And are there -- First of all, what formations  
22 are you -- what depths are you requesting to be pooled?

23 A. Well, we were requesting the Wolfcamp formation  
24 to be pooled.

25 Q. So you're requesting all depths from the surface

1 to the base of the Strawn; is that correct?

2 MR. HALL: Just to the Wolfcamp, Mr. Examiner.

3 EXAMINER BROOKS: Okay.

4 MR. HALL: They own 100 percent of the Strawn  
5 target.

6 EXAMINER BROOKS: Okay, so the pooling is only  
7 for the Wolfcamp formation?

8 MR. HALL: Yes, sir.

9 THE WITNESS: Right, yes, sir.

10 Q. (By Examiner Brooks) Okay. And what is the  
11 spacing in the Wolfcamp formation?

12 A. 160 acres.

13 Q. This would be a regular location, or a standard  
14 location, for either the Strawn or the Wolfcamp?

15 A. That's a correct statement, yes, sir.

16 Q. And there are not -- and we already covered there  
17 are no other wells in the unit except this Number 1?

18 A. That's correct.

19 EXAMINER BROOKS: Okay. I believe that's it.

20 THE WITNESS: Okay.

21 EXAMINER BROOKS: Mr. Catanach?

22 EXAMINER CATANACH: Nothing.

23 EXAMINER BROOKS: Very good. The witness may be  
24 excused.

25 THE WITNESS: Thank you.



1 MR. HALL: At this time, Mr. Examiner, we would  
2 call Mike Stewart.

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

6 DIRECT EXAMINATION

7 BY MR. HALL:

8 Q. For the record please state your name, sir.

9 A. Michael Stewart.

10 Q. And where do you live and by whom are you  
11 employed?

12 A. I'm a resident of Midland, Texas, and am employed  
13 as a consulting engineer for Permian Resources.

14 Q. And you're familiar with the Application that's  
15 been filed in this case?

16 A. Yes, I am.

17 Q. And you're familiar with the lands that are the  
18 subject of this Application?

19 A. Yes, I am.

20 Q. You've previously testified before the Division  
21 and had your credentials accepted as a matter of record; is  
22 that correct?

23 A. That's correct.

24 MR. HALL: We'd offer Mr. Stewart as a qualified  
25 petroleum engineer.

1 EXAMINER BROOKS: So qualified.

2 Q. (By Mr. Hall) If you would, please, Mr. Stewart,  
3 provide the Examiner with an overview of Permian's  
4 operations in the vicinity of the proposed well.

5 A. Permian acquired approximately nine wells from  
6 Merit Energy January 1st of 2000 in the Northeast Lovington  
7 and -- or excuse me, the North Shoe Bar area.  
8 Approximately six of those wells are currently producing.  
9 We have proposed operations on the Hillburn lease and have  
10 currently proposed operations to drill and complete the  
11 Chambers Number 2 well, primary objective being the Strawn  
12 formation.

13 Q. Are those wells reflected on Exhibit 5?

14 A. That's correct, Exhibit 5 is a producing horizon  
15 zone map that also details cumulative production from the  
16 Morrow, Atoka, Strawn and Wolfcamp intervals in and around  
17 the Chambers Number 7 lease, which is the southeast quarter  
18 of Section 7.

19 You'll note, as the Examiner did, that the  
20 Chambers Number 1 well was a Wolfcamp completion. Its  
21 cumulative production to date is approximately 394,000  
22 barrels. It's located at a standard location for the  
23 Wolfcamp Pool, that being a standard location for the 160-  
24 acre proration -- North Shoe Bar-Wolfcamp field being 150  
25 feet from the center of the governmental quarter sections.

1           The Number 1 well, in approximately 1997, late  
2           1997, early 1998, Merit attempted to directionally deepen  
3           that well to the Strawn formation, was unsuccessful. Prior  
4           to making that deepening they squeezed out the Wolfcamp  
5           formation and the well ceased to produce, which left us in  
6           the current situation of -- or had left us in the current  
7           situation of not having any valid leases, and hence Will's  
8           efforts to release the area.

9           Q.     All right. If you would, please, sir, give the  
10          Hearing Examiner a brief overview of the relevant geology  
11          for the Strawn and Wolfcamp formations in the area.

12          Q.     Exhibits 6, 7, 8 and 9 I'll refer to, in no  
13          particular order other than Exhibit Number 7, we start with  
14          the deepest horizon, which is our primary target, is the  
15          Strawn structure map in the area. It shows a structural  
16          nosing, approximate trend east to west. Overlying the  
17          southeast quarter of Section 7, shows the proposed surface  
18          location of the Chambers Number 2 well, being 2310 from the  
19          south, 330 from the east line. It does not depict in this  
20          exhibit the proposed subsurface location, which is 1980  
21          from the south and 2310 from the east line.

22                 Those -- Both the surface location and the 80-  
23          acre proration unit are standard for the Northeast Shoe  
24          Bar-Strawn field, of which this acreage is not currently  
25          included, but per Commission rules we are within one mile

1 of the boundary, and a successful completion will put that  
2 well in that field.

3 Exhibit Number 9 is a structural cross-section  
4 that depicts the Strawn interval in and about the Chambers  
5 lease. The Strawn in the area is algal mound buildups.  
6 They are not very continuous and tend to be very small  
7 features but when found are prolific.

8 Exhibit Number 6 is a structure map with an  
9 imposed isopach on the Wolfcamp interval, in and around the  
10 Chambers Number 7 area. The Wolfcamp again shows a  
11 structural nosing, northeast-southwest feature, and the  
12 isopach of the Wolfcamp shows that we anticipate to  
13 encounter approximately 30 feet of Wolfcamp pay in the  
14 Chambers Number 2 well. That Wolfcamp pay is locally  
15 classified as the Three Brothers interval.

16 The surface location depicted here at 330 from  
17 the east line for the Wolfcamp is not a standard location.  
18 The standard location offset would be 510 feet. But our  
19 planned drilling and directional will provide us to kick  
20 off the well at approximately 10,000 feet and start to  
21 build angle. So when we pass through the shale above the  
22 Strawn formation we'll have some angle built. If we  
23 encounter the Strawn section, we'll run pipe and then kick  
24 out from underneath the bottom of the 5-1/2 casing and go  
25 horizontal in the Strawn. So when we encounter the

1 Wolfcamp horizon, we will be at a legal location with at  
2 least 510 feet of offset from the east section line.

3 Exhibit Number 8 is a cross-section depicting the  
4 Wolfcamp interval in and around the Chambers Number 7 area.  
5 The top of the Wolfcamp is approximately 9900 feet. The  
6 pay interval is at -- the Three Brothers pay interval is  
7 approximately 10,400 feet in this area.

8 Q. All right, let's refer to Exhibit 10, your AFE,  
9 and if you would review the well costs for the Examiner.

10 A. Exhibit 10 was prepared by myself. It's a  
11 authority for expenditure cost detail estimate to drill a  
12 vertical well down to and through the Strawn section,  
13 evaluate the Strawn and the Wolfcamp section via open-hole  
14 logs, DSTs. If the Strawn section is present, then we'll  
15 set pipe and drill directionally in an easternly direction  
16 towards the proposed bottomhole location and complete in  
17 the Strawn section. If the Strawn is absent, the secondary  
18 target being the Wolfcamp, we expect to make a vertical  
19 completion in the Wolfcamp.

20 Total cost estimate for a producing Strawn well  
21 is approximately \$1.6 million. Dryhole cost is about  
22 \$866,000. Of that, approximately \$1.25 million would be  
23 required if we were to just drill a Wolfcamp vertical  
24 completion.

25 Q. All right, what are the drilling and producing

1 overhead rates you're proposing for the well?

2 A. We have proposed drilling and fixed overhead  
3 rates of \$650 a month for a producing well and \$6500 per  
4 month for a drilling well. Those were compiled as based  
5 upon prior approved rates under previous compulsory pooling  
6 hearings, which are detailed as Exhibit Number 11.

7 Q. Now, are the AFE rates and your overhead rates in  
8 line with what's been charged by other operators in the  
9 area, then?

10 A. Yes, they are.

11 Q. Do you recommend that these rates be incorporated  
12 into any order that results from this hearing?

13 A. Yes, I do.

14 Q. Now, in your opinion is the 200-percent risk  
15 penalty appropriate for this well?

16 A. Yes, it's very appropriate in this area. Again,  
17 as I stated before, the Strawn are small algal mound reefs.  
18 Success ratio out there is probably in the neighborhood of  
19 25 to 30 percent of making commercial production in this  
20 immediate area of the Strawn. When they are found, they  
21 are prolific.

22 The Wolfcamp we feel like is a little bit more  
23 continuous over the area but could possibly be subject to  
24 drainage by the Number 1 well.

25 Q. Does Permian seek an order that provides for the

1 adjustment of the drilling and producing overhead rates in  
2 accordance with the current COPAS bulletin for the area?

3 A. Yes, we'll accept a COPAS adjustment to the  
4 overhead rates.

5 Q. In your opinion, Mr. Stewart, will granting  
6 Permian's Application be in the best interest of  
7 conservation, the prevention of waste and protection of  
8 correlative rights?

9 A. Yes, it would.

10 Q. And were Exhibits 5 through 11 prepared by you or  
11 at your direction?

12 A. Yes, they were.

13 MR. HALL: Move the admission of Exhibits 5  
14 through 11. That completes our direct of this witness.

15 EXAMINER BROOKS: Exhibits 5 through 11 will be  
16 admitted.

17 EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. What are your plans for the Chambers Number 1  
20 well?

21 A. We -- In going through the research and the  
22 records that Merit filed, Merit never actually  
23 potentialized -- or filed C-103s or C-104s as to the  
24 attempted Strawn completion. So currently we're filing  
25 those.

1           Our long-term plans are to return the Chambers  
2       Number 1 to Wolfcamp production by reperforating and  
3       reacidizing the Wolfcamp formation.

4           Q.    Now, you said the spacing unit was 160 acres in  
5       the Wolfcamp; is that correct?

6           A.    That's correct. And at that point in time, when  
7       we do attempt and have successful recompletion of the  
8       Wolfcamp we'll apply for simultaneous dedication of the  
9       Number 1 and the Number 2 well, should the Number 2 well be  
10      completed in the Wolfcamp.

11          Q.    Now, is that permitted under the applicable pool  
12      rules?

13          A.    Yes, it is.

14          Q.    To have two wells on a 160-acre unit?

15          A.    Yes, it is.

16          Q.    Now, in this pooling Application, are you seeking  
17      any cost recovery in connection with the Chambers Number 1?

18          A.    Not in this hearing, we are not. We anticipate  
19      either an additional hearing or an amendment to this  
20      hearing possibly at the point in time that we do attempt  
21      and -- a recompletion in the Wolfcamp, in the Number 1  
22      well.

23          Q.    The Division is in the process of revising its  
24      thinking on these compulsory pooling cases where there's  
25      the potential for additional wells, to incorporate them



1 into the original order, to incorporate a provision for  
2 them into the original order, rather than necessitating  
3 additional application being filed. If we were to do so,  
4 would you have an opinion as to what would be the  
5 appropriate risk penalty involved for a recompletion of the  
6 Chambers Number 1?

7 A. I have not evaluated that, nor have I been privy  
8 to the Commission's proposed rules.

9 There is the issue on the Chambers Number 1 well  
10 about what the cost basis would be, allocated to the  
11 nonparticipating mineral interest owners. Do you assess a  
12 value to that wellbore, whether it be a negative value for  
13 the plugging liability of that well, and recover that in  
14 addition to your recompletion cost, and on that basis be  
15 assessed a risk penalty?

16 We would without a doubt like to see the risk  
17 penalty of 200 percent. I think the question there would  
18 be, what would your basis be? Would it just be the  
19 incremental cost to recomplete that well or would you be  
20 allowed to add to that basis the negative value of that  
21 wellbore as it stands right now, which is plugging  
22 liability?

23 Q. Well, in view of the fact that you have not  
24 analyzed that situation and aren't prepared to testify on  
25 it today, would you suggest, then, that it would probably

1 be more appropriate in this case to follow the formal  
2 practice and entertain this in a subsequent application?

3 A. Yes, I would.

4 EXAMINER BROOKS: Very good.

5 MR. HALL: Mr. Examiner, in that regard what I  
6 would propose we do, since the unleased mineral interests  
7 would be pooled for all drilling purposes under this order,  
8 we hope, is that we would come back and file an amended  
9 application in this case and seek an A order which would  
10 address well costs for the Chambers Number 1.

11 My reading of the statute is that even though the  
12 other interests are already pooled, those interest owners  
13 would still be provided with an opportunity to object or  
14 comment on the well cost associated with that recompletion.

15 EXAMINER BROOKS: That would appear to be the way  
16 the Division has interpreted it in the past.

17 Very well, Mr. Catanach?

18 EXAMINER CATANACH: Just one.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. The directional drilling, you intended to kick  
22 off from the vertical at 10,000 feet; is that what you  
23 said?

24 A. Yeah, approximately 10,000 feet. And the main  
25 reason for that is, when you get down below the Wolfcamp

1 and come into the shales above the Strawn you don't have  
2 enough room between the top of the Strawn due to competent  
3 limestone to turn into a horizontal, or it's a very hard  
4 turn.

5 So the new practice is -- and if you leave that  
6 shale unprotected and uncased while you're directionally  
7 drilling, it has a large tendency to move. And there's a  
8 lot of downhole motors and bottomhole assemblies that are  
9 in the ground in Lea County for that reason right now.

10 So we'll kick off at about 10,000 feet, build  
11 angle to about 30 degrees, and that will put our  
12 proposed -- the point where we encounter the Wolfcamp pay  
13 zone at a legal location, or at least 510 feet from the  
14 east line of the section.

15 Q. Okay, that was my question. At what depth is the  
16 Wolfcamp, do you know?

17 A. 11,400.

18 Q. Okay.

19 A. I'm sorry, 10- -- the top of the Wolfcamp  
20 formation is approximately 9900 feet. The top of the pay  
21 zone is approximately 10,400 feet. So it will require  
22 approximately 180 feet of displacement from our 330-foot  
23 surface location to a 510-foot penetration location of the  
24 Wolfcamp.

25 EXAMINER CATANACH: Okay.

## FURTHER EXAMINATION

BY EXAMINER BROOKS:

Q. Okay, I thought of a couple of other things here. On Exhibit 10, which is your AFE, I didn't totally understand what you said, but I am assuming from your -- that the \$1,618,410, that that is the ticket for a well completed in the Strawn; is that correct?

A. Yes, a horizontal completion in the Strawn.

Q. Well, you say -- Oh, yeah, a horizontal completion in the Strawn. That is some bit higher than what I've -- a couple of hundred thousand dollars higher than what I've been seeing for 11,000-foot wells down in the southeast, so I assume that's because of the deviation or the directional --

A. That's correct. There's approximately \$400,000 associated with the horizontal section of the well.

EXAMINER BROOKS: Very good. Nothing further.

MR. HALL: Mr. Examiner, I'll tender Exhibit 12, which is our notice affidavit.

And just a technical point. I noticed in the rules, requires sending of notice via certified mail, return receipt requested. And we found out that you can't do that when you send mail to Australia and Greece. They don't do that sort of thing.

So we sent registered, which I understand is even

1 better.

2 EXAMINER BROOKS: It's supposed to be. I've  
3 never had occasion to test the difference.

4 Very good, Exhibit Number 12 will be admitted.

5 And with that, there being nothing further, Case  
6 Number 12,715 will be taken under advisement.

7 (Thereupon, these proceedings were concluded at  
8 9:30 a.m.)

9 \* \* \*

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  

Sept 6 12715  
2001  
David K. Brooks

## 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 September 7th, 2001.



---

STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002