

NEW MEXICO OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

CONSOLIDATED CASES 10535, 10536,
10537, AND 10538

APPLICATIONS OF AMERICAN HUNTER
EXPLORATION, LIMITED:

CASE NOS. 10535 AND 10536:

For an unorthodox oil well location,
Rio Arriba County, New Mexico.

CASE NO. 10537:

For directional drilling, an unorthodox
bottomhole oil well location, and a
nonstandard oil proration unit,
Rio Arriba County, New Mexico.

CASE NO. 10538:

For an unorthodox oil well location
and a nonstandard oil proration unit,
Rio Arriba County, New Mexico.

BEFORE DAVID R. CATANACH
Hearing Examiner
State Land Office Building
August 20, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

COPY

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel

State Land Office Building

Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

BY: **WILLIAM F. CARR, ESQ.**

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WITNESSES FOR THE APPLICANT:

1. JAMES C. LISTER

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1 EXAMINER CATANACH: Call the hearing
2 back to order. At this time we'll call Case
3 10535; right?

4 MR. STOVALL: Are you sure?

5 EXAMINER CATANACH: I think.

6 MR. STOVALL: Application of American
7 Hunter Exploration, Limited, for an unorthodox
8 oil well location, Rio Arriba County, New
9 Mexico.

10 MR. CATANACH: Are there appearances in
11 this case?

12 MR. CARR: May it please the Examiner,
13 my name is William F. Carr with the Santa Fe law
14 firm, Campbell, Carr, Berge & Sheridan. We
15 represent American Hunter Exploration, Limited.
16 And I have one witness.

17 At this time I would request that this
18 case be consolidated with the following three
19 cases, 10536, 537, and 538. They all involve
20 unorthodox well locations. They're all in the
21 same area. And the testimony is similar and also
22 overlaps to some extent.

23 EXAMINER CATANACH: Okay. Mr. Stovall,
24 would you, please, call Cases 10536, 537, and
25 538.

1 MR. STOVALL: Application of American
2 Hunter Exploration, Limited, for an unorthodox
3 oil well location, Rio Arriba County, New
4 Mexico.

5 Application of American Hunter
6 Exploration, Limited, for directional drilling,
7 an unorthodox bottomhole oil well location, and a
8 nonstandard oil proration unit, Rio Arriba
9 County, New Mexico.

10 And application of American Hunter
11 Exploration, Limited, for an unorthodox oil well
12 location and nonstandard oil proration unit, Rio
13 Arriba County, New Mexico.

14 EXAMINER CATANACH: Are there
15 additional appearances in any of these cases?

16 MR. STOVALL: Sounds like what the
17 music world calls variations on a theme.

18 EXAMINER CATANACH: Okay.

19 MR. CARR: Would you like to swear the
20 witness?

21 EXAMINER CATANACH: Yes, we should do
22 that.

23 JAMES C. LISTER

24 Having been duly sworn upon his oath, was
25 examined and testified as follows:

EXAMINATION

BY MR. CARR:

Q. Would you state your full name for the record, please.

A. James C. Lister.

Q. Where do you reside?

A. Evergreen, Colorado.

Q. By whom are you employed?

A. American Hunter Exploration.

Q. And in what capacity?

A. Senior exploration geologist.

Q. Mr. Lister, have you previously testified before this Division?

A. Yes, I have.

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

A. Yes, they were.

Q. Are you familiar with each of the applications filed in these consolidated cases?

A. Yes, I am.

Q. Are you familiar with the proposed wells in each case?

A. Yes, I am.

MR. CARR: Are the witness'

1 qualifications acceptable?

2 EXAMINER CATANACH: Yes, they are.

3 Q. (BY MR. CARR) Would you briefly state
4 what American Hunter seeks with these, in each of
5 these applications?

6 A. Basically we're seeking approval for
7 unorthodox surface locations for four wells in
8 Township 27 North, Ranges 1 and 2 West.

9 Q. And how many wells are involved?

10 A. Four.

11 Q. One of the wells involved is an
12 application for directional drilling. Does
13 American Hunter desire to still directionally
14 drill one of these wells, or would they all be
15 straight holes at this time?

16 A. No. At this time all of these wells
17 will be straight holes.

18 Q. Could you refer to what has been marked
19 as American Hunter Exhibit No. 1, identify that,
20 and review it for Mr. Catanach?

21 A. All right. Exhibit No. 1 is a regional
22 plat showing pool boundaries in the proposed well
23 locations. In blue on the east side of the map
24 is the West Puerto Chiquito Mancos Pool
25 boundary. In the southwest portion of the map in

1 orange is the Gaviland-Mancos Pool boundary.

2 And additionally I have shown in green
3 on the map lines representing one mile of
4 distance from each of those two pool boundaries.
5 And then finally the four subject wells' surface
6 locations are shown on the map.

7 Q. Let's move to what has been marked
8 Exhibit 2. This exhibit consists of four or five
9 sheets of paper that relate to the requested
10 unorthodox location in Case 10535.

11 And if you'd like to just approve the
12 application, we can dispense with this.

13 EXAMINER CATANACH: No. Go ahead, by
14 all means.

15 Q. (BY MR. CARR) We are on Exhibit 2.
16 Could you identify Exhibit 2, please?

17 A. Okay. Exhibit 2 is an acreage plat for
18 the proposed well, the Jicarilla 2-A-1 in Section
19 2 of 27 North, Range 2 West. The acreage plat
20 shows the proposed location 1000 feet from the
21 north line and 1300 feet from the east line. And
22 additionally it shows that this section is a
23 standard section composed of 640 acres.

24 Q. Mr. Lister, what rules govern the
25 development of this acreage?

1 A. Well, this particular well lies greater
2 than a mile from any existing pool boundary, and
3 it, as such, is subject to the statewide rules
4 for wildcat oil wells, which is 40-acre spacing
5 and 330 setbacks for this area.

6 Q. So this well is actually too close to
7 which of the boundaries of this acreage?

8 A. The location would be encroaching 20
9 feet farther than the minimum to the west and 320
10 feet closer than the minimum to the south of the
11 40-acre section spacing.

12 Q. Who offsets this property to the south
13 and the west?

14 A. The Jicarilla Tribe and American
15 Hunter, joint venture acreage.

16 Q. So what you're proposing is to dedicate
17 a standard 40-acre spacing unit and you're
18 encroaching only on the properties which you
19 operate pursuant to the joint venture agreement?

20 A. That's correct.

21 Q. All right. Let's go to the next page
22 in Exhibit No. 2. Would you identify this for
23 Mr. Catanach and then review it?

24 A. Okay. The next page is a topographic
25 map enlargement of the Leavry Canyon quadrangle.

1 This scale is 1 inch to 1000 feet. And it shows
2 the subject Section 2. Additionally it has
3 highlighted in yellow the proposed surface
4 location of the well.

5 And then additionally seismic line shot
6 points are shown across the area. And then
7 finally in orange I've identified the fractured
8 target area for the reservoir.

9 Q. Why is this particular location being
10 proposed?

11 A. Based on our seismic interpretation, we
12 have interpreted the Niobrara member of the
13 Mancos to be fractured in this position.

14 Q. Is this the only location on this
15 40-acre tract where you would be able to
16 intersect the fracture system?

17 A. Yes.

18 Q. Would it be possible to drill the well
19 at a standard location on this acreage?

20 A. No, it would not.

21 Q. Would you identify what the remainder
22 of Exhibit 2 includes?

23 A. Okay. The next three pages are simply
24 a notice of staking package, which was sent to
25 the BLM for this well and for other wells. And

1 it simply consists of a cover letter, the notice
2 of staking form itself, and then a corresponding
3 supporting topographic map.

4 Q. Let's go to what has been marked
5 American Hunter Exhibit No. 3, and I'd ask you to
6 identify that.

7 A. Exhibit No. 3 is a C-102 survey plat
8 showing the latest survey of the proposed
9 location of the well.

10 Q. Have you had an on-site inspection of
11 this location?

12 A. Yes. We had an on-site yesterday. And
13 the surface location remains as shown on the
14 diagram.

15 Q. Let's move now to what has been marked
16 Exhibit No. 4. Please identify and review that.

17 A. Following the same format Exhibit No. 4
18 is an acreage plat also showing the proposed
19 location of the Jicarilla 24-N well in Section 24
20 of 27 North, Range 2 West. Additionally it shows
21 that this is a standard section composed of 640
22 acres.

23 Q. What exactly is the footage location
24 you're proposing for this well?

25 A. Shown on this acreage plat is the

1 originally requested surface location filed with
2 the Commission of 2250 feet from the west line
3 and 1000 feet from the south line.

4 Q. What rules govern the development of
5 this acreage?

6 A. This Section 24 well lies within one
7 mile of distance from the outer boundaries of the
8 West Puerto Chiquito-Mancos Pool boundary and as
9 such is subject to 640-acre spacing and 1650
10 setbacks.

11 Q. And so you are developing this with a
12 standard spacing unit, but you are too close to
13 the south line of the acreage?

14 A. That's correct.

15 Q. Let's go now to what has been marked as
16 Exhibit No. 2. Could you identify -- I'm sorry,
17 page 2 of Exhibit 4.

18 A. Page 2 is the topographic enlargement
19 of the proposed well in Section 24. Also shown
20 here is the seismic line shot points. And in the
21 previous convention the fractured target area
22 identified from the seismic.

23 Q. Who offsets you to the south?

24 A. The Jicarilla Tribe joint venture
25 acreage.

1 Q. On the 640-acre tract, are there other
2 locations that are available within the spacing
3 unit on which you can locate a well?

4 A. For a straight hole?

5 Q. Yes.

6 A. No.

7 Q. There has been an on-site inspection of
8 this particular well location; is that correct?

9 A. Yes, that's correct. We had an on-site
10 inspection yesterday. And as a result of that
11 on-site inspection, the surface location of this
12 well has changed slightly from what is shown on
13 here.

14 Q. And what is the current surface
15 location?

16 A. The current surface location would be
17 1025 feet from the south line and 2030 feet from
18 the west line.

19 Q. At this new location will you be able
20 to drill this well as a straight hole and
21 intersect the fracture system in a position that
22 will enable you to produce the reserves under
23 this acreage?

24 A. Yes.

25 Q. If we go back in Exhibit 4 again you

1 have included your application --

2 A. The notice of staking package.

3 Q. -- to the Bureau of Land Management?

4 A. Yes.

5 Q. Exhibit No. 5 is what?

6 A. Exhibit No. 5 is the C-102 survey plat
7 which was performed on August 8. But as I just
8 mentioned as a result of the on-site held
9 yesterday, those footages have now changed and
10 are 2030 from the west line and 1025 from the
11 south line.

12 Q. This case would have to be readvertised
13 to correct these well locations, would it not?

14 A. Well, I guess that's in the
15 jurisdiction of the OCD here, but I'd like to
16 point out that the encroachment change from the
17 advertisement still affects the same parties.

18 Q. In fact you're moving farther away?

19 A. Right, we're moving farther away and
20 not getting closer, and it affects the same
21 parties as was advertised.

22 EXAMINER CATANACH: Excuse me, Mr.
23 Carr. The plat that identifies that well was
24 stated as 2350, and the advertisement is stated
25 as 2250.

1 MR. CARR: Okay. And where we are
2 moving that location now would be to 2030.

3 EXAMINER CATANACH: Okay.

4 MR. CARR: I think all of those are
5 more than 1650 back from the outer boundary of
6 the track in that regard. What, I guess, we're
7 doing is moving 25 feet farther away from the
8 south boundary by this change in location as a
9 result of the on-site. And I don't know in those
10 circumstances if you would require
11 readvertisement or not.

12 EXAMINER CATANACH: Think about that,
13 Bob.

14 MR. STOVALL: Let me ask Mr. Carr,
15 while we're thinking about it, if we didn't
16 readvertise it, what could be potential impact on
17 your client?

18 MR. CARR: Well, the case has been
19 advertised with the well actually closer to the
20 offsetting property owner than where it will
21 actually be located. In that circumstance I
22 would think that there's been adequate notice to
23 the offsetting owner, which in fact is American
24 Hunter and the Jicarilla Tribe who are proposing
25 to develop this as one of their joint venture

1 properties. So I see really no impact on here.

2 MR. STOVALL: My suggestion would be, I
3 understand your rationale and I don't disagree
4 with it, but I would so advise with the caveat
5 that should somebody seek to challenge this
6 application based upon the erroneous ad, the risk
7 would be on American Hunter and not on the
8 Division.

9 And I think what you've got to discuss
10 with your client is whether or not you would
11 rather clean up a technical error or if that risk
12 is so minimal because the parties seeking to
13 challenge based on that may not have any
14 standing.

15 Why don't you discuss that with your
16 client at the conclusion of the case here.

17 MR. CARR: We'll advise the Division.

18 MR. STOVALL: Yes, advise us. Again,
19 my philosophy on notice is the purpose of it is
20 to make sure the parties who would have a right
21 which might be affected by an action be notified
22 and have the opportunity to appear.

23 If in fact you are satisfied -- and
24 again the risk is if something is -- if notice is
25 improper, that party can then come in and

1 challenge the action, and the one who bears the
2 burden is the applicant.

3 MR. CARR: Okay.

4 Q. (BY MR. CARR) All right. Mr. Lister,
5 let's move on to American Hunter Exhibit No. 6
6 and, I would ask you first to identify this.

7 A. Exhibit No. 6 is an acreage plat for
8 the proposed Jicarilla 5-B-1 well in Section 5 of
9 27 North, Range 1 West. It shows the proposed
10 surface location as advertised, 660 feet from the
11 north line and 1900 feet from the east line.

12 Q. Is this the well that American Hunter
13 no longer seeks authority for directionally
14 drilling?

15 A. Yes, that's correct. And additionally
16 this shows the -- this is a nonstandard acreage
17 section with 655.48 acres.

18 Q. And what has caused that variation in
19 the size of the proposed proration unit or
20 spacing unit?

21 A. It's a variation in the survey for the
22 section.

23 Q. What rules govern the development of
24 this particular tract?

25 A. Section 5 well lies within the West

1 Puerto Chiquito-Mancos Pool area and as such is
2 subject to 640-acre spacing and 1650 feet
3 setbacks.

4 Q. So this proposed location is too close
5 to the north line of the dedicated acreage?

6 A. Yes, that's correct.

7 Q. And who offsets American Hunter to the
8 north?

9 A. The Jicarilla Tribe.

10 Q. Have you resurveyed this location as
11 well or had an on-site concerning the location of
12 this well?

13 A. Yes. We had an on-site for this well
14 yesterday. And the new surveyed location for it
15 is 610 feet from the north line and 2110 feet
16 from the east line.

17 MR. STOVALL: Again, if I look at the
18 advertisement on this one, I'll just raise the
19 issue, the bottom -- what you've now done is put
20 the surface location, before the change from
21 yesterday, at the location originally proposed
22 for the bottomhole location; is that correct?
23 And so you've simply now have taken your surface
24 location and moved it to be vertically above the
25 bottomhole location?

1 THE WITNESS: That's correct. And that
2 was as a result of the previous on-site. And the
3 surface location was moved at the request of the
4 Jicarilla Tribe.

5 MR. STOVALL: To the directional
6 location you mean?

7 THE WITNESS: No. From the directional
8 location, which was chosen by American Hunter, to
9 the straight-hole location shown here.

10 MR. STOVALL: The 610-2110 you mean or
11 the -- Let me get back to where we're going.
12 We're going with the advertising issue. And the
13 question is, again, let's first discuss offsets.
14 Is there any change in the offset issue?

15 I guess you hadn't gotten into that,
16 had you, Mr. Carr?

17 MR. CARR: The offset on this property
18 -- who offsets this to the north?

19 THE WITNESS: The Jicarilla Tribe.

20 MR. CARR: So we are --

21 MR. STOVALL: They're the party
22 requesting the change?

23 THE WITNESS: They're the party
24 requesting the change. Furthermore, as a part of
25 the joint venture arrangement, they have

1 requested that we drill this well. We are
2 drilling the well for the Jicarilla Tribe in this
3 instance.

4 EXAMINER CATANACH: In this particular
5 instance, though, you're encroaching further to
6 the north?

7 THE WITNESS: To the Jicarilla Tribe,
8 yes.

9 EXAMINER CATANACH: Than was
10 advertised?

11 THE WITNESS: Than was advertised.

12 MR. STOVALL: For the bottomhole
13 location.

14 THE WITNESS: For the bottomhole
15 location. But, nevertheless, the oil and gas
16 administrator for for the Jicarilla Tribe and
17 other officials from the Jicarilla Tribe were
18 present at the on-site yesterday and approved
19 this new surface location.

20 MR. STOVALL: Okay. This is basically
21 a joint venture well on Jicarilla owned
22 property?

23 THE WITNESS: Yes.

24 MR. STOVALL: As has been discussed in
25 several of your cases, I believe?

1 THE WITNESS: Right.

2 MR. STOVALL: And the tract to the
3 north is unleased Jicarilla at this time?

4 THE WITNESS: Is Jicarilla acreage
5 which is not controlled by the joint venture
6 arrangement.

7 MR. STOVALL: And there's no other
8 lessee or working interest owner?

9 THE WITNESS: That's correct.

10 MR. STOVALL: I guess my recommendation
11 on the advertising would essentially be the same
12 as the last one. I don't think the surface
13 location makes a whole lot of difference. The
14 change in bottomhole, I think, make an evaluation
15 as to whether or not there is any risk to the
16 client of not readvertising.

17 MR. CARR: And with your permission,
18 Mr. Catanach, at the end of the hearing, we will
19 advise you on which of these cases we think need
20 to be readvertised.

21 EXAMINER CATANACH: Okay.

22 Mr. Lister, let me just ask you, do you
23 have any knowledge as to why the locations were
24 moved yesterday?

25 THE WITNESS: I don't have specific

1 information, but I can tell you that it relates
2 to concerns having to do with surface water
3 drainage from an adjacent canyon to the east and
4 that, by moving this location a little bit
5 farther to the north, it would remove it from
6 potential endangerment from 100-year floods that
7 might occur.

8 MR. STOVALL: You're getting up out of
9 the canyon a little more?

10 THE WITNESS: Yes.

11 MR. STOVALL: As I look at the topo,
12 you're getting on higher elevations?

13 THE WITNESS: Right. You can see the
14 location was moved farther to the north and
15 farther to the west away from the mouth of that
16 canyon.

17 Q. (BY MR. CARR) Mr. Lister, let's go to
18 page 2 of Exhibit No. 6. Would you identify
19 that, please?

20 A. That's the topographic map for the
21 area, again, enlarged to 1 inch equals 1000,
22 showing the 660 feet from the north line and 1900
23 feet from the east line location, and the seismic
24 line shot points, and once again the fractured
25 target area.

1 Q. Now, the purpose of this location, or
2 unorthodox location, is to enable American Hunter
3 to intersect this fracture system?

4 A. That's correct.

5 Q. The new location that has resulted from
6 the on-site inspection of this well has moved the
7 well somewhat to the north?

8 A. Somewhat to the north and to the west.

9 Q. Will you still be able from that
10 location to intersect this fracture system?

11 A. Yes. You can tell from the scale of
12 the map and the footage of movement that we
13 should still be able to intersect that orange
14 highlighted area.

15 Q. Is it necessary to locate the well at
16 this particular location if you are to intersect
17 the fracture system on this spacing or proration
18 unit?

19 A. Yes, it is.

20 Q. Are there other locations available on
21 this acreage from which you could develop it and
22 at the same time have a reasonable chance of
23 intersecting the fracture system?

24 A. No.

25 Q. And behind this again you have your

1 application to the BLM?

2 A. That's correct.

3 Q. Let's go now to what has been marked
4 American Hunter Exhibit No. 7. Would you
5 identify this, please?

6 A. American Hunter Exhibit No. 7 is an
7 acreage plat for the proposed Jicarilla 28 B-1
8 well located in Section 28 of Township 27 North,
9 Range 2 West. It shows the proposed surface
10 location of the well as 500 feet from the north
11 line and 1450 feet from the east line.

12 Additionally it shows that this is an
13 under-sized section. It is composed of 430.56
14 acres.

15 Q. And that again is a result of a survey
16 variation?

17 A. That's correct.

18 Q. What rules are applicable to a well
19 drilled at this location?

20 A. This proposed location lies within one
21 mile of the outer boundary of the Gavilan-Mancos
22 Pool and as such is subject to 640-acre spacing
23 and 1650 setbacks.

24 Q. So this well is in fact too close to
25 both the north and the east lines?

1 A. That's correct.

2 Q. Who offsets this spacing unit to the
3 north and the east?

4 A. The Jicarilla Tribe and American Hunter
5 joint venture acreage.

6 Q. Has there been an on-site inspection at
7 this location?

8 A. No, there has not. We attempted to
9 have this well as an on-site yesterday, but they
10 ran out of time. This is currently scheduled for
11 next Thursday.

12 Q. So, to the best of your knowledge, the
13 location is still 500 feet from the north line,
14 1450 feet from the east line?

15 A. Yes, it is.

16 Q. Could you refer to what has been marked
17 as American Hunter Exhibit No. 8, please, and
18 identify that?

19 A. No. 8 or the next page?

20 Q. No. I'd like to go to No. 8 now, if we
21 could.

22 A. Right. No. 8 is a C-102 surface survey
23 for the Section 28 well. And it shows the
24 surveyed location as 455 feet from the north and
25 1510 from the east. This survey was prior to an

1 on-site but subsequent to the advertisement of
2 the location. So this is the current proposed
3 location.

4 Q. So the location set forth on Exhibit 7
5 of 500 from the north line has been moved to 455
6 from the north line; is that correct?

7 A. That is correct.

8 MR. STOVALL: Wait a minute. What's
9 been on-sited and what hasn't?

10 THE WITNESS: This one is the only one
11 which has not been on-sited.

12 MR. STOVALL: Didn't you just say that
13 something was on-sited to get it to this 455?

14 THE WITNESS: If I did, I was in
15 error. This has been surveyed subsequent to the
16 advertisement of this previous location. It has
17 not been on-sited. It will be on-sited next
18 Thursday.

19 Q. (BY MR. CARR) So the correct location
20 for this well is 455 from the north line, 1510
21 from the east line of this section?

22 A. That's correct.

23 Q. And consequently this location is
24 closer to the north line than what was advertised
25 for this case?

1 A. That's right.

2 Q. Let's go to page 2 of Exhibit No. 7.
3 Could you review this for Mr. Catanach?

4 A. Page 2 once again is a topographic map
5 for the area. In this instance it shows first
6 the proposed location as well as two seismic
7 lines, shot point sets, and the identified
8 fracture target area.

9 Q. Again this location has been picked
10 based on seismic information?

11 A. That's correct.

12 Q. And the purpose is to intersect the
13 fracture system so as to produce reserves under
14 the tract?

15 A. That's correct.

16 Q. And, Mr. Lister, with any of these
17 applications, have you picked the only location
18 on the spacing unit from which you believe, based
19 on the data you have available, you will be able
20 to intersect the fracture systems?

21 A. Yes.

22 Q. Are there any other locations on any of
23 these tracts from which you could effectively and
24 efficiently produce the reserves from each of
25 these tracts?

1 A. No.

2 Q. With the variations in the locations
3 that we have encountered in the last few days on
4 these wells, do you have an opinion as to whether
5 or not the wells are still positioned to
6 intersect the fracture system?

7 A. Yes. If you review the movements in
8 the locations, you will find that they still fall
9 within the identified fracture target area.

10 Q. On each of these tracts, if American
11 Hunter was required to develop the property from
12 a standard location, what impact would that have
13 on your plans or ability to go forward with this
14 project?

15 A. We would likely not be able to
16 intersect the fractured target area in optimum
17 position. And the result would either be a
18 nonproductive well or marginally productive
19 thereby creating lost reserves.

20 Q. Is Exhibit No. 9 a copy of an affidavit
21 confirming that notice of each of these
22 applications has been provided to the Jicarilla
23 Tribe, the BLM, the Jicarilla -- the
24 Jicarilla-Apache Agency, and Benson-Montin-Greer?

25 A. Yes, it is.

1 Q. In your opinion will approval of these
2 applications enable American Hunter to produce
3 reserves that otherwise will not be recovered?

4 A. Yes.

5 Q. Will approval of these applications
6 otherwise be in the best interest of
7 conservation, the prevention of waste, and the
8 protection of correlative rights?

9 A. Yes.

10 Q. How soon would American Hunter like to
11 commence the drilling of the wells that are
12 involved in these applications?

13 A. With approval of these locations, we're
14 prepared to begin dirt work as early as two weeks
15 from now.

16 Q. In what order would you actually
17 propose to drill the wells?

18 A. We would propose to drill Section 24 as
19 our first well, Section 2 as our second well, and
20 Section 28 as our third well, and 5 as the fourth
21 well.

22 MR. STOVALL: One further question.
23 What is the priority of getting these wells
24 approved in comparison with the priority of
25 getting your injection, assuming it would be

1 approved?

2 THE WITNESS: Well, quite --

3 MR. STOVALL: Which one do you want
4 first?

5 THE WITNESS: Well, quite honestly, I
6 think the approval of these locations simply
7 because when you're dealing with drilling
8 schedules, as you know, a delay in one delays
9 three additional ones. And we are making every
10 attempt to drill these in the summer season, and
11 we'd like to get on with it as soon as possible.

12 MR. STOVALL: Now, you don't have to
13 make a decision.

14 Q. (BY MR. CARR) Were Exhibits 1 through
15 9 prepared by you or compiled under your
16 direction?

17 A. Yes, they were.

18 MR. CARR: At this time, Mr. Catanach,
19 I would move the admission of American Hunter
20 Exhibits 1 through 9.

21 EXAMINER CATANACH: Exhibits 1 through
22 9 will be admitted as evidence.

23 MR. CARR: Mr. Catanach, at this time,
24 if I could, it appears to me that the last two
25 applications involve situations where, even

1 though we're moving toward the Jicarilla Tribe
2 and they have approved the locations, we're
3 moving closer to the outer boundary of the
4 dedicated acreage. And I would request that both
5 of those cases be readvertised.

6 The first two cases, the first one is
7 at the correct location as advertised. The
8 second one, we're actually moving farther away
9 from the offsetting property. In those two
10 circumstances we would submit that further
11 advertisement is not required.

12 And that concludes my examination of
13 Mr. Lister.

14 EXAMINER CATANACH: We'll readvertise
15 10537 and 10538?

16 MR. CARR: Yes, sir.

17 MR. STOVALL: That brings up an
18 interesting question, Mr. Carr, and perhaps given
19 again the purpose of notice is to notify
20 offsetting -- or people who might be affected,
21 you have presumably given and according to your
22 affidavit given notice to -- individual notice,
23 personal notice by registered certified mail to
24 the direct offsets?

25 MR. CARR: Yes.

1 MR. STOVALL: If I were to get very
2 technical, they might not necessarily read the
3 advertising since they have received notice. Do
4 you have any problem with sending them a letter
5 and saying, oh, by the way --

6 MR. CARR: No.

7 MR. STOVALL: -- give them the same
8 dignity of the change of notification as they
9 received the first time.

10 MR. CARR: No, we would have no problem
11 with that.

12 MR. STOVALL: I think that might even
13 better protect you, as long as you're going to do
14 it.

15 MR. CARR: We're not really
16 particularly worried about having a problem with
17 any of these.

18 MR. STOVALL: I don't think you are
19 either.

20 MR. CARR: But since we are moving
21 closer to the outer boundary of a spacing and
22 proration unit and since the last two cases are
23 the last two wells on the drilling program, it
24 seems to me it would be appropriate to do that.

25 MR. STOVALL: Yes. I just think if

1 you're going to do, the real people that are
2 affected ought to get the same dignity of notice
3 as they got the first time.

4 MR. CARR: We'll renotify them by
5 certified mail.

6 EXAMINER CATANACH: In terms of notice,
7 can you explain why Benson-Montin-Greer got
8 notice of these cases?

9 MR. CARR: I should respond to that.
10 We were notifying -- Benson-Montin-Greer is not
11 an offsetting operator. But we have been, as you
12 are aware from the preceding hearing, in close
13 communication with Benson-Montin-Greer on all of
14 our activities up in the basin. And we did as a
15 courtesy provide the notice to Mr. Greer so he
16 was kept fully advised of what we were doing.

17 MR. STOVALL: The other question I
18 would ask with respect to 10538 is how
19 comfortable are you with the current location and
20 the potential changes, any potential changes that
21 might be required for field offsetting? Any
22 level of comfort on what the tribe and BLM might
23 require?

24 And the reason I ask is if we take that
25 under advisement or advertise it as even this

1 closer location and you get shifted a little bit,
2 does that raise the problem further? Or do we
3 put a no-closer-than type of advertisement and
4 just accept the fact that if you get any closer,
5 then we've got to start all over?

6 Mr. Carr, that's probably --

7 MR. CARR: If you're asking me if I
8 have any comfort level of what the Indians and
9 BLM would do in this area, I can tell you I have
10 absolutely none.

11 MR. STOVALL: I could ask Mr. Lister
12 that.

13 MR. CARR: And the fact of the matter
14 is that I guess we could advertise the last one
15 as no-closer-than, recognizing if they move it
16 and we're closer to the outer boundary, we may
17 have to advise you that it has to be further.

18 MR. STOVALL: What I would raise at
19 that point is think for a minute about what the
20 no-closer-than distance ought to be and let's go
21 ahead and address it at this hearing so that you
22 don't have to reopen the case.

23 I mean, is it necessarily the 455 feet
24 or whatever it is?

25 THE WITNESS: 330 feet. If 330 feet

1 were acceptable, that would, I think, would give
2 us adequate room for moving, not that I
3 anticipate that would happen. But --

4 MR. CARR: Well, with the permission of
5 the Division, if we could advertise the well in
6 Case 10538 for a location no closer than 330 to
7 the north and 500 -- or 1500 to the east --

8 THE WITNESS: No closer than?

9 MR. STOVALL: What's the current
10 location to the east?

11 MR. CARR: 510.

12 THE WITNESS: 1510.

13 MR. CARR: 1510. If we could go 330
14 from the north and 1400 from the east and
15 advertise that, if once again they move location
16 on us, we would at least have an adequate notice
17 out, hoping that what we will be able to do is go
18 forward 455 from the north and 1510 from the
19 east.

20 MR. STOVALL: And since we're not
21 writing the order yet, one of the things you may
22 want to do when it's recalled after
23 readvertisement is come back in and say you have
24 had your on-site completed and get your location
25 approved at that time.

1 MR. CARR: We hate bringing a case to
2 you like this. We are finding it just extremely
3 frustrating trying to get some wells going this
4 year and every time we touch it having locations
5 moved on it.

6 For that reason, at least yesterday, we
7 felt we might have to address the last case with
8 the on-sites that we requested several weeks ago
9 and were unable to get them scheduled until
10 yesterday. That's how we wound up in this
11 posture before you today.

12 [A discussion was held off the record.]

13 MR. STOVALL: That makes more sense to
14 me. I'd hate to see you get caught on an
15 advertising loop when you can come back in on
16 that hearing and say this is the location.
17 You've gotten the approval, and we don't have to
18 go through and start all over again.

19 MR. CARR: That concludes my
20 examination of Mr. Lister. And I would pass him
21 for cross.

22 MR. STOVALL: I suppose you're going to
23 ask some engineering type questions now, Dave?

24 EXAMINER CATANACH: Oh, heck, no.

25 EXAMINATION

1 BY EXAMINER CATANACH:

2 Q. Mr. Lister, let me make sure I
3 understand the process in which you used to
4 initially determine your locations. The seismic
5 was shot, and the seismic indicated to you the
6 direction of the fractures? Or further explain
7 that to me.

8 A. The seismic was shot and processed and
9 interpreted. And on the basis of the
10 interpretation, we have identified anomalies
11 highlighted by the orange on the map and
12 identified as fracture target area. And those
13 anomalies that we've identified we believe to be
14 fractures within the Niobrara of the Mancos
15 Formation.

16 So therefore we chose the surface
17 location of the well in such a position that we
18 could drill a straight hole into that fractured
19 target area as accurately as possible to
20 intersect the fractures.

21 Q. Now, the fractures are not limited to
22 that area in orange?

23 A. They may not be limited to that area in
24 orange, but we only have two dimensions of
25 information from the seismic lines in most

1 cases. They run, in the case of like the Section
2 well, it's east-west, and we're looking at
3 information from just that seismic line. How the
4 fractures extend north or south off of that line
5 or at what orientation, we can't determine
6 without having a denser seismic grid in the
7 area.

8 So therefore moving away from the
9 seismic line, we're moving away from the
10 interpreted area, would be an unwise thing to do
11 as far as trying to optimize the position of the
12 wellbore.

13 Q. Without running more seismic?

14 A. [Nodded.]

15 Q. Can you tell me how it was determined
16 where to run the seismic within these sections?

17 A. Generally speaking, we placed the
18 seismic lines with, I'd say, three
19 considerations. On the basis of existing well
20 control in the area, some seismic lines were
21 placed to intersect existing wells and thereby
22 tie into the wells and calibrate your seismic as
23 to which horizons you're looking at.

24 Secondly, they're obviously positioned
25 on the joint venture acreage. Thirdly, they are

1 positioned to take advantage of the natural
2 topography of the area. We as a general rule
3 would avoid extremely rugged topographic areas in
4 laying out the seismic for two reasons: one,
5 because the seismic would be much more expensive;
6 and two, because you'd have a much greater
7 difficulty in locating a well in an extremely
8 rugged area.

9 As development goes on in the area, we
10 will probably shoot additional lines and infill
11 wells and seismic, but as kind of a first pass of
12 exploration through the area, that was the basis
13 for locating the lines.

14 Q. Well, was any consideration given to
15 maybe running some seismic lines through what
16 might be a standard location within these
17 sections?

18 A. Yes. I tried to argue that case with
19 the geophysicist, but I lost. It would make my
20 life a lot easier too.

21 Q. That's interesting.

22 MR. STOVALL: I suppose his argument
23 was that he had some reason for believing that
24 that would be less likely to yield some sort of
25 beneficial fracturing, and so he picked that

1 based upon some other considerations that he had,
2 like surface evaluation or stuff like that?

3 THE WITNESS: Some limited amount of
4 surface evaluation did go into the placement of
5 the lines, I mean, other than the topography.

6 MR. STOVALL: Right. Surface
7 evaluation of geology?

8 THE WITNESS: Right.

9 Q. (BY EXAMINER CATANACH) So if I recall
10 Mr. Carr asking you the question of whether or
11 not this area would be the only area within the
12 section which would intersect the fracture
13 system, that's not true. It would be the only
14 known area at this time, right, that you may know
15 of?

16 A. Yes. The seismic data reveals where
17 the interpreted fractures would be. And there's
18 no way of knowing without additional seismic
19 whether there are other locations in the area.
20 But presently these are the only locations.

21 EXAMINATION

22 BY MR. STOVALL:

23 Q. Did the Jicarillas, as your joint
24 venture partner, participate in the decisions
25 about where to run lines and where to look for

1 this stuff?

2 A. Yes, they did. And they approved the
3 seismic permitting for the lines. And they were
4 present in the field when we acquired the data as
5 a monitoring of the conduct of the operations.

6 Q. As a joint venture partner -- and the
7 reason I'm asking these questions is having to do
8 kind of with the correlative rights issue, they
9 being the owner of the minerals and a
10 participant.

11 In general are they relatively active
12 in the management and decision making in this
13 process, not in terms of operational, but in
14 terms of these more significant things about
15 picking locations?

16 A. Well, no. We are the operator for the
17 property. And I guess, you know, we make the
18 initial recommendations, and they're free to
19 object in several different forms, either denial
20 of the permit or objecting to where we're
21 drilling the wells.

22 But once again they have approved the
23 surface locations for these three wells, the 5
24 and the 24, and the 2.

25 Q. So their participation is generally at

1 the second level, that of reviewing your
2 recommendations and decisions, and then issuing
3 approvals through some sort of authority?

4 A. That's correct.

5 Q. Rather than participating in the
6 initial decision making?

7 A. Yes. But on the odd-numbered sections,
8 as was mentioned in a previous case, they are in
9 control of those sections to a greater degree.
10 And in order to drill or operate on those, it's
11 essentially at their request.

12 EXAMINER CATANACH: Anything else?

13 MR. STOVALL: No.

14 EXAMINER CATANACH: I don't think I
15 have anything else either.

16 MR. CARR: We have nothing further.
17 And I will provide notice to the offsetting
18 owners again on Cases 10537 and 538. We would
19 request those be readvertised.

20 EXAMINER CATANACH: Okay. Case 10538
21 and 10537 will be readvertised.

22 Mr. Carr, if I may ask you for, since
23 these cases are so similar, I'll just ask you for
24 one rough order with some emphasis on the
25 findings as to the geologic reasoning for the

1 seismic and the initial staked locations.

2 MR. CARR: Okay.

3 EXAMINER CATANACH: With that we'll go
4 ahead and take Case 10535 and 10536 under
5 advisement.

6 [And the proceedings were concluded.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case no. 10535, 36, 37, 38
heard by me on August 20 19 92.
David R. Catanach, Examiner,
Oil Conservation Division

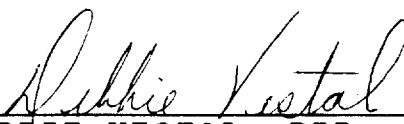
CERTIFICATE OF REPORTER

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

I, Debbie Vestal, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 AUGUST 26,
1992.



DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3