

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 CASE 10110

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EXAMINER HEARING

8

9 IN THE MATTER OF:

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11 Application of Giant Exploration and Production
12 Company for a Horizontal Directional Drilling
13 Pilot Project, Special Operation Rules
14 Therefore, Nonstandard Oil Proration Unit
15 and an Unorthodox Oil Well Location, San Juan
16 County, New Mexico.

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TRANSCRIPT OF PROCEEDINGS

19

20 BEFORE: JIM MORROW, EXAMINER

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STATE LAND OFFICE BUILDING

23

SANTA FE, NEW MEXICO

24

October 3, 1990

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1 EXAMINER MORROW: Call case 10110 at this
2 time.

3 MR. STOVALL: Application of Giant
4 Exploration and Production Company for a horizontal
5 directional drilling pilot project,, special operating
6 rules therefore, nonstandard oil proration unit and an
7 unorthodox oil well location, San Juan County, New
8 Mexico.

9 EXAMINER MORROW: Call for appearances.

10 MR. ROBERTS: Mr. Examiner, my name is
11 Tommy Roberts. I'm an attorney in Farmington, New
12 Mexico, appearing on behalf of the Applicant. I have
13 two witnesses to be sworn.

14 EXAMINER MORROW: Will the witnesses please
15 stand to be sworn?

16 JOHN CORBETT

17 The witness herein, after having been first duly sworn
18 upon his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. ROBERTS:

21 Q. Would you state your name and your place of
22 residence for the record, please.

23 A. My name is John Corbett; I'm from
24 Farmington, New Mexico.

25 Q. What is your occupation?

1 A. I'm a petroleum geologist and
2 vice-president of exploration with Giant Exploration
3 and Production Company.

4 Q. How long have you been employed in that
5 capacity?

6 A. I've been with Giant for seven years.

7 Q. What are your general responsibilities with
8 Giant?

9 A. I'm in charge of our exploration group,
10 replacement of our company reserves, permitting new
11 wells.

12 Q. Have you previously testified before the
13 Oil Conservation Division?

14 A. Yes, I have.

15 Q. In what capacity?

16 A. As a petroleum geologist.

17 Q. Were you qualified as an expert at that
18 time?

19 A. I was.

20 Q. Are you familiar with the operations of
21 Giant Exploration and Production Company in the area
22 of the Bisti Lower Gallup Oil Pool?

23 A. Yes, I am.

24 Q. Are you familiar with the application in
25 this case?

1 A. I am.

2 MR. ROBERTS: Mr. Examiner, I would tender
3 Mr. Corbett as an expert in the field of petroleum
4 geology.

5 EXAMINER MORROW: His qualifications are
6 accepted.

7 Q. Mr. Corbett, would you briefly describe the
8 purpose of the application?

9 A. We're applying for a horizontal drilling
10 project. We have, because of the presence of the
11 De-Na-Zin Wilderness Area south of the Bisti oil
12 field, have been required by BLM to develop our leases
13 by directional, or what they call slant drilling, to
14 meet the wilderness, from a surface location outside
15 the wilderness area's boundaries. We've projected a
16 Gallup sand trend beneath the wilderness and that's
17 the objective of this well.

18 Q. What is the name of the well which you
19 propose to drill directionally and horizontally?

20 A. The proposed well is the Debra Geiger
21 No. 1.

22 Q. Let's have you refer to what has been
23 marked as Exhibit No. 1, and identify the exhibit and
24 explain its relevance to the application?

25 A. Exhibit No. 1 is a publication by the

1 Bureau of Land Management. It's the final management
2 plan for the De-Na-Zin Wilderness Area. The
3 significant portion of this refers to minerals and
4 management policy.

5 On page 25 of the management plan, they
6 note that they will require slant drilling. If you
7 look on page 25 in the right-hand column, the third
8 stipulation from the top, it says slant drilling, no
9 surface occupancy will be considered within the
10 wilderness area. They had originally intended this
11 for wells within a quarter of a mile of the boundary.
12 However, we've been informed by BLM that they will not
13 approve applications to drill unless surface occupancy
14 is beyond the wilderness.

15 Q. Did you, in fact, submit an application for
16 permit to drill the Debra Geiger No. 1 well at a
17 surface location within the boundaries of the
18 De-Na-Zin Wilderness Area?

19 A. That's correct. We staked originally the
20 Debra Geiger location within the wilderness, and the
21 BLM, in their environmental assessment of the
22 wilderness, said that they would not approve that
23 plan.

24 We then moved our location outside of the
25 wilderness and applied for a horizontal well. The BLM

1 has approved our application and are now waiting on an
2 order from the OCD.

3 Q. Refer to Exhibit No. 2, identify the
4 exhibit and briefly describe its relevance to the
5 application?

6 A. Exhibit No. 2 is titled a land plat. It
7 shows both surface ownership and mineral ownership in
8 the vicinity of the Debra Geiger Well #1.

9 You can see in Section 32 of Township 25
10 North, Range 11 West, a shaded quarter section and
11 then a brick pattern, which is actually the physical
12 location of the well site or well path that we'll be
13 drilling the Debra Geiger No. 1 from, assuming it's
14 approved.

15 Section 32 is state minerals, Navajo Tribal
16 Trust surface. I'm not familiar with how the state
17 became separated there, but we have permission from
18 the Navajo tribe to use that surface from their well
19 drilled to a bottom-hole location as shown in Section
20 4 of Township 24 North, Range 11 West, drilling
21 horizontally along the trend of our projected Gallup
22 sand.

23 Q. Let me stop you there. The oil and gas
24 lease which covers the lands on which the surface
25 location will exist, is that a state oil and gas

1 lease, the minerals owned by the State of New Mexico?

2 A. The surface location overlies state
3 minerals.

4 Q. Who holds that oil and gas lease?

5 A. Giant Exploration and Production Company is
6 the operator of State Lease B10894-12, which is where
7 the location is.

8 Q. Would you state for the record the footage
9 location of the surface location proposed for the
10 Debra Geiger No. 1 well?

11 A. The surface location will be 105 feet from
12 the south line, which is the wilderness area boundary,
13 and 125 feet from the east line of Section 32.

14 Q. Go ahead and continue on with your
15 description of the relevant features of this exhibit.

16 A. In the lower portion of Section 4 of 24
17 North, 11 West, the lease ownership you can see is
18 Union Pacific Resources Company, et al. Its Federal
19 Lease 36356.

20 That lease covers the entirety of Section 4
21 and has, in its entirety, been farmed out to Giant
22 Exploration and Production Company by UPRC. Ownership
23 of all of the Section 4, the entire length of the
24 wellbore and our entire proposed nonstandard proration
25 unit is common and operated by Giant Exploration and

1 Production Company.

2 Q. What is the status of the lease which
3 covers all of Section 4?

4 A. The lease is currently suspended or the
5 terms for operations and production of the lease are
6 suspended. The lease would have expired, the primary
7 term ran out while the BLM was considering our
8 application after preparing the environmental
9 assessment in their final management plan for the
10 wilderness.

11 Because the lease was to expire, we
12 requested suspension of the terms for operations and
13 production, and they've granted us that suspension
14 until such time as we have an order from the NMOCD to
15 drill a directional well.

16 Q. Has the BLM imposed any drilling deadline
17 upon Giant Exploration and Production Company?

18 A. We currently did not have a deadline. It's
19 suspended indefinitely pending both the approval of
20 our case, and also we're in a position of waiting on
21 the rotary tools, the down-hole motor to the well.

22 Q. Does this exhibit also illustrate
23 offsetting lease ownership, as well as ownership of
24 unleased minerals?

25 A. It does. We have attempted to lease the

1 unleased minerals. As you can see from this plat, a
2 large portion of them have been withdrawn from mineral
3 leasing by BLM. They are, for the most part, federal
4 minerals.

5 To the west of our proposed proration unit
6 and location in Section 5 of 24 North, 11 West, Dugan
7 Production Company has the lease. They have farmed
8 out portions of that lease also to Giant Exploration
9 and Production Company. Our intent is to drill a
10 directional well, not a horizontal well but a
11 directional penetration in the Gallup in Section 5.

12 Q. Mr. Corbett, for the record, please state
13 how the boundaries of the De-Na-Zin Wilderness Area
14 are noted on this exhibit?

15 A. It's a dashed line, painted yellow, that
16 runs along the north section line in Sections 4 and 5
17 of 24 North, 11 West. It includes a portion of the
18 south half of Section 34, and most of 25 North, 11
19 West, most of Section 10 of 24 North, 11 West.

20 Q. In what pool does the proposed area of
21 development lie?

22 A. It's adjacent to but beyond the boundary of
23 the Bisti Lower Gallup Pool per the one-mile rule. I
24 think it will be an extension.

25 Q. What spacing pattern do the rules for the

1 Bisti Lower Gallup Oil Pool provide?

2 A. The rules call for laid-down 80-acre
3 proration units.

4 Q. Does this exhibit also illustrate the
5 proposed spacing and proration unit?

6 A. It does. There's a striped pattern across
7 a portion of Section 4. We're seeking an enlarged
8 480-acre proration unit cross-section that will
9 include the north half and the north half of the south
10 half. We've asked for 330-foot setback from the
11 boundaries to be our target window, and that 330 foot
12 is per pool rules.

13 Q. How is that 330-foot setback illustrated on
14 the exhibit?

15 A. There's a line around the area. The buffer
16 zone, if you will, is left white. The area where we
17 may complete a bottom-hole location has been dashed
18 with a stripe through it.

19 MR. ROBERTS: Mr. Examiner, for the record,
20 allow me to state that the legal description for the
21 proposed spacing and proration unit would be Lots 1
22 through 4 in the south half of the north half, and the
23 north half of the south half of Section 4. It
24 consists of 482.64 acres.

25 Q. Mr. Corbett, is the horizontal extent of

1 the proposed wellbore illustrated on the exhibit?

2 A. Yes, it is. This is our projected target
3 wellbore. We'll attempt to drill the entire length of
4 this.

5 Q. What distance does that horizontal wellbore
6 extend?

7 A. This is to be approximately 4000 feet
8 across Section 4.

9 Q. At what point will the wellbore make
10 contact with the Gallup formation?

11 A. The northwest end of this line,
12 approximately 400 feet from the west line of Section
13 4, will be our contact point. At that point we hope
14 to become horizontal and drill a cross-section from
15 there.

16 Q. If the horizontal extent of the wellbore is
17 drilled as planned, will it constitute a standard
18 bottom-hole location?

19 A. If our exception to the pool rules is
20 approved, that will be a standard location.

21 Q. Mr. Corbett, are other completions in the
22 Gallup formation in this surrounding area illustrated
23 on this exhibit?

24 A. Yes, there are. This shows all of the
25 Bisti Lower Gallup Pool wells that fall within this

1 nine-section area, all of those wells being in Section
2 32 of 25 North, 11 West. All of these wells were
3 drilled and are operated by Giant Exploration and
4 Production.

5 Q. Let's turn to what has been marked as
6 Exhibit No. 3. Please identify that exhibit?

7 A. Exhibit No. 3 is a map showing only the
8 Gallup formation oil wells in the Bisti trend in San
9 Juan County, New Mexico. It shows the projection of
10 the sand trend and the De-Na-Zin Wilderness Area. It
11 shows our proposed proration unit, the bottom hole and
12 surface locations of the Debra Geiger Well #1 as
13 proposed.

14 Q. Can you briefly describe the mapping
15 parameters?

16 A. The older Bisti Gallup was discovered in
17 1955 and drilled through the late 50s and early 60s.
18 Generally a microlog was run on these so that a
19 microlog crossover was the sole mapping parameter in
20 the heart of the bar.

21 The projected sand trend, as it's labeled
22 on this map, was discovered in 1984 and developed by
23 Giant Exploration and Production since that time.
24 It's currently being developed. The projected limits
25 of the sand trend are estimated and based on

1 approximately a 10 percent porosity cutoff.

2 Q. What conclusions, if any, do you draw from
3 the data illustrated on this exhibit insofar as it
4 pertains to the application?

5 A. This illustrates to us that the Gallup sand
6 trend does, in fact, continue beneath the De-Na-Zin
7 Wilderness Area and this plat gives us a general
8 direction for the trend which will be the direction of
9 our wellbore. Our proration unit has been tailored to
10 fit the sand trend as best as possible.

11 Q. Let's turn to what's been marked as Exhibit
12 No. 4. Identify that exhibit and explain its
13 relevance to the application.

14 A. Exhibit 4 is a comparison of drilling one
15 horizontal well, being a standard legal location
16 completed in our proposed proration unit, versus
17 complying with the existing pool rules and developing
18 the six 80-acre proration units lying within our one
19 proposed 480-acre proration unit. We compare
20 economically the drilling of the six wells on standard
21 80s for the current pool rules to one horizontal well
22 for our current proposed exception.

23 Q. The six wells that would be drilled in
24 accordance with existing pool rules all involve
25 directional drilling in as much as you cannot locate

1 the surface of those wellbores within the boundaries
2 of the De-Na-Zin Wilderness Area, is that correct?

3 A. That's correct. Conventional vertical
4 drilling is out of the question because of the
5 De-Na-Zin Wilderness Area. The six wells that are
6 contemplated here all require some degree of
7 directional drilling, although not completely
8 horizontal drilling.

9 Q. Describe the parameters utilized in this
10 economic analysis.

11 A. We've made our best guess. The first page
12 of this economic analysis is per our AFE for the Debra
13 Geiger Well No. 1. We've IP'd the well at 150 barrels
14 per day and given it a 28-percent decline. This is, I
15 think, conservative, and it is in keeping with what
16 we've seen on other wells within this Lower Gallup
17 trend. The present value of the horizontal well is
18 \$1.159 million. It would recover, we're estimating--

19 EXAMINER MORROW: Excuse me. I'm having
20 trouble finding that on this exhibit. Would you tell
21 me where to see those numbers?

22 THE WITNESS: These economics, if we start
23 from the top of the page, going across from left to
24 right. We have the year of production, the number of
25 wells. The "point three" is not .3 of a well but one

1 well of .3 years' gross oil production, and it
2 estimates per the decline that we're projecting for
3 this well, annual production. The bottom of that is
4 remaining at the end of a given period of years, and
5 below that the total. That total would be the
6 cumulative production from this well at the time that
7 it's reached its economic limit. The number you
8 should see there is 158,790 barrels.

9 EXAMINER MORROW: What column is that in?

10 THE WITNESS: That would be the third
11 column from the upper left.

12 EXAMINER MORROW: Maybe I'm on the wrong
13 page.

14 THE WITNESS: We have a cover page and the
15 next page should be labeled Debra Geiger Well No. 1.
16 Below that you have the estimated year of production,
17 the producing well, and then gross oil production.

18 EXAMINER MORROW: All right. Annual gross
19 oil production?

20 THE WITNESS: That's correct. At the
21 bottom of that column there should be a gap and it
22 says "remaining," and then "total."

23 EXAMINER MORROW: All right. Okay. I
24 found it.

25 THE WITNESS: That's where we're estimating

1 the gross recoverable of 158,000 barrels of oil.

2 EXAMINER MORROW: All right.

3 THE WITNESS: The other number that I've
4 discussed, if you go down to the next row of numbers,
5 the column on the far right is 10 percent cumulative
6 discounted cash flow, or the net present value of the
7 investment. This investment we're estimating to have
8 a value of \$1.159 million.

9 These numbers are to be compared, then,
10 with the next page. We have entitled it Debra Geiger
11 Drilling Alternative: Six Wells on 80-Acre Lay Down
12 Tracts.

13 If this request were not granted and this
14 were left on this standard Bisti Lower Gallup 80-acre
15 lay downs and we drilled six wells from the edge of
16 the wilderness to standard locations on 80s beneath
17 this, this is a summary of what those wells would be.
18 Recoverable reserves, we used the same number assuming
19 we're not actually going to increase our recoverable
20 by horizontal drilling over 80-acre development, so we
21 have 158,000. There's a slight loss in reserves
22 because of the operating costs associated with six
23 wells versus one well, and they become uneconomic in a
24 slightly shorter time, and we lose some reserve
25 sampling.

1 The present value of these, if you go back
2 down to the lower right, is a minus \$93,000 and that's
3 because the width of the sand, we're not actually
4 going to be developing economic reserves. We
5 shouldn't economically be drilling a couple of these
6 80s.

7 If you were to go to the next page, it has
8 one-line summaries of those six wells. There are, for
9 each of those potential wells, this is a cash flow and
10 a recoverable reserves. In the far right we have the
11 discounted cash flow, and you can see that we have a
12 negative cash flow on three of those wells. All that
13 says is that we shouldn't drill those wells if we have
14 three of them with positive wells that we should
15 drill, assuming that they meet our corporate minimum
16 rate of return.

17 Of those three wells, you can come back
18 over to--there's a column entitled "Gross Oil." Those
19 three wells have a cumulative production of 89,000
20 barrels of oil. There's a 30,000, 29,752, and a
21 second 29,752.

22 EXAMINER MORROW: Okay.

23 THE WITNESS: All right. Those are the
24 wells that we would drill based on economics if this
25 case is not granted.

1 You can see, though, that those three wells
2 are anticipated to recover 89,500 barrels of oil
3 versus 158,000 that we would recover by horizontal
4 drilling, the difference being 69,000 barrels of oil
5 that would be left in the ground because of the
6 economics of directionally drilling six wells versus
7 one horizontal well.

8 The difference, if we were to drill those
9 three wells, they would have a cumulative cash flow of
10 \$170,000, a positive, and that's assuming we don't
11 drill the wells with a negative cash flow, versus
12 \$1.159 million for the horizontal well. So that would
13 be almost a million dollars, \$989,000 of economic
14 waste by drilling the wells directionally, recovering
15 less reserves, and having them spend additional
16 capital for three profitable wells versus one very
17 profitable well.

18 Q. (BY MR. ROBERTS) Mr. Corbett, Let me ask
19 you just to summarize, then, the conclusions that
20 you're able to draw from the data that you've
21 illustrated on this exhibit, particularly with respect
22 to efficiency of recovery and the economics of
23 drilling.

24 A. The efficiency of recovery, we believe that
25 one horizontal well will recover 69,286 barrels of oil

1 that are not recoverable by directional drilling.

2 On a present value basis, the economic
3 benefit is approximately a million dollars based on
4 savings for drilling one horizontal well versus three
5 directional wells, and the increased cash flow because
6 of the value of the lost reserves.

7 Q. Do you propose that an increased allowable
8 be assigned to the Debra Geiger No. 1 well?

9 A. We are proposing that the current allowable
10 for the Bisti Gallup Pool is 160 barrels per day.
11 We're anticipating an IP of somewhat higher than that
12 because our 480-acre proposed proration unit actually
13 includes six 80-acre proration units. We're asking
14 that the allowable be combined, so six times 160, or
15 960 barrels per day.

16 Q. Let's have you refer now to what's been
17 marked as Exhibit No. 5.

18 A. Exhibit No. 5 is our notification to offset
19 operators wherein we contacted and received a response
20 from Dugan Production. Dugan Production has the
21 offset, in fact the only offset minerals not operated
22 by Giant Exploration and Production.

23 We've contacted Union Pacific Resources who
24 is the farmour of the tract in Section 4 that we're
25 proposing to develop with our horizontal well, and we

1 received a response from them.

2 Seabrook Corporation is the next one, and
3 they're a working interest owner in Section 4 along
4 with UPRC, as is Norcen Explorer, who is the next
5 interest owner, and they're a working interest owner
6 in our well.

7 That's followed by our notification of the
8 Department of the Interior, Bureau of Land Management
9 because they have unleased minerals that have, in
10 fact, been withdrawn from leasing because of their
11 line beneath the wilderness.

12 The next one is a notification and we've
13 not received a response from the Bureau of Indian
14 Affairs. BIA controls the allotted minerals in the
15 south have of Section 33 of 25 North, 11 West.
16 They've been given time. They were notified in a
17 timely manner, and we simply have not received a
18 response from the BIA.

19 Q. To your knowledge, do the materials that
20 are contained in Exhibit No. 5, do they evidence
21 compliance with the notice requirements of the Oil
22 Conservation Division?

23 A. To my knowledge, yes.

24 Q. Are you aware of any objections to this
25 application?

1 A. No, I'm not.

2 Q. Mr. Corbett, is ownership in the Gallup
3 formation common throughout the area of the proposed
4 spacing and proration unit?

5 A. Yes, it is.

6 Q. In your opinion, would the granting of this
7 application be in the best interests of conservation
8 and result in the prevention of waste and the
9 protection of correlative rights?

10 A. Yes, it would.

11 Q. Were Exhibits 1 through 5 either prepared
12 by you or at your direction and under your
13 supervision?

14 A. Yes, they were.

15 MR. ROBERTS: We would move for the
16 admission of Exhibits 1 through 5.

17 EXAMINER MORROW: Exhibits 1 through 5 are
18 admitted.

19 MR. ROBERTS: Mr. Examiner, I have no other
20 questions on direct.

21 EXAMINATION

22 BY EXAMINER MORROW:

23 Q. Mr. Corbett, how is the State of New Mexico
24 involved in the surface location?

25 A. The State of New Mexico is not involved in

1 the surface location, although Section 32 would
2 ordinarily be a state tract and the minerals are, in
3 fact, state minerals. The surface is owned by the
4 Navajo Tribal Trust.

5 Q. Okay. On the exhibit that showed all the
6 wells completed in the southwest trend shown on the
7 Exhibit No. 3, I believe it was--

8 A. That's correct.

9 Q. --did you say that these wells were
10 operated by Giant? All these wells?

11 A. That's correct.

12 Q. All these are operated by Giant?

13 A. Every well on this Bisti trend, yes.

14 Q. I tried to find those in the proration
15 schedule. Is that the Bisti Lower Gallup, or is that
16 some other designation?

17 A. These have been included in the Bisti Lower
18 Gallup Oil Pool.

19 Q. So there are other wells in that pool but
20 not in this particular trend that are other operators'
21 wells?

22 A. That's correct.

23 Q. Is it your opinion, Mr. Corbett, that this
24 well will adequately drain the reserves from the
25 400-plus-acre tract that you propose to assign to it?

1 A. If we're successful in drilling our 4000
2 feet of horizontal section, we believe this well will
3 adequately, completely drain the Gallup across Section
4 4 through our proration unit.

5 Q. And what is the spacing in relation to
6 lease lines in the current rules?

7 A. Current rules require 330-foot setbacks
8 from lease boundaries.

9 Q. And where would you penetrate the formation
10 of this well?

11 A. We'll contact the Gallup sand trend at
12 approximately 400 feet inside of Section 4.

13 Q. So it would comply with the setback on the
14 lease, but what rules, then, need to be modified?

15 A. We're asking for an expanded proration unit
16 from 80 acres to 480 acres. And, in keeping with
17 that, proportionately increasing our allowable from
18 160 barrels of oil per day to 960 barrels of oil per
19 day.

20 EXAMINER MORROW: This witness may be
21 excused.

22 MR. ROBERTS: Mr. McIntosh is next.

23 GREGORY E. MCINTOSH

24 the witness herein, after having been first duly sworn
25 upon his oath, was examined and testified as follows:

1 EXAMINATION

2 BY MR. ROBERTS:

3 Q. Would you state your name and your place of
4 residence for the record?

5 A. My name's Gregory McIntosh, and I live in
6 Farmington, New Mexico.

7 Q. What is your occupation?

8 A. I'm an associate engineer with Giant
9 Exploration and Production.

10 Q. How long have you been employed in that
11 capacity?

12 A. Six months.

13 Q. What are your general job responsibilities?

14 A. I take care of the drilling, completion and
15 daily operation of several fields that Giant operates.

16 Q. Have you previously testified before the
17 New Mexico Oil Conservation Division?

18 A. No, I have not.

19 Q. Would you briefly describe your educational
20 background as it relates to the field of petroleum
21 engineering?

22 A. I earned a Bachelor of Science degree in
23 petroleum engineering from the Colorado School of
24 Mines.

25 Q. Have you had any other subsequent training?

1 A. Yes. I worked as a field engineer for
2 Davoil Schlumberger for 18 months, and then as a
3 systems operator on urban drill sites in California
4 for 8 months.

5 Q. Have you begun the process of attaining
6 that status of licensed professional engineer?

7 A. Yes, I have. I passed the EIT test before
8 my completion of college, and I'm now currently
9 gaining the experience so that I can take the PE test.

10 Q. Are you familiar with the operations of
11 Giant Exploration and Production Company in the area
12 of the Bisti Lower Gallup Oil Pool?

13 A. Yes, sir.

14 Q. Are you familiar with the application in
15 this case?

16 A. Yes, sir.

17 Q. Have you prepared certain exhibits to be
18 utilized in conjunction with the testimony you give in
19 this case?

20 A. Yes, sir, I have.

21 MR. ROBERTS: Mr. Examiner, I would tender
22 Mr. McIntosh as an expert in the field of petroleum
23 engineering.

24 EXAMINER MORROW: What was your job title
25 again, Mr. McIntosh?

1 THE WITNESS: Currently it's associate
2 engineer. That's the title they give for the first
3 six months, and that will change next week.

4 MR. ROBERTS: What will you become then?

5 THE WITNESS: A staff engineer.

6 EXAMINER MORROW: His qualifications are
7 accepted.

8 Q. (BY MR. ROBERTS) Mr. McIntosh, refer to
9 what's been marked as Exhibit No. 6 and identify the
10 exhibit and explain its relevance to the application.

11 A. This is a closer look at the actual
12 wellbore plan and the outline of where it will
13 actually track. You can see up in the upper left-hand
14 corner it shows Section 32, Township 25 North, Range
15 11 West. That will be our surface location.

16 From there we will drill down and set
17 surface casing, which will be 13 and three/eighths
18 casing down to 350 feet. From there we will kickoff
19 in a south direction and build at three degrees per
20 100 feet to nine degrees in a due south direction
21 until we reach a measured depth of approximately 4133
22 feet, total vertical depth of 4083 feet.

23 At that point we will kickoff at eight
24 degrees per 100 feet, building to 91 degrees in a
25 southeasterly direction, and from there, just before

1 we get horizontal, we will contact the Gallup trend at
2 approximately 620 feet from the north line, 470 feet
3 from the west line, in Section 4, Township 24 North,
4 Range 11 West. We will set nine-and-five-eighths
5 casing to that point and cement back to surface.

6 From there we will continue at 91 degrees
7 from vertical. It's essentially horizontal, just a
8 little bit following the trend going up, and we will
9 continue that approximately 4000 feet, and we will be
10 placing a slotted liner in that section, in the
11 horizontal section.

12 While we're drilling we will be using the
13 measurement-while-drilling method to log it while
14 we're drilling, along with taking directional surveys
15 as often as necessary so that we can keep very close
16 track of where we're at.

17 Q. Refer to Exhibit No. 7 and describe that
18 exhibit.

19 A. It's essentially the--shows you the same
20 thing as Exhibit 6 except it's a cross-section instead
21 of a surface plot. This shows approximately where we
22 will cross the section line and the 330 setback line
23 before we contact the Gallup formation.

24 Q. Okay. Mr. McIntosh, in your opinion would
25 the granting of this application be in the best

1 interests of conservation and result in the protection
2 of correlative rights and prevention of waste?

3 A. Yes.

4 Q. Were Exhibits 6 and 7 prepared by you or
5 under your direction and supervision?

6 A. Yes, they were.

7 MR. ROBERTS: Mr. Examiner, we'll move
8 admission of Exhibits 6 and 7 at this time.

9 EXAMINER MORROW: Exhibits 6 and 7 are
10 admitted.

11 MR. ROBERTS: I have no other questions for
12 this witness on direct.

13 EXAMINATION

14 BY EXAMINER MORROW:

15 Q. How do you plan to supervise the drilling
16 of the well? Do you plan to hire a contractor who has
17 experience in this area?

18 A. Yes, we do. We will have a consultant on
19 location along with the directional people that supply
20 the tools. So we'll have that, and also we'll have
21 one of our engineers on location at all times.

22 Q. Will you drill a well in an unbalanced
23 condition or lighter mud than is required to hold
24 bottom-hole pressure?

25 A. Right now we're planning on drilling it as

1 close to balanced as we can, and we will change as the
2 wellbore allows us to or forces us to.

3 EXAMINER MORROW: The witness may be
4 excused.

5 MR. ROBERTS: We have nothing else.

6 EXAMINER MORROW: Case 10110 will be taken
7 under advisement.

8 (Thereupon, the proceedings concluded.)

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CERTIFICATE OF REPORTER

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

I, Carla Diane Rodriguez, 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 October 15, 1990.

Carla Diane Rodriguez
CARLA DIANE RODRIGUEZ
CSR No. 91

My commission expires: May 25, 1991

I do hereby certify that the foregoing is
a correct and true transcript of the proceedings in
the Oil Conservation Division of Case No. 10110,
heard by me on Oct 3, 1990.
[Signature], Examiner
Oil Conservation Division