

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. 12,932
)
APPLICATION OF OCEAN ENERGY, INC., FOR)
A NONSTANDARD GAS SPACING AND PRORATION)
UNIT, EDDY COUNTY, NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 19th, 2002

Santa Fe, New Mexico

OCT 19 2 41 PM '02
OIL CONSERVATION DIVISION

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, September 19th, 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

September 19th, 2002
 Examiner Hearing
 CASE NO. 12,932

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>DEROLD MANEY</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Stogner	17
REPORTER'S CERTIFICATE	32

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	16
Exhibit 2	6	16
Exhibit 3	7	16
Exhibit 4	8	16
Exhibit 5	10	16
Exhibit 6	11	16
Exhibit 7	12	16
Exhibit 8	12	16
Exhibit 9	12	16
Exhibit 10	13	16
Exhibit 11	15	16
Exhibit 12	16	-

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 1:35 p.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order. At this time I'll call Case Number 12,932, which is
5 the Application of Ocean Energy, Inc., for a nonstandard
6 gas spacing and proration unit, Eddy County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness.

10 EXAMINER STOGNER: Will the witness please stand
11 to be sworn?

12 (Thereupon, the witness was sworn.)

13 EXAMINER STOGNER: Mr. Bruce?

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Will you please state your name for the record?

20 A. Derold Maney.

21 Q. Where do you reside?

22 A. In Houston, Texas.

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

24 A. I'm a landman for Ocean Energy.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes, I have.

3 Q. And were your credentials as an expert petroleum
4 landman accepted as a matter of record?

5 A. Yes, they were.

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

8 A. Yes, sir.

9 Q. And are you familiar with the land matters
10 involved in this Application?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender Mr. Maney as
13 an expert petroleum landman.

14 EXAMINER STOGNER: Mr. Maney is so qualified.

15 Q. (By Mr. Bruce) Now, in this case, Mr. Maney, we
16 are seeking a nonstandard unit in the Strawn formation; is
17 that correct?

18 A. Yes, sir.

19 Q. And the lands involved are the southeast quarter
20 of Section 28, Township 20 South, Range 28 East?

21 A. Yes, sir.

22 Q. Okay, and which well is involved in this
23 Application?

24 A. It's the Burton Flat Deep Unit Number 13.

25 Q. And referring to Exhibit 1, when was that well

1 drilled and what formation was it completed in?

2 A. It was drilled in -- our first production was
3 December 27th, 1974, and it was Morrow production.

4 Q. Okay. And Exhibit 1 is simply a copy of the
5 original -- what, the APD for the well? Or no, the --

6 A. -- completion --

7 Q. -- completion report for the well?

8 A. Yes, sir.

9 Q. What is Exhibit 2?

10 A. Exhibit 2 is a production run on the Morrow
11 formation, and first production appears in 1985, and the
12 total for the year was 396 MCF. And it produced a total
13 3301 MCF, and that's total production from the Morrow.

14 And in September it started producing from the
15 Strawn. Initially we were going to plug the well, and
16 prior to plugging it we reviewed the logs and determined
17 that we needed to test the Strawn to see if it was
18 productive. And it indeed was productive, and production
19 began in September of 2001.

20 Q. Okay. Now, I don't know if this was pulled up
21 off of the computer or not, but essentially it looks like
22 the Morrow ceased producing in 1990?

23 A. Yes, sir.

24 Q. So it had been shut in for ten or eleven years?

25 A. Yes, sir.

1 Q. Now -- Well, let's get into it a little bit.
2 This well is in the Burton Flat Unit, is it not?

3 A. Yes, sir.

4 Q. And what is Exhibit 3?

5 A. Exhibit 3 is the original participation area for
6 the Morrow on the Burton Flat Deep Unit.

7 Q. This map shows all of the lands that were in the
8 Burton Flat Unit originally?

9 A. Yes, sir.

10 Q. Okay. And the lands that we're involved with are
11 up in the northwest corner of the unit, the southeast
12 quarter of Section 28?

13 A. Yes, sir.

14 Q. Now, the entire south half at one time was
15 subject to State Lease L-6322; is that correct?

16 A. Yes, sir.

17 Q. And in the Division's records as to the Morrow
18 formation, the entire south half of Section 28 was
19 dedicated to the Morrow formation?

20 A. Yes, sir.

21 Q. It was in the participating area for the Morrow,
22 but as to just for the well unit, it was the south half of
23 Section 28?

24 A. Yes, sir.

25 Q. Okay. Now, what is Exhibit 4?

1 A. Exhibit 4 is the unit configuration as it is
2 today.

3 Q. Okay. So comparing Exhibits 3 and 4, a fair
4 amount of acreage has been -- what would be the right word?

5 A. Released.

6 Q. -- eliminated from the unit, including, I note,
7 the southwest quarter of Section 28 --

8 A. Yes, sir.

9 Q. -- which had been in the well unit for the Number
10 13 well?

11 A. Yes, sir.

12 Q. And we'll get into this in a minute. Now, even
13 though this is the current unit outline map, there is some
14 data that is out of date on this map; is that correct?

15 A. Yes, sir.

16 Q. With respect to Section 28, it shows Exxon as
17 having the entire north half and southwest quarter of
18 Section 28 under a state lease. That is not the current
19 lease situation, is it?

20 A. No, sir, it's not.

21 MR. BRUCE: Mr. Examiner, for your information,
22 the southwest quarter of Section 28 is covered by State of
23 New Mexico Lease VB-539, which was issued in the year 2000.
24 And the north half of Section 28 is covered by State Lease
25 VB-240.

1 EXAMINER STOGNER: Okay, are you saying V as in
2 Victor or B as in boy?

3 MR. BRUCE: V as in Victor, B as in boy.

4 EXAMINER STOGNER: Victor Bravo 539, that covers
5 just the southwest quarter?

6 MR. BRUCE: That is correct.

7 EXAMINER STOGNER: And Victor Bravo 240 --

8 MR. BRUCE: -- covers the remainder, the north
9 half of Section 28.

10 EXAMINER STOGNER: And when was 240 issued?

11 MR. BRUCE: I am showing August 1, 1988.

12 EXAMINER STOGNER: Could you be more specific on
13 539, when in 2000 was it issued?

14 MR. BRUCE: There is a lease ownership report
15 which I can give you. I didn't include a copy of this in
16 the exhibits. It shows it as being dated April 4, 2000,
17 but I know for a fact that state leases are always dated on
18 the first of the month, so I'm kind of guessing it's April
19 1, 2000.

20 EXAMINER STOGNER: Okay.

21 Q. (By Mr. Bruce) So anyway, comparing Exhibits 3
22 and 4, Mr. Maney, after the Morrow ceased producing, the
23 southwest quarter of Section 28 was contracted out of the
24 unit?

25 A. Yes, sir.

1 Q. And under state leasing regulations, it would no
2 longer be held by the -- That part of the lease outside of
3 the unit would terminate?

4 A. Yes, sir.

5 Q. When the well was originally drilled, however, it
6 was within the unit, and all under the unit agreement and
7 the unit operating agreement, all of the working interest
8 owners in the unit would have paid for this particular
9 well, the Number 13 well?

10 A. Yes, sir.

11 Q. There isn't -- Some units have participating
12 areas, but under the unit operating agreement, the working
13 interest owners all shared uniformly in well costs and well
14 production?

15 A. Yes, sir.

16 Q. Okay. What is Exhibit 5 then?

17 A. It's the completion report for the Morrow
18 formation.

19 Q. Okay.

20 A. Excuse me, the Strawn.

21 Q. The Strawn. So the well was recompleted in the
22 Strawn, and that's what we're here for today?

23 A. Yes, sir.

24 Q. It does show the completion date of May 24, but
25 it started producing at some point after that?

1 A. I believe -- It shows first production 5-25, and
2 I don't believe it was producing at that point, but I'm not
3 -- I don't --

4 Q. It might not have been hooked up to a pipeline --

5 A. Right.

6 Q. Okay, and what is Exhibit 6?

7 A. Exhibit 6 is production on the Strawn formation.

8 Q. Okay. Now, this is for the first couple months
9 of production --

10 A. Yes, sir.

11 Q. -- so it does look like it was producing, but it
12 really didn't start producing continuously until July or
13 August of that year?

14 A. Yes, sir.

15 Q. Now, in looking at it, the production is about
16 what, 400,000 a day --

17 A. Yes, sir, initially.

18 Q. -- which --

19 A. It's -- The current production right now is just
20 over 300 MCF a day.

21 Q. Okay. And those are fairly good producing rates,
22 right?

23 A. Yes, sir.

24 Q. And we'll get into this in a minute. Did you
25 apply to the BLM and the Land Office for a participating

1 area in the Strawn formation for this well?

2 A. Yes, we did.

3 Q. And is Exhibit 7 a copy of that application?

4 A. Yes, it is.

5 Q. Okay. What did the BLM and the Land Office say?

6 A. That the well was not economic as a Strawn well.

7 Q. Okay.

8 A. So therefore they denied the participation area
9 for the Strawn.

10 Q. Okay, under the unit agreement, in order to form
11 a participating area the well has to be capable of -- has
12 to be a commercial well?

13 A. Yes, sir.

14 Q. And in looking at this, they do not look at
15 completions, do -- just recompletions?

16 A. No, sir, they look at the cost of drilling a new
17 well to that formation.

18 Q. Okay. So if you had to drill a new well to the
19 Strawn formation and you would get these rates, what the
20 State Land Office and the BLM are saying is that it would
21 not be a commercial well?

22 A. That's correct.

23 Q. And Exhibits 8 and 9 are their letters stating
24 that they would not approve a participating area?

25 A. Yes, sir.

1 Q. Now, were all other interest owners in Section
2 28, other than the -- I should say all interest owners in
3 the north half and the southwest quarter of Section 28
4 notified of this hearing?

5 A. Yes, they were.

6 Q. And by that I mean not only the working interest
7 owners, but the overriding royalty owners and the royalty
8 owner?

9 A. Yes, sir.

10 Q. It's entirely a state section, so there's one
11 royalty owner?

12 A. Correct.

13 Q. But they were all notified of the hearing, and
14 that's shown on Exhibit 10, is it not?

15 A. Yes, it is.

16 Q. Now, with respect to the southwest quarter of
17 Section 28, the State is the royalty owner, and it is owned
18 entirely by the Yates group; is that correct?

19 A. That's correct.

20 Q. The southwest quarter, Yates Petroleum, Yates
21 Drilling, Abo Petroleum and MYCO own 100 percent of the
22 working interest?

23 A. That's correct.

24 Q. Okay --

25 EXAMINER STOGNER: Repeat that one more time?

1 Q. (By Mr. Bruce) The southwest quarter of -- Let
2 me put this in the form a question. As to the southwest
3 quarter of Section 28, Mr. Maney, is 100 percent of the
4 working interest owned collectively by Yates Petroleum
5 Corporation, Yates Drilling Company, Abo Petroleum
6 Corporation and MYCO Industries, Inc.?

7 A. Yes, it is.

8 Q. And you had a leasehold ownership report prepared
9 on your behalf to determine that?

10 A. Yes, we did.

11 Q. Okay. In looking -- If you'd turn to the third
12 page of Exhibit 10, Mr. Maney, as to the north half, then,
13 of course, the Commissioner of Public Lands is a royalty
14 owners, Yates is the southwest, but starting with Winged
15 Foot Oil Company, Winged Foot, Jay Floyd, G.K. Partners,
16 Bernard Lankford, Mr. Miller, Mr. Brian Miller, Scott
17 Wilson -- those entities or persons own 100 percent of the
18 working interest in the Strawn formation in the north half
19 of Section 28; is that correct?

20 A. That's correct.

21 Q. And the remaining interest owners are overriding
22 royalty owners?

23 A. That's correct.

24 Q. Have you heard any objection from any of these
25 parties?

1 A. I have not.

2 Q. Have you obtained a waiver of this Application
3 from the Yates Petroleum Group?

4 A. Yes, we have.

5 Q. And is that marked Exhibit 11?

6 A. Yes, it is.

7 Q. Okay. And so it was signed on behalf of all the
8 Yates entities, and as part of that you signed on behalf of
9 Ocean that you would not object to a Yates nonstandard unit
10 comprising the southwest quarter of Section 28?

11 A. Yes, I did.

12 Q. At this point, because all of the working
13 interest owners in the unit contributed to the well, in
14 your opinion would it be difficult or maybe even unfair to
15 apportion well costs among other interest owners if they
16 had to be brought into the well?

17 A. I believe it would, and I also believe that they
18 would probably not participate because of the economics of
19 this situation. They would have to pay the full cost of a
20 Strawn well, and the production and reserves don't support
21 it.

22 Q. Okay. And Ocean Energy itself would not drill a
23 new well to the Strawn formation for these reserves?

24 A. No, sir.

25 Q. Do you request that approval of this nonstandard

1 unit be made retroactive to date of first production from
2 the Strawn formation from the Burton Flat Deep Unit Number
3 13 well?

4 A. Yes, we do.

5 Q. Were Exhibits 1 through 11 prepared by you, under
6 your supervision or compiled from company business records?

7 A. Yes, they were.

8 Q. And in your opinion is the granting of this
9 Application in the interests of conservation and the
10 prevention of waste?

11 A. Yes, it is.

12 MR. BRUCE: Mr. Examiner, I'd move the admission
13 of Exhibits 1 through 11.

14 EXAMINER STOGNER: Exhibits 1 through 11 will be
15 admitted into evidence.

16 MR. BRUCE: I pass the witness.

17 And one other thing, Mr. Examiner, if you would
18 like me to make a copy of the leasehold ownership report
19 showing these entities, I'd be glad to do so.

20 EXAMINER STOGNER: Yes, I'd like that, and make
21 that a part of the record.

22 MR. BRUCE: I will mark that Exhibit 12.

23 Q. (By Mr. Bruce) And again, Mr. Maney, the
24 leasehold ownership report was prepared under your
25 supervision, was it not?

1 A. Yes, it was.

2 EXAMINER STOGNER: And at this time, I --

3 MR. BRUCE: I would move this -- I will give it
4 to you so you can review it, and then I will make copies
5 for you.

6 The first page contains information on shallow
7 depths on the north half of Section 28, so it's not really
8 applicable.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Okay, first of all, Mr. Maney, Strawn production
12 -- Let's see, the C-115 shows date of first production "RC;
13 5/25/01". I'm not familiar with what "RC" stands for. Do
14 you know what that means? And I'm referring to Exhibit
15 Number 5. It looks like that would be entry -- I don't
16 even know what entry it would be, 28 --

17 A. Yes.

18 Q. -- 29?

19 A. I don't know what RC is either. I --

20 Q. Maybe recom- -- I don't know.

21 A. Recompletion? That would be my guess.

22 Q. But as far as you know, and then I'm referring
23 now to Exhibit Number 2, the Strawn did not start -- I'm
24 sorry, it shows here that the Strawn didn't start producing
25 until September of 2001; is that correct?

1 A. Yes, sir. And that was my understanding also.

2 Q. Do you know how many days it produced --

3 A. Let's see here.

4 Q. -- in September or -- This doesn't have the days
5 produced, does it?

6 A. Let's see here. I believe -- Let's see. Well,
7 that's water barrels a day. I thought there was some kind
8 of -- No, I don't, I don't believe it does.

9 Q. Now, what's the current status as of today of
10 this well?

11 A. It's shut in.

12 Q. Okay, and when was it shut in?

13 A. It was shut in immediately after your letter to
14 Mr. Bruce.

15 Q. And that was September 13th.

16 A. Yes, sir. I believe -- It may not have been shut
17 in on that exact day, but I know that I checked Monday when
18 I got back in the office, and it was shut in on Monday.

19 EXAMINER STOGNER: Okay, and I'll take
20 administrative notice of the files of the Division here
21 concerning the previous administrative application, Mr.
22 Bruce. I believe that was done by you; is that correct?

23 MR. BRUCE: That is correct, Mr. Examiner.

24 EXAMINER STOGNER: And then my correspondence
25 that served to deny that application --

1 MR. BRUCE: Yes, sir.

2 EXAMINER STOGNER: -- August 6th. And then my
3 letter again of September 13th. And that was a response to
4 a letter, I believe, by you on September the 5th.

5 MR. BRUCE: That is correct, Mr. Examiner.

6 EXAMINER STOGNER: Okay. Now let's talk about
7 the authority to get the Strawn production, and then where
8 the money attributed to the Strawn production -- where it
9 is today.

10 Q. (By Examiner Stogner) First of all, what is
11 needed to put a well on production? Do you know?

12 A. Well, in this particular case they had to
13 recomplete the well, and then they probably had to hook it
14 up to the pipeline, because I'm sure it still wasn't hooked
15 up after those eleven years when it was -- I'm not sure,
16 but I assume that it was not hooked up after those eleven
17 years that it was not producing in the Morrow formation.
18 So I suspect that they had to get a contract and hook it
19 up.

20 Q. Okay, how about the authority, then, to obtain
21 approval to turn the well on for production purposes?
22 What's needed to get that through the district offices?

23 A. Well, I believe they filed some kind of a sundry
24 notice on a recompletion, and I'm sure they were in
25 communication as we were producing the well, because we

1 would file for a Strawn participating area. But I'm not
2 familiar with the forms that the regulatory group files.

3 Q. Now, when did -- All right, so you don't know if
4 there's a C-104? That's the authorization for allowable.

5 A. My suspicion is -- My guess is, yes, that Jeanie
6 McMillan probably filed that.

7 Q. How about a corresponding C-102? That would be
8 the dedicated acreage plat for this production.

9 MR. BRUCE: Mr. Examiner, I looked at the well
10 file, and I could not find an acreage dedication plat. And
11 I --

12 EXAMINER STOGNER: Okay. As far as the
13 retroactive -- this would take care of the retroactive
14 request.

15 MR. BRUCE: Yeah.

16 EXAMINER STOGNER: So as far as the production
17 moneys and the money set aside for royalty interests and
18 working interests, that's all based on the 160, or was it
19 based on a laydown 320 or a standup 320?

20 A. Those moneys are based on a 160, and I don't
21 believe anything has been paid at this point. I think
22 those moneys are still in suspense, pending the outcome
23 here.

24 If we've paid anything, we've paid the royalty,
25 because that's who would get the -- the State would receive

1 the money in either case.

2 Q. And that would be based, either in your opinion
3 or actual, just on that lease -- what, L-6223?

4 A. The southeast quarter, yes, sir.

5 Q. Just the southeast quarter.

6 MR. BRUCE: 6322.

7 EXAMINER STOGNER: 6322. That's L-6322, right?

8 MR. BRUCE: That's correct, Mr. Examiner

9 Q. (By Examiner Stogner) Okay, help me out here as
10 far as the historical. Let's take a look at that southwest
11 quarter, because the southwest quarter of Section 28 was
12 once inside the unit; is that correct?

13 A. Yes.

14 Q. Okay. Now, that was also at one time a -- what,
15 half of State Lease L-6322?

16 A. I believe that's right, yes.

17 Q. Okay. Now, who was the working interest
18 originally when the unit was set up for that south half of
19 Section 28?

20 A. It would have been the working interest owners in
21 the unit as it is outlined on this plat. So those working
22 interest owners are the remaining interest owners that are
23 now still within the unit after the contraction. That
24 lease expired, and then I believe Yates or maybe somebody
25 even prior to Yates had leased it. I don't know the

1 history.

2 Q. Okay, let me -- as far as -- Who are the working
3 interests in L-6322 currently?

4 A. I can't answer that, I'm sorry.

5 MR. BRUCE: Mr. Examiner, I can give you data on
6 that if you desire. I know in testifying to a certain
7 extent, if you'll look at Exhibit 3 -- It's one of the unit
8 plats.

9 EXAMINER STOGNER: I've got Exhibit 4 and Exhibit
10 7.

11 MR. BRUCE: I say this because I have examined
12 title to the --

13 EXAMINER STOGNER: Oh, I'm sorry, that's Exhibit
14 3. In my case, the 3 looks like a 7.

15 MR. BRUCE: Mr. Examiner, if you'll look at the
16 south half of 28, Cities Service Oil Company owned 100
17 percent of the working interest in that lease, and I have
18 examined title to that, and I can give you evidentiary
19 backup if you need on that.

20 That unit, that entire lease, continued to be
21 owned by its successor, OXY, until late last year when an
22 affiliate of Ocean Energy purchased that interest.

23 So as far as the working interest itself in that
24 particular lease, just exclusive of the unit area, it was
25 Cities Service from the date of issuance, which you see as

1 May 31, 1981, for about 20 years, Cities Service and its
2 successors up through OXY USA, WTP Limited Partnership
3 owned 100 percent of the working interest in that lease,
4 and then it was acquired by Ocean.

5 Q. (By Examiner Stogner) I'm trying to figure out
6 currently also, because as I understand it, this 160 acres
7 is not part of the unit, because it's not commercial. So
8 therefore it's not contributing to the unit.

9 A. The working interest owners of the unit paid for
10 it, and what we are proposing is that it be produced on a
11 lease basis for the 160-acre dedication, and those
12 participants in that well will be the ones who receive the
13 working interest share of the production.

14 Q. And who is that?

15 A. Ocean Energy and -- Gosh, there's a number of
16 them, and I apologize, I can't --

17 MR. BRUCE: Mr. Examiner, I could give you a
18 current listing of the working interest owners in the unit.
19 I'm sorry, I didn't bring that today.

20 EXAMINER STOGNER: Okay, I'm getting confused
21 here. I understand, because this well's production is
22 nonparticipating, therefore --

23 MR. BRUCE: It's nonparticipating and -- Let me
24 tell you two things. First of all, as to the royalty, the
25 State of New Mexico, Commissioner of Public Lands, will

1 receive 100 percent of the royalty interest attributable to
2 production. And even though it's -- and there are no
3 overriding royalty owners.

4 And then as to the working interest share, even
5 though it's nonparticipating, the unit operating agreement,
6 which is in the Division's files -- and I ask that you take
7 administrative notice of that -- provided that the working
8 interest owners share in production proportionately as to
9 their interests throughout the entire unit.

10 So Ocean doesn't get 100 percent of the working
11 interest share of production. It is distributed to all of
12 the current working interest owners in the unit.

13 EXAMINER STOGNER: So the royalty is attributed
14 at 100 percent --

15 MR. BRUCE: -- to the Commissioner of Public
16 Lands.

17 EXAMINER STOGNER: -- to the Commissioner of
18 Public Lands, under that case, which whoever the
19 beneficiary -- Which of course brings me up to the next
20 one: Who are the beneficiaries underneath these four
21 quarter sections?

22 MR. BRUCE: Yeah, all I know is that the
23 beneficiary -- and I thought it was common schools -- is
24 the same under the south half. I don't know if it's the
25 same under the north half.

1 EXAMINER STOGNER: Okay, I'll tell you what.
2 I've got something here. I'll go ahead and take
3 administrative notice of, there again, Division records --
4 and this is on ONGARD -- and they show that Lease VB-240,
5 which is the north half, is common schools, and the
6 southwest quarter, being VB-539, again is common schools,
7 and also the beneficiary for L-6322 is common schools.

8 So -- And that is on our records on ONGARD, which
9 is contributed by the State Land Office.

10 Q. (By Examiner Stogner) Now, following
11 historically, this being 320 acres, there's a previous
12 Morrow production, even though there wasn't that much, was
13 contributed or assigned the south half; is that --

14 A. Yes, yes.

15 Q. Okay.

16 A. And that production was paid to the working
17 interest share, to the working interest owners in the unit,
18 under the unit operating agreement, and the State of New
19 Mexico received the royalty.

20 Q. Was it participating at the time?

21 A. It was in the Morrow participating area, yes.
22 And then they contracted that.

23 Again, I don't know exactly when that happened,
24 but based on production it was no longer productive, and
25 the way that the unit was contracted eliminated the

1 southwest quarter.

2 Q. Now, I know you contacted the State Land Office,
3 but have you talked to them concerning this matter?

4 A. I have not personally talked to them. I don't
5 know who has, but I know we've been in communication.

6 MR. BRUCE: Mr. Examiner, I called Pete Martinez,
7 but we traded calls, and so I do not have any follow-up on
8 that.

9 EXAMINER STOGNER: Part of my concern, Mr. Bruce,
10 is precedents.

11 As you know, when we change the pool rules or the
12 general rules for deep gas, one of the stipulations was,
13 it's still 320-acre spacing and we're not going to hand out
14 160-acre spacing units unless --

15 MR. BRUCE: Yes.

16 EXAMINER STOGNER: -- I guess we consider it
17 special.

18 Q. (By Examiner Stogner) And is this an example,
19 I'm assuming, of what you consider special, and I'm trying
20 to establish that at this time, especially when, of course,
21 I can say, and I'm going to ask, why don't you force pool
22 to create a standard 320-acre laydown spacing unit for this
23 production?

24 A. Well, we could do that, but I've talked to Yates,
25 and we've talked to their geologist, and that was one of

1 the reasons we got the letter from them, because they had
2 no objection.

3 They recognized that they would not participate
4 in a Strawn well if we did force pool, and that was why we
5 got that letter.

6 But -- And with us allowing them to drill their
7 own Strawn well, if they so choose, again by signing their
8 letter, which granted our -- the letter of no objection.

9 So I don't believe that Yates would participate
10 if we force pooled them, and it would just take a little
11 bit longer to do and take up additional time.

12 Q. So if Strawn production does take off out here,
13 then it would be necessary for another 160-acre spacing
14 unit to be --

15 MR. BRUCE: That is correct, Mr. Examiner.

16 Q. (By Examiner Stogner) -- established, and I'm
17 assuming that Ocean wouldn't have a problem with that as a
18 unit operator.

19 A. As a unit operator, we have no problem with Yates
20 drilling a well in that southwest quarter of Section 28.

21 Q. Or they could drill there and dedicate the west
22 half, which would then lead the other people to form a
23 nonstandard 160 in the northwest quarter?

24 A. Yes, and we would not object to that.

25 EXAMINER STOGNER: Let's see, were you going to

1 give me any additional information, Mr. Bruce?

2 MR. BRUCE: I will give you a summary of the unit
3 agreement and unit operating agreement, together with the
4 current working interest owners in the unit and their
5 interests in the unit.

6 EXAMINER STOGNER: Okay. Anything further, Mr.
7 Brooks?

8 EXAMINER BROOKS: Well, just to understand this.
9 I think you explained it, but I want to be sure I
10 understand it.

11 The southeast quarter is still within the unit,
12 correct?

13 MR. BRUCE: That is correct, sir.

14 EXAMINER BROOKS: And there is a unit operating
15 agreement in force that provides that wells that are within
16 the unit that are not within a participating area, that the
17 working interests share what they shared among the working
18 interest owners in the unit in proportion to their
19 ownership in the total unit?

20 MR. BRUCE: That is correct, sir.

21 EXAMINER BROOKS: But of course the royalty
22 owners and overriding royalty owners are not a party to the
23 unit operating agreement?

24 MR. BRUCE: That is correct.

25 EXAMINER BROOKS: And under the terms of the unit

1 agreement itself, without regard to the unit operating
2 agreement where it's not in a participating area, they
3 participate on a tract basis?

4 MR. BRUCE: Yes, on a tract or a lease basis,
5 yes, sir.

6 EXAMINER BROOKS: Okay, I thought that was the
7 way it was, but I wanted to be sure. Thank you.

8 EXAMINER STOGNER: Anything further?

9 MR. BRUCE: The only thing I have, Mr. Examiner
10 -- and this is just for your information -- certain data
11 was submitted to the BLM and the State Land Office,
12 geologic data, and I would -- we don't have a witness to
13 testify to it, I'll just give that to you for your
14 information.

15 EXAMINER STOGNER: Okay, so you've handed me some
16 additional documentation here.

17 MR. BRUCE: A Strawn isopach, a Strawn structure
18 map and a cross-section.

19 EXAMINER STOGNER: This will be made part of the
20 record but will not be stamped as an exhibit at this time.

21 THE WITNESS: And that was supplied to the State
22 of New Mexico and the Bureau of Land Management.

23 EXAMINER STOGNER: Do you know when?

24 THE WITNESS: When we made application for the
25 expansion of the participation area.

1 MR. BRUCE: That was part of Exhibit 7, I
2 believe. Exhibit 7.

3 EXAMINER STOGNER: So this would serve to
4 complete Exhibit Number 7 in its entirety, as it was
5 submitted to both the Commissioner of Public Lands and --

6 MR. BRUCE: Yes, sir. If you look on that, it
7 would be the third paragraph of Exhibit 7, references this
8 data as Items 2, 3 and 4.

9 EXAMINER STOGNER: And then the completion report
10 would be what's Exhibit Number 1 today.

11 MR. BRUCE: It would be Exhibit Number --

12 EXAMINER STOGNER: I'm sorry, 5, Exhibit Number
13 5. Exhibit Number 1 is the old completion report.

14 Okay. Well, if there's no other questions of
15 this witness, you may be excused.

16 Anything further at this time?

17 MR. BRUCE: No, sir.

18 If I could, I'll just mark that leasehold
19 ownership report I gave you as Exhibit 12.

20 EXAMINER STOGNER: Let's do that, and I'm going
21 to give that back to you to make sure that --

22 MR. BRUCE: I will give you copies, together with
23 Mr. Brenner.

24 EXAMINER STOGNER: Okay. Anything further in
25 this matter?

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MR. BRUCE: No, sir.

EXAMINER STOGNER: Then at this time I'll take
Case Number 12,932 under advisement.

(Thereupon, these proceedings were concluded at
2:10 p.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12932
heard by me on 19 September 2002.
Michael Stogner, Examiner
Oil Conservation Division

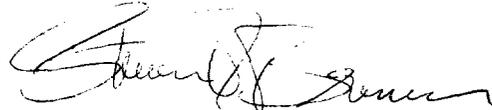
CERTIFICATE OF REPORTER

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 September 22nd, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002