

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. 12,839
)
APPLICATION OF LEWIS BURLESON, INC.,)
FOR COMPULSORY POOLING, NONSTANDARD)
GAS SPACING UNIT AND UNORTHODOX GAS)
WELL LOCATION, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 21st, 2002

Santa Fe, New Mexico

CO AFR-1, AM 10:39

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 21st, 2002, 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.

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I N D E X

March 21st, 2002
Examiner Hearing
CASE NO. 12,839

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>STEVEN L. BURLESON</u> (Geologist)	
Direct Examination by Mr. Owen	6
Examination by Examiner Stogner	27
Further Examination by Mr. Owen	33
REPORTER'S CERTIFICATE	34

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	9	26
Exhibit 2	11	26
Exhibit 3	12	26
Exhibit 4	14	26
Exhibit 5	15	26
Exhibit 6	16	26
Exhibit 7	17	26
Exhibit 8	17	26
Exhibit 9	17	26
Exhibit 10	20	26
Exhibit 11	20	26
Exhibit 12	21	26
Exhibit 13	24	26
Exhibit 14	26	26

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A P P E A R A N C E S

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 By: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:30 a.m.:

3 EXAMINER STOGNER: Hearing will come to order.
4 At this time I'm going to call Case Number 12,839. This is
5 the Application of Lewis Burleson, Inc., for compulsory
6 pooling, a nonstandard gas spacing unit and an unorthodox
7 gas well location in Lea County, New Mexico.

8 At this time I'll call for appearances.

9 MR. OWEN: May it please the Examiner, my name is
10 Paul Owen. I'm with the Santa Fe law firm of Montgomery
11 and Andrews, and I represent the Applicant, Lewis Burleson,
12 Inc. I have one witness in this matter.

13 EXAMINER STOGNER: Any other appearances in this
14 matter?

15 Will the witness please stand to be sworn?

16 (Thereupon, the witness was sworn.)

17 MR. OWEN: Mr. Examiner, before I go into the
18 testimony of the witness, I'd just like to point you to a
19 few particular facts in this case.

20 It appears that the Applicant is requesting broad
21 relief in a very heavily regulated field, the Jalmat Gas
22 Pool. And in fact, the history of this particular well and
23 this particular acreage lead us to the conclusion that the
24 main reason we are here is because of the compulsory
25 pooling component of this case.

1 The nonstandard proration -- or nonstandard
2 spacing unit, pardon me, which we seek in this case was
3 actually approved in 1954 by Administrative Order Number
4 NSP-27. That is Exhibit Number 4 in this case.

5 That nonstandard proration unit at that time, now
6 a nonstandard spacing unit, was grandfathered in by Order
7 Number R-8170-P, entered September 6th, 2001, the new
8 Jalmat rules, and the particular rules, Rule Number 6.B.

9 Similarly, the nonstandard gas well location
10 which we seek in this case is actually a re-entry of a
11 previously approved nonstandard gas well location. That
12 location has already been approved by Administrative Order
13 Number NSL-907, entered January 13th, 1978, and that order
14 is Exhibit Number 6 to our presentation in this case. Also
15 similarly, that nonstandard location was grandfathered in
16 by Order Number R-8170-P, Rule Number 6.B.

17 The nonstandard location is necessary in this
18 case to protect the correlative rights of Lewis Burleson,
19 Inc., and the other interest owners in this acreage.

20 In May, 2001, Gruy drilled its Meyers "B" Well
21 Number 9, located 990 feet from the north line and 330 feet
22 from the west line of Section 13, immediately offsetting to
23 the east of this particular acreage. It was originally
24 drilled as an oil well but completed as a gas well. And
25 that particular location was approved by Order Number NSL-

1 4639-SD, entered September 5th, 2001, and that is Exhibit
2 Number 14 to this case.

3 With that background, Mr. Examiner, I'd like to
4 call my first witness, Mr. Steve Burleson.

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

8 DIRECT EXAMINATION

9 BY MR. OWEN:

10 Q. Mr. Burleson, can you please tell us your name?

11 A. Yes, my name is Steven Burleson.

12 Q. And where do you live?

13 A. I live in Midland, Texas.

14 Q. Where do you work?

15 A. I work for Lewis Burleson, Incorporated.

16 Q. What do you do for Burleson?

17 A. I am vice president and general gofer.

18 Q. All right, and have you previously testified
19 before this Division?

20 A. Yes, I have.

21 Q. At the time of that testimony, were your
22 credentials as a petroleum geologist accepted and made a
23 matter of record?

24 A. Yes, they were.

25 Q. Are you familiar with the Application filed in

1 this case?

2 A. Yes, I am.

3 Q. Are you familiar with the status of the lands in
4 the subject area?

5 A. Yes, I am.

6 Q. Have you also conducted a geologic study of the
7 acreage?

8 A. Yes, I have.

9 MR. OWEN: Mr. Examiner, I tender Mr. Burleson as
10 an expert in petroleum geology.

11 EXAMINER STOGNER: Did you say a gofer or a
12 loafer?

13 THE WITNESS: Well, I said gofer but, you know,
14 it depends who you talk to.

15 EXAMINER STOGNER: Mr. Burleson's previous
16 acceptance and admitted goferism is accepted.

17 Q. (By Mr. Owen) Mr. Burleson, could you tell us
18 what Lewis Burleson, Inc., seeks with this Application?

19 A. Yes, we've tried to put this proration unit back
20 together when we filed our Application in Section 11 last
21 year. Doing land work, we came to find out there was some
22 open acreage down here in Section 14, so we decided to try
23 to get it together.

24 We've got all the acreage -- 89 percent of the
25 interests back together on this proration unit, except for

1 two parties: Exxon Mobil and the Prentiss Estate. Exxon
2 Mobil, I called them and talked to their recording machine.
3 They won't ever call me back. The Prentiss Estate, we've
4 had conversations and correspondence with them, some of
5 which they've answered, some of which they haven't.

6 But like I said, we have 89 percent of this
7 proration unit back together. These other two parties
8 account for the other approximately 11 percent that's out.

9 Q. So you're seeking an order pooling the mineral
10 interests, and I believe the Application says that you're
11 seeking to pool the mineral interests in all formations
12 developed on 160-acre spacing. Do you, in fact, in this
13 case, only seek an order pooling the mineral interests in
14 the Jalmat?

15 A. Just the Jalmat Gas Pool.

16 Q. Okay.

17 Q. And do you also seek ratification of the approved
18 unorthodox location 330 from the north line and 330 from
19 the east line of Section 14?

20 A. Yes.

21 Q. And do you also seek approval of the proposed --
22 or ratification of the nonstandard spacing unit, comprised
23 of the north half, north half of Section 14?

24 A. Yes.

25 Q. All right. Have you prepared certain exhibits

1 for presentation in this case?

2 A. Yes, we have.

3 Q. Why don't you turn to Exhibit Number 1, the land
4 plat here, and explain it for the Examiner?

5 A. Exhibit Number 1 is a compilation of the offset
6 acreage. Our acreage is colored in yellow, and the
7 proration unit is solid yellow. The offset operators are
8 indicated, their ownership, by different colors: Gruy
9 Petroleum in green, MNA Enterprises in brown, O.H.B.
10 Incorporated in blue, and Tenison Oil in red. And that
11 would be their total ownership in the area, of all acreage
12 that touches our proposed proration unit.

13 Q. All right. And in Section 14, have you indicated
14 the proposed well location in this case with a red triangle
15 around it?

16 A. Yes, and a red arrow.

17 Q. And it looks like a plugged well on that map; is
18 that correct?

19 A. Yes, all the previously producing wells on this
20 lease have been plugged.

21 Q. Okay. What's the primary objective? What's the
22 only objective?

23 A. Well, we just want to re-enter this well for a
24 Jalmat gas completion to protect ourselves from drainage
25 from the Gruy Meyers well, which is 330 from our line.

1 Q. And what percentage of the acreage have you
2 gotten voluntarily committed to the well?

3 A. We have 89 percent of the acreage, is voluntarily
4 put together.

5 Q. How many interest owners are represented by that
6 89 percent?

7 A. In this 160-acre tract, which includes -- there's
8 a federal, the northwest quarter of the northwest quarter
9 was a federal lease that was communitized on the original
10 completion. Including that and this 120 acres of fee
11 lease, there's approximately 92 different royalty and
12 overriding entities, and that's one reason we want to put
13 this back together as a communitization, so we don't have
14 to open up discussions with the other people. 34 percent
15 of the leasehold in this 160 acres is still HBP and still
16 dedicated to that original communitization pooling
17 agreement, so we really don't want to go renegotiate that.

18 Q. Now, Mr. Burleson, you say that a certain
19 percentage of this acreage is held by production. Is there
20 any current production on the acreage which you seek to
21 have dedicated to the proposed well?

22 A. No, there's no current production inside that
23 north half of the north half.

24 Q. What production is holding these leases, then?

25 A. The Cooper family has some base leases that are

1 being held by the production in the green area to the south
2 of our proration unit.

3 Q. In Section 14?

4 A. In Section 14.

5 Q. Okay, and is that Jalmat gas production?

6 A. It is both Jalmat gas wells and Jalmat oil wells.

7 Q. Okay. Why don't you turn to Exhibit Number 2,
8 please?

9 A. Okay, Exhibit Number 2 is documentation of our
10 attempts with Exxon Mobil, starting in April. This first
11 letter is dated April 27th, 2001. We had leased the
12 southwest quarter of 11 from them about nine months to
13 this, so we made them the same offer they had agreed to in
14 Section 11.

15 They never responded. I'd call Paul Keffler --
16 Keffler, I think; that's a misspelling -- several times,
17 and he never returned my calls.

18 So then on October 19th, is the second letter,
19 2001, we sent them another letter offering if they'd rather
20 join in this. And at this time -- When we put this
21 together, we either contemplated drilling a well in here or
22 re-entering this Cooper "B", which was prior to Gruy being
23 330 on our line, so I wasn't sure, you know, if we could go
24 get approval from everybody to re-enter a well 330. So we
25 advertised it as we would drill a well or -- on the AFE,

1 which we'll get into later, shows if we re-enter it will be
2 cheaper.

3 We set out the terms of our -- what they had we'd
4 still be willing to lease, or they could join in the
5 drilling of a well, and we set out what we expected this
6 well to produce at the original rate of 150 MCF a day, and
7 have 250,000 MCF of reserves. And we'd like to get a COPAS
8 of \$350 per well overhead charge and \$2000 development
9 charge.

10 Q. I think you mentioned earlier that you have
11 attempted to speak with either Mr. Keffler or other
12 representatives of Exxon Mobil since that time --

13 A. Yes.

14 Q. -- and have you been able to --

15 A. I've spoken with their answering machines and
16 left messages, but --

17 Q. And that is since this letter of October, 2001?

18 A. Yes.

19 Q. All right. Please turn to Exhibit Number 3. Can
20 you explain that for the Examiner?

21 A. Exhibit Number 3 is our correspondence with the
22 Prentiss Estate. We had to get on the Internet to find
23 this guy's address, and we sent him -- This first letter
24 was an offer to purchase his interest.

25 And you'll notice on the bottom of this letter he

1 wrote, "I'd agree to sell for \$150, based on retaining an
2 override equal to the difference between existing burdens
3 and 25%..."

4 So after we made sure we could get everybody else
5 together, the next letter of October 11th we sent him
6 exactly what he said he'd agree to, a draft for \$150, an
7 assignment for his interest, reserving an override. And we
8 never heard back from him. I talked to him prior to this,
9 but subsequent to the first letter his phone numbers
10 changed, and I haven't been able to find it or get a
11 listing on him since I talked to him in June of 2001.

12 Q. And then it looks like you sent him another
13 letter in --

14 A. So then we sent him another saying, you know,
15 same deal. If you'd like to join -- we'd still go with our
16 first deal, or if he'd like to join, setting out the same
17 conditions that we set out to Exxon Mobil.

18 Q. Okay.

19 A. And we heard they did pick up -- somebody picked
20 up the return receipt at the post office, but we never
21 heard from them. We have not heard from them, and like I
22 said, I don't have a phone number on him now. I've tried
23 to search him down, but I can't find a current phone
24 number.

25 Q. All right, Mr. Burleson, in your opinion have you

1 made a good faith effort to obtain the voluntary joinder of
2 Exxon Mobil and the Prentiss Estate?

3 A. Yes, we have, in my opinion.

4 Q. All right. Are you familiar with the history of
5 the acreage that you seek to have dedicated in this spacing
6 unit?

7 A. Well, as I said earlier, the -- we'll call it the
8 east 120 acres, was a fee lease, which was originally the
9 Cooper family. And they went and cut that up back in the
10 1930s and 1940s. And then the northwest quarter is a
11 federal lease.

12 Q. Okay. And was this 160-acre spacing unit
13 previously approved as a 160-acre proration unit for --

14 A. Yes.

15 Q. -- by the Division?

16 A. Yes.

17 Q. And is that reflected on Exhibit Number 4?

18 A. Right, Exhibit 4 is the NSP-27. It was the
19 original -- the Number 2 well, which is in Unit C, was the
20 original well which all that acreage was dedicated to. The
21 well was drilled in 1948, but it says the order was 1954.

22 Q. And is that well still producing, the Number 2
23 well?

24 A. No, it is plugged.

25 Q. Okay. Why was a nonstandard proration unit

1 required?

2 A. Well, this acreage has such funny -- The way the
3 Cooper family parsed out the minerals in there created all
4 these different leasehold possibilities. So as you can
5 tell on the map, there's a 40-acre tract -- that's a
6 different lease in the middle of the thing -- and then
7 there's a 160 sitting up there and there's an 80 below it,
8 and then there's a federal lease in here, which is the west
9 half of the west half, and then another 80. So it's just a
10 real odd section as far as getting things to a quarter
11 quarter section.

12 Q. Has that federal acreage been subjected to or
13 committed to a gas pooling agreement?

14 A. Yes, it is.

15 Q. Is that Exhibit Number 5?

16 A. Exhibit is the gas pooling agreement.

17 Q. Is that still in effect as to the federal
18 acreage?

19 A. Yes, it is.

20 Q. And it's approved by the federal government?

21 A. Yes.

22 Q. All right. Is there anything else about Exhibit
23 Number 5 that you want to share with the Examiner?

24 A. No.

25 Q. Okay, let's turn to this particular well, the

1 Cooper "B" Well Number 3. Can you tell us a little bit
2 about the history of this particular well?

3 A. Yes, it was drilled in 1956 and completed in the
4 -- then they called it the Cooper-Jal Pool, which I think
5 later became the Jalmat Pool. And then when it was
6 depleted in the lower oil zones, they plugged back in 1978
7 and made a Jalmat gas completion out of it.

8 Q. And with its location 330 off of the north and
9 east lines, does that make it a nonstandard location at
10 that time?

11 A. Yes, it does.

12 Q. And was that approved by the Division?

13 A. Yes, it was. Exhibit 6 is the Administrative
14 Order NSL-907, which approved the allowable for that well
15 and simultaneous dedication with the Number 2 well.

16 Q. All right. And you stated that the Cooper "B"
17 Number 2 well has been plugged and abandoned, correct?

18 A. That is correct.

19 Q. Do you know when?

20 A. It was in 1992.

21 Q. And do you know when the -- Is the Cooper "B"
22 Number 3 well currently producing?

23 A. No, it was plugged on May 19th of 1992.

24 Q. Okay. Is there any well producing any minerals
25 from the existing nonstandard gas proration unit?

1 A. No.

2 Q. All right. Is Burleson Exhibit Number 7 an
3 affidavit and letters giving notice of this particular
4 hearing?

5 A. Yes.

6 Q. All right. Have you also notified all of the
7 offset operators of your intent to --

8 A. Yes, we --

9 Q. -- re-enter this well?

10 A. -- sent out waivers to all the offset operators
11 in this area.

12 Q. Okay, and is that reflected on Burleson Exhibit
13 Number 8?

14 A. Yes, it is.

15 Q. Okay, have all of the offset operators waived
16 objection?

17 A. No, but MNA Enterprises, which are in brown to
18 the southwest, they waived. Tenison Oil Company, which are
19 the red up in Section 10, they waived. And O.H.B., Inc.,
20 which is to the west in the blue area, they waived. And
21 then there's copies of our return receipt notices to Prize
22 Energy to the northeast, and Gruy to the east and
23 southeast.

24 Q. Okay. And were those individuals also notified
25 of this particular hearing as reflected in Exhibit Number

1 7?

2 A. Yes.

3 Q. Okay. At the time that Gruy drilled its Meyers
4 "B" Number 9 well in Section 13, did you have any
5 discussions about a potential well at this location?

6 A. Yes, we came to an agreement. We were going to
7 oppose those locations, but we came to an agreement that if
8 we would waive our right to oppose their 330 location, that
9 they would not oppose our -- if we went and re-entered that
10 Cooper "B" 3, they wouldn't oppose us.

11 Q. And have you received any indication from Gruy
12 that they oppose this current proposed location?

13 A. No, I talked to their --

14 Q. Zeno Ferris?

15 A. -- Zeno Ferris, and he indicated that they were
16 not going to come oppose this.

17 Q. Okay. Mr. Burleson, have you also conducted a
18 study of the reserves which may remain unproduced under
19 this acreage?

20 A. Yes, we have a small cross-section which
21 basically is B-B'. You see on the bottom it goes from --
22 It's just two-well cross-section in here. There's not a
23 log available on our Cooper "B" 3 well that I can find
24 anywhere, but this cross-section goes from the Gruy Meyers
25 "B" Number 9 to our Cooper "B" Number 4.

1 Q. What does this cross-section reflect, as far as
2 the reserves that may remain --

3 A. Well, this is how we -- being as you have a log
4 on the left that was 1954, and you have a log on the right
5 that was 2001, we used the log on the right primarily to
6 show where their producing interval is, and to show
7 especially in the upper Yates that we're very similar, that
8 they are draining our acreage. There's not a pinchout or
9 anything else going on in between here.

10 Another reason we want to be over to the east is,
11 this is -- down here at 3500, the very bottom of their
12 completion, you can see over to the west on the Number 4
13 well, two locations away, it appears to be pinched out. So
14 that's another reason we'd like to get this re-entry, so we
15 can exploit that same zone that they are draining
16 currently.

17 Q. All right. Does this cross-section and your
18 study of the area indicate that the sandbody is fairly
19 uniform throughout this area?

20 A. Yes, in the upper -- in the Yates it is very
21 uniform. In the Seven Rivers there's some east-west
22 discontinuity, which -- like I say, that's one reason we'd
23 like to be over further to the east, to take advantage of
24 Seven Rivers development.

25 Q. Okay. Let's turn to Exhibit Number 10. Can you

1 explain that exhibit for the Examiner, please?

2 A. Yes, Exhibit Number 10 is the decline curve
3 analysis on Gruy's Meyer "B" Number 9 well. It shows, in
4 my estimation, anyway -- it's such a new well, it's hard to
5 really -- we had to put some factors on here that I use in
6 general practice in the Jalmat. But it shows the reserves
7 to be 449,000 MCF of gas and 2000 barrels of oil.

8 Q. How much has it produced so far?

9 A. It has produced -- for the last record on the
10 website there at the state, which were the last available
11 records, for 22,000 MCF.

12 Q. Okay. And what is Exhibit Number 11?

13 A. Exhibit Number 11 is the decline curve from the
14 Cooper "B" 3, which we wish to re-enter, that shows under
15 current economic conditions, if you didn't do any other
16 stimulation, you just drilled out the well and let it flow,
17 that it has at least another 35,000 MCF remaining.
18 However, we plan to aggressively fracture this well, and
19 hopefully we'll get that up to 250,000 MCF recovery range.

20 Q. How much has already been produced from this
21 well?

22 A. This well has produced 254,000 MCF to date.

23 Q. And oil?

24 A. Oil is -- I think it's on the order of 2000
25 barrels.

1 Q. What kind of gas-oil ratio do you expect to find
2 when you get down there?

3 A. Well, it should be very similar, I would think,
4 to the Gruy well, which is -- I haven't calculated it, but
5 it's in the range of 20- -- I mean, it's over 100,000 to 1.

6 Q. So you anticipate being well over the
7 threshold --

8 A. Yes, yes --

9 Q. -- for the classification as a gas well?

10 A. Also, we operate the due north offset well, and
11 it has -- It is also a gas well under the 100,000 to 1 --

12 Q. Okay.

13 A. -- GOR limitation.

14 Q. Why don't you tell me about Exhibit Number 12,
15 please?

16 A. Exhibit Number 12 is a volumetric calculation
17 using this net pay as ascertained from the Meyers "B"
18 Number 9 well, and it shows the recoverable gas to be
19 275,000 MCF.

20 Q. And that's in the --

21 A. From the Cooper "B" Number 3.

22 Q. Okay. That's based on the production from the
23 Meyers "B" --

24 A. Right --

25 Q. -- Number 9?

1 A. -- and from the bottomhole pressure knowledge
2 that we have in this area.

3 Q. Okay. As a result of your study of the reserves,
4 have you reached any conclusions?

5 A. Well, we think that this is a viable re-entry
6 prospect, but it might not be too viable to drill a well
7 based on this price of gas.

8 Q. All right. Have you concluded that unproduced
9 gas reserves remain under the proposed spacing unit?

10 A. Yes, we think we can recover 250,000 MCF from
11 this well.

12 Q. Have you concluded that the only way to
13 economically drain those reserves is through the re-entry
14 of this Cooper B Number 3 well?

15 A. At the present price of gas, yes.

16 Q. Okay. Have you concluded that re-entry of the
17 Cooper "B" Number 3 well will result in the recovery of gas
18 reserves which would otherwise be wasted?

19 A. Absolutely.

20 Q. Have you concluded that the only way to protect
21 your correlative rights from drainage by the Meyers "B"
22 Number 9 well is through the re-entry of the Cooper "B"
23 Number 3 well?

24 A. Yes.

25 Q. Okay.

1 A. Especially in regards to the Seven Rivers portion
2 of the reserves.

3 Q. Okay. Are you prepared to make a recommendation
4 to the Examiner as to the risk penalty that should be
5 assessed against the nonconsenting interest owners?

6 A. Well, we're -- You know, like I said, this is not
7 a wildcat deal by any means. The risk in this deal is
8 pretty much mechanical. Are you going to be able to get in
9 that well? And since they've already perforated and frac'd
10 these zones, you know, is that going to be some kind of
11 diverter to our completion attempt?

12 This well was fairly -- you know, for the time-
13 frame they did it, it was a fairly good frac job, nothing
14 like what we've been doing. And so that's why I say the
15 primary risk in this deal is mechanical, where you get this
16 reservoir stimulated the way you think you need to because
17 it is a re-entry. And the only way to find that out is to
18 go do it. So...

19 Q. How many operators have operated this particular
20 well?

21 A. I think we're the sixth operator of these
22 properties.

23 Q. And when was the well originally drilled?

24 A. In 1954 or 1956. Let's see, 1953.

25 Q. 1953?

1 A. Yes, 1953.

2 Q. All right. Do you think there's a chance that
3 you could re-enter this well and not have it be a
4 commercial success?

5 A. Yes, there's always that chance.

6 Q. Have you drilled and operated other similar wells
7 in the immediate area?

8 A. Yes, we operate, as I said, four wells -- five
9 wells offsetting this property.

10 Q. Okay. Exhibit Number 13 is an AFE. Does that
11 reflect costs which you've arrived at based on your
12 operation of these other wells?

13 A. Yes, it did. Like I said, when we wrote all
14 these deals, it was under -- we had nine-dollar gas, we
15 thought, well, we'll just go drill a well. So we showed
16 the cost to drill a well, but the caveat under there was
17 under the remarks, it would be \$50,000 less for re-entry,
18 what we calculate to re-enter the Cooper "B" Number 3.

19 Q. And what's the total cost for a new well?

20 A. The total cost for a new well the way we do it
21 would be \$258,000, and for re-entry it would be
22 approximately \$290,000.

23 Q. And are these costs in line with what you and
24 other operators have actually charged for wells in the
25 immediate area?

1 A. Yes.

2 Q. Have you made an estimate of overhead and
3 administrative costs while drilling and producing the well?

4 A. Well, we requested and our basic rates for this
5 area are \$350 a month operating overhead and \$2000 drilling
6 overhead.

7 Q. And is that, again, in line with what is actually
8 charged in the area?

9 A. From some testimony earlier today, I think we're
10 -- but no -- yes, that is in line with what we charge in
11 this area.

12 Q. Okay. And is it in line with Ernst and Young
13 figures?

14 A. Yes, it is.

15 Q. Okay. Do you recommend that these figures be
16 incorporated into any order that results from this hearing?

17 A. Yes, we do.

18 Q. And do you request that these rates be increased
19 in accordance with the escalation provisions of the COPAS
20 accounting procedures?

21 A. Yes, we would request that.

22 Q. Does Lewis Burleson seek to be designated
23 operator of the proposed well?

24 A. Yes, we do.

25 Q. In your opinion, will granting this Application

1 be in the best interests of conservation, the prevention of
2 waste and the protection of correlative rights?

3 A. Yes, in my opinion it will.

4 Q. Okay, the last thing I want to draw your
5 attention to is Exhibit Number 14. Can you tell me what
6 that exhibit is?

7 A. Yes, this was the order that approved the Gruy
8 Meyers "B" Number 9 at a nonstandard 330 location and
9 simultaneous dedication with another well on their lease.

10 Q. And that was just entered in September of 2001?

11 A. Right, that's the direct offset to our lease.
12 This is the well we're trying to protect ourselves from
13 draining from.

14 Q. All right. Mr. Burleson, were Exhibits Number 1
15 through 14 prepared by you or compiled under your direction
16 and supervision?

17 A. Yes, they were.

18 MR. OWEN: Mr. Examiner, that completes my
19 examination of Mr. Burleson.

20 EXAMINER STOGNER: At this time we're ready to
21 admit the evidence?

22 MR. OWEN: And I move the admission of Exhibits 1
23 through 14.

24 EXAMINER STOGNER: Exhibits 1 through 14 will be
25 admitted into evidence at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Burleson, I don't think I quite heard whenever Mr. Hall -- I'm sorry, Mr. Owen, was discussing the risk penalty factor. You're seeking the maximum, 200 percent?

A. Yes. I mean, that's a standard -- Like I said, sometimes other than state deals, people voluntarily agree to have a penalty higher than that. But as I said, with this being a re-frac and some other things, that's where we feel there is some risk that we'll get a good completion in here.

Q. Okay, let's talk about the history of this well. Now, it was plugged and abandoned when?

A. In -- let's see here. Sometime during 1992. Let me look, tell you exactly. June 25th of 1992.

Q. And who plugged it?

A. It was plugged by Meridian Oil.

Q. And the original well, that's the well in Unit C?

A. Yes.

Q. That was the one that was subject to the 1954 NSP order; is that correct?

A. That's correct.

Q. And when did that cease producing, and when was it P-and-A'd?

1 A. It was also P-and-A'd in 1992, and it ceased
2 producing -- I mean, several different people played with
3 it. I think the last production was probably in 1989 or
4 1990.

5 Q. Now, was that P-and-A'd by Meridian?

6 A. Yes. Or no, I -- that was P-and-A'd by
7 Meridian's predecessor DMS, who we acquired their interest
8 in here under the HBP leases. But like I said, R. Olson
9 drilled this, and then he sold out to TP, TP went to Sun,
10 Sun went to Doyle Hartman -- this is one of those
11 properties that was involved in all that -- and Meridian
12 ended up with that, and then DMS bought this lease from
13 them, and then they plugged the remaining -- I think that
14 Number 2 was the last well. Meridian plugged 3 and 4, and
15 they -- DMS plugged Number 2.

16 Q. Now, have you reviewed the well file on this --
17 on the proposed well or the recompletion of this well?

18 A. Yes.

19 Q. Anything to lead you to believe -- Well, first of
20 all, how was it plugged and abandoned? Was the casing
21 still in the hole?

22 A. Yes, that's why -- that's another thing, this is
23 the only well on this lease that the casing is intact, and
24 so it's really, in our opinion, the only viable re-entry
25 candidate.

1 Q. When you say -- so the casing is still cemented
2 in the hole --

3 A. Yes --

4 Q. -- and it's still --

5 A. -- correct.

6 Q. -- on the surface?

7 A. That's correct.

8 Q. Did you review the record? Was there any
9 problems that this well ever encountered as far as --

10 A. Well, they had to --

11 Q. -- mechanical problems?

12 A. -- squeeze -- squeeze the hole up the pipe, but
13 that appeared to be successful.

14 Q. Okay, when you say squeezed uphole, past the
15 Jalmat in --

16 A. Yeah, up in the --

17 Q. -- another zone?

18 A. -- salt section.

19 Q. And in looking at the casing and cementing
20 records, was that salt string -- or was the salt section
21 cemented through the producing interval, or what created
22 the hole or --

23 A. I think probably there was just barely -- Usually
24 back then the standard practice was to use as little cement
25 as possible, so I think they probably just didn't have

1 cement when they originally did the well in the 1950s, and
2 so it just ate its way through later on.

3 Q. Can you get any indication of whenever they
4 squeezed that hole or parting or whatever it was at one
5 time if they brought the cement behind that salt?

6 A. I think they did. They didn't say circulated to
7 surface, but there should have been enough sacks to cover
8 that, you know, a considerable distance towards the surface
9 pipe.

10 Q. Now, have you been involved in re-entering other
11 wells this old in this area?

12 A. Well, yes, in this general area. Not on this
13 map, but different areas. Usually -- I mean, that's our
14 opinion, we can get back in this well, barring unforeseen,
15 you know, problems or things that are not reported. That's
16 the only -- You don't know what they didn't tell the State
17 about in here.

18 Q. And that's what I was leading up to, of your
19 other dealings with other wells --

20 A. Right.

21 Q. -- of similar nature in the area. Have you
22 encountered problems?

23 A. Well, some of them we have. Down east of Jal we
24 got into some casing problems on a well that was plugged
25 and that still had pipe in the hole.

1 But like I said, we think that it's worth doing
2 the risk, because it was plugged in 1992 and they didn't
3 report any adverse problems. So we think we can get back
4 in there.

5 Like I said, the risk on this thing is basically
6 on -- can you really get this -- since we didn't have
7 control over the perforations, et cetera, is our
8 stimulation going to go where we want it to go? And so
9 there's really not a good record that we have of exactly
10 where all the perforations were.

11 Q. Now I need to ask some questions here about this
12 Exhibit Number 14, and this was the Gruy Petroleum
13 production over in the northwest quarter of 13. Now, when
14 this Application came in to the Division, did you or -- I'm
15 sorry, when I say "you" in this instance, did Lewis
16 Burleson, Inc., object to that particular application at
17 the time?

18 A. Yes, we did.

19 Q. And it was set to hearing, but nothing occurred?

20 A. Well, we came to an agreement with them whereby
21 we would -- we ended up with a 2-1/2-percent override on
22 that well, and we agreed that if we re-entered this Cooper
23 "B" 3 on their line, we would relieve them from that
24 override.

25 And that's why we withdrew our objection.

1 EXAMINER STOGNER: Mr. Owen, I really don't have
2 any other questions of this witness. I would, however,
3 like to enter into the record in this matter the previous
4 order that caused the new pool rules in the Jalmat -- I
5 believe that was authorized, what, back in December or
6 January?

7 MR. OWEN: That was September 6th, 2001, was the
8 date of the order, Order Number R-8170-P. Is that what
9 you're referring to?

10 EXAMINER STOGNER: Yes, that's the one. Do you
11 have any problems with that?

12 MR. OWEN: No, I don't. Would you like me to
13 supply you with a copy, or are you going to enter that into
14 the record?

15 EXAMINER STOGNER: Have you got an extra copy?

16 MR. OWEN: Well, I've got a marked-up copy.

17 EXAMINER STOGNER: No, you keep it. I'll make a
18 copy of the order. I'd like to make that a part of the
19 record in this matter.

20 MR. OWEN: I have no objection, Mr. Stogner.

21 EXAMINER STOGNER: With that, Mr. Burleson, you
22 may be excused.

23 MR. OWEN: I have one further question.

24 EXAMINER STOGNER: Oh, sure, I'm sorry. Then
25 you're not excused, stay there where you are.

FURTHER EXAMINATION

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BY MR. OWEN:

Q. Mr. Burleson, I just want to make sure that we get this clear on the record. Do you, in fact, recommend that a 200-percent risk penalty be assessed against the nonconsenting interest owners?

A. Yes, we do.

MR. OWEN: That's all I have, Mr. Examiner.
Thank you for your time.

EXAMINER STOGNER: Thank you.

And with that, Case 12,839 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:10 a.m.)

* * *

[Handwritten signature]
21 March 2002 12839
Oil Conservation Division

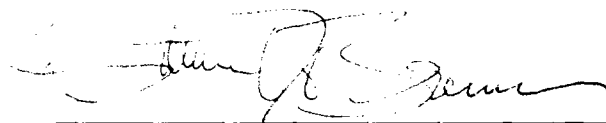
CERTIFICATE OF REPORTER

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 March 27th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002