STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

APPLICATION OF VETERAN EXPLORATION, INC. TO AMEND DIVISION ORDER NO. R-9330, SANDOVAL COUNTY, NEW MEXICO. 10332, APPLICATION OF VETERAN EXPLORATION, INC. FOR A NON-STANDARD OIL PRORATION UNIT, A HIGH ANGLE\HORIZONTAL WELLBORE THAT EXCEEDS THE SET-BACK REQUIREMENTS FOR THE SAN ISIDRO (SHALLOW) UNIT AREA AND SIMULTANEOUS DEDICATION, SANDOVAL COUNTY, NEW MEXICO.	)	CASE NO. 10331 10332

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
BEFORE: MICHAEL E. STOGNER, Hearing Examiner
June 13, 1991
Santa Fe, New Mexico

This matter came for hearing before the Oil Conservation Division on June 13, 1991, at the Oil Conservation Division Conference Room, State Land office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Linda Bumkens, CCR, Certified Court Reporter No. 3008, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION
(ORIGINAL)

BY: LINDA BUMKENS CCR
Certified Court Reporter
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INDEX

APPEARANCES

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MR. STOGNER: We're going to hear these last two at the same time, Jim?

MR. BRUCE: Yeah.

MR. STOGNER: All right. Come to order. Call case number 10331. At the applicant's request, consolidate 10331 and 10332.

MR. STOVALL: Case number 10331, application of Veteran Exploration, Inc., to amend division Order No. R-9330, Sandoval County, New Mexico, and 10332 is the application of Veteran Exploration, Inc., for a non-standard oil proration unit, a high angle/horizontal wellbore that exceeds the set-back requirements for the San Isidro (Shallow) unit area, and simultaneous dedication, Sandoval County, New Mexico.

MR. STOGNER: At this time I'll call for appearances in both cases.

MR. BRUCE: Mr. Examiner, Jim Bruce from the Hinkle Law Firm in Albuquerque representing the applicant. I have one witness to be sworn.

MR. STOGNER: And since there's nobody else in the room, will the witness please stand to be sworn?

(Witness sworn)

MR. STOGNER: Mr. Bruce.

MR. BRUCE: As an introductory matter, Mr. Examiner, in case 10332 Veteran's application to drill a horizontal well across section lines and develop and dedicate two half sections to that well.

In the related case 10331, applicant seeks to change the special operating rules which were instituted last year in order to allow the operator to apply administratively for permission to drill wells across section lines. The special operating rules were adopted in case, I believe it was 10100.

We do not have a landman here today because there was land testimony presented in the prior cases 10099 and 10100. That testimony showed that the San Isidiro Shallow Unit area encompasses about 18,000 acres of federal minerals in Sandoval County. I have just for your information -- information purposes -- a copy of the land plat that was submitted at one of the prior hearings.

MR. STOVALL: You want to move for incorporation of that into this just for the --

MR. BRUCE: Sure.

MR. STOGNER: Case number 100 --

MR. STOVALL: Just the land plat exhibit is really all that needs to be --

MR. BRUCE: Yeah, just the land plat exhibit.

MR. STOVALL: It was previously sworn to and testified about and admitted as an exhibit; is that correct?

MR. BRUCE: Yes, sir. I believe this one is specifically from 10099 and that would be sufficient.

MR. STOVALL: Moving the admission of Exhibit 1 in the case 10099 into the record of this case.

MR. BRUCE: Yes, sir.

MR. STOGNER: So be it. Please continue.

EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. My name is Tracy Chancellor.

Q. And where do you reside?

A. Denver, Colorado.

Q. What is your occupation?

A. I'm a geological consultant.

Q. And who are you working for in this matter?

A. I'm a consultant for Veteran Exploration Company.

Q. Is Veteran now the operator of the San

Isidiro Shallow unit?

A. That's correct.

Q. Okay. Have you previously testified before the OCD?

A. I have not.

Q. Would you outline your educational and work experience for the examiner, please?

A. B.S. In geology from Fort Lewis College in 1978, employed for four years in Midland, Texas and Denver for various small and larger independents as a petroleum geologist, exploration geologist, and have been independent for the past eight years as a consulting geologist both exploration and in the field as well as owning my own exploration company.

Q. Okay. And what is your familiarity with the Mancos and Niobrarra formation?

A. I've worked in the Niobrarra throughout that 8-year period throughout the Rockies. However, in the San Juan Basin I've been involved with the Mancos in the Niobrarra equivalent for about a year.

Q. Okay. And are you familiar with the Mancos geology of the San Isidiro Shallow Unit?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I would tender Mr. Chancellor as an expert petroleum geologist.

MR. STOGNER: Mr. Chancellor is so qualified.

Q. (By Mr. Bruce) referring to your exhibits, first Exhibit B, Mr. Chancellor, would you describe what that is for the examiner?

A. This is the Federal unit outline in 20 north two and three west, Sandoval County, New Mexico. It outlines the pro well production history as of probably a year ago, the location of our first two horizontal holes in section 11 and 12.

Q. And that's the 1114 well and the 1210 well?

A. That's correct. And our proposed Johnson 7-3 well spudding in section 7 of 20 north 2 west, and bottom hole location in section 6 of 20 north 2 west with a basement fault trace, and is showing that some of the best production in the field is associated with that basement fault.

Q. Okay.

A. That's basically what Exhibit B shows.

Q. And some of the poorer wells are a little further away. You note there the 1500-barrel well and some other 2,000-barrel wells that are further away from the basement fault; is that correct?

A. Yes.

Q. And we'll get into this one in a little more detail. Is that the basic reason Veteran seeks

permission to drill across section lines?

A. That is the basic geologic reason to be located on both sides of a horizontal wellbore to this fault trace.

Q. Okay. Would you please then move on to Exhibit C and just very briefly discuss what that shows?

A. Exhibit C I have traced on Exhibit B this basement fault, and just to show the commission that we have worked the seismic and we are looking at approximately 800 to 1,000 feet of throw on this basement fault, and it has disturbed the Mancos rocks, the shallower Mancos pay zones, the A, B, and the C, and the D which the field produces from except for one Menefee well, and that's basically what it shows.

Q. Okay. And then moving on to Exhibit D, would you discuss the Mancos structure in this area?

A. The Mancos is not particularly faulted, however, over -- the basement fault has caused a monocline in the Mancos over the basement fault, and we're getting areas of where there's greater range of change in dip than other areas, and the yellow highlighted area is the trace of the axis of the monocline which would be the maximum flecture in the

Mancos A, B, C, and D pay zones, and if you'll refer back to Exhibit B, you'll see that it has shifted quite a bit, and it truly does align with the best production in the field, that being 20 north 2 west section 6, the 88,000 barrels and 20 north 3 west, section 12 the 90,000 barrels, and 20 north 3 west section 11, the 135,000 barrels.

Q. So in your opinion, it's necessary to stay near this fault to have the best chance of getting a good well in the Mancos?

A. Yes. And not only near it, but to have -- yes, that's correct.

Q. And this will not require wells to be drilled across section lines in every case, will it?

A. No it will not; however there may be a few other cases.

Q. Okay. Then please refer back to Exhibit A and describe that for the examiner.

A. Exhibit A -- shall we put this up or can we just --

MR. STOVALL: We can spread it out,

A. Exhibit A as is, as you can see, from C-C' southwest and northeast through the field, and the Federal Unit showing the top of the Mancos A, the B, the C zone, and the D zone, some of the wells were

openhole completed, some wells were set pipe, cemented and fract and basically this exhibit is just to show you our pay zones. The field does produce from all four. We will be drilling basically between the San Isidiro 12-4, five wells over from the left, and the Johnson 6-16 well.

Q. Okay. What is the primary producing zone in this area?

A. Well, as I've said A, B, C, D are the primary zones; however, the C zone, there needs to be more testing, but we feel like the C zone has been probably the best producer.

Q. Okay. In referring just briefly to Exhibit E, would you describe what that is, please?

A. Exhibit E is a proposal and outline from Great Land Directional Drilling Company in Casper for Veteran. After the title page is a pretty good well summary that we will be kicking off at approximately 39 -- no, actually we should go to the third page with the well profile, the columns and bill rates and so forth.

Q. And this is for the Johnson 7-3 well?

A. That's correct. Johnson 7-3 well. We will be kicking off at approximately 3874 and building a 14-degree-per-hundred curve to the C zone with a TVD

of 4420. At that point we will drill an 85-degree angle hole in the C zone. The dip in that area is about three to five degrees, and staying in the C zone for approximately 4,000 feet TVD is at 8122, and the curve on the next page, the diagramatic curve of the wellbore shows that diagramatically -- kickoffs and so forth, and the last page is that we -- well profile as far as north 10 degrees east will be our direction with approximately 4,000 feet of wellbore.

Q. Okay. And you're the well site geologist for Veteran, are you not?

A. That's true.

Q. Now, as originally proposed, this well would be about 132 feet too close to the section line if it's drilled as stated therein; is that correct?

A. That's true, too close to the half section line.

Q. What does Veteran plan to do with respect to that?

A. Veteran plans to -- either we will not drill any closer than 660 feet to that half section line, and to solve that we will be either stopping short of the 4,000-foot target, or we will arrange

our angle back to the west possibly one or two degrees, and I think we are in the process of taking care of that with the commission as far as --

Q. Okay. So you do not desire to be closer than 660 feet to the outer boundary?

A. That's correct, and one purpose of the way we have to design this wellbore across the section line.

Q. Okay. Now this drilling plan, is this similar to plans previously submitted for the other two horizontal wells that have been drilled to date in the unit?

A. It is, yes.

Q. Okay. Were Exhibits A through E either prepared under your direction or compiled from company records?

A. They were.

Q. In your opinion, is the granting of these applications in the interest of conservation and the prevention of waste?

A. Yes, they are.

MR. BRUCE: Mr. Examiner, I move the introduction of Exhibits A through E plus of, course, prior Exhibit number 1 from case 10099.

MR. STOGNER: Exhibits A through E will would

be admitted into evidence. Okay.

MR. STOVALL: I have a quick question to start it out. What is the participating area for this proposed well? Is it an extension of the existing participating area of the unit, or is it going to be a new participating area?

A. This will be, I believe -- yes. A new participating area as is each of the first two wells.

MR. STOVALL: They're each separate participating areas?

A. Yes, they are.

MR. STOVALL: So in other words, cost and revenue sharing is on a drill block basis really so far in this unit; is that correct?

A. I believe so.

MR. STOVALL: Now, my memory is not all that great as far as the unit itself. It's 100 percent Federal Unit; is that correct?

A. That's correct. That is correct.

MR. STOVALL: What about the overriding royalty interests, are they uniform throughout or do you know?

A. They do vary.

MR. STOVALL: What about working interests?

A. They vary as well, and this lease section 6 and 7 happens to be the same lease, but the working interests do vary throughout the unit.

MR. STOVALL: Let's see. The east half of section 6 is also in the unit; is it not?

A. That's correct.

MR. BRUCE: Yeah, looking at Exhibit 1.

MR. STOVALL: Now, that good well that's in the southeast quarter of Exhibit 1, what was the proration unit to that well? Was that the east half?

A. The 88,000-barrel well?

MR. STOVALL: Right.

A. I do not know. Jim, if you have an idea as far as -- see, I believe this is on 320-acre spacing if that answers --

MR. STOVALL: That's correct. I think the pool is on the 320-acre spacing, but you don't know what the proration is?

A. I do not; I don't.

MR. STOVALL: Which means you don't know whether you're, in fact, whether the southwest quarter is already committed to a proration unit; is that correct?

A. I as a geologist do not know the answer to

that question.

MR. BRUCE: If you give me a minute, we can go look that up.

MR. STOVALL: Let's find out if there's anything else we don't know before we go on. If it's the south half of this section 6 proration unit for that well on the southeast quarter, then, in fact, what could be happening is that the southwest quarter could participate in two wells and the northeast quarter would participate in none with two wells in section 6, which I think proposes a bit of a correlative rights problem.

Mr. Bruce, perhaps you can answer it as well. Were the 12-10 and the 11-14 -- were those both 640-acre units, do you remember?

MR. BRUCE: Just a second. 11-14 was not in the 12-10. I believe the east half is dedicated to the 12-10 that was a simultaneous dedication.

MR. STOVALL: The east half was also dedicated as a 90,000-barrel well; is that correct?

A. That's correct. We do know that the east half of six has already been dedicated to the 7-3, and the east half of 7 is dedicated to the 7-3.

MR. STOVALL: You mean the west half.

A. I'm sorry. The west half, I believe, Jim.

MR. STOVALL: The west half of 6 and the west half of 7 are your proposed proration unit for this well that you're talking about; is that correct?

A. Yes, sir, I believe so.

MR. STOVALL: Now, you talk about -- where's the 7-11 well? Is that that 5900-barrel well down there in San Isidro?

A. No, sir. That is -- oh, I'm sorry, it sure is.

MR. BRUCE: Excuse me for interrupting, but I'm looking at administrative order DD52H, the 12-10 has 640 acres dedicated to it.

MR. STOVALL: So it's a simultaneous dedication with three wells on that dedication; is that correct?

MR. BRUCE: Yes, per the division orders.

MR. STOVALL: But the 11-14 is just a single dedication of the west half?

MR. BRUCE: Yes.

MR. STOVALL: Well, let me just express a concern to both of you on this. If one of the advantages of -- and I'm expressing my own opinion and my own concerns from a legal correlative rights operational standpoint -- one of the advantages of unitized operations is you bring a -- drill a

substantial area under common ownership and control which allows -- one of the real advantages -- is it allows some broad-area planning and particularly the opportunity to do projects such as -- I guess Veterans has really done it, it took over Sand Dune before the well was drilled; is that correct?

A. Yes, they did the first two holes, that's correct. Then we --

MR. STOVALL: However, by virtue of the way this unit is set up, the correlative rights problem still exists because it's on -- essentially on a drill-block basis, and when you start encroaching wells, crossing lines, straining proration units, simultaneous dedication particularly next to -- it doesn't look like we've got a particular problem, but next to undeveloped tracts in some areas, because there's not a common ownership in the larger parcels involved, it still keeps that correlative rights problem.

A. There is a common ownership in that -- Jim, correct me if I'm wrong -- you mean is there one owner or are there five owners?

MR. STOVALL: Well, I guess what I'm asking you is this unit is 18,000 acres, and it's put together different working interests, owned

different tracts within the unit --

A. That's correct.

MR. STOVALL: Based on their leasehold position when the unit was formed?

A. Yes.

MR. STOVALL: When you establish -- I mean, if it's what's referred to commonly as an undivided unit, the entire unit pays all costs and shares all revenues. This is what I just commonly refer to as a divided unit.

A. In this particular -- I apologize for not -- I wish I understood more about the problem, but Veteran now owns 96 percent -- well, no, that isn't quite true, so -- I'm not qualified to really answer that question.

MR. STOVALL: And that's my concern. I don't know. We're not getting the information which says, for example, who has got an interest in the east half of section 6. They're the ones who probably are most affected, whose correlative rights are most affected by this, counter balanced with the fact that they've had a pretty good production out of a well if, in fact, that's the proration unit. If the northeast quarter is not in a proration unit, then there's a major problem. Section -- what is it,

section 1 to the west -- we've got two proration units and we don't know what the dedications are. What is the effect of it?

MR. BRUCE: Well, as long as you're not overlapping proration units, though, I don't understand the correlative rights problem.

MR. STOVALL: Well, are we overlapping proration units in section 6, or do we know?

MR. BRUCE: We can go check. The BLM, as I understand it, and you can ask Mr. Chancellor, has approved this well.

MR. STOVALL: Really. I'm assuming, we don't have confirmation, but I -- we'd hope that homework was done ahead of time that the east half is dedicated to that other well which is unidentified.

A. As far as I understand, that is true. I was somewhat involved in hearing the dedication and that's definitely the reason for staying 660 away from that half section line.

MR. STOVALL: What's the effective drainage radius of your proposed 7-3? Do you have any idea how -- particularly if you intersect that fracture successfully, what's that going to do as far as --

A. We have --

MR. STOVALL: Fractures in the Mancos have

been known to produce from a long ways away?

A. Sure, they have and, again, I'm not the qualified man to answer it, but I have worked with our engineer and we're showing 320-acre drainage in this area, and 250,000 barrels a well for horizontal wellbores. I think you can see from the production in the area that --

MR. STOVALL: It's really spotty in that?

A. Yes, it is.

MR. STOVALL: I think that's pretty well known from the east side of the Mancos formation throughout. You hit the fracture you get a barn burner, but if you hit the tight matrix, you don't get anything.

A. Yes.

MR. STOVALL: But when you do hit the fracture and get a barn burner, the reason you do so is because that fracture is connecting you to a fairly large radius within the fracture system.

A. And, as you know, it can, and in our area, unfortunately, we do not appear to be as well fractured as some other more impressive Mancos pools in the San Juan Basin. Thus the reason for the 320-acre spacing in this field, as some of this production history has already shown, our best well

has only made 135,000 barrels out of section 11. We don't really have too many half million barrel wells in here.

MR. STOVALL: How long has the 11-14 been on?

A. It's been on -- I believe that well was drilled in '84. It made --

MR. STOVALL: Isn't that the horizontal well?

A. No. The 11-14 is one of the horizontal wells.

MR. STOVALL: You're talking about the 135,000-barrel well?

A. Yes, sir. That's the 11-16.

MR. STOVALL: How long does -- the 11-14 been what, a year, or less probably?

A. Yes, sir, that's correct.

MR. STOVALL: Okay.

A. Oh, I'm sorry. If I could let you understand a little more. We twinned the plug producer that you see next to the 11-14, and the plug producer had made 11,000 barrels of oil, and our hole, the 11-14, we are still working on completing, but we are a little disappointed in the production of that well for various geological and engineering reasons why it was drilled.

MR. STOVALL: But it has crossed what you

believe to be that basement fault, right?

A. It has crossed that basement fault, however, if you would refer to Exhibit D for just a minute, you can see that this is the main flecture in the pay zone, and it goes much farther south. It's migrated up in the Mancos, and it does go much farther south. I apologize. The 11-14 horizontal hole is not marked on there, but you can see --

MR. STOVALL: It approximately starts about on that -- by the 805 there?

A. That's right.

MR. STOVALL: Right above it?

A. And actually there is a splay hinge coming off of this main flecture from section 12 over above that 805, crossing the wellbore that we crossed, or that we drilled, and we feel now that it's a much smaller fracture zone, and would have rather concentrated on this lower flecture line.

MR. STOVALL: In other words, down south from that starting point rather than north.

A. That's correct, and even though it appears we have crossed the basement fault, the top of it we did, but what's more important is the flecture highlight in Exhibit D, and we were north of that and in a smaller zone, and that may not be the main

reason the well has not performed as we had hoped. There are other reasons.

However, we are convinced that the better production in the field is at or certainly within 1,000 feet of that highlight. We feel like it's very important to stay -- to drill horizontal wellbores on both sides of the fracture zone and staying at an angle such that you don't get too far away from either side of the fracture zone.

MR. STOVALL: I want to go back and visit with you a little bit about the unit. Going back to Exhibit 1 from 10099, it appears that the unit boundary is on the east section line of sections 5 and 8. On your map it appears that it's on the east line of section 6 and splits section 7.

A. I apologize. I'm sure that --

MR. STOVALL: Which one's correct?

A. I'm sure Exhibit B is incorrect.

MR. STOVALL: What it does now, I look at --

A. If I could just look here for a moment. 5 and 6, yeah. It's Exhibit --

MR. STOVALL: It looks like Exhibit B has got the unit boundaries all substantially different from the one we've just admitted.

A. Yes. The exhibit that Mr. Bruce has shown

you is correct.

MR. STOVALL: You're talking about Exhibit 1 from case 10099?

A. Yes. It has not changed from this submittal since the first day of its inception. It has sections 35 and 36; that's correct.

MR. STOVALL: You get down on the south it looks like it's got the wrong section. You don't have section numbers on your Exhibit B. That makes it a little tougher for us, at least as I'm seeing it.

A. The exhibit -- is this Exhibit 1? This is correct. I would be glad to correct this and get it to them as soon as possible. The problem is, Veteran and the original owner have been talking about several possibilities of trades in the area, and we have gone through many different outlines for thinking about shrinking our other federal unit outlines and --

MR. STOVALL: Contracting the unit, you mean?

A. Yes, sir. And this is correct, Exhibit 1.

MR. STOVALL: For some reason, Mr. Bruce, I feel sort of like I'm missing something, but I'm having trouble putting my finger on exactly what I'm missing. I think I want to ponder this for a

minute. I think if the Examiner's got any questions on the technical engineering aspects of the well itself. My concern is primarily to the correlative rights, and a lot of these tracts are "GW, et al," and are the "et als" the same in each tract, and how does that work together and is it better to --

MR. BRUCE: If I may -- just looking through the previous file in case 10099 and the unit agreement -- which is the unit agreement -- and it does set forth the ownership, and I'm not going to go into any detail, but if I may say that so long as we don't have the overlapping proration units that you've discussed, as long as we don't have that problem, I mean, you are merely dedicating acreage to a well, and although it may cross section lines.

MR. STOVALL: I fully concur: The section lines are artificial boundaries drawn by some guys on horses a long time ago, and sometimes they don't make geologic sense, so I don't particularly have a problem crossing those lines in this type of situation. I'm wondering if we need more of a big picture, but let me ask you this: assuming this application were granted for this 7-3 well, would you want an allowable equal to two times the 320-acre oil allowable?

A. No. I don't think that, in my opinion, that would have been necessary because this is a sensitive reservoir and we are not that interested in producing it hard anyway.

MR. STOVALL: You're on what, a gas-drive type?

A. It's a combination solution-gas-and-gravity drive.

MR. STOVALL: You recover more oil then if you produce it more slowly at a maximum efficient rate, so to speak, rather than --

A. Yes, sir, But that really -- I don't know Veteran's full intent. I do not believe that is an intent at this point as for as a double allowable.

MR. STOVALL: I don't think it's advertised for that, so I don't think that.

A. This is strictly a geological -- keep the production down.

MR. STOVALL: Maximize your contact --

A. Yes, sir.

MR. STOVALL: And produce it at the best rate that would make the best recovery; right?

A. That's correct. We can't really see a way to drill a horizontal hole in 6 alone, or 7 alone where we would cross both sides of the flecture

without crossing into the --

MR. STOVALL: I understand. Then you've got more of a problem because you're not -- what, in fact, you're doing is forming a larger drilling block here because you're producing from both -- you're in both sections, so you're forming a nonstandard proration unit, large drilling block, whatever you want to call it. And that addresses some of the correlative rights issue, I grant you that.

I guess I'm thinking about it also in terms of the application for rules for administrative approval for similar applications, and that perhaps is more of a problem to me than this individual well. I think at this time I'll conjugate while the examiner asks whatever technical questions he's got.

MR. STOGNER: Well, I think we got the unit boundaries taken care of. That was one of the main questions I had, but we got that straightened out, and this well is going to be dedicated in the existing 7-11 well; is that correct?

A. Yes, sir, that's correct.

MR. STOGNER: Now are there horizontal wells in this particular unit area, or are we going after

that basement fault? Is that what Veteran's proposals are on these horizontal wells at this point?

A. The real intent is even though we're going after the basement fault on Exhibit B, we're really going after the point of maximum flecture on the Mancos B seismic horizon in Exhibit D, and it just so happens that the basement fault has caused that maximum flecture, and we really are going after Exhibit D, not the faulting in Exhibit B; however, they are both interconnected and related to each other, and unfortunately they are just right on top of each other.

MR. STOVALL: In other words, if it faulted here, it may have lifted the rock and pulled it here?

A. That's exactly correct. And it hasn't migrated much, but especially, for instance, in section 6 they're pretty much right on top of each other and 20 north 2 west, but when you get into section 12 of 23, the maximum flecture map is coming on down to the south, and the basic fault in the basement is taking a more northerly -- it's taking --

MR. STOVALL: It's going more westerly and the

flecture is coming more southerly; is that what you mean?

A. That's true.

MR. STOVALL: Let me say to you now that I think, quite frankly, I don't think we've got, in my opinion -- discussion with the examiner indicates he may feel the same way -- as far as the administrative approval process, I think we're simply lacking in information to deal with that, and if you wish to continue that and supplement, we can discuss what we need to do in a less formal setting and then continue that hearing. I'm not sure what we would use to justify that application, in granting that application at this point. And I'd leave it up to you, Mr. Bruce.

MR. BRUCE: Well, let's continue that.

MR. STOVALL: And see where we want to go with that. I'm not saying that is a bad idea; I'm just saying that I'm concerned about the amount of information we've got, and how to base that. You know more specific details about what would be -- how it would work.

A. So it's more a land ownership proration.

MR. STOVALL: Yeah. What's the criteria for it? Is it a geologic criteria, what ownership

requirements have to be satisfied, how does the notice have to work, and what proration unit, and, in fact, in some cases you would always have a nonstandard proration unit. It would be a nonstandard one size. Is it always going to be an unorthodox location? Exactly what is being asked and how -- what criteria would be used to process that administratively?

A. What we need to show the commissioners today, Jim, as far as the ownership, do you feel like maybe we're not prepared to give them at this time?

MR. STOVALL: I think what we can do is continue the case and then we can discuss it off the record and figure out what you need to do here to get this together. I don't have a problem doing that as far as that application. Now, I think we can continue to look at the specific well. What's your timeframe for drilling this particular well; do you know?

A. Thirty days is what we're trying to shoot for.

MR. STOVALL: You don't have any leasehold problems? This whole unit is now held by production; is it not?

A. That's correct.

MR. BRUCE: It's held by production and this specific 7-3 well -- actually, if you look at Exhibit 1, all of sections 6 and 7 are the same federal lease and referring back to the unit agreement, has common ownership throughout, working interests, overrides, et cetera.

MR. STOVALL: Yeah. I don't have a particular problem with -- Let me go back to this question. Since we've got simultaneous dedication, you've already got a well. What is the 7-11 doing? It's obviously not a real great well if it's only produced 5900 barrels.

A. The 7-11 it is not -- that well is shut in, and it's only capable of probably three or four barrels a day.

MR. STOVALL: So it really doesn't make any difference as far as proration unit allowable.

A. Yes.

MR. STOVALL: Are you prepared to give any information, more specific, detailed information as to the drilling techniques used for the 7-3? How it will be drilled?

A. Yeah. It will be -- basically we're looking at the same method as we drilled the 12-10

well, very much unlike the 11-14 well which will be foam drilling -- air mist basically -- with a stiff foam, and, however, this time we will probably set casing through the curve instead of drilling the curve open hole with an NWD assembly, and setting an intermedial liner, or setting the full production liner.

However, in this case, we probably may drill a 6-and-a-half-inch hole and setting 4-inch production liner unsubmitted. In this case it's a possiblity, however, basically the same as the 12-10 well.

MR. BRUCE: Would you discuss the results of the 12-10 well?

A. The 12-10 well has made approximately 25 to 30,000 barrels to date. I think it's been on production for four or five months, and has -- is currently producing about approximately 230 barrels a day, and low gas, and we do not appear to be seeing much decline in that hole.

MR. STOVALL: Did it choke back?

A. I really do not know what the choke on it is, but it is choked back. I think that is true.

MR. STOVALL: I'm not going to get any further into technical questions on this particular well

unless the examiner has any further questions. He's the engineer.

MR. STOGNER: You've obviously done the other two successfully; right?

A. We have from an engineering standpoint, however, the 11-14 is not a great producer at this point. We feel now after the 12-10 that we have the learning curve to move ahead.

MR. STOGNER: And that may or may not enter into the picture on the amendment to R-9330, but it's something to consider. Is that all you have at this point, Mr. Bruce?

MR. BRUCE: Yes, sir.

MR. STOGNER: At this time I want to take the case 10332 under advisement, but I want to leave the record open and continue case number 10331 to a later date. Should we just go ahead and continue that until the next examiner hearing?

MR. BRUCE: Let's continue it.

MR. STOVALL: You want to go to the next four weeks? It's your choice, Jim.

MR. BRUCE: Let's do it two weeks. I mean, I can always continue it again.

MR. STOGNER: That will be the July 11th hearing. That's right. You may want to consider

bringing somebody who can answer those land-type questions especially after presenting Exhibit Number 1, and I do want to definitely review. Which one is right, B or 1?

MR. BRUCE: We'll verify that.

MR. STOVALL: And you check that proration unit question for section 6 to make sure you don't have a double dedication.

MR. STOGNER: And if Exhibit B is the right unit.

MR. STOVALL: No. They're saying that Exhibit B is incorrect.

MR. BRUCE: Well, we will verify that and do that on the record at the next hearing.

MR. STOGNER: Well, it may be too late then because you did not notify offset operators. That is the proper way when there are offset operators, if not then --

MR. STOVALL: Do you want to take them both under advisement? Will that help to check that? That gives you the ability if there is an error. I think he's got a point. Did you notify the offsets to the Johnson?

MR. BRUCE: No, we did not notify anyone.

MR. STOVALL: Would it be better to take them

both under advisement to give you that option rather than to find that it was a defective order and have to reopen and do the whole thing?

MR. BRUCE: On the 7-3 well, could we just leave the record open, say, until next Thursday?

MR. STOVALL: And then, provided that Exhibit 1 from 10099 is correct as to ownership, and that there is no overlapping proration units, it can be taken under advisement at that time.

MR. BRUCE: Yes.

MR. STOVALL: Does it make sense?

MR. STOGNER: Yes. Case 10324 will be taken under advisement. I'm sorry. I mean 10332 is going to be taken under advisement; however, I'm going to leave the record open until next Thursday, and 331 will be continued to July 11, 1991. And with that, that will be done with the Veterans Exploration at this point.

MR. BRUCE: Okay.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10331 and 10332 heard by me on 13 June, 1991.

Michael E. Stogner, Examiner
Oil Conservation Division

STATE OF NEW MEXICO)
) ss.
COUNTY OF BERNALILLO)

REPORTER'S CERTIFICATE

BE IT KNOWN that the foregoing transcript of the proceedings were taken by me, that I was then and there a Certified Shorthand Reporter and Notary Public in and for the County of Bernalillo, State of New Mexico, and by virtue thereof, authorized to administer an oath; that the witness before testifying was duly sworn to testify to the whole truth and nothing but the truth; that the questions propounded by counsel and the answers of the witness thereto were taken down by me, and that the foregoing pages of typewritten matter contain a true and accurate transcript as requested by counsel of the proceedings and testimony had and adduced upon the taking of said deposition, all to the best of my skill and ability.

I FURTHER CERTIFY that I am not related to nor employed by any of the parties hereto, and have no interest in the outcome hereof.

DATED at Bernalillo, New Mexico, this day July 29, 1991.

My commission expires
April 24, 1994

LINDA BUMKENS
CCR No. 3008
Notary Public