

IN THE MATTER OF:)
)
APPLICATION OF SANTA FE ENERGY)
OPERATING PARTNERS, L.P. FOR) CASE NO. 10211
COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO,)
)
)
)

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I N D E X

January 10, 1991
Examiner Hearing
Case No. 10211

PAGE

APPEARANCES

3

OPENING STATEMENTS:

Mr. Bruce
Mr. Kellahin
Rebuttal by Mr. Bruce

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21

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INTERVENOR'S EXHIBITS:

MRKED

ADMTD

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A P P E A R A N C E S

BEFORE: DAVID CATANACH, Hearing Examiner

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1 EXAMINER CATANACH: At this time, we'll call case 10211.

2 MR. STOVALL: The application of Santa Fe Energy
3 Operating Partners, L.P. for compulsory pooling, Lea County,
4 New Mexico. Mr. Examiner, call for appearances, and then I'll
5 state the background of the case for the record.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of the Hinkle law
7 firm representing Santa Fe Energy Operating Partners, L.P.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin from the
9 Santa Fe law firm of Kellahin, Kellahin & Aubrey appearing on
10 behalf of Hanley Petroleum, Inc.

11 MR. STOVALL: Mr. Examiner, this case was actually
12 announced, I believe, this morning as being continued. But
13 for the record, let's state that Mr. Kellahin has filed a
14 subpoena and a request for continuance. Mr. Bruce has agreed
15 to the continuance of the case itself, a substantive case.
16 And the case should be continued to the January 24th docket.

17 At issue today is the question of the subpoena
18 itself. As I stated, Mr. Kellahin has filed a subpoena
19 requesting certain information with respect to Santa Fe
20 Exploration's Kachina 8 Federal Number 1 well which is an
21 offset well to the well which is the subject of the compulsory
22 pooling application. Mr. Bruce has filed a motion to quash
23 the subpoena. Both of these will be made part of the record
24 in the case.

25 We are here this afternoon at the request of the

1 parties to hear argument on the motion to quash and make a
2 determination whether to grant the motion to quash or deny it
3 in which case the subpoena will stand. Without further ado, I
4 think the parties may make their argument. I guess since
5 we're actually here on the motion to quash, Mr. Bruce has the
6 lead.

7 MR. BRUCE: Mr. Examiner, Santa Fe Energy is before you,
8 as Mr. Stovall stated, on its motion to quash the subpoena
9 issued by the division at the request of Hanley Petroleum.
10 Santa Fe requests that the subpoena be quashed or
11 alternatively that a protective order be issued. The
12 information requested by Hanley pertains mainly to the Kachina
13 8 Number 1 well which was drilled to the Wolfcamp formation by
14 Santa Fe and is located in the northeast of the northwest of
15 Section 8, 18 South, 33 East. The unit is the east half of
16 the northwest quarter.

17 Although this is not in the record, at the hearing
18 up coming in two weeks, Santa Fe will testify that it
19 originally wanted to drill the 8 Number 1 well as a north half
20 northwest laydown unit. However, Hanley informed Santa Fe
21 that it didn't want to join the well, farm out, sell its lease
22 or otherwise support the well.

23 As a result, Santa Fe formed a standup unit and
24 drilled the well at its own risk and obviously at no cost to
25 Hanley. Santa Fe would also like to point out that there are

1 14 Wolfcamp wells in Sections 7, 8, 17, and 18, not counting
2 the 8 Number 1 well. Thus there is plenty of public
3 information available for Hanley to do its own geological
4 study of this area. Santa Fe used this data from the other
5 wells to decide to drill the 8 Number 1 well. If anything,
6 the 8 Number 1 well only confirmed Santa Fe's geological
7 study.

8 Nonetheless, what I want to point out is that
9 probably 95 percent or more of the information Santa Fe used
10 to make its decision to drill the 8 Number 1 well and the 8
11 Number 2 well which is at issue in this case is already
12 available to Hanley.

13 Now before the 8 Number 1 well was completed, Santa
14 Fe decided to drill the 8 Number 2 well. Hanley now claims
15 it's entitled to all of Santa Fe's data in order to make a
16 decision to join in the 8 Number 2 well. Hanley has requested
17 certain types of data. First, they requested raw data from
18 the 8 Number 1 well such as logs and daily drilling reports.
19 They have also requested reserve calculations, reservoir
20 studies, geologic interpretations and economic studies. These
21 go beyond the 8 Number 1 well. These are more of a regionwide
22 data that they are requesting. I don't really think it can be
23 disputed that all of this data is confidential and proprietary
24 to Santa Fe. And I'm sure that Mr. Kellahin will get up here
25 and tell you that Hanley has a right to this information. We

1 do not believe that's correct, and there are sound, legal, and
2 practical reasons that Hanley should not be entitled to this
3 information.

4 I would note first that we're in an administrative
5 proceeding and not before the courts. The OCD was formed to
6 deal with the special problems and the special nature of the
7 oil and gas business. And I believe the OCD has a duty to
8 take special consideration of the unique nature of this
9 business. Every oil company has information that it considers
10 proprietary, and the OCD should protect that information
11 unless there is some absolutely compelling reason for its
12 production. There is none here, and I'll discuss this in a
13 minute.

14 Second, even if you use as guidelines district
15 court rules, production of the requested material is not
16 required. Rule 1-26 (C) of the Rules of Civil Procedure for
17 the district courts provides that protective orders may be
18 entered by a court holding that materials requested during
19 discovery not be produced or certain matters not be inquired
20 into or that the discovery be done only with certain persons
21 present. The rule specifically mentions confidential data as
22 being protectible.

23 With these principles in mind, let's look at some
24 of this data that Hanley has requested. First, Hanley has
25 requested the raw data on the Kachina 8 Number 1, as I

1 mentioned, such as logs and drilling reports. This
2 information is being kept tight by Santa Fe, which is an
3 accepted industrywide practice. Santa Fe has offered this
4 data to Hanley and is still willing to present this data to
5 Hanley if Hanley will commit either to farming out or joining
6 in the well.

7 I believe Hanley will say this shows a lack of good
8 faith. It's already been alleged in their application.
9 However, this is not a practice which -- I should say this is
10 a practice which Santa Fe and other operators have agreed to
11 in the past. I know this case has been brought up before, in
12 the Enron case in case 9907, an OCD case, Santa Fe and Texaco
13 agreed to a similar deal with Enron, the applicant in that
14 case. And that was when Santa Fe was being force pooled.
15 Santa Fe thinks this is a fair arrangement and it comports
16 with industry practice.

17 Second, the good faith requirement of the
18 compulsory pooling statutes doesn't require production of
19 confidential data. In fact, we believe that Santa Fe has a
20 duty to protect its confidential information for the benefit
21 of its shareholders or its limited partners. Santa Fe, in
22 trying to make a good deal for itself, is complying with the
23 good faith requirements of the rule. And although we haven't
24 taken testimony on that, we believe that at hearing we will
25 show our good faith.

1 Now as to information such as reservoir studies,
2 geological interpretations, reserve calculations, like I said,
3 Hanley could obtain the vast bulk of this information from the
4 public records. Instead it wants to benefit from the
5 considerable effort put forth by Santa Fe both geological and
6 engineering work in building this prospect, but Hanley wants
7 to do it at no cost to itself. This should not be permitted.
8 What Hanley wants in effect is to see the opinions of Santa
9 Fe's experts because it must be unwilling to pay for its own.
10 I would also point out that in rule 1-26 (B), the rule
11 provides that a party seeking discovery from an expert should
12 pay that expert a reasonable fee for his time. If production
13 of these expert opinions is ordered by the division, Hanley
14 should be required to pay Santa Fe a fee, which we think would
15 be substantial based on the effort put into it, for the
16 efforts Santa Fe took or it made in putting this prospect
17 together. However, because of the highly proprietary nature
18 of the material, I urge that the OCD just not order it
19 produced in the first place.

20 Hanley has also requested Santa Fe's economic
21 studies. Now Santa Fe is extremely adamant about not giving
22 up that information. For one thing, I think you could ask the
23 witnesses in this room who are still listening to this case,
24 economic data varies from company to company. And we fail to
25 see how that would benefit Hanley, first of all. Second,

1 revealing it to third parties may give others a competitive
2 advantage over Santa Fe. We do not think that is proper.
3 Hanley has not shown the reason it needs this data, and the
4 OCD should not order it produced.

5 Once again, in summary, I would like to reiterate
6 that the vast bulk of the data on the south Corbin-Wolfcamp
7 pool is publicly available to Hanley. Hanley has not shown a
8 sufficient need for the documents, and there is no requirement
9 under the pooling statutes that Santa Fe produce this data to
10 Hanley. As a result, Santa Fe urges the division to quash the
11 subpoena. And if production is ordered however, Santa Fe
12 requests that it be produced only to the hearing examiner to
13 aid in his determination of the case. If that is not done, we
14 believe that Santa Fe must be compensated for the labors of
15 its experts and the data of course must remain confidential
16 within the OCD. Thank you.

17 EXAMINER CATANACH: Mr. Bruce, is that what you were
18 referring to when you cited the protection order, that this
19 information only be disclosed to the examiner?

20 MR. BRUCE: Yes.

21 EXAMINER CATANACH: Mr. Kellahin?

22 MR. KELLAHIN: Thank you, Mr. Examiner. Let me respond
23 to Mr. Bruce by dividing my response into three different
24 areas for your consideration. The first area is to talk about
25 discovery and what would be permitted and allowed in a context

1 within district court and how that is translated and applied
2 to administrative agencies such as the division, second of
3 all, to address the question of relevancy, and then finally to
4 talk about the confidentiality.

5 We already have in place before the division
6 examiner a set of rules and regulations of which you're
7 eminently familiar. But unfortunately, for whatever reason,
8 the discovery practice that is available before this division
9 is not often exercised. It is a discovery practice that
10 parallels discovery practice in the district court. Mr.
11 Stovall can tell you, as I think Mr. Bruce would agree, were
12 we in a district court posture, I would be getting all the
13 information on this subpoena. There would be simply no
14 question about it.

15 Mr. Bruce attempts to hide behind the guise that
16 somehow the practice before this regulatory agency should be
17 different. Just the opposite is true, Mr. Examiner. Let me
18 refer you to a couple of points that demonstrate why Mr. Bruce
19 is wrong about that concept.

20 I made a copy of your rules and regulations of
21 procedure just to have a quick reference here. Rules 12-11
22 and Rules 12-12 deal with the attendance and production of
23 evidence at hearings. Rule 12-12 is the rule of evidence. It
24 doesn't take a moment to read that and see the broad nature of
25 what you can accomplish as a division examiner when you

1 require people to appear before you. It talks about applying
2 in a relaxed manner the types of rules we have before district
3 court proceedings in a trial by a district judge. Under the
4 discovery rules which are 1-026, there are broad latitudes
5 given to all parties. The theme of that process is to have
6 fairness. It is eminently unfair to any party not to have
7 access of everyone's relevant data, not only so the trial
8 examiner can see the data but so both sides' experts can
9 utilize that data and come to whatever conclusion they want.
10 It does not serve the legitimate purposes of justice to
11 suggest that the hearing examiner can look at this data
12 without having it tested by the opposition. And that's what
13 we're dealing with, an adversarial process where all parties
14 are dealing with a level playing field and the ability to use
15 the data regardless of the source.

16 And it matters not who went to the expense of
17 generating that data. The proprietary nature and the expense
18 of generating that data is a bogus argument. Regardless of
19 who paid for it, it's discoverable in district court. When
20 you look at your own procedures for handling well logs, it's
21 interesting to note rule 1105. I've got some copies here of
22 that one for you. In the context of a hearing before this
23 division and the commission, there are no confidentiality
24 rules. What is brought before you cannot be held in
25 confidence. This is a public access body, and any public

1 member is entitled to the information introduced before you as
2 a hearing examiner.

3 The commission has taken care of the problem Mr.
4 Bruce raises with regards to the logs because if you'll look
5 at the top of the second page of rule 1105, some of the
6 information I seek is the information that would be produced
7 on the C-105 and the logs. And what it does is it gives an
8 operator a 30-day grace period where when he goes out and has
9 a new well, a new discovery, it gives him 30 days to
10 consolidate his acreage, take benefit of that knowledge, and
11 go out and lease his acreage. But after that, it's public
12 knowledge, and he's required to file those logs.

13 MR. STOVALL: Mr. Kellahin, do you mean 30 or 90 days?

14 MR. KELLAHIN: I'm sorry. 90 days. He's required to
15 file the logs and file the C-105. But look at the last
16 sentence, notwithstanding that 90-day period, that
17 information, if pertinent, can be introduced in any public
18 hearing before the division or its examiners regardless of the
19 request that they be kept in confidence.

20 Mr. Bruce wants to tell you that somehow we're
21 special. Administrative agencies have some kind of different
22 rules they play the game by. It's not a game of hide and
23 seek, Mr. Examiner. We're entitled to have the data.
24 Unfortunately, we don't yet have a case before the New Mexico
25 Supreme Court from the Oil Conservation Division, but I will

1 suggest to you I think it will follow the case I'm about to
2 share with you. It's a case reported before the New Mexico
3 Supreme Court. Judge Sutin wrote it back a number of years
4 ago in 1975. They thing's been in place for 15 years, and it
5 talks about the fact that discovery rules, all of them, are
6 available before a regulatory administrative agency. I'll
7 share that with you and opposing counsel. I didn't bother to
8 search farther. There's probably other references to the fact
9 that we're all playing by the same rules. And I guess I'm
10 surprised that lawyers that operate before this agency don't
11 take advantage of discovery more often. But there's no reason
12 we can't. And in this case, it's compelling, Mr. Examiner, to
13 have available the information from the Kachina 8 Number 1
14 well in the northeast of the northwest of Section 5 -- of
15 Section 8 in order to judge and evaluate what's going to
16 happen to my client.

17 Hanley has filed its own competing forced pooling
18 application against Santa Fe Energy. That information was
19 certainly relevant enough that Santa Fe Energy sought to
20 utilize Mr. Thoma's testimony and introduced in the case we
21 just heard earlier today, case 10210, on Exhibit Number 4, his
22 geologic interpretation of that carbonate utilizing as a key
23 component of his justification for that unorthodox well the
24 Number 8 Kachina 1 well. If they can utilize that before this
25 examiner in a public forum, then they have waived any

1 confidentiality if it ever existed so that I should have that
2 information available to my own geologist so he can
3 independently judge the quality of that information and reach
4 his own conclusions. Santa Fe Energy by their actions in that
5 previous case have waived the confidentiality notwithstanding
6 what occurred at the end of that hearing. I will suggest to
7 you that the division has no authority to seal an exhibit or
8 preclude me from having it.

9 Let's look for a moment at the relevance of why the
10 offsetting well for which I seek the data is important to my
11 client. You can look at Mr. Thoma's Exhibit 4. I have got an
12 exhibit that we would use at our hearing, and I will show it
13 to you as simply a way of illustration of why that one
14 Wolfcamp completion by Santa Fe is now so critically important
15 as a key component to various elements with regards to the
16 competing forced pooling applications of all parties.

17 (Hanley Exhibit No. 1 was
18 marked for identification.)

19 MR. KELLAHIN: I'll mark this as Hanley Exhibit Number 1
20 for purposes of this motion, Mr. Examiner. It is the Corbin
21 area. It shows an indication of the producing wells in this
22 area and the formation in which they produce.

23 One of the critical elements is the risk involved
24 to whoever is decided by the division to be the operator,
25 whether it's Hanley or Santa Fe Energy. There's a component

1 of risk. And it's to be assessed against any nonconsenting
2 working interest owner in that 80-acre spacing unit with
3 regards to either the Wolfcamp or any other formation. You
4 can see that the development of the Wolfcamp to the south,
5 either on this display or in Mr. Thoma's Exhibit 4 has been
6 extended by the Kachina 8 Number 1 well in section 8.

7 Look how important that is to you as an expert and
8 to my experts in extending that carbonate in the Wolfcamp.
9 It's going to make significant difference as to the risk
10 involved whether Hanley takes it or whether Santa Fe takes it.
11 And if you look at that spacing unit, it is Hanley which has
12 the single largest working interest in that spacing unit.
13 There is no other single working interest owner in that
14 spacing unit that's got as large as an interest as we do.

15 The other key component, though, and one that Mr.
16 Thoma has not shown you is the fact that this location or the
17 spacing unit is approximately equal distance between the
18 Wolfcamp and the Bone Springs. There's a Bone Springs
19 component to this case that is very relevant. The Bone
20 Springs oil production is on 40 acres, and you can see where
21 it is off to the north and west. In this case, there will be
22 a discussion and a decision by these experts about the
23 potential of the Bone Springs and where you locate the well in
24 the spacing unit to optimize or minimize the risk.

25 An argument is created that's relevant that this

1 could require whoever is the operator to allocate his costs
2 between the two pools. We have a split risk situation between
3 the Bone Springs and the Wolfcamp. And again the Kachina 8
4 Number 1 well plays a critically important point in
5 understanding the relevancy of that argument. The documents
6 we seek to have produced will give us information about the
7 tests of this well. It will give us information to determine
8 whether or not we'll need to modify any mud program, any
9 casing cementing program, how to analyze and judge the
10 qualities of the AFE. There will be a dispute between these
11 parties over the well costs.

12 Inherently involved in that is an economic
13 argument. Mr. Bruce tells me it's not relevant, but you know
14 it is, which operator can drill this project at the least
15 expense to all interest owners. And one of those inherently
16 is the economics of the project. We think we're entitled to
17 that information, and we ask for that information. If there's
18 production information, we're entitled to have it. It is not
19 available to us in the general public. We believe we're
20 entitled to have that because it is relevant.

21 Finally, Mr. Bruce wants to hide behind some claim
22 of confidentiality. When you look at rules of discovery,
23 1-026, it talks about trade secrets. By stretch of
24 imagination, maybe you can characterize some of this as some
25 kind of trade secret. I really doubt it. The overwhelming

1 abundance of decisions with regards to protective orders for
2 proprietary information almost always requires disclosure to
3 the other litigants, and the protective order would preclude
4 discovery and disclosure to third parties outside the
5 litigation.

6 And in fact, that's what happened in Mr. Bruce's
7 case in the Enron case. That's the one where he and Mr. Carr,
8 and Bruce was on the other side of that argument that day, but
9 back in May of '90 in case 9907 it was order number R-9190.
10 Unfortunately, there was no record made on the subpoena
11 problem. But it is my understanding, and Mr. Bruce can
12 correct me if I'm wrong, that there, Mr. Stogner was in a
13 position where Enron had their claim of proprietary data for
14 the offsetting well, and Mr. Bruce was seeking it for Santa Fe
15 in order to handle the forced pooling case. Mr. Stogner
16 decided that in order to keep a level playing field for all
17 parties that he would deny Enron the opportunity to use the
18 information from that well. And they couldn't have it,
19 couldn't use it, couldn't introduce it. Well, I think after
20 the hearing, everybody agreed that that was not an appropriate
21 solution. And therefore, the parties agreed to a
22 confidentiality and exchanged the data.

23 I would suggest to you that the argument about
24 paying for whatever it cost to generate the logs is totally
25 inappropriate. What Mr. Bruce has confused is that under the

1 discovery rules, if I take his expert's deposition, I'm
2 obligated to pay his transportation and his hourly rate while
3 I ask him questions. But I sure don't have to pay for the
4 value of the log that they ran that's in their file. That's
5 not how it's done.

6 I believe it's appropriate, Mr. Examiner, that the
7 commission make a substantial step forward as it already has
8 with regards to hearings by ambush, playing hide and seek with
9 data. With Mr. Stovall's assistance and recommendations, the
10 division has for the most part avoided hearings by ambush. At
11 least now we know who's going to come beat on you. They're
12 required to file their prehearing statements the week before.
13 And so there is that element of unfairness removed from the
14 process. But there's nothing fair about letting one party
15 keep information that is necessary in order to have a fair
16 adversarial process before this division from disclosing it to
17 the other side.

18 I said awhile ago, I think Santa Fe's waived it.
19 They showed the isopach a while ago. It can't mean much to
20 them if they showed it in the case before. They're just
21 trying to keep us behind the stick here. The options I see
22 for you, Mr. Examiner, are to deny the motion and require the
23 documents to be produced. I think that's the right answer.

24 Another alternative would be to dismiss their
25 application. If they're not prepared to make their

1 information available and to test their beliefs and
2 conclusions based upon that data, let them dismiss their case.
3 You could continue their case until the 90-day period has
4 fully run. Let them have another few weeks to lease up the
5 rest of the acreage. My understanding is there's no acreage
6 available in Section 8 for any third party to take advantage
7 of. It's a done deal. We're dealing with the people now that
8 we'd be dealing with at the hearing. You could, I guess, do
9 what Mr. Stogner did and say that Santa Fe can't use the data.
10 That's really only half an answer at best. It's sort of like
11 walking in with your hands behind your back and half a
12 blindfold on. If they can't use it, there's no reason I
13 shouldn't be able to use it. And we need it for all the
14 reasons I've expressed as to why they're relevant. And I
15 think for the most part lawyers have gone very far out of the
16 way to avoid discovery.

17 You know, these engineers and geologists don't want
18 to spend their time taking depositions. Rules allow it. And
19 for the most part, we don't do it because the information is
20 generally available and we let our own experts work with it.
21 But here where you have a key well that is on the edges of
22 this reservoir that plays an important part in deciding how to
23 proceed, I think you do a disservice to what you are obligated
24 to do if I'm not allowed to have that information. We would
25 request that the motion be denied and that the subpoena be

1 enforced and the documents be produced today.

2 MR. BRUCE: Do I get a rebuttal, Mr. Examiner?

3 MR. STOVALL: Yeah, if you make it concise, because I do
4 want to perhaps address some questions. Go ahead.

5 MR. BRUCE: My friend Tom, of course, has been on both
6 sides of this issue before too. He's not the only one. This
7 is a limited practice here at the OCD. But contrary to what
8 Tom says, this wouldn't be a step forward for the industry or
9 for the OCD. It would be a step backward. I think if you
10 asked any, if you asked the vast majority of companies, there
11 are times when they just have to keep information
12 confidential. We believe this is one of those cases.

13 Now, first, Mr. Kellahin says that district court
14 rules apply. Then he says confidentiality rules don't apply
15 although district court rules have a confidentiality
16 provision. Then he pulls out a case that says district court
17 rules do apply. This case says rules similar in scope. It
18 doesn't mandate exact district court rules apply in this case.
19 I think the bottom line is that the OCD does have flexibility
20 in addressing this issue. And there is a reason many
21 operators don't take advantage of the discovery rules. Like I
22 said, I think it's a step back. They don't want to be
23 flogging their opponents or their company's competitors in the
24 oil business for this information all the time. They have
25 lots of information they want privileged. And they recognize

1 that there is information out there that other companies have
2 that they want privileged, that the other companies want
3 privileged.

4 I think what you're going to find is if you do deny
5 my motion is that in virtually every case, every compulsory
6 pooling case, unless you're dealing with unleased mineral
7 interest owners or people who can't be located, you're going
8 to have a counterapplication, you're going to have subpoenas,
9 et cetera, et cetera, et cetera.

10 As to the hearing in case 10210, Santa Fe was under
11 severe constraints. It had to present evidence to support its
12 case. It has an expiring farmout. It's in a bind. It did
13 make a motion to protect that exhibit until the OCD can decide
14 this issue. And there is precedent for the OCD holding
15 matters confidential, as I mentioned informally to Mr.
16 Stovall, I believe, testimony regarding the potash area,
17 certain potash industry information has been kept
18 confidential. I think everybody in this room who has had
19 anything to do with drilling a well in the potash area
20 realizes how tough it is to crack that information held by the
21 potash industry.

22 MR. STOVALL: Let me point out, Mr. Bruce, that I believe
23 any information being held confidential with respect to the
24 potash, I don't believe is on file -- and the examiner can
25 correct me -- with us. I believe it is filed with the state

1 land office or the bureau of land management.

2 MR. BRUCE: Okay.

3 MR. STOVALL: Under that impression and I don't know of
4 any other case.

5 MR. BRUCE: I don't want to get into it any further. The
6 other case that Mr. Kellahin did mention, the Enron case, the
7 factual situation was much different there. There was one
8 well in the area. Texaco and Santa Fe desired that
9 information. Enron wouldn't give it to them. In this case,
10 as I stated before, there's 14 Wolfcamp wells in the area
11 which provide the vast bulk of the information Hanley wants.
12 We request that the motion be granted.

13 EXAMINER CATANACH: Is that it?

14 MR. STOVALL: I'd like to ask some questions just for the
15 examiner's guidance in this issue. I think you have made the
16 distinction in the division in examining the subpoena and the
17 motion. In examining this well, there are essentially two
18 types of data being requested. One is the raw data, the
19 uninterpreted physical data regarding the well, and the other
20 is interpretive data; that is, the interpretation of the raw
21 data combined with whatever other data is available by Santa
22 Fe's technical folks.

23 I'd like to focus for the moment on that
24 interpretive data which is really the work product of Santa
25 Fe's people. And Mr. Bruce has argued and it is part of his

1 motion that that work product, that that evaluation should
2 not -- regardless of what we do with the raw data, the
3 evaluation materials should not be made available because it
4 is in fact the work product of Santa Fe and is not a -- it
5 represents their expert analysis of the raw data on what's
6 available.

7 MR. KELLAHIN: Let me draw a distinction quickly. Work
8 product applies to attorney work product?

9 MR. STOVALL: I'm sorry. That is not the term I mean to
10 use, not in that sense.

11 MR. KELLAHIN: In the conventional nonlawyer sense,
12 you're talking about the engineer's work product?

13 MR. STOVALL: Yes.

14 MR. KELLAHIN: In the lawyer sense, it's only the
15 attorney work product that's subject to protection under a
16 privilege, which I don't believe Mr. Bruce --

17 MR. STOVALL: That's not even an issue, and I did not
18 mean to use it as that term of art that you're referring to.
19 I think on those items, for example, looking at the subpoena,
20 the items requested, item number 6 is an interpretive type of
21 information. You take raw data and crunch the numbers in some
22 way to come up with something. That's reserve calculations.
23 Item number 7, the reservoir studies, that certainly is
24 interpretive type evaluation. Item number 10 certainly is
25 interpretive, geologic interpretation. You take the raw data

1 and tell us what's out there. Item number 8 is also in-house
2 created from information. I think it's in a little bit
3 different category because it has to do with, I think,
4 economics.

5 But for the moment, Mr. Kellahin, is there not a
6 reason why if you could obtain the raw data that Hanley
7 couldn't make its own evaluations and would it not want to
8 make its own evaluations as to whether to participate and
9 invest in this well?

10 MR. KELLAHIN: Certainly so and also undertake
11 operations, but separate and apart is our absolute right to
12 test the conclusions and interpretation of their experts. And
13 in the district court discovery forum, we would be entitled to
14 have their exhibits. We would get Exhibit Number 4, Mr.
15 Thoma's interpretation of his geology. And we would have that
16 prior to the hearing, and we could prepare our experts for the
17 hearing in that fashion. And I would suggest to you that's
18 really the way we ought to do it here rather than do it by
19 guess and by golly. You might get a more meaningful, well
20 thought out combat of opposing positions if everybody had full
21 disclosure on each side and you came well prepared to worry
22 about what was important. But there is a difference. There
23 is a difference between the raw data and the interpretive
24 data. We've asked for all of it.

25 MR. BRUCE: Once again I would reiterate. Santa Fe said,

1 Agree to commit or farm out; we won't give you that data.

2 MR. STOVALL: Go back to more. There's agreement then
3 that there is a difference between raw data and interpretive
4 data and they could be separated out in terms of the motion?

5 MR. KELLAHIN: No question, Mr. Stovall, they could be
6 separated.

7 MR. STOVALL: One of the interesting issues that comes up
8 in this industry is that it certainly is like no other
9 industry that I know of anyplace in the country. It's the
10 only place where you try to go drill wells that you don't need
11 because of some reason that's not economic. It's also one of
12 the industries, the only industry I know, where people are
13 asked to make investment decisions without access to available
14 information. And that concerns me a little bit in this arena.
15 It's the only industry that I know of where on a regular
16 basis, and it's obviously due to the geophysical nature of oil
17 and gas in a reservoir, conservation laws, where a party can
18 be forced in effect to make an investment either by committing
19 dollars or by in effect giving up their asset for a time to
20 compensate for not paying those dollars. If you get force
21 pooled, you pay for it with your interest plus some risk
22 penalty.

23 Mr. Bruce, I would be curious to hear from you why
24 a party who is not being asked to invest should not have all
25 of at least the essential raw information available to make a

1 decision whether or not to invest.

2 MR. BRUCE: The party who is being asked to invest?

3 MR. STOVALL: In other words, in this case, Santa Fe is
4 saying, Hanley, we want you to make a decision whether or not
5 to invest in this next well, but we want you to make it with
6 less than all of the available -- and I'll refer to the raw
7 information for the moment, not interpretive information.

8 MR. BRUCE: Sure, sure. But Santa Fe really doesn't want
9 to force pool Hanley. They would prefer, you know, and the
10 landman testified about that, and it's not necessary today.
11 They prefer to have partners. They don't want to bear the
12 whole cost, the whole risk of that well.

13 MR. STOVALL: I understand. And let me point out, I'm
14 saying, you're asking them to make a decision without all the
15 information, not --

16 MR. BRUCE: We're not asking them to be force pooled.
17 But we are saying either agree to pay your share or farm out
18 under which they would bear no cost.

19 MR. STOVALL: Or they have a third option, to be force
20 pooled.

21 MR. BRUCE: To be force pooled.

22 MR. STOVALL: And then make a determination at that
23 point. But what you're saying, what Santa Fe is saying, what
24 the industry says in a situation like this is make an
25 investment decision whether or not to participate or how to

1 participate, I guess really, you're going to participate in
2 some way in this well. You make a decision how to
3 participate, but we are going to withhold from you some of the
4 information which we have available in order to make the
5 initial decision that there will be a well drilled.

6 MR. BRUCE: Well, for one thing, like I say, I don't -- I
7 keep sounding like a broken record. But if they would agree
8 to commit or farm out, they'll get everything they want.

9 MR. STOVALL: But I'm telling you, Why should they not
10 have information before they make a decision to do one or the
11 other?

12 MR. BRUCE: Well, I, you know, go back to the traditional
13 posture of maintaining information. I mean, Santa Fe is
14 definitely trying to do the best it can for its shareholders.
15 Is that required, to give all the best information that it may
16 have to an opponent?

17 MR. STOVALL: If Santa Fe were seeking to sell, and they
18 may do this, since it's called operating partners, I assume
19 they have partners in a well. And I believe under investment
20 rules, they're required to make information available to the --

21 MR. BRUCE: The operating partner, Santa Fe Energy
22 Operating Partners, this goes into excruciating detail, is a
23 limited partnership, you know, in the traditional limited
24 partnership sense. But it does have other partners in deals.
25 For instance, in this case right here, the leasehold that

1 Santa Fe owns, and I don't know, it may be in Santa Fe's name,
2 is owned -- its partner in that deal is Heyco.

3 MR. STOVALL: Notwithstanding whether or not it's Santa
4 Fe and how it operates, drilling deals are sold in the
5 investment marketplace. And those investments are subject to
6 investment regulatory agency regulations such as the SEC or
7 state securities commission. There may be some exemptions
8 that get them out from under it, but the premise is that most
9 investment regulations are that the potential investor should
10 have all information available before they make an investment
11 decision; is that not correct?

12 MR. BRUCE: I don't know. Did that require a response?
13 I don't know.

14 MR. STOVALL: Do you agree with that statement?

15 MR. BRUCE: In the SEC setting, yeah, but we're not
16 dealing with investment securities here.

17 MR. STOVALL: Well, we were drawing analogies, and I'm
18 drawing --

19 MR. KELLAHIN: In the regular business world, the oil and
20 gas operator has the opportunity not to sell his interest if
21 he is uncomfortable that the opponent has not shared all the
22 data. But in this forum, we're going to use the police powers
23 of the State to make that decision for him, and we're going to
24 make them in this context without all the information. I
25 think we've made it even worse than the example you were

1 citing where at least in the open market that operator has the
2 ultimate benefit of avoiding the transaction.

3 MR. BRUCE: Mr. Stovall, I mean, like I said, I'm
4 sounding like a broken record. But if they're force pooled,
5 they don't have to pay any money up front. So it's not like a
6 deal selling securities where somebody should know everything
7 before they're shelling out the money.

8 MR. STOVALL: They have to pay money though. They are
9 committed to paying that money in one form or another, are
10 they not?

11 MR. BRUCE: It comes out of production. I agree. But
12 they're not being -- I guess this goes back to why forced
13 pooling statutes were enacted in the first place, so people
14 could choose not to put any money up front. But if they're
15 asking -- if they would agree to pay or farm out, they would
16 get all the information. But in the forced pooling context,
17 they're really not paying anything.

18 MR. STOVALL: Oh, I think I could get into all sorts of --

19 MR. BRUCE: But Santa Fe and Heyco would be taking the
20 entire risk. And if that well was dry, would Hanley pay
21 anything? No. The 200 percent penalty or whatever penalty is
22 assessed is made to induce someone, to help induce someone to
23 drill that well. So, yes, if you look at it if it is a really
24 good well and is paying, yeah, Hanley would be paying in some
25 fashion because they would be paying out of production. But

1 if that well is a dog, Santa Fe and Heyco just bought the farm
2 on that well and Hanley didn't have to pay a dime.

3 MR. STOVALL: And Santa Fe and Heyco make the decision to
4 drill that well. Given all those factors, they've got their
5 own money going in. It's in the same bank. And they've made
6 the decision to place their money at risk based upon
7 information which includes the information from a direct
8 offset well. They've got a -- if you're playing poker,
9 they've got one card. They can see all five.

10 MR. BRUCE: But they made that decision before they had
11 all the information from that offset. They made the
12 decision --

13 MR. STOVALL: We don't know that. We just know that they
14 now -- and that was not irrevocable until a bit hits the
15 ground.

16 MR. BRUCE: Well, that's true. But they started
17 proposing this well. Their management made the decision to
18 drill this well before they had all of the information from
19 the 8 Number 1 well.

20 MR. STOVALL: Uh-huh. And management had the opportunity
21 and still has the opportunity, as I say, all the way along to
22 withdraw from that well. They may have made that decision
23 prior to the number 1 well being drilled and then drilled the
24 number 1 and came back and said, No, we don't want to drill
25 that well. We don't want to drill the second well.

1 Based upon that information, they made the
2 preliminary decision to drill the well. They've now got the
3 information, and they're making -- they're confirming that
4 decision and asking Hanley to go along with that decision.
5 And Hanley doesn't know what that information says with
6 respect to the other information that's available to determine
7 whether they agree with the decision or whether they would
8 rather let Santa Fe and Heyco take the risk for Hanley.

9 MR. BRUCE: I mean, Hanley doesn't want to pay or wants
10 to see -- doesn't know if they want to pay, but they do want
11 to operate. That seems a little inconsistent too.

12 MR. STOVALL: We hadn't gotten to that part yet.

13 MR. BRUCE: There's inconsistencies all around.

14 MR. THOMA: Could I speak off the record?

15 MR. STOVALL: Let's go off the record. Mr. Bruce, would
16 you like to talk to your client?

17 (A discussion was held off the record from 5:55 p.m.
18 until 6:05 p.m.)

19 EXAMINER CATANACH: Are you ready, Mr. Bruce?

20 MR. BRUCE: Yes.

21 MR. STOVALL: I assume you would like to say something
22 based upon your geologist's --

23 MR. BRUCE: Yeah, just one thing. And I think a couple
24 people here, it may be I'm not explaining myself, but what
25 Santa Fe is saying to Hanley is, Look, we will give you the

1 data you want, the logs and reports, the raw data. Now after
2 you get that data, after you look at it, then we want you to
3 do one of two things, commit or farm out.

4 MR. STOVALL: Are you not leaving them the option to go
5 nonconsent on the forced pooling order; is that what you're
6 saying?

7 MR. BRUCE: That's correct. We do not want them -- we
8 don't want to force pool.

9 MR. KELLAHIN: That precludes us the option of being the
10 operator and going forward with our own pooling case. That's
11 an empty gesture, Mr. Examiner.

12 MR. BRUCE: Oh, it's not empty, and the examiner knows
13 it. We would -- well, I mean, that could still leave the
14 issue of operatorship open, if they agreed to commit. I
15 suppose there could be a hearing solely on who operates that
16 well.

17 MR. KELLAHIN: Every subpoena issued, Mr. Examiner, can
18 always be successfully quashed by a claim that it's
19 confidential. And if you're going to believe that, then you
20 can always hide behind this confidentiality. What we want is
21 the opportunity at this hearing to utilize the same data that
22 they're going to be able to utilize at that very hearing.

23 MR. STOVALL: Mr. Kellahin, has Hanley filed an
24 application to force pool and seek an operatorship? Is there
25 one filed with the division at this point?

1 MR. KELLAHIN: We're on the docket for a hearing on the
2 24th at this moment.

3 MR. STOVALL: And then I assume we will consolidate these
4 two cases for a hearing at that time?

5 MR. KELLAHIN: That is the plan.

6 MR. STOVALL: Mr. Examiner, I think we could sit here for
7 another hour or so and argue fine points and what have you. I
8 think it is probably safe to say that practice before the
9 division has probably been unlike practice before any other
10 adjudicatory body in that there has been a relatively very low
11 flow of information prior to a hearing.

12 Most parties come to a hearing not knowing what the
13 other party in a case is going to have ahead of time. I'm not
14 sure that that gets us the best type of case. I think the
15 preparation is what makes a better case in front of the
16 division. I've also got some concerns about some basic
17 rights, comments I made earlier with respect to having access
18 to available information to make a decision.

19 I think in the Enron case, which Mr. Bruce and Mr.
20 Kellahin have referred to, I think we took one approach to
21 leveling the playing field, if you will. We'll give you an
22 equality saying, If you don't give it, you can't use it. I
23 think we could stick with that approach if we wanted to. I
24 don't think that necessarily provides the best result. I
25 don't see a good, sound argument why Hanley should not have

1 access to raw information, information which has not been
2 interpreted in any way by Hanley. On the other hand, once
3 they obtain that raw data, then they can make their own
4 evaluations and make their own decisions based upon the same
5 information.

6 I think interpretive data, what I would identify as
7 interpretive data would be referring to Mr. Kellahin's
8 subpoena, item number 6, any and all reserve calculations
9 including but not limited to volumetric calculations of the
10 reserves including recoverable reserves; item number 7, any
11 and all reservoir studies; item number 8, any and all economic
12 studies, including but not limited to estimates of pay out and
13 rates of return; and item number 10, geologic interpretations
14 by which you justify the well and evaluate its risk.

15 One other comment on the record is in considering
16 this case, another option that we had discussed is a policy
17 matter is that if information isn't available, it would be
18 indicative of a reduced risk on the pooling operator's part.
19 Certainly if he had more information, he wouldn't be entitled
20 to the risk. I think that, again, is sort of a skewed way to
21 deal with a difficult question. And I think the division at
22 this point is ready to deal with this difficult question of
23 getting information ahead of time. My recommendation, Mr.
24 Examiner, is that this subpoena be quashed with respect to
25 items 6, 7, 8, and 10, that it be allowed to stand with

1 respect to the other information, noting that item number 5
2 referring to production information, I would identify that as
3 just simply raw volumes.

4 I would advise the examiner and the parties also
5 that certainly what works for the goose works for the gander
6 and discovery works both ways. Historically, it has been most
7 of the discovery comes up in forced pooling cases, and most of
8 it comes from an opponent to a forced pooling application. I
9 don't think that that necessarily is the limitation. I would
10 advise also, Mr. Examiner, that this is a very narrow
11 precedent in terms of the division's moving towards a more
12 open discovery. It is not our intention to move in the
13 direction of a public service commission or federal energy
14 regulatory commission which would take three and a half years
15 to decide what they're going to look at, and the rest of the
16 world kind of stops while they do it.

17 I mean, any discovery that is going to be here is
18 going to be direct, concise. Also it states that part of the
19 reason or one of the reasons for granting, allowing the
20 subpoena on the specific items that are not being quashed is
21 that this is directly relevant information, it is an offset
22 well to the same pool by the same operator, and the
23 information is not available from any other source. I don't
24 think that this necessarily would indicate that Santa Fe would
25 be required to produce all of its information on other wells

1 in the Wolfcamp in the area. As Mr. Bruce pointed out, that
2 information is available from public records. And it's not
3 the division's job to force one party to do the other party's
4 research and evaluation.

5 Given that, my recommendation, Mr. Examiner, is
6 that, as I say, items 5, 6, 7, 7 -- excuse me, 6, 7, 8, and 10
7 on Mr. Kellahin's subpoena be quashed and that the subpoena
8 stand with respect to the other items.

9 Oh, one other thing. With respect to the
10 protective order, Mr. Bruce, I'm going to recommend a modified
11 protective order different from what Mr. Bruce has suggested,
12 that this information be made available only to Hanley. And,
13 of course, the examiner, should it become relevant, Hanley
14 should be directed not to release the information to any other
15 party prior to the hearing. At the hearing then, it becomes a
16 question of what to deal with, what is submitted in the
17 record. I recognize also that my recommendation does not
18 address the issue of exhibits to be presented in the given
19 hearing, and we haven't gotten into that which could get into
20 those interpretive areas. We're dealing only with raw data at
21 this time. And, Mr. Examiner, after you make a ruling, we're
22 going to have to make some determination with respect to
23 Exhibit Number 4 in case -- was it 10210, I believe?

24 EXAMINER CATANACH: The motion to quash by Santa Fe
25 Energy is hereby sustained as to item number 6, 7, 8, and 10

1 in the subpoena issued by the division as requested by Hanley
2 Petroleum Corporation. And that's the ruling on that.

3 MR. KELLAHIN: The subpoena requires production as of
4 today's hearing, Mr. Examiner.

5 MR. STOVALL: Mr. Kellahin, would you be willing to work
6 with Mr. Bruce and his client as to -- we don't want to get
7 real technical and --

8 MR. KELLAHIN: I understand.

9 MR. STOVALL: -- establish contempt. But I think an
10 adequate -- Mr. Bruce, what are you able to do as far as those
11 specific --

12 MR. BRUCE: Let me talk about it with my clients. I
13 don't even think they have all the data here today.

14 MR. STOVALL: Well, I would just urge you to reach an
15 agreement on that based upon the --

16 MR. BRUCE: I'm sure we can. But since the case wasn't
17 being held today, we certainly did not bring the data with us.

18 MR. STOVALL: I understand that. And I'd hardly suggest
19 that we'd hold Santa Fe in contempt for that failure.

20 MR. BRUCE: I will call Mr. Kellahin tomorrow.

21 MR. STOVALL: Mr. Examiner, nothing further in this case.
22 However, I'm going to suggest that we're going to have to
23 reopen case 10210 to discuss Exhibit Number 4, and I think
24 that should be discussed in the context of that case because
25 an order will affect that case.

1 EXAMINER CATANACH: Reopen briefly case 10210 and briefly
2 discuss Exhibit Number 4 that was entered by Santa Fe in that
3 case which was a geologic interpretation isopach map.

4 MR. STOVALL: I'll point out, as the record will reflect,
5 Mr. Kellahin does not represent anybody who is a party in that
6 case. I think he's properly using geologic interpretation. I
7 would suggest that while there's nothing in our rules that
8 specifically addresses the issue, I think that the record in
9 that case can be kept confidential until such time as an order
10 is issued in that case.

11 MR. BRUCE: That's acceptable.

12 EXAMINER CATANACH: Then that's what we'll do in that
13 case, keep the record confidential until an order is issued in
14 this case. We'll take case 10210 under advisement. This
15 hearing is adjourned.

16 (The foregoing hearing was adjourned at the approximate
17 hour of 6:20 p.m.)

18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 10211,
22 heard by me on January 10, 1991.

23 David R. Catanach, Examiner
24 Oil Conservation Division
25

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF SANTA FE)

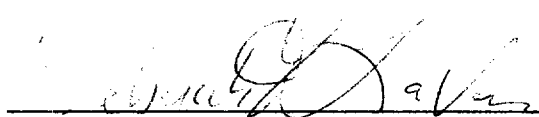
4 REPORTER'S CERTIFICATE

5
6 I, DEBORAH F. LAVINE, RPR, a Certified Court
7 Reporter and Notary Public, DO HEREBY CERTIFY that I
8 stenographically reported these proceedings before the Oil
9 Conservation Division; and that the foregoing is a true,
10 complete and accurate transcript of the proceedings of said
11 hearing as appears from my stenographic notes so taken and
12 transcribed under my personal supervision.

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

16 DATED at Santa Fe, New Mexico, this 11th of
17 February, 1991.

18
19
20
21
22 My Commission Expires:
23 August 6th, 1993


DEBORAH F. LAVINE, RPR
Certified Court Reporter
CCR No. 252, Notary Public

24
25
HUNNICUTT REPORTING
DEBORAH F. LAVINE, CCR. RPR

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

IN THE MATTER OF:)
THE HEARING CALLED BY THE)
OIL CONSERVATION COMMISSION)
TO CONSIDER:)
APPLICATION OF SANTA FE ENERGY) CASE NO. 10211
OPERATING PARTNERS, L.P., FOR)
COMPULSORY POOLING, LEA COUNTY, NEW)
MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LeMAY, Chairman
WILLIAM WEISS, Commissioner
JAMI BAILEY, Commissioner

January 17, 1991
9:07 a.m.
Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation commission on January 17, 1991, at 9:07 a.m.
at Morgan Hall, State Land Office Building, 310 Old Santa
Fe Trail, Santa Fe, New Mexico, before Susan G. Ptacek, a
Certified Shorthand Reporter No. 124, State of New Mexico.

FOR: OIL CONSERVATION COMMISSION BY: SUSAN G. PTACEK
Certified Shorthand Reporter
CSR No. 1224

I N D E X

January 17, 1991
 Commissioner Hearing
 Case No. 10211

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* * *

1 CHAIRMAN LeMAY: Case No. 10211.

2 MR. STOVALL: Application of Santa Fe Energy Operating
3 Partners, L.P., for compulsory pooling, Lea County, New
4 Mexico. Mr. Chairman, this case actually was on the
5 examiner docket for January 10, 1991. The substantive case
6 was continued at that time to examiner docket for January
7 24, 1991. It does not appear on the commission docket but
8 it comes before the commission in sort of in the form of an
9 interlocutory appeal -- I guess is the best way to describe
10 it -- on an order issued by the examiner with respect to a
11 subpoena.

12 Background of the case briefly is Santa Fe
13 Energy Operating Partners seeks to compulsory pool the
14 interest of Hanley Petroleum, Inc., into an 80-acre
15 proration unit as identified in the docket. It's in the
16 west half of the northwest quarter of Section 8 Township --
17 I'm trying to find the township and range here. Just a
18 moment.

19 Mr. Bruce, can you help me?

20 MR. BRUCE: I believe it's 18-33.

21 MR. STOVALL: 18 South 33 East; is that correct?

22 Hanley Petroleum owns a -- I believe it's a 50
23 percent working interest in the subject proration unit.
24 Santa Fe Energy prior to filing this application drilled a
25 well -- I believe it's a Wolfcamp well -- directly

1 offsetting the subject proration unit. Hanley Petroleum,
2 Inc., filed a subpoena requesting certain information. The
3 commissioners should each have a copy of that subpoena
4 duces tecum before them. Santa Fe Energy has filed a
5 motion to quash the subpoena.

6 At the January 10th hearing Examiner Catanach
7 heard argument, and based upon the argument he quashed the
8 request for items No. 6, which includes any and all reserve
9 calculations, including but not limited to volumetric
10 calculations of reserves, including recoverable reserves;
11 item No. 7, any and all reservoir studies; item No. 8, any
12 and all economic studies, including but not limited to
13 estimates of payout and rates of return; and item No. 10,
14 geologic interpretations by which you justify the well and
15 evaluate its risk.

16 CHAIRMAN LeMAY: Excuse me, Mr. Stovall. I think
17 before we get into a lot of this let's call for appearances
18 in the case.

19 MR. BRUCE: May it please the Commission, James Bruce
20 for the applicant Santa Fe Energy Operating Partners L.P.

21 MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of the
22 Santa Fe law firm Kellahin, Kellahin & Aubrey, appearing on
23 behalf of Hanley Petroleum, Inc.

24 MR. CARR: May it please the Commission, my name is
25 William F. Carr of the law firm of Campbell & Black, P.A.

1 of Santa Fe. I represent Harvey Yates Company and also
2 like to enter an appearance on behalf of Enron Oil & Gas
3 Company.

4 CHAIRMAN LeMAY: Are you all presenting witnesses for
5 this or -- Mr. Bruce?

6 MR. KELLAHIN: Mr. Chairman, we discussed this with
7 Mr. Stovall, and unless the commission has a need to ask
8 any questions, I do have some Santa Fe people here, but we
9 had informally agreed to put it forth on arguments.

10 CHAIRMAN LeMAY: Mr. Kellahin?

11 MR. KELLAHIN: Mr. Chairman, I did not bring witnesses
12 to present to you today. I had understood based upon the
13 telephone conversation with counsel that this was to be an
14 attorney's argument on the subpoena, and so I'm simply
15 unprepared with witnesses. If that is the desire of the
16 commission, I have none today.

17 MR. CARR: I would confirm it was my understanding
18 this was simply argument of counsel. We discussed bringing
19 witnesses, and because of what I understood we did not do
20 so.

21 CHAIRMAN LeMAY: Mr. Stovall, I'm sorry to interrupt
22 you. I understand through what counsel said you can
23 represent what is going to take place, and what has taken
24 place. So with that concurrence, please continue.

25 MR. STOVALL: I have identified the items which were

1 stricken, which were quashed, in the subpoena request
2 submitted by Mr. Kellahin. To summarize briefly --
3 unfortunately we do not have a transcript of the January
4 10th hearing. There was no written order issued, but I
5 think it's -- briefly summarized, rationale used by the
6 examiner was that those particular items which I have
7 identified were the result of an interpretation by Santa Fe
8 Energy of the information which was available, represented
9 proprietary information with respect to their evaluation of
10 the data rather than raw data itself.

11 The other items on the subpoena, items 1, 2, 3,
12 4, 5, and 9, represent raw data without interpretation as
13 viewed by the examiner; and it was the opinion of the
14 examiner based upon my recommendation and advice, I
15 believe, that because Santa Fe is seeking to invoke the
16 power of the state to compel the participation of Hanley's
17 interest in the proration unit that Hanley was entitled to
18 see the raw data which was held not available through other
19 sources, public records, but which Santa Fe had in its
20 possession and which might be the basis for its decision to
21 drill the well; that Hanley should have equal access to
22 that raw information but was not entitled to access to
23 Santa Fe's interpretations of any data; nor was Santa Fe
24 required to produce -- pardon me -- requested to produce in
25 this case information which was available from other

1 sources or which was not directly related to a direct
2 offset well.

3 I think that's -- if counsel can concur --
4 that's a fair summary of what happened at the January
5 hearing. At this point Mr. Bruce on behalf of Santa Fe
6 requested a hearing before the commission to review that
7 decision -- the rules contain no procedures for this, and
8 we are adopting the procedures as we go along. And I
9 concur this is a matter that represents a change, perhaps,
10 in commission policy. It's an issue that's come up before,
11 and it is appropriate for the commission at this time to
12 provide guidance to the division based upon arguments heard
13 today. At least in the context of this case, and hopefully
14 guidance that can allow counsel and parties before the
15 division and the commission to know what the rules are with
16 respect to discovery in cases of this nature.

17 CHAIRMAN LeMAY: Since this hinges on the information
18 that was both requested and that the examiner's opinion on
19 what should be allowed, is there just a list of those
20 items? I can't seem to find it.

21 MR. STOVALL: You should have a packet. The top sheet
22 is Mr. Kellahin's letterhead.

23 CHAIRMAN LeMAY: Within here there --

24 MR. STOVALL: Starting on the third page is the
25 subpoena itself.

1 CHAIRMAN LeMAY: I've got it.

2 MR. STOVALL: I will point out, Mr. Chairman, that
3 this -- the original subpoena was signed by you as the
4 director on January 3rd, and again that was done, for the
5 record -- just so that it's clear on the record, when a
6 subpoena request is submitted to the division, I have
7 advised the division director that that should be
8 ministerially signed, and it is up to the party who is
9 being subpoenaed to challenge that subpoena. The division
10 should not prior to a motion to quash question a subpoena.
11 So that's the initial procedural process.

12 CHAIRMAN LeMAY: So the signing of the subpoena by the
13 director does not either endorse nor in any way prejudice
14 that subpoena as to whether it should be upheld or not.

15 MR. STOVALL: Correct. It's just purely a ministerial
16 function at that point.

17 CHAIRMAN LeMAY: Thank you, Mr. Stovall. At this time
18 is it your pleasure gentlemen to each present your
19 arguments, and then -- you're looking for -- I guess not an
20 order but what kind of proceeding would come out of the
21 commission?

22 MR. STOVALL: I think we would ask the commission, and
23 perhaps I think it would be appropriate that after this
24 hearing that there be a written order issued upon which the
25 parties could rely. It is -- as I say, there was no

1 written procedure for it. It's in effect a de novo review
2 of a procedural ruling by an examiner, an oral procedural
3 ruling, and this is an opportunity for the commission to
4 issue guidance. It comes on the motion of Mr. Bruce, so he
5 is actually the moving party on this particular motion to
6 quash. I suggest what we're doing is in fact reviewing the
7 motion to quash the subpoena again, and the commission will
8 issue an order.

9 CHAIRMAN LeMAY: Mr. Kellahin.

10 MR. KELLAHIN: Mr. Chairman, I would like to comment
11 on Mr. Stovall's statement that this is a de novo
12 proceeding. Let me describe generally what I believe the
13 proceeding should be. The typical format, if this
14 commission adopts it, is already outlined in the discovery
15 rules before district court. The mechanism is that a party
16 in district court seeking the production of relevant
17 documents would have the district court clerk issue a
18 subpoena, not unlike it is done here. There is no
19 reflection on the issuance of the subpoena. It is a
20 ministerial task. It is served on the opposing party. In
21 this instance Mr. Bruce accepted service of the subpoena.
22 It is then his obligation to either abide by the production
23 requirements of the subpoena or timely move for protection
24 of the court from the requirements of that subpoena.

25 In this instance the subpoena required the

1 production of documents at the examiner hearing on January
2 10th. Prior to that hearing Mr. Bruce filed his motion for
3 a protective order or in the alternative quashing the
4 subpoena. We spent some two hours before Examiner Catanach
5 developing a record with regards to his decisions in that
6 matter.

7 I believe it is important for this commission to
8 actually review and read the transcript of the record
9 before the examiner, and I would ask that record be
10 incorporated in the proceedings today, because this is not,
11 in my opinion, a de novo process. You're acting as an
12 administrative body overseeing the director and determining
13 whether or not he has breached his discretion through the
14 examiner in having only a portion of the subpoena quashed
15 and requiring the balance of the documents to be presented.
16 I do not believe this is an opportunity for Santa Fe to
17 have a second try at denying the documents.

18 In addition, my second comment is that in
19 honoring the subpoena, Mr. Bruce's client is obligated in
20 district court, and I would contend before the proceedings
21 of the division, to actually produce the documents in the
22 hearing today. My understanding is that Mr. Bruce has had
23 his client bring the documents. They've not been disclosed
24 to me, but they should be available to the commission as
25 they would to the district court to examine en camera so

1 that you make your own independent judgments with regards
2 to relevancy and the nature of the confidentiality of those
3 documents. You do not leave it up to the objecting party
4 to make those conclusions for you upon which you must rely
5 in a vacuum. It is up to you then to examine the documents
6 if you deem them appropriate.

7 His claim now is not of relevancy but of
8 confidentiality. My understanding is that under district
9 court rules if that is the claim, then I am entitled to the
10 documents and that the court will direct a confidentiality
11 agreement be executed by the parties requiring my client
12 and all their agents not to disclose proprietary,
13 confidential information to outside third parties, but we
14 can use it for the purposes of the hearing.

15 It would be my contention in this case that that
16 is the proceeding available to us. And so with response to
17 the procedure, I think this is not a de novo procedure, and
18 I think that you have the ability to examine the --
19 Mr. Catanach's decision with regards to your actions today,
20 and, second of all, with response to the documents is what
21 we're looking at. They should be available to you in the
22 hearing room so you can actually see the available raw data
23 that Mr. Catanach has said we're entitled to see.

24 CHAIRMAN LEMAY: Thank you, Mr. Kellahin. With
25 regards to the procedure, Mr. Bruce would you please like

1 to comment on that?

2 MR. BRUCE: Just very briefly, Mr. Chairman. There is
3 case law that says discovery rules of administrative bodies
4 are similar to those of district court. It doesn't say
5 that they're identical. Therefore I don't believe there is
6 an absolute right of Hanley Petroleum to these documents.

7 Further more, in looking at the statutes,
8 whether this is a de novo proceeding or not, I don't
9 think, -- as far as I can tell that anything that is
10 appealed to the commission is de novo unless it is an
11 original proceeding. So that's something the commission
12 has to decide. But I don't agree with Mr. Kellahin's
13 position.

14 CHAIRMAN LeMAY: Would it be your suggestion that we
15 incorporate the record however --

16 MR. BRUCE: I don't have any problems with that.

17 CHAIRMAN LeMAY: -- and issue an order so there should
18 be some guidance for further action?

19 MR. BRUCE: Yes.

20 CHAIRMAN LeMAY: Mr. Carr, do you have any comment on
21 the procedure?

22 MR. CARR: The only comment is I believe that at the
23 end of this proceeding an order should be entered where it
24 addresses whether or not the subpoena is going to be
25 quashed, and I think if the commission would provide some

1 guidance in that order other than just making the ruling,
2 it would be of value to everybody practicing before the
3 commission.

4 CHAIRMAN LeMAY: In the event that we are looking at
5 this precedent setting -- so you all have some guidance --
6 is it your understanding that we should go beyond those
7 items suggested here and cover other possible items of the
8 confidentiality and nonconfidentiality and include those in
9 the order? Mr. Bruce.

10 MR. BRUCE: Mr. Chairman, I'm not sure how far you can
11 go, but it probably would be helpful in the future. As I
12 have even stated in my argument, I believe now we currently
13 have three examiner hearing cases before the division and,
14 of course, just like in a court, each examiner's decision
15 in that particular case might be a little different unless
16 there is some guidance from the commission as a whole.
17 Therefore, although it isn't just the forced pooling case,
18 as you well know there are many other cases as well that
19 could involve confidential information. Any guidance that
20 could be given would be appreciated.

21 CHAIRMAN LeMAY: Thank you, Mr. Bruce. Is that your
22 desire, too, Mr. Kellahin?

23 MR. KELLAHIN: I'm afraid Mr. Bruce and I are not
24 going to agree on much this morning, Mr. Chairman. It
25 would appear to me that this case is specific with regards

1 to the items still being required to be produced under the
2 subpoena, and that is the call of the case. This is not a
3 rule-making procedure for which there has been general
4 notice to the industry about what policy or rules the
5 division should develop for discovery. I would contend and
6 I will propose to you in my arguments that those rules are
7 already in place, and that you should limit yourself to a
8 decision with regards to this specific case and these
9 specific facts. To go beyond that I think borders on an
10 area where you're very vulnerable in whether you decide to
11 do it as a matter of policy, or these things are best
12 served on a case-by-case basis in a narrow framework as we
13 have presented for you today.

14 CHAIRMAN LeMAY: Thank you. I think we have in the
15 audience additional comments or at least concerning how far
16 we --

17 MR. PEARCE: If I may, Mr. Chairman, I'm W. Perry
18 Pearce, with the Santa Fe law firm of Montgomery & Andrews.
19 And I want to back Mr. Kellahin's comments about my belief
20 that it's inappropriate for this to be turned into any
21 general discussion of appropriate discovery guidelines for
22 the Oil Conservation Division. I am here because I was
23 made aware of this hearing through a telephone call, and I
24 have clients who have reviewed the order and have looked at
25 specific items and whether or not certain specific items

1 should or should not be disclosed. Those clients are not
2 here, and I am not here for them, but I want to emphasize
3 to the commission that they looked at the specific items in
4 that subpoena, and they are not on notice that their future
5 in division proceedings is going to be affected here
6 outside that specific subpoena. I would encourage you to
7 not to turn this into any general discovery proceeding
8 without giving the entire industry notice to send their
9 lawyers to tell you what we all think.

10 CHAIRMAN LeMAY: Thank you, Mr. Pearce. Mr. Carr.

11 MR. CARR: This is what happens every time you get a
12 bunch of lawyers together. I did not intend to suggest
13 that you should make -- or turn this into a rule-making
14 proceeding. I just suggested that maybe when you enter the
15 order, you might tell us as these particular items what
16 your ruling was, and I think on a case-by-case basis the
17 way you will handle these matters will evolve. But I'm not
18 suggesting that you should try to make this a rule-making
19 proceeding. I was just hoping that when we got a ruling
20 either quashing or denying the motion to quash, we'd have
21 some indications of why.

22 MR. STOVALL: Mr. Chairman, if I might. Two things I
23 would like to point out. One is under the examiner order,
24 the oral order at the January 10th hearing, he did place a
25 condition on the discovery that the information would be

1 released only to Hanley for the purpose of this hearing.
2 It did not make those documents public.

3 Second thing I would just like to -- my advice
4 to the commission on the issue is that because this is on
5 the docket on a two-day notice to the parties who are
6 parties to the hearing, I think we've got to be very
7 careful and limit the scope of it to the specific subpoena.

8 I would like to suggest that, perhaps, if
9 attorneys who regularly practice before the commission have
10 some concerns about general discovery rules that perhaps we
11 can have a session to determine if there is a need for a
12 more general rule making subsequently. I agree -- I concur
13 with Mr. Carr that we need to be very careful and
14 Mr. Kellahin -- not to go too far abroad in the scope,
15 simply because this is not even a docketed case, if you
16 will. It is in the nature of an emergency appeal.

17 CHAIRMAN LeMAY: Thank you, Mr. Stovall. I hope the
18 commission can be of some help in this particular specific
19 matter. We shall continue then with arguments, Mr. Bruce.

20 MR. BRUCE: Thank you, Mr. Chairman. If I can hand
21 out an exhibit just for illustration of my argument. It's
22 marked as Santa Fe Exhibit 1.

23 As already stated, Mr. Chairman, the issue today
24 is whether Hanley Petroleum, who is an interested party in
25 the Case 10211 is entitled to certain of Santa Fe's well

1 and geological information, which Santa Fe asserts is
2 confidential. I've handed you an exhibit. It's really
3 just meant to outline the wells that are -- of particular
4 interest to the commission today.

5 What I've drawn you there is a picture of the
6 northwest quarter of Section 8, Santa Fe and Heyco on the
7 east half of the northwest quarter and southwest quarter of
8 the northwest quarter. Hanley Petroleum owns the lease on
9 the northwest quarter of the northwest quarter.

10 I'd like to go into a little bit of the history
11 of Kachina No. 8. 8 No. 1 well was drilled to the Wolfcamp
12 formation by Santa Fe as indicated in the northeast quarter
13 of the northwest quarter. The unit for that well is
14 outlined in yellow, east half. It's owned by Santa Fe and
15 Heyco. Santa Fe originally wanted to drill that well as a
16 laydown in the north half, Mr. Chairman. They contacted
17 Hanley about joining or farming out or otherwise
18 contributing to the support of that well. Santa Fe was
19 informed that Hanley did not want to join.

20 Well, Santa Fe went ahead with its partner,
21 Heyco, drilled the well with a standup unit at its own cost
22 and risk and obviously at no cost to Hanley. Before the 8
23 No. 1 well was completed Santa Fe proposed 8 No. 2 well.
24 Obviously they need Hanley's acreage to drill that well
25 because the pool rules for the south quadrant Wolfcamp

1 provide for 80-acre spacing. Santa Fe and Hanley did
2 exchange letters, and I'm not sure about telephone calls,
3 but they really couldn't come to terms, so Santa Fe filed
4 an application to force pool Hanley.

5 Hanley responded by doing two things. The first
6 was obtaining the subpoena that Mr. Stovall has discussed
7 and referred you to. Second, it filed a compulsory pooling
8 application of its own asking that the west half of the
9 northwest quarter be pooled, and that the 8 No. 2 well -- I
10 don't know if Hanley has a different name for it -- but
11 that that be drilled at Santa Fe's proposed location.

12 As Mr. Stovall indicated, Hanley requested that
13 the following types of data be provided, which for ease of
14 reference in the prior hearing we called raw data. In
15 other words, well logs, daily drilling reports, et cetera;
16 and secondly, interpretative data, such as engineering and
17 geological studies, reservoir studies, et cetera.

18 Santa Fe asserts and really believes that all of
19 this information is confidential and proprietary to Santa
20 Fe. Of course, the well logs, the other raw data, came
21 from the 8 No. 1 well and it has not been publicly filed
22 yet. As to the other data, Santa Fe has spent large
23 amounts of time doing their geological interpretations and
24 other studies. Santa Fe filed this motion to quash the
25 subpoena and argued before Examiner Catanach last week.

1 And as Mr. Stovall stated, the motion was granted in part
2 and denied in part ordering Santa Fe to produce certain of
3 the raw data which Mr. Kellahin had requested on behalf of
4 Hanley.

5 Santa Fe obviously agrees with the examiner that
6 the interpretative data should be protected, and they're
7 obviously not quarreling with that portion of
8 Mr. Catanach's ruling. But based on the facts of this
9 case, Santa Fe does believe that Hanley is not entitled to
10 the raw well data and asks the commission to reverse the
11 examiner's decision as to the raw well data. Santa Fe has
12 appealed this case for two reasons. As I just stated, it
13 does not believe it should be required to give up its
14 confidential data, and also Santa Fe believes the matter is
15 vital to the oil and gas operators in the state, even if
16 this decision is limited to the facts of this case. I
17 think it will serve for guidance for future forced pooling
18 cases.

19 As I previously mentioned, now that the division
20 has three hearing examiners, it would be good to have a
21 uniform rule or at least something that practitioners
22 before this body could rely upon or at least look at when
23 doing forced pooling cases.

24 Santa Fe also is before the OCD probably as
25 often as anyone. I've represented Santa Fe for seven years

1 now, I've appeared constantly on their behalf. Therefore
2 just for their own needs they would like to have some idea
3 what is allowed at a compulsory pooling hearing, and we do
4 indeed thank the commission for hearing this on an
5 expedited basis.

6 Before getting into the facts of the case a
7 little further, let's address something that Mr. Kellahin
8 raised; that we are in an administrative proceeding and we
9 are not in front of the courts. The commission and
10 division were formed by the legislature to deal with the
11 special nature of the oil and gas business. I believe that
12 the commission has a duty to take into account that unique
13 nature of the business. Every operator out there, plus
14 geophysical companies, seismic companies have large amounts
15 of information which they consider proprietary. They are
16 loathe to present it in public or provide it to third
17 parties unless there is some exchange return of information
18 or in this case, as Santa Fe has requested, that Hanley
19 join in the well. We believe that this information should
20 be protected unless there is some compelling reason for its
21 production, and Santa Fe suggests that there is no such
22 compelling reason here.

23 Mr. Kellahin has already stood up and said court
24 rules apply and Hanley is absolutely entitled to the
25 information under discovery. Discovery is allowed in the

1 courts to permit a party to find out an opposing party's
2 position and all of their information. However, even in
3 court confidential data is protected. And there are cases,
4 as I stated, that hold that discovery proceedings in
5 administrative bodies are similar to those of the courts.
6 They are not identical, and I think that combined with the
7 fact of the OCD and the commission's creation to deal with
8 the oil and gas industry, gives the commission some leeway,
9 more leeway than that of the courts, to protect
10 confidential data.

11 Even if you use the guidelines of the district
12 court rules, production of the materials requested by
13 Hanley is not absolutely required. Rule 26 of the Rules of
14 Civil Procedure provides that where discovery is burdensome
15 or oppressive a court may enter an order denying access to
16 that information. Or in certain instances at least provide
17 for a protective order so that the information is produced
18 to the least number of people possible. Rule 26 also
19 specifically mentions confidential data as being
20 protectable.

21 Turning to the facts again, as we mentioned,
22 Hanley has requested the raw data on the 8 No. 1 well.
23 This information is being kept tight by Santa Fe which is
24 an accepted industry practice. Santa Fe has offered this
25 data to Hanley provided that they would agree to either

1 farm out or commit to the well. Now at the examiner
2 hearing during arguments it came across to us loud and
3 clear that this really wasn't quite proper because by
4 putting that condition on the production of information
5 Santa Fe had foreclosed Hanley from the third option, and
6 the third option, of course, is forced pooling and go
7 nonconsent under the forced pooling order.

8 Santa Fe asserts that under the facts of this
9 case that third option is not really there. It's illusory.
10 Hanley has filed it's own compulsory pooling case in which
11 they state they desire to drill a well. It desires to
12 drill the well at Santa Fe's location. The only thing I
13 can glean from that is that they want to be forced pool.
14 They don't want to go nonconsent. So Santa Fe has said,
15 "Look, we will give you the data. After looking at it,
16 then you can say, yes, we will join, or, yes, we will farm
17 out." We believe that in those circumstances Hanley is not
18 being penalized by Santa Fe's offer.

19 And this practice which Santa Fe -- or this
20 offer Santa Fe made, in other words, we will give you the
21 data, and then commit or farm out, that is an accepted
22 practice in the industry. Santa Fe has agreed to do it in
23 the past, and I believe other operators have. I would also
24 point out that Santa Fe does have a duty to protect its
25 well information for the benefit of its shareholders and

1 its partners.

2 As a result, Mr. Chairman, as to that raw data
3 which is identified in the subpoena, Santa Fe would urge
4 the commission to reverse the examiner's decision and hold
5 that Santa Fe need not produce that data to Hanley.
6 Although the examiner upheld the motion by Santa Fe as to
7 the interpretative data, I would like to make some short
8 comments on that.

9 I know Mr. Kellahin will present on -- at least
10 in the last hearing presented a little area map that shows
11 aside from the 8 No. 1 well there are 13 or 14 Wolfcamp
12 wells in the immediate vicinity of the proposed 8 No. 2
13 well. Thus Santa Fe believes there is plenty of public
14 information. In fact, Santa Fe used that public
15 information to build this prospect. And Hanley can use
16 that same public information to do its own engineering and
17 geological studies.

18 If anything, Santa Fe would state that the 8 No.
19 1 well only confirms Santa Fe's geological studies, and
20 really 95 percent of the information regarding geology, et
21 cetera, is already out there in public for Hanley to go and
22 examine. If Hanley commits to joining or farming out the
23 well, it would basically have 100 percent of that
24 information. We believe that allowing Hanley to get this
25 interpretative data at no cost to itself would be extremely

1 unfair to Santa Fe, which has put considerable effort into
2 building or constructing its geological engineering
3 interpretations. For that reason I request that the
4 commission uphold the examiner regarding that form of data.

5 There is -- one of those items I think that I do
6 want to mention specifically are economic studies. Besides
7 being confidential, I do believe that our studies, economic
8 studies, are irrelevant to this case. No showing of
9 relevancy has been made by Hanley as to economic data.
10 Really that's the data that companies use to determine
11 their well prospects; and if another company got ahold of
12 that, it could get a financial advantage over Santa Fe by
13 knowing what Santa Fe uses for its economics.

14 I have been at hearings before with all the
15 attorneys in here where economic studies have come up, and
16 the companies are very leery of letting anybody outside of
17 the company see those. And because no showing of relevancy
18 has been made I do not believe that this is one particular
19 item that should ever be ordered produced in my opinion.

20 One final comment, Mr. Chairman. As I said, I
21 believe this decision, although it really pertains just to
22 the forced pooling case, it is very important to the
23 industry, and it's also important to the commission and the
24 division. If the commission does begin allowing access to
25 confidential information, as I stated in my opening, I

1 believe there are many cases, maybe a vast majority of the
2 cases in front of examiners that involve in some way or
3 another confidential information. If these proceedings are
4 opened up to allow greater access to confidential
5 information, I think you will see an explosion of the
6 examiners' caseloads as they're confronted with subpoenas,
7 motions to quash, et cetera, et cetera.

8 In the past the division and the commission were
9 careful to protect the company data, and I think there are
10 some practical reasons to do so. I think the industry as a
11 whole and, of course, this might get into a further
12 rule-making proceeding, supports restriction to access to
13 some extent to confidential data. It's the life blood of
14 these companies, and they need it in order to do a good job
15 for their shareholders and owners.

16 As a result I would ask you to quash the
17 subpoena in its entirety. As I said, first because Santa
18 Fe has offered this raw data to Hanley, and second as to
19 the interpretative data, if Hanley accepts the 8 No. 1 well
20 data and goes to the public data, Hanley can do its own
21 engineering and geological studies. If production is
22 ordered, which Santa Fe does not favor, I believe there
23 will have to be a strong protective provision in the order
24 so that dissemination of this information stops with Hanley
25 and no where else.

1 Thank you, Mr. Chairman.

2 CHAIRMAN LeMAY: Mr. Bruce, is it your desire to wait
3 until all presentations are made, then if the commission
4 has any questions we can ask at that time, or is there any
5 opportunity for us to ask questions?

6 MR. STOVALL: I think it's the commission's pleasure
7 at this point. There is no rigid procedure. You're making
8 it as you go along so do as you wish. I don't think it
9 prejudices anybody for you to go ahead and ask Mr. Bruce
10 while it's fresh.

11 CHAIRMAN LeMAY: Is that agreeable? It might help us.
12 I think for our benefit -- at least for my benefit -- go
13 through again and just indicate those items in the subpoena
14 that were -- the examiner considered confidential and
15 therefore not releasable.

16 MR. STOVALL: 6, 7, 8 and 10, Mr. Chairman, were the
17 items that were quashed.

18 CHAIRMAN LeMAY: Thank you. So the economic studies
19 were quashed by the examiner's ruling?

20 MR. BRUCE: Mr. Chairman, if I may, the only reason I
21 bring up that interpretative data again is because of the
22 uncertainty as to the extent of this proceeding, whether it
23 is de novo or whether it's more of an appeal.

24 MR. STOVALL: On the issue, I don't think it really
25 matters whether it's de novo or appeal. What you rule

1 today is going to decide the case. That little formal
2 thing is not too significant in terms of overall scheme.

3 CHAIRMAN LeMAY: Do you have any questions?

4 COMMISSIONER BAILEY: What was the date of the
5 completion of No. 1 well?

6 MR. BRUCE: My witness just informed it was just this
7 past Sunday, the 13th of January.

8 CHAIRMAN LeMAY: Mr. Weiss, do you have any questions
9 that you would like to ask?

10 COMMISSIONER WEISS: That's the well that was drilled.
11 It's new. What is the normal length of time before the
12 information becomes public? 30 days; is that right, or 20
13 days?

14 MR. STOVALL: We have a 90-day rule, Commissioner,
15 with respect -- when information is filed it can be held by
16 the division for 90 days.

17 COMMISSIONER WEISS: I don't have any other questions.

18 CHAIRMAN LeMAY: Mr. Bruce, when that well was flooded
19 and drilled, was it drilled tight or is this information
20 tied into --

21 MR. BRUCE: It was drilled tight.

22 CHAIRMAN LeMAY: From spud.

23 MR. BRUCE: From spud. Let me get you the spud date
24 on that, Mr. Chairman.

25 MR. KELLAHIN: September 29.

1 MR. BRUCE: September 25.

2 MR. KELLAHIN: 29th.

3 MR. BRUCE: 29th.

4 CHAIRMAN LeMAY: That's all. Do you want to go next,
5 Mr. Carr?

6 MR. CARR: Maybe I ought to. I'm going to argue in
7 favor of quashing the subpoena, then Mr. Kellahin might
8 want to respond to us.

9 MR. KELLAHIN: I'm always anxious to hear from
10 Mr. Carr. I didn't know which side you were on.

11 MR. CARR: There is certainly no confusion of us being
12 in favor of quashing the subpoena.

13 May it please the Commission, I represent Harvey
14 E. Yates Company. Harvey E. Yates Company as Mr. Bruce
15 indicated is one of Santa Fe's partners in developing this
16 acreage. They have paid their proportional share of the
17 costs of developing the information which is now being
18 sought by subpoena.

19 I would submit to you that this is not a
20 district court proceeding, and those rules should not just
21 be adopted and incorporated en mass into your proceedings.
22 Oil and Gas Act expressly directs you to prescribe by rule
23 the rules of order and procedure to be followed in these
24 procedures. This is an agency which not only has technical
25 expertise and competence in the area of oil and gas

1 development, but it is an agency which should be sensitive
2 to and respect the customs and practices in this industry.
3 For this reason you are not only directed by the Oil and
4 Gas Act to prescribe your own rules of order, I submit to
5 you this is a time when you are called upon to develop a
6 procedure whereby information can be provided but only
7 within the custom and practice as we know it in this
8 particular industry.

9 Recently anyone who requests a subpoena from
10 this body gets it. It's treated as a ministerial act, and
11 I would submit to you that is the very seed of the problem.
12 The very seed that has grown into what we are doing here
13 before you today. The problem is that anyone can walk in
14 and request virtually anything. You grant a subpoena,
15 issue the subpoena, and then the party to whom the subpoena
16 is directed is put in the position of disclosing
17 confidential information in a case like this, or they are
18 required to come in here and fight and oppose it.

19 If you look at the statute, the only thing we
20 can raise as a defense is whether or not the information is
21 relevant; and if you take the same sort of approach that
22 the district courts take in interpreting that term, what
23 you are doing when you just ministerially sign that
24 subpoena is you say you give them your information, the
25 information that you have developed and that you have

1 considered proprietary.

2 I would submit to you that this is the time for
3 you to think about that and determine if that's what you
4 want the OCD subpoenas to become. I think that approach is
5 wrong. It is not only inconsistent with the industry, I
6 submit that what it does is simply invite abuse. When you
7 come in and enter an order and put a protective clause on
8 it, that's very helpful to me if I'm the one who is being
9 ordered to supply the information to Mr. Kellahin's client
10 and has the word this is confidential and should be
11 protected, because Mr. Pearce's client tomorrow, you issue
12 a subpoena and then I have to give it to him. Then the
13 next thing Mr. Bruce's client will do the same, and then
14 here will come Ernie Padilla and Ernie Carroll and
15 everybody else, and we have no confidentiality what
16 whatsoever. It's inconsistent with the rules of practice
17 before this commission.

18 I would never again recommend to a client to
19 file a log and ask you to keep it confidential for 90 days,
20 because I'm not even convinced, and I could stand before
21 you and fight to keep that confidential. When I go out,
22 when my client goes out and they invest money and they
23 drill Kachina 8 No. 2 well, they're not only seeking
24 production, they're acquiring the information and they can
25 use that information because they took the risk to develop

1 offsetting another property.

2 That's what we're doing here today. We're
3 asking you not to say when we go out, we take the risk and
4 we do what oil and gas operators do, that you're going to
5 say well, that's just fine, but anybody in this room who
6 wants a free romp through your files, I'm going to give it
7 to you and tell the guy who's developed the information and
8 spent the money that's his only relief is to come in here
9 and somehow contrive. I can tell you we can contrive some
10 arguments that assert that this information isn't relevant,
11 when in our hearts we all know that it is. It puts the
12 examiners in a bad position when you just ministerially
13 issue a subpoena, and then ask them to go in and listen to
14 us come in with these contrived arguments.

15 I will tell you right now that this procedure is
16 flat out of hand. This isn't just a situation that's come
17 up in this case. It's come up over and over again during
18 the last year. I've been before you for Texaco arguing
19 that well, maybe we could not put in structure maps in
20 which we have integrated this information and make it that
21 way acceptable. That's ridiculous. I have been in here in
22 the last year saying the Mallon well is a total depth. We
23 want the log. Then everyone says that's really not
24 relevant. That's like pretending we're two months ago
25 before the well was drilled. This situation is simply out

1 of hand.

2 The one way you can make sense out of this is to
3 quash the subpoena, and when somebody comes in and says I
4 want Joe Blow's records, you look at it and say, "I have
5 experience in the oil and gas industry. This is a toehold.
6 They're going to try to use this information for further
7 development. It's information they acquired by investing
8 their funds, and I am not just going to blindly say, yes,
9 you pass it down on the street corner and then to anybody
10 who wants a subpoena."

11 I think it is absolutely critical that this
12 chain of events which started several years ago in the
13 ministerial act of granting a subpoena come to a halt, and
14 what you do in the future, you look at it and see if this
15 is the kind of information you think an oil and gas
16 operator ought to be required to pass out.

17 I think when you do that, the decision making is
18 going to be made in the office of the director or a member
19 of the commission who is empowered to issue a subpoena, but
20 not ordered to do so. You are empowered. That doesn't
21 mean you have to. That doesn't mean you have to step
22 outside the practice and custom in this industry. I would
23 submit to you that's what has been going on.

24 We urge you to quash the subpoena, and we would
25 suggest that in the future when even I come in asking for

1 one, you exercise some real discretion and decide if you
2 want to start a chain of events which is going to result in
3 another hearing like the one we're having here today.

4 CHAIRMAN LeMAY: Mr. Carr, do you want to answer a
5 question or two? Mr. Weiss has a question.

6 COMMISSIONER WEISS: Really it's for Mr. Bruce, but I
7 forgot it. What does commit to a well and farm out mean in
8 a general economic sense?

9 MR. BRUCE: By "commit" I mean -- if you look at the
10 little map I have, Hanley owns 40 acres out of that 80-acre
11 unit, and if they commit to the well, then they would pay
12 half of the well costs. I'm just saying commit means they
13 agree to their proportionate share of all costs.

14 A farmout, the terms vary, but, for instance,
15 what Santa Fe offered to -- I recognize this isn't in the
16 record, but in this particular instance Santa Fe said,
17 "Give us a farmout of your lease," and what it is is kind
18 of -- I don't know how to describe it. Basically if Santa
19 Fe drills the well under the farmout from Hanley, it will
20 earn an assignment of a specified percentage of Hanley's
21 lease.

22 COMMISSIONER WEISS: But the risk is all --

23 MR. BRUCE: Santa Fe would pay all of the well costs
24 associated with the Hanley lease.

25 COMMISSIONER WEISS: Then under that Hanley would pay

1 their proportionate share, so it's a matter of assessing
2 costs. On the third case how does the economics work into
3 this? The one that you guys talked about. In a general
4 sense not to this particular case.

5 MR. BRUCE: I don't know if I can answer that. It
6 varies with each company and with each well prospect. But
7 the general procedure is that if Hanley was -- or since
8 Hanley has an application, and if Santa Fe was forced to
9 pool, and they did not pay their proportionate share of
10 costs, assuming it was Santa Fe that forced pool and Hanley
11 didn't pay its proportionate share of well costs, then
12 Santa Fe would get to recoup out of the production, if
13 there was production, that 50 percent of the well costs
14 plus a penalty to be set by the division or the commission,
15 anywhere from zero to 200 percent. So they would get costs
16 plus a penalty percentage.

17 COMMISSIONER WEISS: In your experience, let's say in
18 Santa Fe's experience, of these three options, what
19 generally -- can you say that one is 10 percent better than
20 the other or 50 percent?

21 MR. BRUCE: I think that would require expert
22 testimony, but, as I said, I've been representing Santa Fe
23 up here now for at least seven years, maybe eight years,
24 and in all that time Santa Fe has been up here a lot and
25 they have never gone nonconsent under a forced pooling

1 order. I think there's only one or two situations where a
2 pooling order has entered against them. But in any case
3 where they have an interest in the well, they have either
4 farmed out or paid their proportionate share.

5 COMMISSIONER WEISS: Thank you.

6 CHAIRMAN LeMAY: I have a followup. Maybe that's
7 similar because -- here, again, Mr. Bruce, this involves
8 something you said. You said that you would give the
9 information to Hanley if they would join to farm out and
10 these are clear-cut options. But I might cloud that a
11 little bit because a farmout has various terms. You can
12 farm out for half carried or you can farm out for 3 percent
13 override.

14 MR. BRUCE: That's true. Well, I have a landman here
15 who would testify that they just weren't able to come to
16 terms, but Santa Fe -- in Santa Fe's opinion they made an
17 offer and no counteroffer was ever made. Generally terms
18 can be found if people will negotiate.

19 CHAIRMAN LeMAY: I might differ but that would be a
20 personal opinion. Your fair and my fair may be two types
21 of fair.

22 MR. BRUCE: It depends, Mr. Chairman. I think Santa
23 Fe offered a 25 percent back in, and they didn't get a
24 counter for that. I know anything from 25 to 40 percent
25 are common in New Mexico.

1 CHAIRMAN LeMAY: That may be just well enough to drop
2 that right there before we get into a complicated
3 discussion. I just wanted a clarification as to the
4 clear-cut options. I just thought that I would challenge
5 that one farmout as being a clear-cut option. I think it's
6 complicated when you talk about farmout terms; not as
7 clear-cut as you might imply.

8 MR. BRUCE: Like I said, I fall back on the fact that
9 in my experience with Santa Fe they've always come to terms
10 with parties who wanted to drill a well. In my experience
11 in the proverbial 99 and 44/100 percent of the cases the
12 parties can come to terms that are acceptable to them.

13 CHAIRMAN LeMAY: Mr. Kellahin, I guess you're used to
14 being outnumbered in these kinds of proceedings. It's your
15 turn.

16 MR. KELLAHIN: Numbers only, Mr. Chairman. It's
17 always a treat to come up against my good opponent,
18 Mr. Carr. He's always wonderful. His hypothecated doom
19 and gloom presentation he has given to you this morning
20 escapes all the facts that I am aware of that are relevant
21 with regards to this particular case. I think we can put
22 in context some of the things that may bother him in the
23 abstract. He's always been able to land on his feet with
24 regards to these subpoena questions, and I can't imagine
25 that it's going to cause the turmoil and confusion that he

1 presents for you.

2 Let me share with you as a proposed Exhibit
3 No. 1 to this proceeding the same display that we shared
4 with counsel and with Examiner Catanach, simply as a point
5 of visual reference to talk about several points with
6 regards to this particular item. Mr. Bruce has conceded
7 the relevancy of the information. He argued that before
8 Examiner Catanach, and I think everyone will quickly see
9 that the information is in fact relevant. For purposes of
10 background, let me go through some of that discussion with
11 you so you can reach your own conclusions about that item.

12 We have shaded on the display, I think
13 predominantly in yellow on one of the displays, those are
14 the Wolfcamp completions known to my client to exist, and
15 you can see in relation to Section 8 they're to the south.
16 You can also see that there has been no discussion yet
17 before you with regards to the potential in the Bone
18 Springs, but in fact that exists and the testimony will be
19 that this location represents a potential in the Bone
20 Springs. You can see the Bone Springs development taking
21 place to the north and west of Section 8.

22 What has occurred then is a need for
23 information. We are not asking Santa Fe to do our homework
24 for us. We have the geologists and engineers to reach our
25 own conclusions about the data. But what we have is an

1 unfair advantage with regards to one party and the refusal
2 to share relevant data with another party. There is no
3 question that Mr. Bruce's geologist is going to use the
4 data that I seek to share with my technical people against
5 me at the hearing. It is absolutely certain that he will
6 produce some type of carbonate isopach that he integrates
7 the well bore information utilized from the logs of the
8 Kachina 8 No. 1 well against me. He will have an
9 interpretation of the size and the shape of the Wolfcamp
10 reservoir. It has material of importance and relevancy to
11 the location of that well within the 80-acre spacing unit.

12 We have simply nothing else to do but to get the
13 case filed on our own part for which we seek to operate
14 this very well, a forced pooling application because the
15 parties could not agree. I'm at a disadvantage with
16 regards to our expert in determining what is the optimum
17 location within that spacing unit. That is a critical,
18 relevant, important piece of information and I will tell
19 you why. Look in Section 5. There is an open location
20 shown in Section 5, it is the south half of the southeast
21 quarter of 5. You see the symbol there? That well is at
22 an unorthodox well location and it is processed by Santa Fe
23 Energy.

24 They were on the examiner docket last Thursday
25 with a case immediately before this one. It was case

1 10210. They were seeking to justify the unorthodox
2 location in the Wolfcamp, this very same formation for that
3 No. 5 well. They chose to be 330 from the southern
4 boundary of Section 5 as opposed to 660. The location,
5 admittedly by Santa Fe with regards to any Wolfcamp well,
6 is critically important. How else can you explain them
7 seeking before the commissioners an unorthodox location
8 utilizing the data that I seek to also utilize.

9 That's an interesting procedure. The examiner
10 heard that case, and geologist Toma for Santa Fe used
11 Exhibit No. 4 in that proceeding in which he presented a
12 carbonate isopach integrating the well bore information
13 from the well I seek to discover data on. He went through
14 that presentation in public with questions being asked by
15 the examiner with regards to that geologic interpretation.
16 The case was taken under advisement, and only during the
17 break when I looked at that isopach did they then reopen
18 the case and denied me access to that isopach under the
19 contention that the public disclosure of that information
20 did not waive the confidentiality of that data.

21 How do you reconcile that? If Santa Fe uses the
22 data in the interpretation in one case before this body,
23 and then comes here and turns 180 degrees and says I can't
24 have the data for my own client, so that we can have a
25 level playing field in order to have due process served

1 before this commission, so all parties have a fair chance
2 to protect themselves when you're exercising the police
3 powers of the state of New Mexico against me? It is
4 eminently unfair.

5 We have conceded and we have not sought to
6 appeal those items which Examiner Catanach in his wisdom
7 and judgment determined we did not need. I will represent
8 to you that in district court I would have gotten that
9 information. I will concede that there is perhaps a reason
10 for a difference before the regulatory bodies in oil and
11 gas operations. Those are their interpretations. We will
12 have our people there. We will make our own. But I think
13 it is important for us to have an opportunity for fairness
14 with regards to this specific information. It is not a
15 general shopping sortie through their proprietary
16 information. It's the information available for this one
17 well.

18 Let me tell you a little bit about this one
19 well. It was spudded on September 29, 1990. The rig was
20 released on October 30, 1990. There's initial tests on
21 that well. Apparently that well will produce in
22 substantial quantities of oil from the Wolfcamp. They're
23 building tank batteries out there. They're getting ready
24 to lay a six-inch line. All kinds of activities. Except
25 they have to lay the completion of that well in order to

1 take advantage of the situation.

2 You already have in existence procedures before
3 this division and this body with regards to the utilization
4 of important information. You can look at Rule 1105. I
5 have some copies of 1105 here. I will share them with you.
6 If you will turn to the second page of 1105, the commission
7 or the division rules and regulations already deal with the
8 claim of proprietary information with regards to logs.
9 There is a 90-day rule in there.

10 The information on the C105 is the kind of
11 completion and production information, part of which we
12 seek to have produced. And the reason that rule is in
13 there is very good, and it eliminates and satisfies and
14 addresses all the concerns Mr. Carr was telling you about.
15 The reason that rule is in there is because it accomplishes
16 in a very nice way two objectives. One, it lets the
17 parties that pay for generating the expense of that data to
18 hold them proprietary for 90 days. What does that
19 accomplish? What does the confidentiality accomplish? It
20 lets them take that data with a new discovery or with the
21 extension of a pool and get their land people out there in
22 the woods and lease up additional acreage so that they have
23 not disclosed the advantage of that information. Now, that
24 may not be fair, but that's how it's done in the industry.
25 That satisfies the concerns of the industry.

1 But you notice that after 90 days they're on
2 file they become public information, and everybody gets to
3 utilize them. I would suggest to you if that is a concern
4 for Santa Fe Energy, we will continue the two competing
5 forced pooling cases for 120 days. Give them 90 days to
6 further hold confidential the logs and the production
7 information. Let them satisfy their concerns about their
8 ownership, and then let's have the data.

9 But you see in the rule itself, the 1105 rule,
10 it says, "Notwithstanding that rule, the Commission can
11 require the production of that information that's relevant
12 with regards to proceedings before it." You've already
13 handled this in the rule, and it's only fair because you're
14 using the police powers of this state to determine what
15 will be the appropriate answer with regards to this case.

16 Let me tell you what this case is not. We have
17 had instances in the past, and I think most of you are
18 familiar with them in the forced pooling context. For
19 example, if Santa Fe is under an expiring lease problem,
20 they can't get joinder of all the parties and they start
21 the 8 No. 1 well in order to save their lease, Hanley is in
22 the position of having to contribute acreage and they
23 won't, the commission has gone out of its way to avoid
24 Hanley in that position of gaining an advantage by riding
25 that well down, knowing the results of that well and then

1 having an after-the-fact election of participation pursuant
2 to a pooling order.

3 I think everybody recognizes the commission has
4 tried various avenues of alternative solutions to avoid
5 that windfall to a party being pooled. That is not the
6 case here. The 8 No. 1 well has been drilled, completed.
7 It forms its own voluntary spacing unit with its interest
8 owners in the east half of that quarter section. We are
9 not participating in that well. We have no acreage to
10 contribute to that well, and we have no economic incentive
11 to -- at risk in that well. What we're looking at is
12 development wells offset to that development. We're
13 looking for the location.

14 Now, Santa Fe tells you the best location is in
15 the south 40 acres of the 80. My geologist would like the
16 opportunity to look at the data in order to determine in
17 his own mind that he can't, or maybe he should, put it in
18 the north 40, because he might optimize the potential to
19 duly complete or otherwise produce the Bone Springs and the
20 Wolfcamp. See how the two pools are coming together?
21 There is not a question of relevancy here, and I think the
22 opponents conceded that.

23 But I share with you some of the concerns about
24 why this is so relevant. The drilling information, daily
25 drilling reports and completion information is terribly

1 important. My engineer is willing to come and justify his
2 AFE and his drilling program for his well. It may in fact,
3 unless I am ambushed and surprised, which I am trying to
4 avoid, come up with a program in order to properly,
5 effectively and safely plan a program for the drilling of
6 the well; and without the data how am I to do it? I can't
7 know. I might as well not come. You tie my hands behind
8 my back if I don't get to have the same information they're
9 working from and it's eminently unfair.

10 Examiner Catanach with the assistance of
11 commission counsel has determined that I was correct with
12 regards to those items still left to be required to be
13 produced. We believe that that position should continue to
14 be sustained, and I will tell you that the commission
15 examiners have struggled with this on occasion. It's not
16 very frequent. The division has gone a long way in
17 avoiding hearings by ambush. We have made significant
18 progress with the recommendation of oil and gas attorneys
19 and with Mr. Stovall's assistance to have a pre-hearing
20 disclosure statement. In the olden days you'd come to the
21 hearing and you wouldn't even know who is coming against
22 you. that was a lot of fun. We hope we've gotten rid of
23 that.

24 Now we're at the point where we're trying to
25 take an important piece of information and have it shared.

1 We're not seeking and I don't think anyone has sought to
2 utilize discovery rules. They are there. I think we're
3 entitled to the data. But as an industry practice it has
4 been selectively utilized. The commission has the
5 authority to determine what's fair and reasonable. That's
6 why we're here today in that procedure. But let me tell
7 you, that if there is ever a way to maintain a data base
8 advantage to keep that from opposing parties, and yet to be
9 able to use that data in a hearing, quashing this subpoena
10 on the basis of confidentiality, is giving Mr. Carr the
11 worst fears imagined, because every subpoena issued will
12 always have to be quashed on the basis of confidentiality.
13 How else do you generate most of this data, unless the
14 company goes out and spends it and gets it? That does not
15 entitle them to beat us over the head with it in a pooling
16 process where it's only fair we also share that
17 information.

18 I contend they have waived the confidentiality
19 by their past actions before the commission. I think we're
20 entitled to have that information. One of the things that
21 the commission has done as an alternative, or the
22 division -- I will share them with you because I don't
23 think any of them work very well. In the forced pooling
24 case they have said when someone has data they don't want
25 to share and it's relevant, well, then they have decided

1 that it would reduce the risk factor component of the
2 pooling order. That somehow levels out the playing field.
3 I guess it's a compromise. It makes it a little better but
4 it's still not level.

5 One of the other cases where Mr. Carr was
6 involved in -- I don't know how he ever got himself into
7 this, but his client had the proprietary data. Mr. Bruce,
8 this wonderful little fraternity here, were all involved in
9 the same thing. He is the one seeking the data. He's in
10 my position last June. He and Enron and Texaco are just
11 duking it out over the data. He's contending I've got to
12 have it, and Mr. Carr says, "Oh, no, I'm going to keep it.
13 It's mine." What happens? The hearing examiner says that
14 not only can't Mr. Bruce have it, Mr. Carr can't use it.
15 And how are you going to decide a case in a vacuum? You're
16 going to pretend it's not there? Holly cow, how do you fix
17 that? It was fixed because the parties went outside the
18 hearing room and said, "My God, what have we done?" They
19 entered into a confidentiality agreement and they exchanged
20 the data. And that's what we're asking you to do here and
21 that's fair. That's all we want.

22 CHAIRMAN LeMAY: Mr. Weiss?

23 COMMISSIONER WEISS: I don't understand. It was my
24 impression that the exhibits at an examiner hearing were
25 public acknowledge.

1 MR. KELLAHIN: That was my understanding too,
2 Commissioner Weiss.

3 COMMISSIONER WEISS: What happened?

4 MR. KELLAHIN: The exhibits were withdrawn and sealed
5 and that's the status of that case at this point.

6 MR. STOVALL: Commissioner Weiss, if I might explain
7 the division's position at that time, Mr. Kellahin
8 indicated that related only by geographical area case.
9 Santa Fe sought an unorthodox location for the well
10 Mr. Kellahin discussed in Section 5. They did present an
11 isopach map. Mr. Kellahin did not enter an appearance on
12 behalf of any party in that case. He was not in the case.
13 Because of the precedential nature of this, the examiner
14 sealed the record in that case until such time as an order
15 is issued simply because there were no other parties that
16 needed that information in that case. It was in the
17 context of this rather controversial, as I say,
18 precedent-setting situation that that was done.

19 COMMISSIONER WEISS: What does "sealed" mean?

20 MR. STOVALL: Not allowed for public use, not for
21 public inspection.

22 COMMISSIONER WEISS: Is that case going to be decided
23 upon?

24 MR. STOVALL: There will be an order issued and at the
25 time the order is issued that case file will be opened up

1 and placed in the public records.

2 COMMISSIONER WEISS: Okay. That's all.

3 CHAIRMAN LeMAY: Just some general information in the
4 area. I'm assuming there are no expiring leases here in
5 Section 8; is that correct?

6 MR. KELLAHIN: That is my understanding, Mr. Chairman,
7 that in Section 8 the acreage is blocked up and held by
8 Santa Fe and Heyco. With regards to the balance acreage my
9 client owns 100 percent of the 40 acres of the tract
10 northwest of the northwest, and there is to the best of my
11 knowledge no leases held by production and there are no
12 expiring leases. At least within the short term. I'm
13 suggesting within the next 9 to 12 months if my memory
14 serves me correct.

15 CHAIRMAN LeMAY: Is that your opinion to, counselor?

16 MR. BRUCE: Yes, sir.

17 CHAIRMAN LeMAY: What about other wells drilled tight
18 in the area; is this precedent setting being tight or can
19 you point to some wells on this map or have any knowledge
20 of any wells in the Wolfcamp being drilled tight?

21 MR. KELLAHIN: I can't respond directly to that
22 question. At this point the information generally
23 available to the geologists, the type of logs, the mud
24 logs, all those kinds of things, are open and accessible to
25 everyone with the exception of this single well and to best

1 of my knowledge it's the only one here that has a
2 contingency still placed upon it.

3 CHAIRMAN LeMAY: You mentioned the well in Section 5.
4 Was that a tight well also?

5 MR. KELLAHIN: It's not been spudded yet. It was
6 proceeding before Examiner Catanach last Thursday where
7 they are seeking the unorthodox location of the 5-1 well.
8 That well to the best of my knowledge has not been started.

9 CHAIRMAN LeMAY: Bruce.

10 MR. BRUCE: Mr. Chairman, on this Wolfcamp well to the
11 south of the proposed location, I believe many, if not most
12 of those, are Meridian wells and I believe Meridian does
13 hold tight the information according to OCD rules. But I
14 do not know what the age of those wells are or when they
15 were completed. I believe information on those wells was
16 held tight when they were drilled.

17 CHAIRMAN LeMAY: For the 90-day period of time is your
18 understanding?

19 MR. BRUCE: Yes, sir.

20 CHAIRMAN LeMAY: This is rather informal. Does anyone
21 have any knowledge to that effect, that the wells in the
22 south half of 8, the Meridian wells, were drilled tight?

23 MR. CARR: No, I don't.

24 CHAIRMAN LeMAY: Is the information available now?

25 MR. TOMA: It is available now.

1 MR. BRUCE: For the record, Mr. Chairman, that was
2 John Toma, who is a geologist for Santa Fe Energy.

3 CHAIRMAN LeMAY: It's my understanding you would like
4 an order and I guess one issued rather quickly because what
5 happens from this point on will depend upon what kind of
6 order we issue.

7 MR. KELLAHIN: Yes, Mr. Chairman. I'm not suggesting
8 that you need to make an immediate decision. While there
9 are competing forced pooling cases on the docket for the
10 24th, I'm aware of no impediment that could require those
11 cases to be further continued until you saw the record
12 before Examiner Catanach and deliberate upon your decision.
13 I would suggest to you that as part of the procedure that
14 Santa Fe should produce for your inspection en camera the
15 documents required for production. It's my understanding
16 that those documents have been brought to Santa Fe, and we
17 would suggest that you may welcome or exercise that choice
18 in your judgment.

19 CHAIRMAN LeMAY: We have a general idea what is
20 requested in this case. Mr. Carr.

21 MR. CARR: I would just like to, if I could, correct a
22 couple of things. First of all, I was not suggesting that
23 you issue subpoenas and then have them quashed on the
24 confidentiality. I was suggesting that the division
25 exercise discretion going in. I think Mr. Kellahin

1 misstated my argument. I would also like to advise the
2 division that Heyco drills wells in the Bones Springs
3 primarily in the area. They drill them tight. They keep
4 the information confidential.

5 MR. BRUCE: If I could clarify one thing,
6 Mr. Chairman, regarding -- Mr. Kellahin referred to an
7 Enron case. Santa Fe was in that case and requested
8 information, but I would point out that when it requested
9 information, Santa Fe had already signed a letter
10 committing its interest in the well. Since we're paying
11 for part of that well, we think we're entitled to that
12 information. So I think that's a little distinguishable.

13 Mr. Kellahin also referred to the well in
14 Section 5. In that case Santa Fe -- it's in the record --
15 Santa Fe has an expiring farmout. It had to present
16 sufficient evidence to the examiner in order to get the
17 unorthodox location. And as a result it did present
18 certain information, and also did request that information
19 be held confidential.

20 One final thing, Mr. Chairman, although
21 Mr. Kellahin referred to Mr. Carr's doom and gloom
22 scenario, I think if you look at Mr. Kellahin's map, say,
23 for instance, the Kachina 8 No. 2 well was drilled,
24 regardless of under what circumstances, over in Section 7,
25 maybe the east half of the northeast quarter was owned by

1 some third party, well, if you adopt district court rules,
2 under district court rules I believe it would be perfectly
3 legitimate for that third party to come and subpoena Santa
4 Fe's data from the Kachina 8 No. 2 well to support some
5 well or forced pooling application in that Section 7. I
6 just don't think that's right. That's why I agree with
7 Mr. Carr that the subpoena power should be severely
8 restricted in this case.

9 CHAIRMAN LeMAY: Thank you. It's my understanding you
10 don't want rule-making-type with this case, but it sounds
11 to me like you're almost asking for rule making on the
12 subpoena issue. What we might do is certainly issue
13 findings and an order pertaining to this particular
14 situation. With that we might carry on some discussion
15 among the operators as to subpoena procedure, if they're in
16 disagreement with the way it's currently handled. If the
17 director should make his own decision upon seeing the
18 subpoena whether it was valid one or not. We've gotten a
19 little more democratic with this process. I think what
20 we're talking about is more or less not the degree of maybe
21 court procedures involved in OCD hearings. What we're
22 talking about is -- whether it be discovery or whether it
23 be subpoenas and quashing or whatever else, we can get into
24 that.

25 Mr. Kellahin.

1 MR. KELLAHIN: Mr. Chairman, if I might respond. What
2 we're dealing with here is the administrative due process.
3 On behalf of my appearance before you, I have no quarrel
4 with the current system as interpreted by Mr. Stovall. I
5 think it's abundantly fair that you issue the subpoenas and
6 have hearings in specific cases with regards to certain
7 information, and do it on a case-by-case basis. I think it
8 is a quagmire that you will never get out of if you open up
9 to general discussion of the policy.

10 CHAIRMAN LeMAY: I think Mr. Bruce's concern there was
11 that we get into fishing expeditions by anyone who wants to
12 drill a well, issue the subpoena, get into anyone's files
13 and get what they want.

14 MR. KELLAHIN: You can handle with the specific
15 findings with regards to this subpoena and draw them as
16 narrowly or as broadly as you wish.

17 CHAIRMAN LeMAY: This is going to be my suggestion
18 with my associates concurrence that we would in the
19 findings address some of these concerns.

20 MR. STOVALL: Mr. Chairman, if I might, I'd like to --
21 Mr. Carr raised the question about the ministerial approval
22 of subpoenas. I would direct the commission and perhaps
23 Mr. Carr would want to respond to Rule 1211, the second
24 sentence of which says, "A subpoena will be issued for
25 attendance at the hearing upon written request of any party

1 interested in the subject matter of the hearing." It is
2 upon the basis of that instruction that I have issued my
3 recommendation to the division director that this becomes a
4 ministerial function, and that in fact the director does
5 not become an advocate on behalf of the party from whom
6 information is sought. That they should be their own
7 advocate.

8 I think the issue which is of concern here and
9 one that perhaps needs to be addressed probably outside the
10 context of this hearing, since it is not a problem here, is
11 the definition of "any person interested in the
12 proceeding." I think there is a very valid concern, but I
13 don't think it's within the scope of this hearing about
14 whether just anybody can jump into a proceeding and start
15 requesting data just because they want the information, and
16 whether or not they've got a direct interest in the
17 proceedings.

18 CHAIRMAN LeMAY: I think what -- with my associates
19 agreement we will draw up some findings in this case
20 addressing the specific issues as ruled on by the examiner,
21 and beyond that see where we go from there.

22 Mr. Bruce.

23 MR. BRUCE: One final comment. I think this letter --
24 the original was given to the examiner.

25 CHAIRMAN LeMAY: I think that we have that.

1 MR. BRUCE: This is the Hondo Oil & Gas letter.

2 CHAIRMAN LeMAY: We have a record in our file where we
3 received that letter.

4 MR. KELLAHIN: Mr. Chairman, I object to this being a
5 popularity contest or some kind of ballot where we poll and
6 submit letters from the industry without comment. You can
7 do it like you always do, put them in the file, but I
8 resist and object to it being integrated as a specific
9 exhibit in this case. If it's meant to poll the industry,
10 I would like the opportunity to go out and poll my own.

11 MR. CARR: May it please the Commission, I believe
12 this letter and my appearance for Enron are nothing more
13 than just that, taking a position and advising you where
14 our company stands. Mr. Bruce and I today have been
15 branded as being from the same fraternity, and I guess it's
16 unfortunate whether it's more popular than the other side
17 according to Mr. Kellahin.

18 CHAIRMAN LeMAY: I can guarantee you that the
19 commission has not based opinions on popularity. We are
20 very unpopular in many cases. If there are arguments in
21 the letters, I certainly like to read them, but we're not
22 taking polls on the issue because they're not an accurate
23 survey and wouldn't mean anything anyway.

24 MR. KELLAHIN: One final procedural thing, if there is
25 a desire to deliberate this, I would request some guidance

1 on the hearing next week. We've got them breathing down
2 our back. It will be virtually impossible I think, even
3 now if given the information, to try to get it analyzed and
4 integrated into displays, and we have a scheduling concern
5 here based upon how you decide to handle this.

6 CHAIRMAN LeMAY: Talking about the forced pooling
7 case?

8 MR. KELLAHIN: The two examiner forced pooling cases
9 are now on the docket for the 24th. I don't mean to
10 suggest how you handle your proceeding, but it is a concern
11 to me in that preparation that it is simply a week away.

12 CHAIRMAN LeMAY: We can get together on that. I'm not
13 involved in our examiners -- the examiners are here. It is
14 my understanding you will need some guidance with this
15 issue before you go on. Unless you want to go on without
16 that guidance.

17 MR. KELLAHIN: I can't go on without the guidance and
18 I think we're stuck here until you decide how we're going
19 to proceed.

20 MR. BRUCE: I think that should be referred to the
21 examiner. We don't want the case continued unnecessarily.

22 CHAIRMAN LeMAY: That is an argument you will probably
23 have to make before him. Since we just appeared to decide
24 this issue, not necessarily what you're going to do at the
25 examiner hearing.

1 Is there anything else? We do have some
2 letters, might just refer to those, Mr. Stovall, for those
3 that are keeping track on a popularity basis.

4 MR. STOVALL: The only one which I've actually seen
5 and have a copy of is from Mewbourne Oil Company, Paul
6 Haden, landman. I have not seen the other letters which
7 have been submitted.

8 CHAIRMAN LeMAY: We have a letter from Hondo Oil & Gas
9 Company. It's on the side of Mr. Bruce and Mr. Carr.
10 Those are the only two correspondence, pieces of
11 correspondence, that I've received. And they will be
12 incorporated into the record for whatever value they may
13 have as to readability, certainly not as testimony.

14 Is there anybody else who has any comments or
15 anything they would like to say in regard to this case?
16 Mr. Pearce left. He must have had something else. He was
17 here for a short time.

18 That's it. We will take this case under
19 advisement.

20 (Whereupon, the hearing was concluded at the
21 approximate hour of 10:30 a.m.)

22 * * *

23

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25

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF SANTA FE)

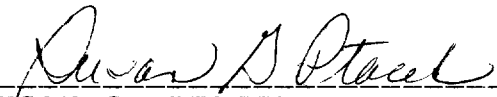
4 REPORTER'S CERTIFICATE

5 I, Susan G. Ptacek, a Certified Shorthand Reporter and
6 Notary Public, do HEREBY CERTIFY that I stenographically
7 reported the proceedings before the Oil Conservation
8 Division, and that the foregoing is a true, complete and
9 accurate transcript of the proceedings of said hearing as
10 appears from my stenographic notes so taken and transcribed
11 under my personal supervision.

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

15 DATED at Santa Fe, New Mexico, this 11th day of
16 February, 1991.

17
18 My Commission Expires:
19 December 10, 1993


SUSAN G. PTACEK
Certified Shorthand Reporter
Notary Public

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

Cases No. 10211 and 10219

IN THE MATTER OF CASE NUMBER 10211)
AND CASE NUMBER 10219, CONSOLIDATED,)
REGARDING COMPULSORY POOLING IN) Vol. II
LEA COUNTY, NEW MEXICO.) Pg. 61- 336

REPORTER'S TRANSCRIPT OF PROCEEDINGS
VOLUME II, Pages 61-336
EXAMINER HEARING
BEFORE: JIM MORROW, HEARING EXAMINER

Friday, March 8, 1991
8:40 a.m.
Santa Fe, New Mexico

This matter came on for hearing before
the Oil Conservation Division on March 8, 1991, at
8:40 a.m., at Morgan Hall, State Land Office
Building, 310 Old Santa Fe Trail, Santa Fe, New
Mexico, before: Gail D. Vinson, CCR, Certified
Court Reporter Number 297, for the State of New
Mexico.

FOR: OIL CONSERVATION BY: GAIL D. VINSON, CCR
DIVISION Certified Court Reporter
 CCR No. 297

I N D E X

March 8, 1991

Examiner Hearing

Cases No.10211 and 10219

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1 EXAMINER MORROW: State your appearances.

2 MR. BRUCE: I am James Bruce of the
3 Hinkle law firm representing the applicant. I have
4 four witnesses to be sworn.

5 EXAMINER MORROW: Any other
6 appearances?

7 MR. KELLAHIN: I am Tom Kellahin, of the
8 Santa Fe law firm of Kellahin, Kellahin and Aubrey,
9 appearing on behalf of Hanley Petroleum, Inc. I
10 request that you call the next case on the dockets,
11 which is Hanley's application in Case 10219, and
12 that these two matters be consolidated for purposes
13 of hearing.

14 EXAMINER MORROW: Is that all right with
15 you?

16 MR. BRUCE: Yes, sir.

17 EXAMINER MORROW: Case Number 10211 and
18 Case Number 10219, for compulsory pooling in Lea
19 County, New Mexico.

20 MR. CARR: May it please the Examiner, I
21 am William F. Carr, of the Campbell & Black law
22 firm. I represent Harvey E. Yates Company in both
23 of these cases. And I do not have a witness.

24 MR. STOVALL: Mr. Bruce, you said you
25 did have some witnesses?

1 MR. BRUCE: Perhaps four witnesses, and
2 I'd like to have them all be sworn at this time.

3 (Mr. Stovall swore all the witnesses
4 present in the conference room.).

5 MR. BRUCE: Call Mr. Murphy to the
6 stand.

7 LARRY MURPHY
8 was called as a witness and having been previously
9 sworn, was examined and testified as follows:

10 EXAMINATION

11 BY MR. BRUCE:

12 Q. Would you please state your name and
13 city of residence?

14 A. My name is Larry Murphy and I'm from
15 Midland, Texas.

16 Q. And who are you employed by?

17 A. My employer is Santa Fe Energy
18 Resources. I am employed as a landsman.

19 Q. And what is the relationship of Santa Fe
20 Energy Resources to Santa Fe Energy Operating
21 Partners, L.P.?

22 A. Basically, this is a partnership that is
23 owned 80 some-odd Santa Fe Energy by Santa Fe
24 Resources. Any further detail from that would have
25 to come from our management in Houston.

1 Q. And Santa Fe Energy Operating Partners
2 would be the entity that owns a portion of the land
3 that is involved in today's cases; is it not?

4 A. Yes.

5 Q. Have you previously testified before the
6 OCD as a landsman?

7 A. Yes, I have.

8 Q. And are you familiar with the land
9 matters involved in today's cases?

10 A. Yes, I am.

11 Q. Mr. Examiner, I tender the witness as an
12 expert landsman

13 EXAMINER MORROW: Accept his
14 qualifications.

15 Q. Mr. Murphy, state briefly what Santa Fe
16 seeks in its case?

17 A. Santa Fe seeks an order pooling all
18 mineral formations under the west half, northwest
19 quarter of Section 8, Township 18, south, Range 33
20 east, for all pools or formations based on 80 acres.
21 The unit will be dedicated to Santa Fe's Kachina "8"
22 Fed. Well Number 2, to be located 660 feet from the
23 west line and 1980 feet from the north line.

24 Q. Will you please refer to Exhibit
25 Number 1 and describe its contents for the Examiner,

1 and also identify the parties Santa Fe seeks to
2 force pool?

3 A. Exhibit Number 1 is a land plat showing
4 the proposed unit and well location, outlined in red
5 and well location shown in green. The location is
6 1980 feet from the north line, 660 feet from the
7 west line, which is a standard under the South
8 Corbin Wolfcamp Pool Rules. The uncommitted
9 interest owner is Hanley Petroleum, Inc., which owns
10 100 percent of the northwest quarter northwest
11 quarter.

12 Santa Fe and Heyco jointly own the
13 southwest quarter northwest quarter.

14 Q. Has Heyco agreed to join in this well?

15 A. Yes. Heyco has also consented to
16 Santa Fe operating the well.

17 Q. Okay. Would you please describe your
18 efforts to get Hanley to join in Santa Fe's proposed
19 well? And I would refer you to Exhibit 3 -- skip
20 an exhibit, please.

21 A. First of all, I'd like to go into the
22 history of Santa Fe's Kachina 8 Fed. Number 1 well,
23 located in the northeast quarter northwest quarter
24 of Section 8.

25 Santa Fe had been working on this

1 prospect for a number of months, and in the summer
2 of 1990 I called Hanley's office and asked if they
3 would support the proposed 8 Number 1 well. It was
4 Santa Fe's intention to drill the well as a north
5 one-half northwest quarter laydown. I was told that
6 Hanley was not interested in a farmout, purchase, or
7 any kind of support for for the Kachina 8 Number 1
8 well.

9 As a result, Santa Fe reoriented the unit
10 to an east half, northwest quarter standup. The
11 well was spudded on September 29, 1990, and was
12 drilled to the Wolfcamp formation.

13 Before it was completed, Santa Fe decided
14 to proceed with the 8 Number 2 well, and sent its
15 first letter to Hanley Petroleum on November 12,
16 1990, requesting joinder or a farmout of Hanley's
17 acreage. Hanley responded by letter dated
18 November 26, 1990, claiming that Santa Fe failed to
19 give Hanley enough information and requesting all
20 logs, reports and Santa Fe's geological
21 interpretations.

22 As the Division is aware, Hanley
23 subpoenaed certain data, which Santa Fe has supplied
24 to Hanley. We originally objected to producing the
25 data because it was confidential.

1 Hanley also wanted to pay for Wolfcamp
2 costs only, and not any costs associated with the
3 pools spaces on 40 acres such as Bone Springs. We
4 feel that this request is inappropriate, because the
5 Bone Spring at our location is wet and our geologist
6 will discuss this further.

7 Under the operating agreement we proposed
8 to Hanley, the west half northwest quarter would be
9 a working interest unit and Hanley would share any
10 production pools spaced on 40 acres. Furthermore,
11 we offered to take a farmout from Hanley only as to
12 the Wolfcamp, but they did not respond to this
13 offer.

14 Third, Hanley was concerned about its
15 override under a farmout because its lease has a
16 sliding scale royalty. Santa Fe offered to insure
17 Hanley a minimum override of two and a half percent.
18 Finally, Hanley wanted to operate the well and I
19 will discuss this later.

20 By letter dated December 3, 1990, and
21 December 17, 1990, I responded to Hanley's letter.
22 As I just discussed, we offered to take a farmout
23 only as to the Wolfcamp, offered a minimum override,
24 and stated that we wanted to operate the well due to
25 our experience.

1 We offered to let Hanley see the logs and
2 reports of the Kachina 8 Number 1 well through
3 November 12, 1990, provided that Hanley agreed to
4 join or farmout. The reason we set this date is
5 because this is the date we decided to drill the
6 proposed Kachina 8 Number 2 well, and Hanley would
7 be given the same data that we used when we decided
8 to drill the Number 2 well.

9 Hanley sent us a letter dated
10 December 19, 1990, asking for an operating
11 agreement, but essentially rejecting our offers. We
12 point out that we have never received a counteroffer
13 from Hanley.

14 We sent Hanley our proposed operating
15 agreement, shown as Exhibit 5, which is the standard
16 AAPL 1982 form, by letter dated December 20, 1990.
17 There has been subsequent correspondence, phone
18 calls and a meeting. On February 4, 1991, Hanley
19 proposed an amendment to the operating agreement as
20 to the rights below the base of the Bone Springs
21 formation only.

22 We feel that we have made a good faith
23 effort to get Hanley to join voluntarily in the well
24 and ask that they be pooled into the well.

25 Q. Now, Exhibit 3 is various correspondence

1 between Santa Fe and Hanley; is it not?

2 A. Yes, it is.

3 Q. And it includes both Hanley's letters
4 and Santa Fe's letters?

5 A. Yes, it does.

6 Q. And one other item on that February 4,
7 1991, letter, by that letter Santa Fe was informed
8 that Hanley desired to drill the well on its
9 acreage; did it not?

10 A. Yes, it did.

11 Q. Does Santa Fe request that it be named
12 operator of this well?

13 A. Yes. We think that there are several
14 good reasons why Santa Fe's the logical operator of
15 this well.

16 Q. Referring to Exhibit 2, would you
17 discuss some of those reasons?

18 A. Santa Fe has substantial experience in
19 this pool having drilled or participated in nine
20 wells within the pool, with three additional wells
21 currently proposed for this year. Santa Fe operates
22 approximately 125 wells in New Mexico, including
23 nine Wolfcamp wells, located in this pool and other
24 pools.

25 This is Santa Fe's prospect. We own

1 interest in over 3,000 acres in this area shown on
2 Exhibit 2, and we are the ones who developed the
3 geology and who proposed this well.

4 Q. By this lease, is that the north half of
5 Section 8 except for Hanley's acreage?

6 A. Yet, it is. Santa Fe bought this lease
7 in August 1990 and has drilled one well on the lease
8 and plans to drill two more in the near future.
9 Hanley sat on its 40 acre lease for years, until
10 Santa Fe proposed the well. We believe that this
11 should carry some weight because Santa Fe obviously
12 desires to develop its lease.

13 Q. Referring back to Exhibit 2, the north
14 half of Section 8, exempts forever Hanley's acreage
15 lags it is ownership of that acreage? ?

16 A. Santa Fe owns 50 percent and Harvey E.
17 Yates owns 50 percent.

18 MR. KELLAHIN: What section did you
19 refer to?

20 MR. BRUCE: Section 8.

21 Q. And what about the south half of
22 Section 8, Mr. Murphy, does Heyco own interest
23 interest in that acreage?

24 A. No, they do not.

25 Q. And what is Santa Fe's interest in the

1 south half of Section 8 or in the southwest corner
2 of Section 8?

3 A. Santa Fe owns approximately 19 percent.

4 Q. Okay. Referring to Exhibit 4, will you
5 just briefly set forth the proposed well costs by
6 Santa Fe?

7 A. This is Santa Fe's well cost estimate
8 which indicates the dry hole estimate at just over
9 \$453,000 with the estimate of a completed well just
10 under \$722,000. I'd like to refrain from going into
11 detail on this and leave it to our engineers who
12 have more experience.

13 Q. Does Santa Fe believe that well costs,
14 if the well is drilled at Santa Fe's location,
15 should be apportioned?

16 A. No, Our engineer and geologists will
17 discuss this issue further. Our basic position is
18 there is no other objective than the Wolfcamp which
19 supports the drilling of this well. Therefore, we
20 request that Hanley Petroleum bear 50 percent of the
21 total well costs.

22 Q. And what are your recommendations as to
23 the drilling and supervision rates for Santa Fe's
24 proposed well?

25 A. It is our recommendation that \$6,260 per

1 month be allowed for a drilling well and \$626 per
2 month be allowed for a producing well.

3 Q. And are these comparable with 1990 Ernst
4 & Young rates?

5 A. Yes -- to my knowledge.

6 Q. And are these amounts that you have just
7 recommended in line with drilling and supervision
8 rates for other wells of this type in this area?

9 A. Yes, they are.

10 Q. And what penalty do you recommend
11 against Hanley if it goes nonconsent to this well?

12 A. We're requesting costs plus 200 percent.
13 This is a figure used in operating agreements in
14 New Mexico and our geologists will discuss the
15 reasonableness of this proposed penalty.

16 Q. And was Hanley Petroleum notified of
17 this case in writing?

18 A. Yes, they were.

19 Q. And is a copy of the notice letter
20 submitted as Exhibit Number 6?

21 A. Yes, it is.

22 Q. And were Exhibits 1 through 6 one
23 prepared by you or compiled from company records?

24 A. Yes, they were.

25 Q. And in in your opinion will the granting

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

4 A. Yes.

5 MR. BRUCE: MR. Examiner, at this time I
6 would move the admission of Santa Fe Exhibits 1
7 through 6

8 EXAMINER MORROW: Exhibits 1 through 6
9 are admitted.

10 (Santa Fe Exhibits 1 through 6
11 marked for identification.)

12 EXAMINER MORROW: I have just a
13 question. Besides, I thought it might be
14 appropriate, Mr. Murphy, if you could refer to your
15 Exhibit Number 2. The acreage shaded in yellow is
16 acreage in which Santa Fe Operating Energy Partners
17 has an ownership interest; is that correct?

18 THE WITNESS: Yes, it is.

19 EXAMINER MORROW: Do you operate wells
20 in the south half of Section 8.

21 THE WITNESS: No, we do not.

22 EXAMINER MORROW: Are there Wolfcamp
23 wells in those--

24 THE WITNESS: Meridian.

25 EXAMINER MORROW: And is that -- is the

1 well spot in the southwest east southwest; is that a
2 Wolfcamp well?

3 THE WITNESS: Yes, it is.

4 EXAMINER MORROW: Do you know what
5 acreage is dedicated to that well?

6 THE WITNESS: No, I do not.

7 EXAMINER MORROW: Mr. Kellahin?

8 EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Murphy, your comments about the risk
11 factor penalty requested in the pooling orders, the
12 maximum 200 percent, If I understood you correctly,
13 are based upon geologic reasons?

14 A. Yes.

15 Q. As you understand it, there are no land
16 reasons to explain the risk factor, it is simply
17 repetition of the conclusions reached by the
18 geologists based upon geologic reason risks?

19 A. Yes.

20 Q. I apologize for not having more than one
21 copy of the Ernst & Young 1990 survey, but perhaps
22 we could share it collectively among ourselves.
23 Perhaps we can have the witness identify and mark
24 where he has pulled his overhead costs off of this
25 book and -- to see how they might compare, and then

1 I'll show it to the Examiner?

2 EXAMINER MORROW: 1990, you say?

3 MR. KELLAHIN: Yes, it's the 1990 book.

4 Q. The overhead rates were \$626 a month --

5 A. Yes.

6 Q. -- producing well rate and \$6,200 a
7 month drill well rate, did I remember that right?

8 A. \$6,260 and \$626.

9 Q. \$6,260 and 626. Oh, I forgot the six.
10 I'm going to show you the Ernst & Young book on
11 Page 14, for a identical well in West Texas, and
12 Eastern New Mexico. These Wolfcamp wells appear to
13 me to be within the category of depth from 10,000
14 feet to 15,000 feet; is that correct?

15 A. Yes.

16 Q. And as I read across, it says that the
17 mean monthly drilling well rate for 1990 is \$5,184
18 and then the monthly producing well rate, the mean
19 rate for 1990 for wells at this depth is 485. Let
20 me show you what I'm reading from.

21 A. Yeah.

22 Q. Let me show it to the Examiner before
23 you respond, Mr. Murphy.

24 Mr. Murphy, your proposed overhead rates
25 appear to be in excess of the Ernst & Young

1 tabulation for 1990 for identical wells at this
2 depth. How do you explain your conclusion that your
3 rates are in line with that survey?

4 A. Well this is -- these numbers that I
5 was given come from our accounting office that --
6 who provides the numbers. But if Hanley and OCD
7 believe the rates in Ernst & Young are proper, we'll
8 accept those.

9 Q. Let me go back to the ownership map and
10 perhaps Number 2 is --

11 MR. STOVALL: Mr. Kellahin, let me just
12 interrupt you. Do you want to mark it? Is it your
13 intent to submit it so that we can refer to --

14 MR. KELLAHIN: Perhaps to keep the record
15 straight, we might do that. I will tender that as
16 Hanley Exhibit A. I do that because I've numbered
17 my exhibits already from my presentation and it may
18 confuse the records.

19 So during the break, Mr. Examiner, I
20 would propose that the Ernst & Young - Murphy would
21 be marked and then submitted as Hanley Exhibit A.

22 EXAMINER MORROW: Xerox both pages and
23 submit that.

24 MR. KELLAHIN: Is that all right with
25 you?

1 MR. BRUCE: That's fine.

2 MR. STOVALL: I didn't want to lose
3 track of it.

4 Q. (By Mr. Kellahin) Let me direct your
5 attention to Exhibit Number 2, when we look at
6 Section 8, Mr. Murphy?

7 A. Yeah.

8 Q. The display on Exhibit Number 2 shows
9 that with the exception of Hanley's 40 acre diagram
10 in the northwest of the northwest of Section 8, the
11 balance of the north half appears to be the same
12 common federal base lease; is that correct?

13 A. This is correct.

14 Q. When we go to the south half of
15 Section 8, has the south half been divided into two
16 additional leases consisting of the southwest
17 quarter and then the southeast quarter?

18 A. Yes.

19 Q. Let's deal with the north half?

20 A. Okay.

21 Q. Currently in the north half, Santa Fe
22 has drilled the Kachina 8 Number 1 well.

23 A. This is correct.

24 Q. And that well, located in unit letter D
25 being the northeast of the northwest -- Unit

1 letter C of that section?

2 A. Yes.

3 Q. The 80-acre spacing units the east half
4 of the northwest quarter?

5 A. Yes.

6 Q. When I look at that adjoining spacing
7 unit, the working interest owners will be the
8 Santa Fe Energy Group, if you will, with 50 percent,
9 and the Heyco Company with the balance 50 percent?

10 A. Yes.

11 Q. And then the Santa Fe Energy Group is
12 divided among a limited partnership in the operating
13 company in some fashion?

14 A. The 50 percent interest is owned solely
15 by Santa Fe Energy Operating Partners.

16 Q. The production then from the Kachina
17 Number 8 is shared equally between Heyco and
18 Santa Fe Energy?

19 A. This is correct.

20 Q. When we look at the north half of the
21 northwest corner, the proposed spacing unit in that
22 well, regardless of where it's drilled, if that is
23 the spacing unit, Hanley would have 50 percent of
24 the working interest, Santa Fe energy would have
25 25 percent, and Heyco would have the last 25

1 percent?

2 A. This is correct.

3 Q. In looking at the application and the
4 dockets for the hearing today in case 10211, you
5 have asked for the forced pooling of not only those
6 oil zones that would be spaced on 80 acres, but
7 zones that would be spaced on 40 acres?

8 A. No, just on 80 acres.

9 Q. So there is not an issue before the
10 Examiner about forced pooling any of the shallow
11 rights with regards to Bone Springs or some other
12 shallow oil zone?

13 A. No.

14 Q. When we look at the 40 acre tract where
15 you propose to locate the well in the south quarter
16 of that spacing unit?

17 A. Yes.

18 Q. All of the shallow rights above the top
19 of the Wolfcamp oil zone would be shared fifty-fifty
20 between Santa Fe and Heyco would they not?

21 A. Yes, this is correct.

22 Q. And Hanley would have no interest in
23 those zones if they produced, if the well is located
24 in the south 40?

25 A. Not under my original proposal.

1 Q. Okay. Under your original proposal that
2 preceded the forced pooling case, you had discussed
3 with Hanley the formation of a working interest unit
4 that would be larger than the spacing unit that you
5 could obligate under a forced pooling order?

6 A. This is correct.

7 Q. Okay. You said that your initial
8 contacts for the Kachina 8 well were with Hanley
9 representatives, discussing with them their interest
10 in participating with Santa Fe in their 40 acre
11 tracts so that arrangements would be made for the
12 Kachina Number 8 well?

13 A. Yes.

14 Q. When did you make that contact?

15 A. That was done in May of 1990.

16 Q. And with whom did you speak?

17 A. I'm not able to recall the gentleman's
18 name I spoke to.

19 Q. You spoke with a man, as opposed to a
20 woman?

21 A. Yes.

22 Q. You don't recall who the man was?

23 A. I vaguely remember Don. I don't know
24 what his last name was.

25 MR. STOVALL: You're talking about the

1 Kachina 8. The Kachina 8 is the lease name; is that
2 correct?

3 MR. KELLAHIN: Kachina 8 is the existing
4 offsetting producing well in the Wolfcamp in units
5 letter Section 8.

6 MR. STOVALL: Kachina 8 Number 1? Make
7 sure we're talking about the right well and lease.

8 Q. The proposed Santa Fe well and the south
9 40 of the north half of the northwest does federal
10 what -- what's the proposed well name?

11 A. Kachina 8 Number 2.

12 Q. All right. That's no wonder everybody
13 is confused. Kachina 8 Number 1 is the existing
14 well. For the record, Kachina Number 2 is the one
15 we're talking about in this case.

16 A. Right.

17 Q. All right, I'm with you. Did you talk
18 to Mr. Don Robbins? Do you think that's the man
19 you talked to?

20 A. I'm not sure. I'm not going to be able
21 to answer that.

22 Q. Did you ever -- did you follow up that
23 conversation with any written document,
24 correspondence or proposal to confirm the telephone
25 conversation?

1 A. No, I did not.

2 Q. You just abandoned the suggestion that
3 Hanley should contribute their acreage for the
4 Kachina Number 8 Number 1 well based on that
5 conversation?

6 A. We were eager do drill the well and were
7 able to stand a well up, proceed it along those
8 lines.

9 Q. Let me see if I understand now for the
10 lays acreage that Santa Fe has in the north half of
11 Section 8, that is a royalty of one-eighth burden is
12 the base lease royalty an eighth?

13 A. Yes, it is.

14 Q. The next sequence of events is that
15 Santa Fe and Heyco spuds the Kachina 8 Number 1 well
16 on September 20th, 1990?

17 A. Yes.

18 Q. Am I correct in my recollection that the
19 rig for that well was released on October 30, 1990?

20 A. I'm not sure about the release date.

21 Q. Am I correct in recollection that the
22 completion of that well occurred on January 13th of
23 1991?

24 A. Yes, I think that is correct.

25 Q. Do you have an explanation as to why the

1 rig was released on October 30, 1990, and the well
2 not completed until January 13th?

3 A. I do not know. You'll have to discuss
4 that with an engineer.

5 Q. The statement you made earlier about the
6 location of the well.

7 A. Yes.

8 Q. And the fact that if it's located in the
9 south 40, your geologist tells you that the
10 shallower zone, principally the Bone Springs, is
11 going to be wet. And based upon that opinion you
12 propose not to allocate the costs of the well if
13 it's located in the south 40?

14 A. No.

15 Q. Any other basis for not allocating the
16 costs other than that geologic opinion?

17 A. No, there's not.

18 Q. Are you involved as a landsman,
19 Mr. Murphy, with any other aspects of the AFE for
20 this well, or in fact any other well?

21 A. No, I am not.

22 Q. Other than distributing it to potential
23 parties to submit it for their approval and
24 discussion?

25 A. That is correct.

1 Q. So you would not be able to respond to
2 specific questions about the reasonableness of the
3 AFE?

4 A. No, I would not.

5 Q. And how it might compare to the actual
6 costs for the Kachina 8 Number 1 well?

7 A. No.

8 Q. In terms of an operating agreement,
9 Mr. Jim Rogers of Hanley and you, I think, have
10 exchanged correspondence and discussions about the
11 model operating agreements?

12 A. Yes.

13 Q. Can I conclude at this point that both
14 you and Mr. Rogers have come to an agreement on the
15 contents of the operating agreement if one is
16 executed, or is there still a difference of opinion?

17 A. I think there is still a difference of
18 an opinion, but I think there's no problem working
19 that out.

20 Q. Am I correct in understanding your
21 position is at this point, because the parties have
22 obviously different choices on well locations for
23 this well, they have differences on who is the
24 operator, they have differences in the cost of the
25 well, that we need the examiner's assistance in

1 order to determine how to proceed?

2 A. Our engineer will discuss this later.

3 But basically, there's no difference in cost.

4 Q. Okay. Do you believe that there is an
5 opportunity, with additional negotiations, to reach
6 a settlement between the parties with regard to this
7 well, or are we going to need the Examiner to decide
8 some of these issues?

9 A. I think probably the Examiner will have
10 to decide some of these issues.

11 Q. Is it your responsibility to issue press
12 releases on behalf of your company with regards to
13 the Kachina 8 Number 1 well?

14 A. No, it is not.

15 Q. Did you know that there was a press
16 release --

17 A. Yes, I did.

18 Q. -- on that well?

19 A. Yes, I did.

20 Q. But that was not something you issued?

21 A. No, it was not.

22 Q. Is that something you can talk about or
23 respond to?

24 A. Yes it comes from our Houston
25 management.

1 MR. KELLAHIN: May I take a moment,
2 Mr. Examiner.

3 EXAMINER MORROW: If it's all right,
4 while you're doing that I'll ask a question to clear
5 up a question Mr. Kellahin asked.

6 Did you say that Hanley and Santa Fe are
7 essentially in agreement on what should be contained
8 in the operating agreement or can come to an
9 agreement?

10 THE WITNESS: Yes, I don't think there
11 will be any problem with that.

12 EXAMINER MORROW: And on the well costs,
13 also?

14 THE WITNESS: Well, the well costs are
15 basically the same. ^{Our AFE} A RFE includes items that theirs
16 does not, and our engineer will go into detail on
17 those.

18 EXAMINER MORROW: Mr. Kellahin?

19 Q. (By Mr. Kellahin) Mr. Murphy, let me
20 show you what I've had marked as Hanley Proposed
21 Exhibit B and ask if this is the press release with
22 which you are familiar?

23 A. Yes, it is.

24 Q. Is it customary for your company to
25 issue press releases of this type on Wolfcamp oil

1 wells?

2 A. To my knowledge on probably any well
3 that we drill, that we have success on, we're going
4 to have a press release on it.

5 Q. Let me ask you about your correspondence
6 between you and Hanley. I'm interested in your
7 letter of December 17th, Mr. Murphy.

8 A. Okay.

9 Q. What was the purpose of the
10 December 17th letter. Without reading it in detail,
11 Mr. Murphy, what was the idea that you were trying
12 to convey to Mr. Rogers of Hanley?

13 A. Basically trying to set up something to
14 allow them to join in the well, set up a time where
15 they could refer the data that they requested for a
16 commitment to join or farm out.

17 Q. If that was your objective with the
18 letter, why had Santa Fe Energy asked your attorney
19 to already file a forced pooling application that is
20 submitted along with this letter that was dated
21 December 11th, some six days before you signed the
22 letter continuing discussions on participation in
23 the well?

24 A. Just trying to cover all my bases.

25 Q. Well why would you propose to start

1 forced pooling action prior to exhausting good faith
2 efforts to get Hanley to participate in the well?

3 A. Because my management had put time
4 frames on us to get wells drilled.

5 Q. What is that time frame, Mr. Murphy?

6 A. Well, it depends on which well it is.

7 Q. Is there a set procedure for you to
8 follow in cases like this?

9 A. No there's not.

10 Q. When you send out the initial proposal
11 to any parties like Hanley offering them to
12 participate in a well, how long a time do you allow
13 to expire before you file a forced pooling case?

14 A. It's case by case, each one is
15 different.

16 Q. Did you make the judgment to decide when
17 to file this forced pooling case against Hanley?

18 A. Yes, I did. I felt in my letters and
19 their responses that it was going to be difficult to
20 reach an arrangement, and in my experience that as
21 soon as you have a forced pooling orders on the
22 docket, it's easier to come to terms, quicker on
23 both sides.

24 Q. If you'll look at the sequence of
25 correspondence, you have proposed the well and soon

1 thereafter Hanley is asking you to provide them some
2 data by which they could make an informed choice on
3 this well.

4 A. Yes.

5 Q. And in response to that you seek a
6 forced pooling order against them?

7 A. Yes.

8 MR. KELLAHIN: No further questions.

9 MR. BRUCE: Can I ask some follow-up
10 questions?

11 EXAMINATION

12 BY MR. BRUCE:

13 Q. Mr. Murphy, Mr. Kellahin asked you if
14 there were some issues you thought the Examiner
15 might have to decide?

16 A. Yes.

17 Q. From what -- from your experience, is
18 it your opinion that Santa Fe and Heyco on one side
19 and Hanley on the other are very far apart on the
20 issue of well location?

21 A. Yes, we are.

22 Q. And are you also pretty far apart on who
23 should operate the well?

24 A. Yes, we are.

25 Q. And that's really separate from the

1 operating agreement, or the terms of that operating
2 agreement?

3 A. Right.

4 Q. Now, referring back to your December 17,
5 1990 letter, there had already been several letters
6 between the parties, had there not.

7 A. Yes, there had been.

8 Q. And is it your policy to continue to
9 negotiate even after a forced pooling application is
10 filed?

11 A. Yes, it is.

12 Q. Of course, since this letter three
13 months have gone by, haven't they?

14 A. That's correct.

15 Q. And the parties have still not been able
16 to reach terms, have they?

17 A. They have not.

18 Q. Would Santa Fe prefer to have Hanley
19 join in its well?

20 A. Yes, we would.

21 Q. And not get forced pooling?

22 A. Yes.

23 Q. Now I believe Mr. Rogers' letter of
24 November 26th did request certain well data; did he
25 not?

1 A. Yes, he did.

2 Q. Did Santa Fe consider that data
3 confidential?

4 A. Yes. We thought that information was
5 confidential, and the only way we would give it up
6 is for a commitment in the well.

7 Q. And really you thought you were
8 following past OCD practice by withholding that
9 data?

10 MR. KELLAHIN: Objection, he's leading
11 the witness.

12 A. Yes.

13 Q. Well, Mr. Murphy,?

14 MR. MORROW: Would you rephrase your
15 question?

16 MR. BRUCE: Sure, Mr. Examiner.

17 Q. In your opinion, what was the past
18 practice of the division regarding turn over of well
19 data?

20 A. To my understanding and my experience,
21 the well data was never -- when it was subpoenaed
22 was never turned over.

23 Q. Never required to be turned over?

24 A. Yes.

25 Q. And furthermore, Mr. Murphy, did

1 Santa Fe -- Santa Fe and Heyco took all the risk on
2 the 8 Number 1 well; didn't they?

3 MR. KELLAHIN: Objection. Mr. Bruce is
4 testifying for his clients. The question is
5 leading.

6 EXAMINER MORROW: Try again, Mr. Bruce.

7 MR. BRUCE: Oh, sure.

8 Q. Who paid for the 8 Number 1 well?

9 A. Santa Fe Energy Operating Partners and
10 Harvey E. Yates Company.

11 Q. Half and half?

12 A. Fifty percent each.

13 Q. So they took all the risk on that?

14 A. Yes, we did.

15 MR. BRUCE: Nothing further,
16 Mr. Examiner.

17 MR. KELLAHIN: Couple of follow-up
18 questions, based on Mr. Bruce's cross

19 EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Let me understand the operating
22 agreement position of your company, Mr. Murphy.
23 Have you agreed to accept the operating agreement
24 that Mr. Rogers, on behalf of Hanley, has submitted
25 to Santa Fe?

1 A. They have not submitted to an operating
2 agreement. They have submitted changes to the one I
3 proposed to them.

4 Q. Are those changes acceptable to
5 Santa Fe?

6 A. Some of them are; some of them are not.

7 Q. So we don't have an agreement on the
8 operating?

9 A. That can be worked out.

10 Q. If the well is drilled in the north
11 40 acre tract, will Santa Fe participate in the well
12 with Hanley?

13 A. Yes, we will.

14 Q. If the Division Examiner decides that
15 Hanley will be the operator, will Santa Fe
16 participate in the well?

17 A. Yes, we will, if the costs are
18 apportioned out.

19 Q. You want the costs apportioned out if
20 the well is located in the north 40?

21 A. Yes.

22 Q. But not apportioned out if it's in the
23 south 40?

24 A. That is correct.

25 Q. Did you have any involvement in the

1 decision about the location of the Kachina 8
2 Number 1 well?

3 A. No, I have no --

4 Q. Are you aware that it's 500 feet from
5 the common boundary with the east side of the
6 spacing units that would be dedicated to the Kachina
7 8 Number 2 well?

8 A. No, I was not.

9 MR. KELLAHIN: Thank you, Mr. Examiner.

10 EXAMINER MORROW: Mr. Murphy, you talked
11 about your experiences in the area. Would you point
12 out the Wolfcamp wells that have been drilled and
13 are operated by Santa Fe in this area?

14 THE WITNESS: We have the Kachina 8
15 Number 1, of course. And we are currently drilling
16 the Kachina 5 Number 1. It's located in the --
17 lets see, excuse me for a moment. It's in the south
18 west, southeast quarter of Section 5.

19 EXAMINER MORROW: All right. I believe
20 I see it spotted right there.

21 THE WITNESS: Yes, sir. Our geologist
22 can give you -- and our engineer can tell you more
23 about the wells we do operate at the Wolfcamp than I
24 can.

25 EXAMINER MORROW: Do you know how many

1 there are?

2 THE WITNESS: We operate nine total.

3 EXAMINER MORROW: In this area?

4 THE WITNESS: In this area I believe
5 there's two, or maybe three.

6 EXAMINER MORROW: Two or three plus the
7 one drilling?

8 THE WITNESS: Yes.

9 EXAMINER MORROW: All right.

10 MR. STOVALL: I think you asked my
11 question. That's okay.

12 EXAMINER MORROW: All right. The
13 witness may be excused.

14 Call Mr. Thoma to the stand.

15 (A recess was taken at 9:20 a.m.)

16 JOHN L. THOMA,
17 was called as a witness and, having been previously
18 sworn, was examined and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE:

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

23 A. My name is John Thoma.

24 Q. And who do you work for and where, in
25 what capacity?

1 A. I am a senior geologist for Santa Fe
2 Energy Resources.

3 Q. And have you previously testified before
4 the OCD as an expert geologist?

5 A. Yes, I have.

6 Q. And your credentials were accepted as a
7 matter of record?

8 A. Yes, they were.

9 Q. And are you familiar with the geology
10 involved in both the Santa Fe and Hanley cases?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender the
13 witness as an expert.

14 MR. MORROW: We accept his
15 qualifications.

16 Q. Mr. Thoma, would you please refer to
17 Santa Fe Exhibit Number 7 and describe the
18 geological basis for your Wolfcamp well location.

19 Q. Exhibit Number 7 is a montage of several
20 prospective intervals within the lower Wolfcamp
21 formation, in the area of interest. The cross-
22 section on the bottom of the exhibit,
23 cross-section B to B prime traverses the prospect
24 area from the south, on the west end of the section
25 at Point B, to the east, at B prime.

1 It runs through -- it starts in the
2 south and Royalty West Corbin Federal Number 9,
3 which is located in the southwest, southwest of
4 Section 8, runs through the proposed Santa Fe Energy
5 location, the Kachina 8 Number 2 in the southwest of
6 the northwest of Section 8; continues into the
7 Santa Fe Energy operated Kachina 8 Number 1, in the
8 northeast of the northwest of Section 8; and then
9 terminates in the Oxi Federal AG Number 2 and in
10 southwest -- I'm sorry, southeast of the northeast
11 of Section 8.

12 On that cross-section I've highlighted in
13 brown the bounding marker beds for each of five
14 prospective carbonate intervals. They are labeled
15 from top to bottom AC, AD, AE, AF, and AG. Those
16 would be the prospective carbonate intervals.

17 The isopachs^{ch} -- or rather the maps on the
18 right-hand side of the montage are isopachs^{ch}, clean
19 carbonate isopachs^{ch} of carbonates in three of the five
20 intervals. In the prospect area I believe that
21 there will be three prospective carbonates, the AE,
22 the AF, and the AG.

23 And that's based primarily on what we're
24 seeing developed in the Kachina 8 Number 1, as well
25 as what we have seen developed immediately south of

1 the area in the West Corbin Number 9, and in other
2 wells on to the south of that.

3 The clean carbonate map utility utilizes
4 a gamma ray cutoff of 40 API units. The intervals
5 that are mapped, the thicknesses mapped are shown in
6 blue on the cross-section. That blue is the
7 carbonate thickness which is less than 40 API gamma
8 ray units.

9 You can see from looking at the three
10 isopak^{ch} maps that the overall depositional trends of
11 the carbonates, the productive carbonates in the
12 area is from the north, northeast, to the south,
13 southwest.

14 Each of these carbonate units were
15 deposited, we believe, Santa Fe believes, as
16 carbonate detritus shed from the Wolfcamp shelf edge
17 to the north. The production that develops within
18 these carbonate lenses is highlighted on each of the
19 isopak maps.

20 For example, looking at the map in the
21 upper right-hand corner the AG carbonate -- the
22 producing wells from this carbonate are shaded
23 green. The other wells, which have thicknesses of
24 the AG present, may or may not have been tested in
25 the zone to date.

1 And the same is generally true of the AF
2 map and the AE map, the producing wells from that
3 interval are shown. You can see that there's a wide
4 scatter of production from each of these zones in
5 the area immediately south of the prospect location,
6 the 8 Number 2.

7 Further, it appears that there is a
8 general relationship between carbonate thickness and
9 the probability of encountering producible reservoir
10 conditions in the Wolfcamp. The Wolfcamp reservoir
11 in this area is notoriously unpredictable in the
12 development of reservoir quality within clean
13 carbonate lenses.

14 In the Santa Fe Kachina well, for
15 example, we encountered a large thickness of clean
16 carbonate in the AF zone. And if you'll look at the
17 two logs on the section, I've got a porosity log on
18 the left and a recidivity log on the right. And
19 you can see that there is very good porosity
20 developed.

21 I would define good porosity as anything
22 greater than 4 percent. We have up to 10,
23 12 percent in this well. And we've probably got, if
24 you use a 4 percent cutoff, upwards of 50 to 60 feet
25 of matrix, good matrix porosity.

1 If you move directly south into the south
2 land royalty well you can see that you have very
3 thick, clean carbonate section, but very little
4 porosity developed. You can go ahead and map
5 porosity, which I have done in the area, and it
6 generally follows these depositional thicks -- the
7 carbonate thicks, but not in all cases.

8 So whether you use an iso porosity map or
9 a clean carbonate map, I think either one will --
10 is useful as a prospecting tool and useful in high
11 grading locations from one location to another.
12 I've chosen to use a clean carbonate map.

13 And you can see that the Kachina well,
14 the 8-1, is located right along the axis of a fairly
15 well developed carbonate thick trend in each of the
16 three interval maps.

17 You can also see that the location, the
18 proposed location, the 8 Number 2, is located
19 generally along depositional strike, with the
20 Kachina 8 Number 1. And so I'm anticipating that we
21 will encounter at least the same clean carbonates
22 conditions, and hopefully the same degree of
23 porosity development that we've seen in each of
24 these zones.

25 The Haily location on the other hand in

1 the northwest of the northwest quarter of Section 8
2 is clearly moving towards the depositional edge of
3 these carbonate deposits. And so I feel that in
4 the Wolfcamp you are increasing your risk,
5 statistically increasing your risk, by moving
6 towards the edge of the lobe at the Hanley
7 location.

8 And I feel that the better of the two
9 locations -- the lower risk of the two locations
10 for the Wolfcamp would be in the southwest of the
11 northwest of Section 8 where Santa Fe has located
12 the well.

13 Q. Why don't you move on to Exhibit 8 and
14 discuss the Bone Spring in the area of interest?

15 A. Okay. In the Bone Springs I've mapped
16 what we believe is the primary commercial target in
17 the prospect area. And there are two dolomites
18 developed in the first Bone Spring carbonate. I've
19 labeled them here as the Sniper dolomite and the
20 Young deep dolomite on the cross-sections. The
21 cross-section on this montage A to A prime starts
22 over in Young north field at a Santa Fe operated
23 producing location, the Sharpshooter Number 2,
24 State Number 1.

25 That well was completed in -- it was

1 completed in October of 1989, and is currently
2 producing at top allowable Bone Spring rates which
3 is 234 barrels of oil a day from the Sniper zone,
4 with no water.

5 Moving east toward the prospect area, we
6 move into an Meridian operated well, the Soutland
7 Royalty West Corbin Federal Number 9 -- 19, excuse
8 me. Santa Fe Energy has a working interest in this
9 well. Both the Sniper dolomite and the Young deep
10 dolomite is present in this well. There is a
11 clearly defined oil/water contact in the West Corbin
12 Federal Number 19.

13 If you'll look at the two logs again on a
14 cross-section, the log on the left is a porosity
15 log, the log on the right is a resistivity log. And
16 the oil/water contact is clearly defined by the
17 transition from higher resistivity, two or three
18 hundred in this area upwards to 500 dolms dropping
19 down to less than 100 dolms for the balance of the
20 reservoir.

21 In fact, the well was tested across that
22 oil/water contact, as the perforations are shown,
23 and the well was completed producing a fairly large
24 amount of water. It was completed producing
25 54 barrels of oil, 276 barrels of water per day.

1 And it has remained at about those rates since
2 completion.

3 Continuing west into the Southland
4 Royalty West Corbin Federal Number 7, again there is
5 a very well developed dolomite, porous dolomite
6 development, in both the Sniper and the Young deep
7 zone. In the Sniper it was both drill ~~stamp~~^{EM} tested
8 and production tested, and it was proven to be
9 wet.

10 From both DST and -- actually, the DST
11 was sort of encouraging. They did recover some gas
12 to surface and a little bit of oil. They went in,
13 perforated it and recovered -- produced the -- a
14 little while during testing, we were recovering
15 rates of 9 barrels of oil and 120 barrels of water a
16 day.

17 You can see that well is proximal to the
18 projected oil/water contact as defined in the West
19 Corbin Federal 19.

20 I might point out if you look, as we
21 have, at a number of these wells across this
22 boundary on the structure map, you can see the
23 oil/water contacts, and many of these wells over
24 here as well. And, in fact, the wells along there
25 that have been completed from the Sniper zone have

1 produced a fairly large amount of water with the
2 oil. And, in fact, some of them have gone entirely
3 to water at this point.

4 Moving through the proposed location, the
5 Kachina 8 Federal Number 2, based on the structure
6 mapping, and the structure mapping utilizes a
7 constant rate of dip as established by a number of
8 wells in the area. And that dip is -- rather the
9 oil/water contact established along that rate of dip
10 places the 8 Number 2 location well below that
11 projected oil/water contact.

12 The Kachina 8 Federal Number 1 came in
13 high to our 8 Number 2 location and does have some
14 oil column, apparently, although it's untested to
15 date. But based on shows and resistivity, I believe
16 that that probably is productive. It came in high,
17 but I believe the 8 Number 2 will be down dip.

18 It's clear also from looking at this that
19 the Hanley location will in fact be in the oil
20 pool. If they develop proper reservoir conditions,
21 which I believe they have a reasonably good chance
22 of doing, I believe they will have an oil column in
23 the Sniper dolomite.

24 And then moving on off to the west -- or
25 east, excuse me again -- in looking at this Oxi

Q. y

1 Federal well. Again, the Sniper zone, while
2 untested, is below the oil/water contact. The Young
3 deep zone was tested, and gave up large amounts of
4 water, 4,301 feet to be exact.

5 The Young deep zone you can see is wet
6 all the way across the prospect area, will likely be
7 low at both locations and wet -- both the Hanley
8 and the Kachina 8 2 location. And again that water
9 leg is not only demonstrated from resistivity but
10 the oil/water contacts has been penetrated in
11 several wells and the Young north field notably in
12 the Sharpshooter State to Number 1, which I
13 previously discussed.

14 Q. So, Mr. Thoma, regarding Santa Fe's
15 proposed location for the Kachina 8 Number 2, what
16 is your opinion regarding any requests there may be
17 to apportion well costs at that location?

18 A. Because of the fact that we don't feel
19 that there is any potential to be had in the primary
20 objective in this area in the Bone Spring, the
21 carbonates, the Sniper and Young deep carbonate, we
22 feel that costs should not be apportioned in the
23 8 Number 2.

24 Q. Alternatively, what is your opinion
25 regarding the well if it's drilled at Hanley's

1 proposed location?

2 A. The well drilled at Hanley's location,
3 if we have no right in the Bone Spring, which we
4 currently do not have, and drill the well at drill
5 location, I feel costs should be apportioned because
6 -- costs should be apportioned to the base of the
7 Bone Spring, that is -- because they clearly are
8 within the projected oil pool for the Sniper
9 dolomite.

10 Q. And what penalty do you recommend
11 against Hanley, if it goes nonconsent and Santa Fe's
12 application is granted?

13 A. I request costs plus 200 percent.

14 Q. And what is that based on?

15 A. That is based on primarily the geologic
16 risk associated with the Wolfcamp.

17 Q. And are there any examples of that risk
18 in looking at your Wolfcamp map?

19 A. Yes. If you'll look at this production
20 map located at the upper left-hand corner of the
21 montage, I've labeled or color coded all Wolfcamp
22 producers a dark green. It's evident from looking
23 at this production map, closely, that the
24 producability of the Wolfcamp varies greatly from
25 one location to the next, for the very reason that I

1 cited earlier, of the erratic developments of
2 porosity within the clean carbonate limits.

3 An example of this would be looking at
4 two wells, one of them located in the northwest of
5 the northeast of Section 18, that well was drilled
6 by Meridian. Santa Fe has a working interest in the
7 well, participated in the well. To date -- it was
8 completed in June of '89 -- to date it has produced
9 60,000 barrels of oil and our engineers feel that
10 it will likely come in the 150,000 barrel range.

11 The direct north offset to that well, the
12 West Corbin Number 16 located in the south,
13 southwest of the -- I'm sorry, the -- yes, the
14 southwest of the southeast, that well is essentially
15 a Wolfcamp dry hole. It is right now serving as a
16 disposal well for water in the field. We penetrated
17 fairly large thicknesses of clean carbonate in the
18 AF zone as well as in the AG zone. However neither
19 zone has porosity developed.

20 And as a result, the well during testing
21 made a thousand barrels of oil, but was subsequently
22 plugged back because of noncommercial production
23 from the Wolfcamp.

24 And there are a number of examples around
25 the field like this. So the risk is not only

1 geologic, but there is considerable reserve risk
2 because of the geology.

3 Q. In your opinion is the granting of
4 Santa Fe's application in the interests of
5 conservation and the prevention of waste?

6 A. Yes.

7 Q. And were Exhibits 7 and 8 prepared by
8 you or under your direction?

9 A. Yes, they were.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Santa Fe Exhibits 7 and 8.

12 EXAMINER MORROW: Exhibits 7 and 8 are
13 admitted

14 (Santa Fe Exhibits 7 and 8
15 marked for identification.)

16 MR. KELLAHIN: Mr. Carr, do you have
17 questions?

18 MR. CARR: I have no questions

19 EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Thoma, let me discuss with you the
22 Bone Springs analysis and then we'll come back to
23 Wolfcamp, if that's all right?

24 A. Sure.

25 Q. Looking at the structure map which you

1 displayed on Exhibit Number 8, what is the
2 structural difference between the Hanley location
3 and the Kachina 8 Number 2 location in that 80 acre
4 spacing unit?

5 A. The Hanley -- the contour interval on
6 this map is 25 feet. The dark lines are --
7 represent 100 foot increments. The location of the
8 Hanley well would be approximately at 4560, so I'd
9 say a minus 4560. The Santa Fe location is
10 projected at 4660, minus 4660.

11 Q. Hanley has approximately 100 foot
12 structural advantage then in its location in the
13 north 40 versus the Santa Fe location in the south
14 40?

15 A. That's correct.

16 Q. The orientation of the structure in the
17 Bone Springs, does that follow the reef front that
18 was deposited for the Bone Springs so that the face
19 of that reef front is generally oriented east west?
20 Is that how I read your structure map?

21 A. The structure -- I think you're stepping
22 beyond what you can interpret from the structure
23 map. The structure map does not necessarily have to
24 reflect dip along the reef front. We're looking at
25 a depositional setting at the toll of the reef front

1 which does not necessarily have to directly align
2 itself with the reef front.

3 I'm not really quite sure, Tom, what
4 you're -- the structural orientation is almost
5 precisely east-west -- on this map.

6 Q. On this map in the structure, on the
7 Bone Springs?

8 A. Yes. That's again based on the control.

9 Q. You're satisfied that you have adequate
10 control in the Bone Springs to make decision about
11 the orientation of the structure for the Bone
12 Springs?

13 A. Yeah. And I've used very reasonable
14 contouring methods to contour this structure. You
15 can see there are no large breaks or anomalies in
16 the rate of dip across the area. And I believe that
17 -- you know, based on what you're saying over to
18 the west, in Young north, there is a fairly constant
19 rate of dip established through this interval.

20 So I'm not just -- you know, I'm using
21 the control over here, but I'm also looking at this
22 area and saying are there anomalies? Because
23 certainly if there was a way to -- a reason to bring
24 a high through here, I would have been optimistic
25 and brought a high through here.

1 Q. And that's what I'm asking you, the
2 degree of confidence with regards to the structural
3 orientation as it applies to the Section 8 area?

4 A. Right. I have very good confidence that
5 it's a reasonable and accurate interpretation.

6 Q. Am I correct in understanding that for
7 the Bone Springs you would anticipate that the
8 carbonate, as mapped on the isopak^{ch} would be
9 perpendicular to the structural line you've shown
10 on the structure so that when -- so that when you
11 map the isopak, you're going to see it perpendicular
12 to the axis of the structure on Section 8?

13 A. Repeat that for me?

14 Q. When I look at the isopak^{ch} and compare it
15 to the structure map, it looks like on the isopak^{ch}
16 that the areas of greatest thickness on the dolomite
17 mapped on the isopak^{ch} are perpendicular to the
18 structure?

19 A. That's correct. Keep in mind that the
20 structure you're looking at is the structure at the
21 top of the carbonate and not the structure at the
22 base of the carbonate. The structure at the base
23 of the carbonate may be different, because you're
24 looking at basically sediments that are shed off the
25 reef and they're going to deposit themselves out of

1 suspension in areas where they will flow to down the
2 slope.

3 So typically, if you mapped the base of
4 this carbonate, there may be, in fact, a low here --
5 well, I shouldn't point to that map. A low here
6 (indicating) which would have caused the
7 accumulation of these carbonates.

8 To answer your question, I'm not sure
9 what you're asking me. You're really looking at the
10 map and stating essentially what the map is
11 showing. Yes, at the top the dip on these
12 carbonates is perpendicular to the dip on -- to the
13 deposit.

14 Q. When we move to the Wolfcamp -- you've
15 mapped the top of the structure of the Wolfcamp?

16 A. No, the structure map is at the top of
17 the AF.

18 Q. The top of the AF is the basis for the
19 control of the structure map that you've shown?

20 A. That's correct.

21 Q. Would the structure be different if you
22 had mapped the base of the Wolfcamp?

23 A. It probably would be different. It
24 would show -- it would be somewhat different, Tom.
25 I honestly couldn't tell you to what degree. I

1 mean, I've done some base of Wolfcamp mapping in the
2 area and you see there some area lows similar to
3 what you're seeing in the Bone Spring at the base of
4 the carbonate. You're seeing low areas which are, I
5 assume, focusing the deposition of the carbonate.
6 The sediments are running towards that low and being
7 dropped into it.

8 But, again, one thing I might point out
9 between these two intervals is that in the Bone
10 Spring you are sitting right at the toe of the reef,
11 the slope. In the Wolfcamp I believe you are way
12 out in front of the reef front. You're at --
13 basically, if you were to look at a cross-section
14 through either the Bone Spring or the Wolfcamp reef
15 fronts, the Bone Spring reef front would come down
16 and right at the very base you would have the
17 carbonate deposited debris.

18 The Wolfcamp debris -- and your slope is
19 fairly steep. As you move further away from the edge
20 of that shelf, that reef front, that slope flattens
21 out dramatically.

22 Q. Are you speaking of Bone Springs?

23 A. I'm speaking of both. It's the same
24 general structure of both.

25 So the structure you see here and the

1 relationship between the sediments that are
2 deposited in these intervals, and the resulting
3 structural configuration, may be different than what
4 you see in the Bone Spring because you are on a
5 flatter -- the sediments were deposited on a
6 flatter surface.

7 Q. You have taken the position -- or made
8 the geologic judgment to separate out the Wolfcamp
9 into various zones, AF, AE, AG?

10 A. Right, right.

11 Q. Did you prepare a gross map, if you
12 will, on all the clean carbonate in the Wolfcamp to
13 see what that isopak would look like?

14 A. I did early on. If you'll look at these
15 three maps and add them together, they would look
16 like these three maps. Because there's not a lot of
17 displacement of the thicks between the zones. The
18 thicks are stacking, more or less.

19 Q. In order to use the isopak as a useful
20 tool to find Wolfcamp oil, am I correct in
21 understanding that the object is to penetrate as
22 many of these Wolfcamp zones that have the greatest
23 thickness?

24 A. That's correct. That's correct.

25 Q. When we look at all your isopak maps,

1 one of the control points is the Kachina 8 Number 1
2 well?

3 A. Correct.

4 Q. On the AG map you show that as having
5 31 feet of clean carbonate?

6 A. That's correct.

7 Q. And that was the perforated interval in
8 that well bore?

9 A. I show -- yes. I mean this is the well
10 bore here (indicating) and the perforation is
11 actually extended a little bit below where we had
12 carbonate.

13 Q. Let me show you what we've introduced as
14 Hanley exhibits -- being, Mr. Thoma, this is that
15 press release from your company summarizing the
16 information on that well. It says the Bone Springs
17 formation also appears to be oil bearing?

18 A. Right.

19 Q. Demonstrate that for us on your log for
20 the Kachina 8 Number 1 well. It's shown in the
21 green shadings then on Exhibit Number 8?

22 A. That's correct (indicating).

23 Q. Did you find in that well the presence
24 of water and -- or the apparent presence of water
25 in any of the Wolfcamp?

1 A. We have -- we have not tested either of
2 the other two prospective Wolfcamp zones. I would
3 -- based on log analysis, I would anticipate this
4 zone to have water in it.

5 Q. That would be the middle zone?

6 A. I'm sorry, the AF zone, to have water in
7 it -- a mixture of water and hydrocarbons. The AE
8 zone probably will be mostly hydrocarbon bearing,
9 very little water, based on the log analysis.

10 Q. When we look at the AG zone, the lower
11 zone that was perforated, did that produce water?

12 A. No, it did not. Very little.

13 Q. When we look at your structure map in
14 the Wolfcamp what is the difference in structure
15 between the Hanley location and Santa Fe's proposed
16 location for the Kachina 8 Number 1?

17 A. Approximately 45 feet.

18 Q. Is the occurrence of water a problem for
19 operators that are producing wells in the Wolfcamp?

20 A. In this particular field area, based on
21 our experience, we've participated in, I believe,
22 now up to 9 -- well, 10 wells. And I've looked at
23 a number of the other producers in here. Water is
24 not -- not generally a significant problem. Almost
25 every Wolfcamp zone will produce conate waters, some

1 conate water. It is a solution gas-^{drive}~~derived~~
2 reservoir in the lower Wolfcamp. And water
3 encroachment to date has not been a problem.

4 Q. When you look at the structure map on
5 the Wolfcamp displays and find the orientation of
6 that structure, and then find the orientation, the
7 general orientation trends for all the isopaks, it
8 does not appear that you've oriented the isopaks so
9 that they're perpendicular to the plane of the
10 structure. Is that a correct observation of the
11 display?

12 A. It's a correct observation. But I'm not
13 orienting these (indicating) because of this
14 (indicating). This map is a result of the data you
15 see here and the control. I am not using the isopak^{ch}~~A~~
16 to control what the structure should look like. And
17 conversely, I'm not using the structure at the top
18 of this carbonate to control what the geometry of
19 any of these deposits should look like.

20 Q. Am I correct in understanding, though,
21 that the geometry of the deposit generally should be
22 perpendicular to the plane of the structure?

23 A. In the Wolfcamp that's not necessarily
24 -- that's not necessarily true. It does not have
25 to be.

1 Q. So it doesn't bother you that in mapping
2 the contour lines for the isopak^{ch} that those --
3 orientation of the isopaks is not perpendicular to
4 the structure?

5 A. No. No.

6 Q. Let's look at the AG isopak^{ch}. When we
7 look immediately to the west on the zero line --
8 immediately to the west of either of Santa Fe or the
9 Hanley location and find the zero contour line?

10 A. Right.

11 Q. The next well out to the west is not
12 deep enough to provide data for control point for
13 the isopak; is it?

14 A. Which well are you talking about?

15 Q. It says NDE. I presume that's "not deep
16 enough"?

17 A. That's correct.

18 Q. What is the basis, then, of drawing the
19 zero line as you have put it on that display?

20 A. The overall rate of thinning and
21 thickening that you see between wells in the area to
22 the south, and then on to the south of that in South
23 Corbin -- and I've got strike, depositional strike,
24 generally established here. We've got the Kachina
25 well, the 31 feet, and if you go directly southeast

1 from the -- or southwest excuse me, from the Kachina
2 Number 1 to the West Corbin Number 16 in the
3 southwest of the southeast, and 7, you have
4 35 feet.

5 So those two wells are about on
6 depositional strike with one another. And because
7 you have other thicker wells east of that, the West
8 Corbin Number 12 in the northwest of the northeast,
9 is thicker.

10 So I believe the thick axis is to the
11 east of the West Corbin 16 in section 17, and the
12 Kachina Number 1 in Section 8.

13 Q. The thickest depositional axis then runs
14 northeast to southwest on this display?

15 A. That's correct.

16 Q. When we look at the well spot here for
17 the Santa Fe Kachina 5 Number 1 well --

18 A. That's correct.

19 Q. -- in the southwest of the southeast of
20 Number 5?

21 A. That's correct.

22 Q. Do you have any logs on that well to
23 help you with your interpretation at this point?

24 A. No, Tom.

25 Q. What's the status of the well?

1 A. It's currently drilling.

2 Q. There is another location in the south
3 half of Section 8, in the northeast of the
4 southwest; is that a drilling location?

5 A. Yes. That well -- yes, that well was
6 logged last week.

7 Q. Have you integrated the logs into your
8 display?

9 A. They have not. They have not been -- I
10 didn't have time to redo this display.

11 Q. So you don't know --

12 A. But I can tell you that they do confirm
13 this interpretation.

14 Q. Okay, so you have looked at the logs
15 enough to satisfy yourself that the information from
16 that well -- those well logs is consist with your
17 interpretation on Exhibit Number 7?

18 A. That's correct.

19 Q. When we look in Section 8 over in the
20 southeast of the northeast quarter --

21 A. Yes.

22 Q. -- it is the first well on your B,
23 B prime cross-section?

24 A. It's at Point B prime.

25 Q. It's at Point B prime? It shows on the

1 AG isopak to have -- what's that number 30 feet?

2 A. I believe so.

3 Q. Thirty feet of net clean carbonate?

4 That was a dry hole in that zone wasn't there?

5 A. They plugged it. Whether or not it's a
6 dry hole is very questionable. If you look at the
7 drill stem test that was run over this interval,
8 they recovered -- the 651 feet of slightly oil and
9 gas-cut mud in the sample chamber, which is very
10 significant in recovering 1300 cubic feet of oil,
11 50 cubic feet of mud and 4.7 cubic feet of gas.
12 Their shut-in pressure-- initial shut-in pressure
13 was 5261. Their final shut-in pressure was 5236.
14 Very, very little drawn down.

15 We haven't done an analysis of the draw
16 down but I'm very encouraged by the recovery we got
17 from that test. And I'm not sure that that zone
18 should be -- is a dry zone.

19 Q. Despite your assessment though, the
20 operator, based upon that drill stem test chose not
21 to complete the well net zone?

22 A. Yes, that's correct. That's correct.

23 Q. How is the AG isopak useful to us to
24 find oil if we're looking for areas of greatest net
25 clean thickest carbonate, and I find an area that's

1 got 30 feet, and yet it's at a location where you
2 drill stem test the well and don't complete it?

3 A. Well, that's -- that's one of the risks
4 of the Wolfcamp. You know, I'm not a brain
5 surgeon. What I can tell you is that if you drill
6 outside of where the AG carbonate is present, you
7 for sure have a dry hole. All right?

8 So the first prerequisites of finding
9 production in the AG zone is to be in the
10 carbonate.

11 Q. Now --

12 A. The second prerequisite is to have
13 reservoir conditions. One of the dominating
14 reservoir conditions controlling reservoir conditions
15 in the AG is fractures, not porosity. One of the
16 controlling factors in the AG zone, in determining
17 producability of the AG zone, is not matrix porosity
18 but fracture porosity.

19 Meridian, who has drilled probably
20 upwards of 40 wells south of here -- as I stated
21 we've been in 25 percent of those wells with them --
22 has utilized many different techniques for
23 determining whether or not there is fracturing
24 present in the AG zone, including log analysis, and
25 a number of other techniques.

1 And as yet they have not been able to
2 find a successful technique in predicting where the
3 fractures occur, or even determining whether or not
4 they have them when they drill the well. And we
5 have not, either.

6 However, if you don't have the carbonate,
7 you're not going to have product. So you've got --
8 the first prerequisite, you've got to have this.
9 And the second is extremely hard to determine.

10 Q. Both locations meet the first criteria
11 of having carbonate; do they not?

12 A. They both meet the criteria of having
13 carbonate. However, your risk of encountering
14 reservoir conditions within the carbonate is greater
15 at the proposed Hanley location than it is at the
16 proposed Santa Fe location because of the difference
17 in thickness -- in the carbonate thickness.

18 Q. To understand the display you have
19 circled in green -- or shaded in green, those wells
20 that have penetrated the AG zone of the Wolfcamp and
21 have been tested in that zone and produce oil?

22 A. That's correct.

23 Q. Can I distinguish or note from this
24 display which of those wells have been tested in
25 that zone and not shown to be productive?

1 A. From this display you cannot.

2 Q. Do you know within the area above the
3 zero contour line on the AG display how many of
4 those are dry holes versus producers?

5 A. From the AG?

6 Q. Yes, sir.

7 A. No, because as I stated a moment ago,
8 you cannot determine whether or not you have a
9 producer from a log analysis of the AG. The only
10 way you know if you have a producer in the AG, if
11 you've got the carbonate is by testing it. Not
12 necessarily by DSTing it, as we've seen up here in
13 the ^{Oxy} Oxi well -- although if I had that DST, I would
14 have run pipe on it. I would have recommended
15 running pipe.

16 But straight from log analysis you cannot
17 determine.

18 Q. When we look at the AG isopak and look
19 at the thickest part, if you will, or portion of the
20 pod in -- I lost track of my sections here --
21 Section 9. In section 9, there is a 50 foot contour
22 line that shows the greatest thickness on the
23 isopak. What is your control point for that
24 thickness?

25 A. There is no control, other than it does

1 develop to that thickness in the area and the well
2 in Section 9, in the northwest of the northeast
3 reaching 42 feet, suggests that there is a fairly
4 good likelihood that it may thicken a little bit
5 thicker or thicken a little bit more.

6 Q. When we look at the northeast, northeast
7 of Section 8, the zero contour line plunges
8 southwardly into Section 8; what's the basis for
9 doing that?

10 A. Okay. The basis is the thin well that
11 we have down in Section 18 in the south, in the
12 southeast of the northeast, which is very thin, five
13 feet thick. That is the reason for bisecting that
14 lobe.

15 Q. When we look in the southwest of the
16 southeast of Section 8 and find the well shaded in
17 green, that's got 21 feet in it, you see that one?

18 A. Correct.

19 Q. Did that well produce out of that zone?

20 A. I believe it did, Tom. I honestly can't
21 tell you how much. That well is completed. And
22 Meridian typically begins at the bottom of the
23 Wolfcamp zone and perforates clean carbonate from
24 the bottom up until they get a commercial producer.

25 In that well they started in the AG, I

1 believe they had noncommercial rates, some were in
2 the range of 20 to 30 barrels a day. They came up
3 and they tested AF, AE. And they added maybe small
4 increments of oil.

5 They got up to the AC, and they made --
6 they had a bridge plug set -- I recall now. I just
7 remembered the log. They do have a bridge plug
8 set. I'm sorry, Tom, they do have a bridge plug
9 set in the lower Wolfcamp shale. And they are
10 producing -- they tested it, but they're producing
11 from AC, predominantly from the AC zone.

12 Q. Let me show you what I've marked as
13 Hanley Exhibit C, and ask you if you can identify
14 this?

15 A. It's the completion report, completion
16 reports on the Kachina 8 Number 1 well.

17 Q. If you'll turn it over on the back side,
18 it talks about, in Section 37 of the summary of
19 porous zones, find for us the Wolfcamp zones that
20 relate to the information on the Wolfcamp entries
21 for the C108 --

22 A. The--

23 Q. I'm sorry, the C104?

24 MR. STOVALL: 105.

25 MR. KELLAHIN: 105. Completion report?

1 A. Okay, 306 TO 350 would be the AG.

2 Q. Let me write that down. The 30 --

3 A. 11306 to 11350.

4 Q. -- is the last entry, and that will be
5 the AG?

6 A. That's correct.

7 Q. All right, sir.

8 A. The next entry, next shallower entry
9 from 11150 to 246 is the AF.

10 The next entry from 10972 to 11,026 would
11 be the AE.

12 Q. We're looking at the structure map on
13 the Wolfcamp Exhibit Number 7. Describe for us the
14 structural position of the proposed Hanley location
15 to the structural position of the Kachina 8
16 Number 1 well?

17 A. I have already discussed that, Tom.

18 Q. Well, answer the question. What is the
19 footage relationship between the two?

20 A. We're 50 feet high. Are you -- the
21 Hanley location is 50 feet high to the proposed --
22 to the proposed --

23 Q. That wasn't the question. Let me do it
24 again. The Kachina 8 Number 1 is the current
25 producer that you have to the offset?

1 A. I'm sorry, I'm sorry, Tom. Excuse me.
2 The 8 Number 1 is located at the Sub C is 7179. The
3 proposed Hanley location is approximately 7180. So
4 they should be about flat.

5 Q. Okay.

6 A. Maybe a little bit higher. Actually it
7 should be a little bit high. It should be more like
8 about 7160. The Hanley location should be about
9 7160 from that map, which would be 19 feet high to
10 the Kachina 8, 1.

11 Q. And then as we move south we're going
12 down structure, and that was approximately how many
13 feet, tell me again?

14 A. 50 feet.

15 Q. Okay.

16 A. To the 8 Number 2 location. I might
17 point out that on this -- on this report, I listed
18 oil and water because when we first completed the
19 well -- I lifted oil and water from the AG zone
20 because when we first completed the well it did
21 produce some water.

22 Apparently it was low, though. I didn't
23 know the water analysis -- I didn't have the water
24 analysis when I did this -- It was very early on in
25 the testing of the well. Because as you notice when

1 we completed the well, we completed it making 59
2 barrels of water. That water has since dried up.
3 And it's basically producing all hydrocarbons now.

4 Q. Did you participate, Mr. Thoma, in the
5 choice of location for the Kachina 8 Number 1 well?

6 A. Yes, I did.

7 Q. What was the basis for picking that
8 location?

9 A. Two reasons. One was the Wolfcamp,
10 because I basically had this map projected out to
11 the northeast as you see it now. The other reason
12 was for the Bone Springs.

13 Q. You had a surface problem within that
14 40 acre tract, if I'm not mistaken, that required
15 you to move the well off of a standard 660 location?

16 A. That's correct.

17 Q. Why did you choose too move it to the
18 west, as opposed to the east?

19 A. That was done -- basically, the
20 direction -- the minor movements from the standard
21 was chosen, for lack of a better word, by the
22 operations engineer. And he's here and will testify
23 later.

24 Q. It did not make a geologic difference to
25 you then, to move from 660 to the 500 foot location?

1 A. With the level of control we had at the
2 time -- and I point out that at the time this well
3 was not here. We had a well -- the nearest well
4 was the ^{Oxy}Oxi well in the southeast, northeast of
5 Section 8, and that was it.

6 I was going to say, but this was in the
7 Bone Spring. We had a Bone Spring control point in
8 the southwest of the southeast of the thick which
9 controlled the Bone Spring. But basically you were
10 very close to a mile from your nearest control. So
11 I felt that moving the well 100 feet, with that
12 control, did make a difference.

13 With the level of control we have now,
14 with the Kachina 8, 1, I think it does make a
15 difference as to where you put the well.

16 Q. The well to the north in Section 5 is at
17 an unorthodox location; is it not?

18 A. That's correct.

19 Q. What was the geologic basis for putting
20 that at the unorthodox location for the Kachina 5,
21 Number 1 well in Section 5?

22 A. Because we were stepping north from the
23 Kachina 8 Number 1, and as you can see there is no
24 well control to the north of the 8 Number 1. And,
25 you know, I'm pushing these contours out here using

1 a constant rate of thickening. And so I felt that
2 going beyond that type of geologic interpretation or
3 projection would add risk.

4 And we had a choice of moving the
5 location north from the standard, to solve our
6 topographical problems, but because of the lack of
7 control and the increased risk, I recommended that
8 the well be moved south.

9 Q. Without any more information than it
10 reduced the risk to place the Kachina 5 well closer
11 to the Kachina 8 Number 1 well?

12 A. Repeat the question, Tom?

13 Q. If you're at a standard location for the
14 well in -- Kachina 5 well?

15 A. Right, right.

16 Q. You're going to be farther away from the
17 Kachina 8 Number 1?

18 A. Right.

19 Q. And you're in an area where you have no
20 control?

21 A. Correct.

22 Q. And so the choice was based upon
23 reducing the risk by moving closer to the Kachina 8
24 Number 1 well?

25 A. That's correct.

1 Q. Did you have any seismic information,
2 Mr. Thoma, to help you define the structure?

3 A. We have had access to seismic data in
4 this area in the Wolfcamp. And because water
5 encroachment hasn't been a problem, determining
6 where you are on structure hasn't been a very high
7 priority in placing our locations.

8 We have looked at seismic in the area.
9 We have not incorporated it into any of the
10 interpretations because we feel it really doesn't
11 represent a worthy investment, risk reducing tool
12 for exploration and developments in the Wolfcamp.

13 Meridian has used the data to the south
14 in the Corbin area and they generally have reached
15 the same conclusion. They use it, but only because
16 they have it.

17 Q. And you've not used it in any of your
18 work here?

19 A. We have not incorporated it in these
20 displays.

21 MR. KELLAHIN: That concludes my
22 examination, Mr. Thoma. Thank you.

23 MR. BRUCE: I have a couple of follow-up
24 questions, Mr. Thoma.

25

EXAMINATION

1
2 BY MR. BRUCE:

3 Q. Referring to the isopach^{ch} on the -- the
4 AG, the one in the upper right-hand corner, some of
5 those Wolfcamp wells are producing from that zone
6 and some are not; is that correct?

7 A. That's correct.

8 Q. But I can't tell -- some may not be
9 productive; is that correct?

10 A. That's correct.

11 Q. And some just were not tested; is that
12 correct?

13 A. That is correct.

14 Q. And one final question: From what you
15 just testified a few minutes ago, what you're
16 stating is that the results of the 8 Number 1 well
17 merely confirm your prior geologic mapping; is that
18 correct?

19 A. That's correct. That's correct.

20 MR. BRUCE: I have nothing further,
21 Mr. Examiner.

22 EXAMINER MORROW: Okay. Anything more
23 Mr. Kellahin?

24 MR. KELLAHIN: I'm through, thank you.

25 EXAMINER MORROW: On the allocation of

1 well cost you talked about, Mr. Thoma, what is the
2 proposal for allocation of well cost in that Hanley
3 location, if the well were located there?

4 THE WITNESS: What is the existing
5 proposed --

6 EXAMINER MORROW: What do you mean by
7 allocation of well cost?

8 THE WITNESS: Well, that if we don't
9 have rights in the Bone Spring, which we don't,
10 because -- well, if we don't have rights to any
11 pools on 40 acres, which we do not have in the
12 northwest northwest, as a 100 percent Hanley lease,
13 that 40 acre lease, if we drove the well there, to
14 my understanding we would not have any rights on 40
15 acre pools, which the Bone Spring is.

16 And so if we drove a Wolfcamp back there
17 with Hanley and paid for all costs from the surface
18 to the Wolfcamp, we are paying for costs from the
19 surface to the base of the Bone Spring, or to the
20 top of the Wolfcamp, for which we will generate no
21 revenues.

22 EXAMINER MORROW: Would the same thing
23 apply if the well were in the south portion? Does
24 Hanley have any interest down there?

25 THE WITNESS: They do not. We have --

1 there are two aspects of the the location down
2 there. First is that we have offered Hanley -- to
3 Hanley to form an 80 acre working interest unit and
4 pool them in the Bone Spring rights or in the Bone
5 Spring -- or in all 40 acre pools in the southwest
6 and the northwest.

7 You can argue that that's a moot point
8 because we believe it's going to be wet. That's
9 also the other reason why we believe they should pay
10 their costs through the Bone Spring. Because there
11 probably is not going to be any reserves to be had.
12 But we've offered to pool in case there is, in case
13 we find a zone that we're not expecting. We're
14 willing to give them --

15 EXAMINER MORROW: Do you know what the
16 dollar amount is on the allocation, what the split
17 would be?

18 THE WITNESS: I would prefer if one of
19 the other witnesses testified to that.

20 EXAMINER MORROW: Are you the one to ask
21 about the locations that Hanley operates in this
22 area, the Wolfcamp locations? I mean that Santa Fe
23 operates?

24 THE WITNESS: Am I -- I'm sorry?

25 EXAMINER MORROW: When I asked the

1 earlier witness about the Wolfcamp wells operated by
2 Santa Fe in this area he preferred to wait for
3 another witness. Are you the one or shall we wait
4 for another?

5 THE WITNESS: I can testify to that.

6 We have -- on this display, if you'll
7 look at the Bone Spring display, I believe that the
8 map that he had -- that Larry had --

9 EXAMINER MORROW: Go ahead and look at
10 the Wolfcamp on over there -- because they're
11 marked, the Wolfcamp completions are marked --

12 THE WITNESS: Right, right.

13 EXAMINER MORROW: -- and circled and
14 colored yellow.

15 THE WITNESS: On the Wolfcamp display we
16 operate the Kachina 8 Number 1, the Kachina 5
17 Number 1. Meridian operates the balance of our
18 working interests to the south.

19 If you go approximately three miles west
20 into the Young north pool, we're looking at
21 generally the same Bones -- Wolfcamp reservoirs. We
22 operate the Wolfcamp tests in the northwest
23 northwest of Section 15. And we operate two
24 Wolfcamp tests just off this map in Section 8 of
25 1832. So we operate three wells in 1832, three

1 Wolfcamp wells in 1832, and two wells in 18 --

2 Wolfcamp wells, that is, in 1833.

3 EXAMINER MORROW: In the AF zone in
4 Wolfcamp interval in the Hanley -- the Kachina 8
5 Number 1, tell me again what you said concerning the
6 potential for that interval? What do you expect
7 when you finally perforate that?

8 THE WITNESS; This interval, the AF?

9 EXAMINER MORROW: Yes, sir.

10 THE WITNESS: I expect oil and water.
11 I would expect fairly high rates ever oil and water
12 because of the porosity. That may be the actual
13 rate, the quality of the rate may be more dependent
14 on fracturing. I don't know that right now.

15 And that's one of the things we will
16 learn when we perforate this, because there are very
17 few reservoirs in the south Corbin pool that have
18 this kindly of porosity developed.

19 And to date most of the reservoirs are
20 thinner reservoirs such as this AE reservoir, and
21 have shown some indications of fracturing.

22 If you believe that the micro SFL log
23 spiking is an indicator of fracturing, you do see
24 some of that here, and you do see it in some other
25 wells. You don't see quite as much of it here in

1 the AG. And that's strictly a quantitative --
2 qualitative analysis. There's really no way of
3 quantitatively --

4 EXAMINER MORROW: You do think, though,
5 it would be commercial --

6 THE WITNESS: Yes, I do.

7 EXAMINER MORROW: You would expect an
8 attempt at completion there?

9 THE WITNESS: Yes, yes.

10 EXAMINER MORROW: Mr. Stovall?

11 MR. STOVALL: Yes, I just want to
12 clarify my understanding of what Santa Fe's position
13 is as far as the location. Tell me why Santa Fe
14 prefers the -- its proposed location as opposed to
15 Hanley's. It's just from a geologic --

16 THE WITNESS: Just from a geologic,
17 because we believe we will encounter thicker
18 sections of carbonate in the Wolfcamp. Irregardless
19 of structural position. Fifty feet, I don't believe
20 will make a significant difference as to whether or
21 not we have commercial hydrocarbon production in
22 these Wolfcamp zones in the AG, AF or AD.

23 I think what will determine whether or
24 not we have commercial production is, one, whether
25 we have thick clean carbonates; and, two, whether or

1 not there's reservoir developed in that carbonate.

2 MR. STOVALL: But you don't expect any
3 Bone Spring in your location?

4 THE WITNESS: That's correct.

5 MR. STOVALL: Now with Hanley's location
6 then, do I understand you correctly to say that you
7 are expecting thinner carbonate developments in the
8 Wolfcamp?

9 THE WITNESS: That's correct.

10 MR. STOVALL: But that there is a
11 greater potential for Bone Spring development.

12 THE WITNESS: Right. But we don't have
13 any rights in that.

14 MR. STOVALL: Well, I understand that.
15 I'm just asking you as a geologist, not as an
16 interest owner.

17 THE WITNESS: No, if we had an interest
18 -- if we're going to speculate here, I guess I'll
19 go ahead and speculate. If we had an interest up
20 here, I still wouldn't drill this as a Wolfcamp
21 location. I would drill it as a Bone Spring
22 location. And I would still drill this as a
23 Wolfcamp location (indicating).

24 MR. STOVALL: But not --

25 THE WITNESS: But for other reasons that

1 will be testified to later. There are other reasons
2 why I wouldn't drill there, okay? That go beyond
3 just geology.

4 But geologically speaking, if you take
5 reservoir out of it, and you just look at the
6 geology, I would drill this (indicating) as a
7 Wolfcamp well, and -- yes, I would drill the
8 8 Number 1 as a Wolfcamp -- 8 Number 2 as a Wolfcamp
9 well, and I would step north then and drill the
10 northwest northwest as a Bone Springs location.

11 MR. STOVALL: So you would drill both
12 wells if you controlled all the acreage; is that
13 what you're saying?

14 THE WITNESS: Right.

15 MR. STOVALL: One to the Bone Springs
16 and the other one through the Bone Spring to the
17 Wolfcamp?

18 THE WITNESS: Wolfcamp, correct.

19 EXAMINER MORROW: Is the AF zone a good
20 thick one there in the middle.

21 THE WITNESS: Yes, indeed.

22 EXAMINER MORROW: If you drill the well
23 up location north, the Hanley proposed location,
24 what would you expect, less water production from
25 that interval than you would have at your 8 Number 2

1 location?

2 THE WITNESS: No, because I believe that
3 the water in this reservoir is going to be colinated
4 water, water that is bound in the reservoir and will
5 be produced with the oil, not as a dry, but with the
6 oil. And it's a function of the nature of the
7 reservoir rock.

8 I believe that this is -- we don't have
9 a core through it, but from looking at samples I
10 believe it's a very chalky limestone, so I believe
11 it's going to have a lot of water in it. That's why
12 I'm not too concerned about the structural position.

13 EXAMINER MORROW: You don't think the
14 amount of water in there is related to structure?

15 THE WITNESS: No, no, I don't -- I don't
16 see a oil/water contact in here. You look at the
17 porosity, look in the resistivity log, you don't see
18 oil/water contact in here. And that's why, I don't
19 think there's going to be a significant impact in
20 that respect.

21 EXAMINER MORROW: That's all I had.
22 Anybody else?

23 The witness may be excused.

24 We'll take ten.

25 (A recess was taken at 10:30 a.m. until

1 10:45 a.m.)

2 EXAMINER MORROW: I believe everybody is
3 here. Let's go ahead and start again.

4 MR. KELLAHIN: Mr. Examiner, to keep the
5 paperwork straight at this time, I'd like to move
6 the introduction of Hanley's Exhibits A and B and C
7 where we are.

8 MR. BRUCE: No objection.

9 EXAMINER MORROW: Hanley's Exhibits A, B
10 and C are admitted

11 (Hanley's Exhibits A, B and C
12 admitted into evidence.)

13 RANDY OFFENBERGER
14 was called as a witness and, having been previously
15 sworn, was examined and testified as follows:

16 EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and
19 city of residence for the record?

20 A. My name is Randy Offenberger and I live
21 in Midland, Texas.

22 Q. And who do you work for and in what
23 capacity?

24 A. I'm a senior reservoir engineer with
25 Santa Fe Energy Resources.

1 Q. Have you previously testified before the
2 Division?

3 A. No, I haven't.

4 Q. Would you please outline your
5 educational and work experience?

6 A. Okay, 1978 graduate of Marietta College,
7 Bachelor of Science, petroleum engineering. Since
8 '78 I've had 13 years of engineering experience, 10
9 being in reservoir, 3 being in drilling and
10 production with City Service, Southland Royalty
11 Company which was bought out by Meridian and Tom
12 Brown, and, more recently, Santa Fe.

13 Q. How long have you been with Santa Fe?

14 A. I've been with them a year and a half.

15 Q. And for Santa Fe are you in charge of
16 reservoir engineering with respect to the area of
17 interest in Santa Fe's application?

18 A. Yes, I am.

19 MR. BRUCE: Mr. Examiner, I would tender
20 Mr. Offenberger as a expert in reservoir
21 engineering.

22 EXAMINER MORROW: All right.

23 Q. Mr. Offenbarger, would you refer to
24 Mr. Thoma's Deposition Exhibit 7 and describe the
25 pattern of Wolfcamp development in this pool?

1 A. Okay. On Exhibit 7, on the production
2 map here, we have highlighted a field development
3 pattern that's been established in the south Corbin
4 Wolfcamp field. The highlight here is in a line
5 with the diagonal 80-acre spacing for that field
6 which has been predominantly developed by Meridian.

7 And as you can see here from the
8 highlights, we have a northeast southwest pattern of
9 development. And our location here in the southwest
10 of the northwest is along that same pattern of
11 development.

12 We have selected that location not only
13 for geologic reasons like John had mentioned, but
14 also for reservoir reasons, that we have experienced
15 through our joint interest in these wells down here
16 with Meridian oil company.

17 Q. Regarding that reservoir, have you
18 reviewed the record of case -- OCD Case 8802, in
19 which the South Corbin Wolfcamp pool rules were
20 established?

21 A. Yes, I have.

22 Q. And have you reviewed the exhibits and
23 the testimony in that case?

24 A. Yes, I have.

25 Q. Could you discuss the outcome of that

1 case for the Examiner, please?

2 A. That case addressed the issue of field
3 spacing rules in the South Corbin Wolfcamp. And in
4 that testimony that Meridian had conducted, they had
5 shown economically that the feasible pattern of
6 development is 80-acre spacing. From that
7 information they determine that the diagonal well
8 pattern development is the pattern that they had
9 supported in the testimony itself.

10 Q. And what in that case -- what was the
11 drainage which Meridian established in that case --
12 or I believe it was Southland Royalty Company, was
13 it not?

14 A. It was Southland Royalty Company during
15 the time of which they were being purchased by
16 Meridian Oil Company.

17 Q. Okay. And what drainage was established
18 by Meridian -- or Southland Royalty?

19 A. They had established 80-acre proration
20 units through their technical work identifying that
21 80 acres is the feasible drainage pattern.

22 Q. And what does the average well recover,
23 the average Wolfcamp well recover, in that pool?

24 A. Based on their testimony, they had
25 identified that the average well in in area can

1 recover approximately 100,000 barrels of oil. That
2 testimony was presented back in '86. And since that
3 time we've updated a lot of our production and
4 projections and support that recovery. We feel
5 still today that 100,000 per well is what we feel is
6 a typical Wolfcamp recovery number.

7 Q. Now using that number would you compare
8 drainage at Santa Fe's proposed location with
9 Hanley's proposed location?

10 A. We have an existing producer here, the
11 Kachina 8 Number 1, that is producing out of the AG
12 Number 1. We're looking at that well as probably a
13 typical Wolfcamp well, which we can recognize there
14 will likely be an approximate 80-acre of drainage
15 experienced by that producer.

16 And by our 8 Number 2 location, what we
17 are intending to do there is capture reserves in the
18 south half of the north half that would not be
19 captured with the Hanley Wolfcamp well. Based on
20 pressure data that we have experienced in other
21 fields, particularly over here in Section 15 where
22 Meridian has drilled 40 acre offset wells --
23 essentially 40 acre -- it's a state wide spacing
24 there.

25 Q. Are those Wolfcamp wells?

1 A. Those are Wolfcamp wells. And those
2 were developed -- the original leaseholder that
3 Meridian had acquired the acreage from forced them
4 to drill the 40 acre wells. And what they've seen
5 from the first well to the second well, after six
6 months of production -- keeping in mind that that is
7 an equivalent 40-acre offset -- they've seen 1,000
8 pounds go up in interference drainage from one well
9 to the 40 acre offset.

10 And that's supporting more or less why we
11 feel that we need to stick to an 80-acre program
12 over here at the Corbin -- South Corbin Wolfcamp.

13 Q. Now, the Meridian wells you just
14 mentioned to the west, are those not in the
15 Wolfcamp?

16 A. Yes, sir.

17 Q. And would that pressure drop that
18 Meridian has seen in six months, would that indicate
19 interference on a 40 acre spacing?

20 A. Yes, it would.

21 Q. And are those wells producing out of the
22 same carbonate as the Kachina 8 Number 1?

23 A. Yes, they are -- the AG carbonate.

24 Q. What is your estimation of reserves that
25 would not be recovered from the south half of the

1 northwest quarter of Section 8, if the well is
2 drilled at Hanley's proposed location?

3 A. Assuming that we can encounter a typical
4 well, or Hanley encounters a typical well and we
5 have a typical well, we're looking at some drainage
6 interference between those two wells. And along
7 that line, we're looking at a portion of the
8 northwest quarter, essentially being undrained from
9 what we feel has been established drainage radiuses
10 over in this area.

11 Q. But have you made an estimate of how
12 many barrels would be left -- barrels of oil would
13 be left in the south half of the northwest quarter
14 if Hanley's well is drilled as opposed to
15 Santa Fe's?

16 A. Yes, I have. If this well is drilled
17 within the next four to five months, my estimate
18 based on volumetric analysis assuming 100,000 barrel
19 recovery for the Hanley location, we're estimating
20 approximately 40, or 50 to 60 percent of a typical
21 Wolfcamp well reserves will be left behind, one
22 either being produced by an offset well or left in
23 the reservoir undrained.

24 Q. So you're estimating 50,000 to 60,000
25 barrels would not be recovered by Hanley's wells?

1 A. That's true.

2 Q. And now regarding offset wells, looking
3 to the south half of Section 8, how many wells are
4 in that southwest quarter?

5 A. We have three wells here, two being
6 producers and one pipe has been set in the northeast
7 of the southwest.

8 Q. So there are two wells in the southwest
9 quarter of Section 8 which are now completed or soon
10 will be complete in the Wolfcamp; is that correct?

11 A. There are two that are completed in the
12 Wolfcamp and there is one to be completed in the
13 Wolfcamp.

14 Q. I was just looking at the southwest
15 quarter now.

16 A. Oh, the southwest, right. There's one
17 producing and one to be completed.

18 Q. And in your opinion would that well in
19 the northeast quarter of the southwest quarter of
20 Section 8, would that drain a portion of the south
21 half of the northwest quarter, if the well -- if
22 Santa Fe's well is not good?

23 A. I believe it will.

24 Q. And do you have an estimation of what
25 percent of that 50,000 to 60,000 barrels would be

1 drained by that well in the southeast quarter -- I
2 mean in the northeast quarter of the southwest
3 quarter?

4 A. Approximately, probably, 30,000 barrels
5 of oil.

6 Q. And the remainder would just be left in
7 the ground; is that correct?

8 A. Right, that's correct.

9 Q. So, and I believe -- were you here
10 earlier whether Mr. Murphy was testifying about land
11 ownership?

12 A. Yes, I was.

13 Q. And Santa Fe's interest in the Kachina 8
14 Number 1 well is about 25 percent -- is 25 percent;
15 is that correct?

16 A. Could you restate that?

17 Q. Santa Fe's and Heyco's interest in the
18 Kachina 8 Number 2 well, the proposed well, whether
19 it's drilled at Hanley's or Santa Fe's location,
20 they're each 25 percent?

21 A. That's correct.

22 Q. And in the southwest quarter, Santa Fe's
23 interest is only 19 percent; is that correct?

24 A. That's correct.

25 Q. And Heyco's interest is zero percent?

1 A. That's correct.

2 Q. So if the reserves in the south half of
3 the northwest quarter are going to be recovered by
4 the wells, the well or wells in the southwest
5 quarter, that will impair Santa Fe's and Heyco's
6 correlative rights?

7 A. Yes, it will. I might mention also at
8 this time, if I may, is that Meridian Oil Company,
9 they did get in contact with us and agreed to
10 support our location as a location that they feel is
11 a location that would efficiently and effectively
12 drain our area. And likewise they do have ownership
13 in Section 7, into the south half of 8. They do not
14 have ownership in the south half of 8.

15 Q. Now you mention in Southland Royalty,
16 Case 8802, you mention economics and some economic
17 testimony there. Are the assumptions that Southland
18 Royalty Company made in that case still valid?

19 A. I believe so. They used \$20 oil and
20 \$1.50 gas and I think that's within reason of
21 today's product prices that we're seeing.

22 Q. In referring to the northeast quarter of
23 section 17, is there a proposed location in that
24 area?

25 A. Yes, there is. On the map itself, you

1 can see that there is an industry location in the
2 northwest and the northeast quarter which Meridian
3 has proposed that well -- let me rephrase that.
4 Santa Fe has proposed that well to Meridian, and
5 have since, based on what we've seen in discussion
6 with them, we have mutually agreed to move that
7 location to the diagonal location which is in the
8 northeast, northeast of 17.

9 Q. So it would conform to the field-wide
10 wells spacing currently in effect?

11 A. That's correct.

12 Q. In your opinion will the drilling of a
13 Wolfcamp well at Santa Fe's proposed location be in
14 the interests of conservation and prevention of
15 waste, and the protection of correlative rights?

16 A. Based on what we've seen out here in the
17 Wolfcamp, I believe that's correct.

18 Q. And conversely, in your opinion, will
19 drilling of the Wolfcamp at Hanley's location hinder
20 Santa Fe's and Heyco's correlative rights?

21 A. Yes.

22 Q. And will it also result in waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I have no
25 further questions at this time. I would ask that

1 the Examiner incorporate the record of Case 8802 in
2 the record of this case.

3 MR. KELLAHIN: I would object,
4 Mr. Examiner.

5 EXAMINER MORROW: What's the basis of
6 your objection?

7 MR. KELLAHIN: The order entered in that
8 case establishing the pool rules is Order R-8181B;
9 the order speaks for itself. We're not here to
10 litigate the pool rules or the reasons behind the
11 pool rules. I think it's inappropriate to
12 incorporate that record into the context of this
13 case. This is not an attack on the pool rule.

14 MR. BRUCE: Mr. Examiner, we're not
15 attacking the pool rulings. But I think it serves
16 as a basis for the reservoir testimony that
17 Mr. Offenberger has just given, and also will assist
18 the Examiner in determining whether or not waste
19 will occur if Santa Fe's application is not granted.

20 MR. STOVALL: Mr. Examiner, if I might
21 advise you -- or make some comments and
22 suggestions, I think Mr. Offenberger has testified
23 to the essential elements of what's in that case; is
24 that correct, Mr. Bruce.

25 MR. BRUCE: I think the basic findings

1 of the case.

2 MR. STOVALL: I'm sorry, go ahead.

3 MR. BRUCE: I said I think he stated the
4 basic findings of that case.

5 MR. STOVALL: And by incorporating the
6 record, you complicate your job a little bit. You
7 need to -- perhaps you can reserve that question or
8 act on it. The only question would be -- is not
9 whether the information is accurate or valid, but
10 whether it really helps you or whether you want to
11 have to include that information. It's a practical
12 consideration on your part not a -- I'm trying to
13 save you some work, that's what I'm trying to do,
14 Mr. Examiner.

15 And you know, unless Mr. Bruce feels that
16 there's some specific things in there that would be
17 particularly relevant -- I don't disagree -- I'm not
18 suggesting that the information is not helpful. But
19 I think it's just -- becomes voluminous, quite
20 frankly.

21 If we can identify anything that would be
22 helpful to support the specific concerns that you've
23 got that might be useful, that would be nice. And
24 of course the order is -- obviously affects this
25 case directly. The findings-- the order and

1 findings I think --

2 MR. BRUCE: Well, that's fine, if you
3 take the order and findings into the record, I don't
4 have any problem with that.

5 EXAMINER MORROW: Let's do that then,
6 that sounds like something we can all agree on.

7 MR. KELLAHIN: I have no objection,
8 Mr. Examiner.

9 EXAMINER MORROW: All right, fine.
10 Excuse me. We took-- what was the order number.

11 MR. STOVALL: I think it would be R8181B
12 and then the pool rules were made permanent by
13 R8181C.

14 EXAMINER MORROW: Let the record show
15 that we took notice of that, please.

16 MR. STOVALL: Let me ask you whether in
17 connection with -- can you tell me what 8181 and
18 8181A address, are they relevant?

19 MR. BRUCE: 8181 denied the request.
20 8181A was an order nunc pro tunc, just correcting
21 some typos in the orders.

22 MR. STOVALL: And B was the --

23 MR. BRUCE: Was the de novo --

24 MR. STOVALL: Okay.

25 EXAMINER MORROW: Mr. Carr, are you up?

1 MR. CARR: I have no questions.

2 EXAMINATION

3 BY MR. KELLAHIN:

4 Q. Mr. Hoffenberger you have described --
5 is it Hoffenberger?

6 A. No, it's Offenberger, starts with an O.

7 Q. How do you spell it?

8 A. O-F-F-E-N-B-E-R-G-E-R.

9 Q. Offenberger?

10 A. Right.

11 Q. Mr. Offenberger, you have relied upon
12 the pool rules for the South Corbin Wolfcamp pool to
13 support your argument concerning maintaining a well
14 pattern that would put wells so that you would not
15 have Wolfcamp wells on offsetting 40 acre tracts?

16 A. Essentially, that's the basis of my
17 testimony.

18 Q. Are you familiar with those rules?

19 A. The 40-acre, or the 80-acre spacing
20 rules?

21 Q. All the rules in the South Corbin
22 Wolfcamp that are issued under Order 8181B?

23 A. Not the total details. I am familiar
24 that spacing is 80 acres per ratio unit.

25 Q. Are you familiar with Rule 2 of that

1 order that does not specifically designate a quarter
2 quarter section for a well in an 80-acre spacing
3 unit?

4 A. No, I'm not.

5 Q. Are you aware that under Rule 2, the
6 operator is allowed to drill that well in any of the
7 40 acre tracts in an 80 acre spacing unit?

8 A. No, I'm not.

9 Q. Are you aware under Rule 3 that an
10 operator without notice and hearing can obtain a
11 nonstandard 40-acre spacing unit for a Corbin
12 Wolfcamp pool well?

13 A. No, no.

14 MR. KELLAHIN: Mr. Examiner here's a
15 copy of those rules.

16 Q. The basis of your position is that we
17 need to get the well in the south half so that it
18 will not be competing with the Kachina 8 Number 1
19 well in the northeast of the northwest?

20 A. Not just so much the Kachina 8 Number 1,
21 but also the offsets to the south, which there is
22 currently a well that's being completed, the
23 Wolfcamp Number 26 -- or the West Corbin Number 26.

24 Q. Did your concern over keeping the wells
25 in offsetting 40-acre tracts so that they are more

1 equitably spaced enter into Santa Fe's decision to
2 drill the Kachina 5 Number 1 well, which is
3 diagonally offset on a 40 acre spacing unit from the
4 Kachina 8 Number 1 well?

5 A. Could you rephrase that, I'm not --

6 Q. Find the Kachina 5 Number 1 well.

7 A. I got it, okay.

8 Q. You see that?

9 A. Uh-huh.

10 Q. You find the 40 acres that the Kachina 8
11 Number 1 well is located in?

12 A. Yes.

13 Q. They're diagonally 40 acres apart;
14 aren't they?

15 A. Yes, they are.

16 Q. That violates the pattern that you're
17 trying to establish in the pool; doesn't it?

18 A. No, it doesn't. I don't believe it
19 does. Because what we're looking at, also, is
20 drainage pattern set up to the north 5, in Section
21 5, the diagonal that we would see on a development
22 up in the northeast of the southeast of 5.

23 Q. Explain to me again, how do you deny
24 handling the opportunity for a 40 acre west offset,
25 to the Number 8 -- 8 Number 1 well, and at the same

1 time give yourself a direct 40 acre diagonal offset
2 to the northeast?

3 (Attorney-client conference.)

4 MR. BRUCE: Do you understand the
5 question?

6 A. No, I really don't. I'm not really
7 clear what the question is.

8 Q. (By Mr. Kellahin) Let me try again.
9 You see the 40 acres where the Kachina Number 8 well
10 is in?

11 A. Right.

12 Q. If you go to the 40 acres that adjoin
13 the northeast corner of that 40 acres with the
14 Kachina 8 well?

15 A. Uh-huh.

16 Q. You're now in the 40 acres where
17 Santa Fe did the Number 5 well; right?

18 A. That's correct.

19 Q. Those wells are going to be competing
20 for -- you've got two wells on 80 acres, in effect;
21 isn't that true?

22 A. That's correct.

23 Q. Correct. How is that any different
24 than if we have the Kachina 8 Number 1 in the
25 northeast of the northwest and have the Hanley

1 Wolfcamp well drilled in the northwest of the
2 northwest? Same thing, right?

3 A. I disagree.

4 Q. Okay, why?

5 A. Because of the fact of your drainage
6 radius that you'll be experiencing. The Hanley
7 location, itself, will see some interference with
8 our 8 Number 1. The 5 Number 1, granted, will see
9 some limited interference from the 8 Number 1, but
10 you will also be draining to the northeast, as our
11 isopach^{ch} indicates.

12 Q. It's only the basis of the isopach^{ch} that
13 tells you as a reservoir engineer what the likely
14 shape of that drainage is going to be?

15 A. In most cases.

16 Q. There is de facto 40 acre spacing in a
17 number of instances in the South Corbin Wolfcamp
18 pool; are there not?

19 A. Could you identify those on --

20 Q. Yes, sir. If you'll look in Section 17
21 and look at the southwest of the northwest quarter
22 there's a well. Got it?

23 A. Yes.

24 Q. 40 acres to the west is another Wolfcamp
25 well. Got it?

1 A. That's correct.

2 Q. South of that is another Wolfcamp well;
3 right?

4 A. That's correct.

5 Q. You've got three wells on 120 acres?

6 A. The situation there, Tom, is that you do
7 have different Wolfcamp intervals that are producing
8 amongst those three wells. So when we're talking
9 about reservoir drainage, we need to keep in mind
10 that although it is all Wolfcamp, there are separate
11 intervals that are being drained from those 40 acre
12 wells.

13 The well in the southeast -- the
14 northeast of Section 18 is producing from the AF
15 zone -- the Wolfcamp AF zone.

16 Q. All right, sir.

17 A. The well located in the southwest of the
18 northwest in section 17 which is the West Corbin
19 Number 5 is producing out of the AF, plus the AD
20 zone, which, reviewing internally, we feel a lot of
21 the production is coming from the AD zone.

22 Q. Okay.

23 A. You go to the south of the West Corbin
24 Number 1, you have the West Corbin Number 10 which
25 is in the northeast of the southeast of Section 18.

1 And that well is producing out of the AF and the AG,
2 also. What you have here is a combination of
3 reservoirs that are contributing to the production.

4 Q. All right. And each of those three
5 wells, at least one combination has the AF open in
6 all three?

7 A. That's correct. But may not be the
8 premier producing zone in any particular well.

9 Q. Have you verified the average recovery
10 -- ultimate recovery from the Corbin Wolfcamp
11 wells, the number was 100,000 rounded off?

12 A. Approximately.

13 Q. Have you verified that with the decline
14 curve analysis?

15 A. Yes, I have.

16 Q. And do you have those with you?

17 A. Not readily available.

18 Q. What is the range of recoveries for
19 these Wolfcamp oil wells in terms of ultimate
20 recovery?

21 A. Your range can average anywhere from a
22 few thousand barrels -- 10,000 barrels, up to 250.
23 We've seen a couple wells that have exhibited about
24 250 recovery potential.

25 Q. Have you done any reserve calculation

1 specifically on the Kachina 8 Number 1 well?

2 A. We haven't done any projections. That's
3 why I stated earlier that we feel that this is going
4 to be a typical well until sufficient production
5 history is accumulated to tell us otherwise. And
6 we're not at that point yet, I don't believe.

7 Q. Have you attempted to do any specific
8 volumetric calculation with regards to the reserves
9 attributable to the Kachina 8 Number 1 well?

10 A. Yes, I have.

11 Q. Do you have that calculation before you?

12 A. No, I don't.

13 Q. Can you tell me what you used for your
14 porosity, this value in your volumetric calculation?

15 A. Our porosity value cutoff, I believe,
16 was four percent.

17 Q. Four percent?

18 A. Yes.

19 Q. And what did you use for your effective
20 water saturation?

21 A. Twenty-five percent.

22 Q. And what did you use for your thickness
23 factor?

24 A. Thirty-one feet (indicating).

25 Q. Thirty-one feet is the perforated

1 interval in the AG sand, I guess, or the AG
2 carbonate in that well; is that right?

3 A. No, that's our net number.

4 Q. That's your net clean?

5 A. Net pay.

6 Q. Okay. Using only the net clean
7 carbonate out of that AG carbonate for your
8 volumetrics?

9 A. Correct.

10 Q. You did not roll in the net clean
11 carbonate thickness value for the AF or the AE zone?

12 A. That's true. Because we don't know
13 whether those are productive yet.

14 Q. What did you use for a recovery factor?

15 A. Let me see -- 25 percent.

16 Q. And the formation volume factor what
17 were you using?

18 A. Between 1.4 and 1.5. 1.4 or .5.

19 Q. And you use an area as a factor in the
20 calculation as well; don't you?

21 A. That's what you define.

22 Q. Okay.

23 A. You define the drainage area based on
24 100,000 recovery, that's what you back out. You
25 back out on an effective drainage area.

1 Q. And when you did that you backed out
2 80 acres for that well?

3 A. For that particular well, we're still
4 under the assumption it's a typical well, and we're
5 looking at approximately 80 to 100 acres.

6 Q. Do you attempt to perimeter the changes
7 of thickness within a given drainage radius in the
8 volumetric calculation?

9 A. No, we haven't. And primarily from the
10 fact of what Mr. Thoma stated earlier that the
11 thickness is not totally an identifying criteria for
12 reserves. It's not like a sandstone where you may
13 have a definite correlation. There is some random
14 distribution out here as far as thickness goes,
15 versus recovery.

16 Q. So the calculation will assume a uniform
17 thickness of 31 feet?

18 A. That's correct.

19 Q. Have you assigned a recoverable reserve
20 value to the 40-acre tract, being the northwest of
21 the northwest of Section 8?

22 A. Yes --

23 Q. The Hanley tracts?

24 A. -- I did.

25 Q. And what number did you get?

1 A. Approximately 40,000 barrels, from the
2 Wolfcamp.

3 Q. Again that calculation is going to be
4 influenced -- based upon Mr. Thoma's net clean
5 carbonate isopak?

6 A. Yes. And the timeliness of drilling
7 that well.

8 Q. If it's not drilled soon what happens to
9 the oil reserves underneath that tract?

10 A. If there are oil reserves underneath
11 that tract in the Wolfcamp, portions of it may be
12 drained.

13 Q. By the Kachina Number 8, the 8 Number 1
14 well; right?

15 A. Or the 8 Number 2 well, if we drill on
16 our location.

17 Q. If --

18 A. You've got to keep in mind that if there
19 is no reservoir under that 40 acres there will be no
20 drainage occurring under that tract.

21 Q. I understand that's subject --

22 A. Okay.

23 Q. When we look at the south 40 using
24 Mr. Thoma's isopak of that AG carbonate, that's the
25 one with the 31 feet; right?

1 A. Yeah, AG.

2 Q. What did you calculate in the south 40
3 for the recoverable reserves, is that -- what number
4 is that?

5 A. I didn't utilize volumetrics. I
6 utilized what we have experienced on this pattern
7 out here on diagonal 80s and that would be 100,000
8 barrels. We feel that if the 8 Number 1 and
9 8 Number 2 are drilled, the 8 Number 2 drilled at
10 our location, we feel that a typical well can be
11 expected getting 80,000 barrels of oil -- or
12 100,000, excuse me.

13 Q. Have you attempted to create an
14 extrapolation of pool decline to see how close this
15 average hundred thousand barrels is in terms of
16 actual production in the pool?

17 A. We haven't done it on a pool basis. We
18 have on an individual well base.

19 Q. Can you tell me the individual wells
20 that you've made this estimate of recoverable
21 reserves on?

22 A. I don't have the curves with me to be
23 specific on well locations, but it's the predominant
24 -- not the predominant, but the majority of the
25 wells within that south Corbin Wolfcamp there.

1 Q. Whether operated by you or Meridian?

2 A. That's correct.

3 MR. KELLAHIN: Thank you, Mr. Examiner.

4 MR. BRUCE: I have a couple of follow-up
5 questions.

6 EXAMINATION

7 BY MR. BRUCE:

8 Q. Referring to the well pattern in the
9 south Corbin field, the Kachina 5 Number 1 is a
10 diagonal offset to the 8 Number 1; is it not?

11 A. That's correct.

12 Q. And the proposed Kachina 8 Number 2 will
13 also be a diagonal offset; is that correct?

14 A. That's correct.

15 Q. Whereas, Hanley's well will be a direct
16 40-acre offset to the Kachina 8 Number 1; will it
17 not?

18 A. That's correct.

19 Q. So there is -- so the Kachina 5
20 Number 1, if you draw a line through the 5 Number 1,
21 to the 8 Number 1, to the 8 Number 2, it will
22 conform to the diagonal spacing pattern; will it
23 not?

24 A. That's established in the field; that's
25 correct.

1 Q. The only difference is that the
2 5 Number 1 well is somewhat unorthodox --

3 A. It is.

4 Q. -- in its location?

5 A. And keeping in mind that also a
6 development well could be proposed in the northeast
7 of the southeast which would continue that diagonal
8 pattern on further north.

9 MR. BRUCE: Thank you Mr. Examiner.

10 EXAMINER MORROW: You mentioned the
11 location in the northwest of the northeast of 17,
12 and indicated that agreement had been reached to
13 move that to the east; is that correct?

14 A. That's correct, with Meridian.

15 Q. The location shown in the northwest of
16 the southeast, has any discussion been had on that
17 location as to whether or not it should be moved to
18 the east, also?

19 A. I'm not -- what location was that?

20 EXAMINER MORROW: It's in 17, it's the
21 -- in the northwest of the southeast quarter,
22 directly south of the one that you discussed
23 earlier.

24 A. I'm not familiar with that.

25 EXAMINER MORROW: Do you know who would

1 be the -- well I'll ask you, who is the operator of
2 that particular location.

3 THE WITNESS: (No response.)

4 MR. STOVALL: If you don't know the
5 answer, please say so.

6 THE WITNESS: I don't know definitely
7 the answer. I suspect Meridian is the operator.

8 EXAMINER MORROW: Does Santa Fe have an
9 interest in that location.

10 THE WITNESS: No, we don't.

11 EXAMINER MORROW: Did you have an
12 interest in the one to the north, in the northwest
13 of the northeast?

14 THE WITNESS: The proposed location?

15 EXAMINER MORROW: No, 117.

16 THE WITNESS: Yes, the one that we had
17 agreed to move to the northeast northeast.

18 EXAMINER MORROW: All right. Where is
19 the west Corbin Number 26, you talked about?

20 THE WITNESS: Excuse me, it's in the
21 northeast of the southwest of section --
22 Section 8. It's got a well location several --

23 EXAMINER MORROW: Northeast of the
24 southwest. That's all I have.

25 MR. STOVALL: I just wanted to make sure

1 I understand that the -- you say you have done some
2 drainage calculations and estimates; is that
3 correct, in response to Mr. Kellahin?

4 THE WITNESS: In this area, yes. Not
5 extensive.

6 MR. STOVALL: Do you think the wells --
7 based on those calculations do you have an
8 independent opinion beyond just the pool rules case
9 that's been identified earlier about the drainage
10 capacity, capability of those wells, drainage radius
11 of those wells.

12 THE WITNESS: My independent assessment
13 would be in support of what my findings have been
14 with that case.

15 MR. STOVALL: And what is that?

16 THE WITNESS: The fact that 80 acres is
17 the estimated drainage, approximation for a typical
18 Wolfcamp well.

19 MR. STOVALL: And based upon the --
20 Mr. Thoma's geology and your evaluation, do you
21 think that drilling in the Santa Fe proposed
22 location and in the Kachina 8 Number 2 is -- will
23 effectively drain -- that together with the
24 Kachina 8 Number 1 will effectively drain the
25 northwest quarter of Section 8?

1 THE WITNESS: I believe so.

2 MR. STOVALL: What is your opinion with
3 respect to having two nonstandard former operational
4 units in the west half of the northwest quarter of
5 Section 8, speaking in terms of waste and
6 correlative rights, how do you -- would you
7 recommend that?

8 THE WITNESS: Two 40-acre proration
9 units for Wolfcamp?

10 MR. STOVALL: Correct.

11 THE WITNESS: No, I wouldn't recommend
12 it.

13 MR. STOVALL: Why not?

14 THE WITNESS: Because of our drainage
15 that we have found in in area to prove that 80 acres
16 is the optimum pattern for development.

17 MR. STOVALL: I have no further
18 questions.

19 MR. KELLAHIN: I have a follow-up
20 question to Mr. Stovall, if I might?

21 EXAMINATION

22 BY MR. KELLAHIN:

23 Q. Have you recommended to Santa Fe or
24 Meridian that they file a case before the Division
25 to change the current pool rules so that you cannot

1 have wells in offsetting 40-acre tracts?

2 A. No, we haven't.

3 Q. The Kachina Number 8 Number 1 well --

4 A. The producing well?

5 Q. Yes, sir. It's 500 feet from the Hanley
6 lease; isn't it?

7 A. I believe that's the location.

8 Q. Did you participate in making the
9 decision about the location of that well?

10 A. No, I did not.

11 Q. Who made the decision about the
12 location?

13 A. It was between our Exploration and our
14 Operations people.

15 Q. Is there an engineer that you can
16 identify that participated in that decision, if you
17 didn't?

18 A. No, I'm not that familiar with that
19 specific point of the development of that well.

20 MR. KELLAHIN: Thank you.

21 EXAMINER MORROW: Let's see, I had not
22 studied the rules as I should have. Tell me what
23 the minimum distance from a property line is in the
24 pool rules.

25 MR. STOVALL: Mr. Examiner, I think I

1 did read through the rules, and the distance is 150
2 feet -- within 150 feet of the center of the
3 quarter corner quarter section which is consistent
4 with recent special pool rules that the Division has
5 issued where drilling is on 40-acre tracts
6 essentially.

7 EXAMINER MORROW: So would that put
8 8 Number 1 at a standard location?

9 MR. STOVALL: I believe that would be
10 right close to the center of that.

11 MR. KELLAHIN: I'm sorry, the question
12 was the Kachina 8 Number 1?

13 EXAMINER MORROW: Is it a standard
14 location, the Kachina 8 Number 1-- is it a standard
15 location?

16 MR. KELLAHIN: Yes, sir. It's on the
17 far western edge of the possible circle for standard
18 well location.

19 MR. BRUCE: Mr. Examiner, Hanley
20 Exhibit C, the completion reports, state that the
21 footage location is 660 feet from the north line and
22 1830 feet from the west line. So that would put it
23 at the outer bounds -- 510 feet from Hanley's lease
24 line.

25 EXAMINER MORROW: You're telling me that

1 would be standard?

2 MR. BRUCE: That would be a standard.

3 That would be right on the edge of the circle.

4 MR. STOVALL: One hundred fifty from the
5 center is what it would be.

6 EXAMINER MORROW: All right. Anything
7 else of Mr. Offenberger?

8 You may be excused.

9 Call Mr. Roberts to the stand.

10 DARYL ROBERTS

11 was called as a witness and, having been previously
12 sworn, was examined and testified as follows:

13 EXAMINATION

14 BY MR. BRUCE:

15 Q. Would you please state your name and
16 city of residence for the record?

17 A. My name Daryl Roberts and I'm with --
18 live in Midland, Texas.

19 Q. And who do you work for and in what
20 capacity?

21 A. Santa Fe Energy Resources as a drilling
22 engineer.

23 Q. Have you previously testified before the
24 OCD as a drilling engineer?

25 A. Yes, I have.

1 Q. And are you familiar with the matters
2 involved in drilling in the Kachina 8, Number 1 well
3 and the proposed Kachina 8 Number 2 well?

4 A. Yes, I am.

5 MR. BRUCE: Mr. Examiner, I would tender
6 Mr. Roberts as an expert drilling engineer.

7 EXAMINER MORROW: Accept the
8 qualifications.

9 Q. First, Mr. Roberts, referring to
10 Santa Fe Exhibit Number 4, did you prepare that
11 exhibit?

12 A. Yes, I did.

13 Q. And you are responsible once again for
14 the drilling of these catch wells for Santa Fe; is
15 that correct?

16 A. That's true. One of many.

17 Q. Would you please describe a little
18 further your experience in drilling and estimating
19 costs of Wolfcamp wells?

20 A. Okay. Well, previous to Santa Fe I
21 worked for Meridian and also Southland Royalty. I
22 went to work for Southland royalty in '81. And
23 since 19 -- let's see, since '82, I've worked in
24 that area, southeastern New Mexico.

25 And since 1986 I've drilled 27 wells in

1 these two townships, 1833 and 1832. I've drilled 27
2 wells, 15 of those being Wolfcamp, with both --
3 with either Meridian, Southland or Santa Fe.

4 Q. And when did you become employed by
5 Meridian?

6 A. Meridian?

7 Q. Yes.

8 A. In '86.

9 Q. And when did you you go to work for
10 Santa Fe?

11 A. A year ago.

12 Q. And those 27 wells you mentioned, that
13 was all under Meridian and Santa Fe; right?

14 A. Right. Meridian -- Southland and
15 Santa Fe.

16 Q. In this particular area how many wells
17 -- and you're talking Townships 1832 and 1833 --
18 how many wells does Santa Fe operate?

19 A. Sixteen.

20 Q. And how many does it have an interest
21 in?

22 A. Thirty-five.

23 Q. Now Hanley Petroleum sent over an AFE,
24 proposed AFE, to Santa Fe for its well; did it not?

25 A. It did.

1 Q. And have you compared Santa Fe's AFE to
2 Hanley's AFE?

3 A. Yes, I have.

4 Q. And is that submitted as prepared in
5 spreadsheet form and submitted as Exhibit Number 9?

6 A. Yes, that's true.

7 Q. Would you go through Exhibit Number 9,
8 and compare the dry hole and producing costs and
9 itemize where Santa Fe's and Hanley's well costs
10 vary and the reasons for that variance?

11 A. Okay. Well first off, I'd like to
12 explain, to make the comparison equitable, if you'll
13 notice the -- under the Santa Fe's producers'
14 cumulative total cost, is \$35,000 higher than the
15 cost that was submitted to Hanley which is
16 Exhibit 4.

17 Q. What is the reason for that?

18 A. The reason for that, when I prepared the
19 cost estimate for the Kachina 8 Number 2, it was my
20 assumption they would be using the same tank battery
21 as we have on the 8 Number 1. So, but -- just to
22 make it fair, because Santa Fe -- because Hanley's
23 cost estimate includes the tank battery, I include
24 the tank battery in this particular comparison.

25 Q. So, in short, Exhibit 9 includes the

1 tank battery, whereas Exhibit 4 did not?

2 A. That's right.

3 Q. For Santa Fe?

4 A. That's true. But it's to allow us to
5 be comparing apples and apples. So if you'll look
6 at this exhibit, I can go through line by line, if
7 you like, or --

8 Q. Well, first compare the dry hole costs.

9 A. The dry hole costs in my mind, or
10 Hanley's dry hole costs is \$438,000 versus our costs
11 of \$453,000, which are essentially the same.

12 Q. So you view that as insignificant?

13 A. Right. And then as far as Hanley's
14 producing costs, there's a \$667,000.

15 Q. For Hanley?

16 A. For Hanley. And ours is \$657 --
17 \$757,000.

18 Q. And would you, maybe not line-by-line,
19 but I believe there are some numbers highlighted in
20 orange on the exhibits?

21 A. Okay. These are the ones in orange on
22 the far right-hand corner -- are items that I think
23 are essential to the drilling of the well that were
24 not addressed in Hanley's cost estimate.

25 Q. And what are those?

1 A. The conductor casing which would be
2 conductor casing or using a rat hole machine.

3 Q. And that's that \$3,000?

4 A. \$3,000. Under the lease facility
5 costs, there's \$15,000 for labor, which would
6 include painting, welders, roustabout crews to
7 install the paint battery or lease facilities,
8 \$15,000.

9 Under the intangible well costs, there's
10 fencing, which is \$4200, that we've included that
11 they did not which includes fencing off the reserve
12 pit after the rig is released, and then also fencing
13 off the tank battery after the tank battery is
14 installed.

15 The next item is inspection of tangibles,
16 which would be inspection of the casing prior to --
17 on location prior to running in the hole which is
18 \$5,000. Drilling equipment rentals are -- which
19 is various rentals that we use on a drilling
20 location to drill the well.

21 Same thing with the completion tool
22 rental, is \$4,000. There's miscellaneous
23 completion items that have to be rented from service
24 companies in order to be able to complete the well.

25 Then the next item is \$9200 for

1 administration overhead, which is always charged.
2 And testing of the well is \$5,000, which I think
3 everybody agrees you have to test the well after
4 you're through.

5 All that adds up to around \$48,000 that I
6 view was not included in their cost estimate,
7 they're producing cost estimate versus ours.

8 Q. Okay.

9 A. So in their frame --

10 Q. Now this would still leave you a little
11 bit higher than Hanley's proposed costs, would it
12 not?

13 A. That's true.

14 Q. Now, in making up your estimates, does
15 Santa Fe tend to be liberal on the cost sides?

16 A. Yes, our costs are usually on the high
17 side. We use the book price, just to allow our
18 partners and also our management staff not to have
19 to supplement the AFE after a well because, you
20 know, it's not an exact science. But there again,
21 I was bringing up the fact that whatever our costs
22 are, that's what gets charged to us and to our
23 partners.

24 Q. In other words, Santa Fe by using these
25 higher costs would kind of form an outside limit of

1 the proposed well costs?

2 A. That's correct, it would be a high side
3 estimate.

4 Q. Could you compare Santa Fe's proposed
5 costs for the 8 Number 1 with any offsetting well
6 costs?

7 A. Yes, I have -- we're partners in the
8 west Corbin 26 well which is in Section 8, the
9 direct offset.

10 Q. That's the northeast quarter of the
11 southwest quarter of Section 8?

12 A. Right.

13 Q. What is the proposed well cost there by
14 Meridian?

15 A. It's \$743,000.

16 Q. And are there any other proposed --
17 current proposed wells?

18 A. Yes there's a well that's being -- has
19 been drilled in Section 7 which would be directly to
20 the east, to the west of our -- of this Section 8.
21 And it was \$742,000 for a complete well cost.

22 Q. And what well was that?

23 A. The West Corbin Number 25.

24 Q. Okay. So Santa Fe's proposed well cost
25 here on Exhibit Number 9, is in line with Meridian's

1 costs; is it not?

2 A. That's true.

3 Q. And Meridian is the primary operator in
4 this pool; is it not?

5 A. Right.

6 Q. Could you compare Santa Fe's proposed
7 costs for the 8 Number 1 well, the one that's
8 already completed, with the actual costs?

9 A. Our actual costs are \$705,000, tank
10 battery and everything installed.

11 Q. And what was Santa Fe's AFE for that
12 well?

13 A. I don't have that -- for that well, but
14 for our -- as you can see here -- the Kachina 5
15 Number 1 was \$756,000, which is \$51,000 difference
16 or 6.8 percent.

17 Q. And you would hope and have every
18 expectation of coming in with a cost, hopefully
19 substantially less than this \$757,000 cost for the
20 8 Number 2 well?

21 A. Right.

22 Q. A couple of final items, Mr. Roberts.
23 Santa Fe has already drilled the 8 Number 1 well and
24 we're here today on a second well in the northwest
25 quarter. Does Santa Fe have any plans to drill any

1 additional Wolfcamp wells in the north half of
2 Section 8 during 1991?

3 A. In the north half of Section 8? Yes, I
4 guess so. North half of Section 8?

5 Q. On our current -- on this lease, on
6 this particular lease?

7 A. Well, yes, we had -- I think there's a
8 space for one more well.

9 Q. Might Mr. Thoma be a little more
10 familiar with that?

11 A. Yeah, I mainly just take them and drill
12 them.

13 Can I add something?

14 Q. Sure.

15 A. Back again to the cost estimates. You
16 know, we were talking that -- see in my opinion that
17 our drilling and completion costs are about the
18 same, and the biggest difference that I can see is
19 you can see on this, is the \$28,000 on facilities.
20 And I think if you will notice our Exhibit
21 Number 10, is an award from the BLM, it's an
22 environmental initiative award which commended
23 Santa Fe on its surface facilities and way of doing
24 things.

25 And so I think that the significance of

1 that is it's another governmental agency that thinks
2 that Santa Fe has done well in operating their
3 leases. And that I think relates to the tank
4 batteries and our signs and the way we conform to
5 the -- and adhere to the regulations.

6 Q. Thank you. Mr. Roberts, was Exhibit
7 Number 9 prepared by you?

8 A. Yes, it was.

9 Q. And was Exhibit 10 compiled from company
10 records?

11 A. Yes, it was.

12 Q. In your opinion will the granting of
13 Santa Fe's application be in the interests of
14 conservation, the prevention of waste --

15 A. Yes.

16 Q. -- and the protection of correlative
17 rights?

18 A. Yes, I do.

19 MR. BRUCE: Mr. Examiner, I move the
20 admission of Exhibits 9 and 10.

21 EXAMINER MORROW: Exhibits 9 and 10 are
22 admitted

23 (Santa Fe Exhibits 9 and 10
24 admitted in evidence.)

25 MR. CARR: No questions.

EXAMINATION

1
2 BY MR. KELLAHIN:

3 Q. Mr. Roberts, refresh my recollection,
4 you referred to the West Corbin 5 well?

5 A. Yes.

6 Q. Please find it for me, or tell me where
7 it is so I can find it on one of the maps?

8 A. All I know is it's in Section 7.

9 Q. Okay. Do you know when that well was
10 spudded?

11 A. I can look it up. I've got the drilling
12 reports from Meridian.

13 Q. Would you mind doing that for me,
14 please?

15 A. Okay. January 26, 1991.

16 Q. 1/26/91?

17 A. Yes.

18 Q. Spud date. What's the completion date?

19 A. I think it's still completing.

20 Q. Okay. They're on location completing
21 now?

22 A. As far as I know. I have a report here
23 on February the 28th.

24 Q. Okay. Do you have the actual costs,
25 current through now on that well?

1 A. I have their cost. That's carried on
2 their -- that have been reported to us.

3 Q. They report costs to you on a -- what
4 type of basis? How often do they report costs?

5 A. On a daily basis.

6 Q. On a daily basis you get costs reports
7 on how they're spending the money on the well?

8 A. Right.

9 Q. And the total costs on that well at this
10 point is what now?

11 A. On that particular base, it was \$600,000. *date* *\$600,000*

12 Q. How long does it typically take from
13 spudding to completion for these Corbin Wolfcamp
14 wells?

15 A. I don't have any idea. I can tell you
16 how long they take to drill.

17 Q. All right. The Kachina 8 Number 1 well
18 was spudded on September 29, 1990? Do you have that
19 information?

20 A. I do. Yes, September 29th.

21 Q. The rig was released on October 30,
22 1990?

23 A. That's true.

24 Q. When was the completion date put on the *via*
25 location to compete the well?

1 A. I don't have any -- that information.

2 Q. Do you know when the Kachina 8 Number 1
3 well was completed?

4 A. No, I don't.

5 Q. The total actual cost on that well are
6 \$705,000, completed well costs?

7 A. \$705,437 is what I have.

8 Q. Do you do like Meridian and report to
9 your operators on a daily -- or your working
10 interest owners on a daily basis the current costs
11 of those wells as you do them?

12 A. Yes, sir.

13 Q. Are you aware that there is a royalty
14 difference between the Hanley lease and the lease to
15 the south in that spacing unit?

16 A. No, not a royalty -- You mean a working
17 interest?

18 Q. A royalty difference in percentage?

19 A. No, I'm not.

20 Q. Would that necessitate putting on a tank
21 battery for that well that's different than the
22 Kachina 8 Number 1 well?

23 A. More than likely, yes.

24 MR. KELLAHIN: Thank you.

25 EXAMINER MORROW: If you allocated costs

1 to the Bone Springs, what percent of the cost would
2 be allocated to the Bone Springs location?

3 THE WITNESS: I worked up a cost
4 estimate for a Bone Spring well only, to 9900 feet
5 and the cost was \$616,000 completed costs.

6 EXAMINER MORROW: \$616,000?

7 THE WITNESS: Yes, sir.

8 EXAMINER MORROW: And *allocated* occasional cost
9 would be the difference between that \$616,000 and --

10 THE WITNESS: And \$750,000.

11 EXAMINER MORROW: Looking at Section 8,
12 it looks like there was room for two more wells in
13 that northeast quarter, possibly -- or is that
14 correct?

15 THE WITNESS: Well, does that include
16 the 8 Number 2?

17 MR. BRUCE: Northeast corner.

18 EXAMINER MORROW: Let me see.

19 THE WITNESS: Let me see if I have a
20 map.

21 MR. STOVALL: Use the one on the wall,
22 Exhibit 3, if you need to.

23 THE WITNESS: The northeast corner?

24 EXAMINER MORROW: Northeast quarter of
25 Section 8 would apparently have two more spots at

1 least.

2 THE WITNESS: Right, yeah, I agree.

3 EXAMINER MORROW: I believe you said one
4 had already been talked about in your company; is
5 that right.

6 THE WITNESS: Yes. We're really talking
7 about the northwest, the north.

8 EXAMINER MORROW: Maybe I misunderstood,
9 but --

10 MR. BRUCE: The northeast quarter, yes,
11 Mr. Examiner, I was asking about the northeast
12 quarter. I think Mr. Roberts was unclear on that.

13 THE WITNESS: That's evident.

14 EXAMINER MORROW: Okay. So that answers
15 that.

16 That's all I have.

17 MR. STOVALL: I think we've done enough
18 damage so far.

19 EXAMINER MORROW: All right, the witness
20 may be excused.

21 MR. STOVALL: This would be a good time
22 to break for lunch.

23 EXAMINER MORROW: About 45 minutes?

24 Mr. Bruce, do you have anything else at
25 this time.

1 MR. BRUCE: I'll rest at this time
2 unless I have some rebuttal for Mr. Kellahin. But
3 that's my witnesses, Mr. Examiner.

4 EXAMINER MORROW: We're thinking about
5 breaking for lunch. Does anybody have any airplane
6 commitments or anything else?

7 (Laughter.)

8 MR. STOVALL: What time do your planes
9 leave tomorrow, that's what we're concerned about?

10 Mr. Kellahin, have you got about the same
11 amount of time this afternoon as we spent this
12 morning? Recognizing that Mr. Bruce may have a
13 question or two for some of your witnesses.

14 MR. KELLAHIN: Perhaps two and a half
15 hours.

16 EXAMINER MORROW: We will break until
17 1:00.

18 (The hearing was recessed from 11:45 a.m.
19 until 1:00 p.m.).

20

21 EXAMINER MORROW: Now, we're ready to
22 start with ^{Hanley's} Henry's presentation.

23 MR. KELLAHIN: Thank you, Mr. Examiner.
24 I'd like to call at this time Mr. Brett Bracken.

25

1 BRETT BRACKEN,
2 was called as a witness and, having been previously
3 sworn, was examined and testified as follows:

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Bracken, for the record, would you
7 please state your name and occupation?

8 A. Brett Bracken, geologist.

9 Q. Would you summarize for us your
10 educational background as a geologist?

11 A. I graduated from the University of Texas
12 at Arlington, 1980, with a BS Degree in Geology.

13 Q. Subsequent to graduation, summarize your
14 professional employment as a petroleum geologist?

15 A. I, immediately upon graduating, went to
16 work for Texaco as a geologist. I worked there for
17 three and a half years. And then I went to work for
18 Hanley Petroleum, and I've been there for a little
19 over seven years. So I've been a petroleum
20 geologist a little less than eleven years.

21 Q. As part of your geologic duties, do you
22 look for and develop prospects in the Wolfcamp
23 formation in Lea County, New Mexico?

24 A. Yes, I do.

25 Q. And as part of those duties, have you

1 made a study of the geology that is applicable to
2 today's hearing?

3 A. Yes, I have.

4 MR. KELLAHIN: We tender Mr. Bracken as
5 an expert petroleum geologist.

6 EXAMINER MORROW: We accept his
7 qualifications.

8 Q. Summarize for us the type of geologic
9 interpretations that you have made that will apply
10 to this case?

11 A. Okay. The conclusions, or some
12 conclusions that I've come to, is that structure
13 plays an important integral role in Wolfcamp
14 production in the Corbin South Field. The field is
15 highly irregular and variable in nature. Carbonate
16 debris is not consistent from well to well -- it's
17 presence or absence is not consistent from well to
18 well.

19 Porosity is not consistent from well to
20 well. And, also, there's an occurrence of water
21 production in the wells and that is not consistent
22 from well to well. And, finally, the effective
23 development of the field has been on 40 acres.

24 Q. Let's look at the aspect of your
25 conclusion dealing with structure. And when you

1 apply those conclusions specifically to the west
2 half of the northwest quarter of 8 --

3 A. Yes.

4 Q. -- and you as a geologist are trying to
5 determine the optimum location --

6 A. Uh-huh.

7 Q. -- for a well to penetrate and test the
8 Wolfcamp carbonate --

9 A. Uh-huh.

10 Q. -- And you have a choice between the
11 north 40 and the south 40 --

12 A. Uh-huh.

13 Q. -- How does structure help you make that
14 choice?

15 A. It's structure-- the well in the north
16 40 is going to be higher to the south 40, and
17 possibly higher to the Kachina 8 Federal--
18 structurally higher.

19 Q. What is the significance of being
20 structurally higher to the south 40, if you have a
21 well in the north 40?

22 A. Reduces the risk of water production.

23 Q. How have you determined the deposition
24 of the carbonates in the Wolfcamp as they are mapped
25 in Section 8?

1 A. The -- to the north is the Permal Pan^{Penn}
2 reef front. It has an east-west regional trend.
3 And the dip from this-- out front of this Permal Pan
4 trend is steep and to the south. Again, the
5 structural strike is more or less east and west.
6 Any debris --

7 Q. How confident are you that you have
8 properly mapped the orientation of the structure in
9 the Wolfcamp?

10 A. I've very confident of it.

11 Q. Describe in a regional way what you draw
12 from as a geologist to satisfy yourself that the
13 orientation-- or the axis of the structure is
14 correct in your interpretation?

15 A. Well, among well control, personal
16 identification of the correlation points on the well
17 control, the structure is modeled after shallower
18 horizons. For instance, the Abo reef trend to the
19 north, it has the same strike in the beds over that
20 and out in front of it, shallower beds. They all
21 exhibit this down-to-the-south structural dip, as
22 well as a more or less east-west trend.

23 You can see this dip and this trend all
24 the way up to the Yates, if not at the surface on a
25 topographic map.

1 Q. Having satisfied yourself about the
2 reliability of your mapping of the structure, then
3 how do you apply the structural orientation to the
4 orientation of the deposition of the Wolfcamp?

5 A. Well, if you've got this reef up to the
6 north, and you've got east-west dip -- I mean
7 east-west structural strike, and south dip, the only
8 logical thing to do-- or logical conclusion you can
9 come to, is that any debris that's going to come off
10 of this reef front is going to roll down it like a
11 cannon ball. And-- which is perpendicular to the
12 reef front.

13 And that's -- thus, the orientation of my
14 isopak up there.

15 Q. When you make the choice as a geologist
16 of how to select the intervals for mapping in the
17 Wolfcamp to prepare your isopak--

18 A. Uh-huh.

19 Q. -- what decisions did you have to make
20 and what, in fact, did you make?

21 A. Well, after careful examination of
22 numerous well logs in the area, I came to the
23 conclusion that it was quite difficult to correlate
24 individual zones, well to well, due to the nature of
25 the beast. We're dealing with a carbonate debris

1 that had tumbled down and in pulses-- there's
2 blocks, rubble. And it's all intermingled,
3 convoluted.

4 Some of these pods, when they come down,
5 are going to probably cut into pods that are already
6 deposited. So it's just a jumbled up mess of rock.

7 Q. In order to map the ^{isopach} isopach of this
8 carbonate then, what do you choose for the interval
9 that is mapped on your ^{ch} isopach?

10 A. I chose to map the net clean lower
11 Wolfcamp line within the top of the lower Wolfcamp
12 and the base of the lower Wolfcamp. I summarized
13 all the-- totaled the clean line within that
14 interval and massed it together.

15 Q. Having come to a structural conclusion
16 that the north 40 and the spacing unit has a
17 structural advantage--

18 A. Uh-huh.

19 Q. --in examining the ^{ch} isopach and the
20 relationship of the north 40 to the south 40, what
21 conclusion did you reach as a geologist?

22 A. Well, the north 40 is going to have just
23 as much rock as a well in the south 40, if not more.

24 Q. Let me have you go to what is marked as
25 Hanley Exhibit Number 1, a copy of which we put on

1 the wall. And have you take us through the key
2 components of that Exhibit Number 1 and support for
3 us the factual evidence that causes you to reach
4 your conclusion about the structural advantage in
5 the north 40, and the thickness of the net clean
6 carbonate in the Wolfcamp, and it's advantage in the
7 north 40 versus the south 40.

8 A. Okay. First of all, in the -- it's a
9 montage and pretty much the same format as
10 Mr. Thoma's exhibit. In the north-- the upper
11 right-hand corner, I have a structure map on the
12 base of the lower Wolfcamp, and it shows-- the
13 contour interval is 50 feet, scale is zero to 2,000.
14 I have the proposed proration of working interest
15 unit shown and the location shown.

16 It also shows the line of cross-section,
17 A to A prime. The thing that stands out on this map
18 is that, again, the steep north to south structural
19 dip which has an east -- more or less east-west
20 trend. And this sets up the deposition of the total
21 line-- or total net clean line, which I have
22 isopaked in this map here, which is in the lower
23 right corner of the map, basically.

24 Again, it's the same scale, 50 feet
25 contra interval. And the thing I want to point out

1 is this north-south trend, or axis, of the deposit
2 and our acreage is placed in the -- pretty much in
3 the center of this trend. It's in the optimum, best
4 position within the thick.

5 And going back to the structure map,
6 again, our location -- I'm showing it to be between
7 25 and 35 feet high to a location in the south which
8 is working interest only.

9 Q. In looking at your 40 in the north part
10 of the spacing unit --

11 A. Yes, sir.

12 Q. -- On the structural map, what is it's
13 projected structural position in relation to the
14 Kachina Number 1 well to the east?

15 A. It is also high to the Kachina well to
16 the east. Do you want to know how high?

17 Q. Approximately.

18 A. About 20 feet.

19 Q. When we look at your isopach^{ch} --

20 A. Uh-huh.

21 Q. -- And compare it to the orientation that
22 Mr. Thoma has for the depositional trend of the
23 various members of the Wolfcamp carbonate--

24 A. Uh-huh.

25 Q. -- There's a substantial difference;

1 isn't there?

2 A. Yes, sir, there is.

3 Q. How come you believe you're right?

4 A. Well, like I said, the structure is a
5 key ingredient in the orientation. It's not logical
6 to assume that these pods would be at an oblique
7 angle to the force of gravity. I mean gravity is
8 going to play an important role in how these things
9 were deposited.

10 And that's my reason for making the
11 orientation as such. It's going to be perpendicular
12 to this dip -- structural dip.

13 Q. In coming to the conclusion that the
14 deposition of the Wolfcamp is perpendicular to the
15 axis of the structure--

16 A. Uh-huh.

17 Q. -- have you honored all available
18 geologic data?

19 A. Yes, I have.

20 Q. Is your interpretation inconsistent with
21 any of the data that you've demonstrated on your
22 display?

23 A. No, sir.

24 Q. So you didn't have to ignore any log
25 information or other geologic data in order to

1 make-- come up with this conclusion?

2 A. No, I made the simplest, most logical
3 conclusion you could come to.

4 Q. All right, sir. Before we leave Exhibit
5 Number 1, point out the structural dip for us on
6 your Exhibit Number 1?

7 A. Well, I --

8 Q. It's on the cross-section.

9 A. Yeah, I never got to explain the
10 cross-section here. This is a north-to-south
11 structural cross-section, north being on the left.
12 And, by the way, the Number 1 well on this
13 cross-section is Santa Fe's Number 1 Kachina 8
14 Federal.

15 As you can see, I have colored some of my
16 correlation marks and from the base of this lower
17 Wolfcamp on up to the last correlation that I have,
18 it's all horizons exhibits an obvious north-to-south
19 structural dip.

20 Sub C datum on this cross-section is the
21 marked at 6500 feet below sea level. In a scale -- a
22 vertical scale, that's one inch to 100 feet. It has
23 no horizontal scale.

24 Q. Let's go to your next montage,
25 Mr. Bracken. All right, sir, would you identify

1 and describe for us Hanley Exhibit Number 2?

2 A. Yes, sir. It's the same format as the
3 previous exhibit, incorporating the same structure
4 map, same isopak map. The only difference is it
5 incorporates a west-to-east cross-section, B to
6 B prime, which is shown, the line of section is
7 shown on both maps.

8 In these scales and datum on this
9 cross-section are identical to that-- to that
10 cross-section over there (indicating). Sub C datum
11 and mines 6500 feet, and horizontal scale of-- no
12 scale horizontal or vertical scale one inch to one
13 hundred feet.

14 Q. Describe for us your conclusions about
15 the display?

16 A. Again, these maps here are the same. I
17 won't go into them.

18 But, what it shows is that this isopak
19 interval here that I have summed up the total line,
20 clean line, exhibits a-- somewhat of a little more
21 structure. It's not really structure, but over this
22 pile of rock -- and I think that's due to this pile
23 of rock that has been -- this accumulation of rock
24 that has been dumped out in this interval.

25 One thing to note is that the -- their

1 zone is producing in the Kachina 8 Federal, the
2 bottom here, and back up, producing perforations are
3 indicated by solid black bars on the center well
4 column.

5 There is nothing to the west to indicate
6 that that zone would not be present in this well.

7 Q. This well being the first numbered well
8 on the B, B prime cross-section--

9 A. Yes, sir, it would be in Quadrant--
10 looks like Quadrant C of 7.

11 Q. And you have available logs on that
12 well, but it stops -- the well bore stops just short
13 of the lower Wolfcamp that Mr. Thoma has identified
14 as the AG?

15 A. Looks like it stopped TDs about
16 somewhere in the middle of what he would call the--
17 I guess the AF, whatever.

18 Q. What have you used on your isopak then
19 to define the area of greatest thickness in the
20 carbonate as you come through the western half of
21 Section 8?

22 A. I have used the blue shading that I have
23 indicated on the log. Or, in other words, I have
24 summed up those thicknesses.

25 Q. In order to have an effective tool to

1 find oil in the Wolfcamp, what do you do as a
2 geologist in mapping the isopak of the carbonate?

3 A. Well, we were trying to locate the
4 locations where there would be the greatest amount
5 of rock, favorable structural position.

6 Q. Could you, as a geologist, utilize
7 Mr. Thoma's isopack^{ch} on the AG producer which is in
8 the upper right portion of his display, Exhibit
9 Number 7, for example, would you as a geologist use
10 that with confidence to help you find the best
11 location for oil production in the Wolfcamp?

12 A. No, I would not.

13 Q. Why not?

14 A. Well, I don't like his orientation.
15 Excuse me, I'm not trying to cut anybody down.

16 But, first of all, his orientation is--
17 goes against logic. There's no basis for the skewed
18 northeast-southwest trend. As a matter of fact, I
19 could contour these -- his numbers, in a north-south
20 direction, easily.

21 He has no -- the other problem is that --
22 take each well on a -- each map on an individual
23 basis, there's a majority of wells that penetrate
24 the Wolfcamp which do not produce out of that --
25 whatever interval he's trying to isopack^{ch}.

1 In fact, the majority of the wells would
2 be nonproducers or dry holes for each one of his
3 intervals. So it's misleading. It would lead you
4 to believe you could package, or map all of these
5 zones into nice correlatable packages, when it's
6 entirely the opposite.

7 Q. Let me have you return to your seat if
8 you're finished with Exhibit Number 2.

9 And let me have you at this point
10 identify and describe what we will mark as Hanley
11 Exhibit Number 3.

12 Identify that display for me, please?

13 A. It is a structure map on top of the--
14 what I call the second Bone Spring carbonate Payne
15 Zone B. This is a personal nomenclature for that
16 zone.

17 Q. All right. Why did you want to prepare
18 a structure map using the second Bone Springs
19 Carbonate pay?

20 A. Well, first of all, it's a good
21 correlatable marker on the logs. And it also
22 demonstrates the obvious structural strike -- or
23 structural structure in the area, and that is the
24 east-west structural strike and the steep dip to the
25 south. This is consistent with the Permian and

1 Abo reef fronts to the north.

2 Q. How is this structure map different than
3 the one you displayed on either Exhibit 1 or 2?

4 A. It's not too different at all. It's
5 showing the sme structural relationship. It just
6 may be a little more dip. Basically the same,
7 though.

8 Q. So it's clear, what's your structural
9 control for -- what point in the reservoir are you
10 mapping on the structures shown on Exhibits 1 and 2
11 and how does that differ from Exhibit -- did I say
12 Exhibit 4? I think it's Exhibit 3. I'm sorry,
13 Exhibit 3. How are these different? Are you
14 mapping on the same interval?

15 A. I'm sorry, I didn't -- misunder--

16 Q. When you look at the structure maps,
17 you've got a structure map shown on Exhibits 1 and
18 2?

19 A. Yes.

20 Q. What are you mapping? What portion of
21 the structure are you mapping?

22 A. It's the base of the lower Wolfcamp.

23 Q. Okay. When we look at Exhibit 3, what
24 are you mapping?

25 A. Zone -- approximately a top of a zone

1 approximately, oh, 3,000 feet higher on the top of
2 the Zone B Bone Spring carbonate.

3 Q. When we look at the top of the Bone
4 Spring carbonate for a structural marker, is that
5 shown on either Exhibits 1 or 2?

6 A. No.

7 Q. All right. We're far above that
8 interval?

9 A. Yes.

10 Q. Why is it important to you as a
11 geologist to have mapped the structure on the Bone
12 Springs and compared its relationship to the
13 Wolfcamp structure?

14 A. It just -- it adds more emphasis to the
15 Wolfcamp. It verifies it, in that a structural--
16 our structural position in our proposed location is
17 going to be higher than their proposed location at
18 all horizons.

19 Q. So in the north 40 of the spacing unit,
20 regardless of the formation penetrated, you will
21 have a structural advantage in the north 40 over the
22 south 40?

23 A. That is correct.

24 Q. Will this hold true not only for the
25 Wolfcamp, but the Bone Springs and any other

1 potential oil formation?

2 A. Yes.

3 Q. What are the other oil formations that
4 are likely targets for a well to be drilled in the
5 north 40?

6 A. Well, not only their AG zone, but I
7 agree with Thoma that the-- whatever they call the
8 AF and the AE-- or whatever they are called, they'll
9 probably be productive. Bone Springs sands, Bone
10 Spring carbonates, Delaware sands, Queen/Grayburg.

11 Q. Let me direct your attention now to what
12 is Exhibit 4. This is your production map. You
13 want to talk about it?

14 A. If you want me to.

15 Q. Did you also participate in the
16 preparation of this production identification map?

17 A. Yes, I did.

18 Q. Identify and describe it for us.

19 A. Okay. It is a production map of the
20 Corbin area. The scale is zero to one inch is 2,000
21 feet. It is a map that shows all producing wells in
22 the area and what zones they produce out of. For
23 instance, the-- I guess it's purple, would be the
24 Queen/Grayburg at, say, 4,000 feet. Delaware is in
25 the -- Delaware production is kind of hard to see,

1 but it's kind of a more orange color. And that
2 produces at about 5,000 feet.

3 Bone Spring is a darker red color and it
4 produces from the -- like I said, from the dolomite
5 and sand between, say, 8400 to 9400. Wolfcamp is
6 shown in yellow, and then there is some Wolfcamp
7 shown in yellow and it produces at around 10,700 to
8 11,500. And then there is some production from the
9 Straw and the Morrow it's deeper -- much deeper.

10 It also shows the proposed location of
11 the interest unit.

12 Oh -- I'll wait. Maybe you want to ask
13 me something else.

14 Q. From any of your displays, do you agree
15 with Mr. Thoma that a well drilled in the south 40
16 for Bone Springs production is going to be too low
17 in the structure and, therefore, wet?

18 A. Yeah, I agree with him.

19 Q. When we look at the Wolfcamp, can you
20 specifically identify wells for us on any of your
21 displays that have encountered the water problem
22 with their Wolfcamp oil production?

23 A. You bet.

24 Q. Please do that for me.

25 A. Okay. I'll do it on the north-south

1 cross-section, or exhibit-- I guess it's Exhibit 1.
2 The Number 2 well on the cross-section didn't even
3 test the AG zone according to the Santa Fe's
4 nomenclature.

5 This second zone which looks like that--
6 we assume that it could coorelate to the second zone
7 on the Number 2 well trace at about 11,160 to 7250,
8 thereabouts. Appears to correlate to their zone
9 here, which they call the AF. They perforated this
10 interval and recovered swab 20 barrels of oil, and
11 50 barrels of formation water. Eventually moved up
12 the hole to an entire interval.

13 Also, in their AG zone, the third well on
14 the cross-section, which would be this location
15 here, they perforated that zone, which is the zone
16 that their well -- the Santa Fe well, produced out
17 of-- and they swabbed 8 barrels of water with a
18 trace of oil and they eventually squeezed the perms.
19 So in that respect, you'd think that water is
20 definitely a problem.

21 Q. Okay.

22 A. Anything else?

23 Q. No, sir.

24 The Examiner must make a judgment on the
25 appropriate risk factor penalty to apply in either

1 case, Mr. Bracken. Mr. Thoma has recommended to the
2 Examiner that if he approved a well in the south 40
3 that it justifies the maximum risk factor penalty of
4 200 percent.

5 A. Uh-huh.

6 Q. Do you agree or disagree with Mr. Thoma
7 with regards to a well in the south 40-acre tract?

8 A. With that penalty, yes, it's riskier.
9 It's a riskier location.

10 Q. If you're recommending to the Examiner a
11 risk factor penalty for a well to be drilled in the
12 north 40 --

13 A. Uh-huh.

14 Q. -- what is your recommendation to him
15 based upon the geologic risk involved for a well at
16 that location?

17 A. Well, in our opinion, it is less risky,
18 and we would be willing to assign a penalty of
19 150 percent instead of 200 percent.

20 MR. KELLAHIN: That concludes my
21 examination of Mr. Bracken. We move the
22 introduction of Exhibits 1 through 4.

23 EXAMINER MORROW: Exhibits 1 through 4
24 are admitted.

25

1 (Hanley Exhibits 1 through 4
2 admitted into evidence.)

3 EXAMINATION

4 BY MR. BRUCE:

5 Q. Mr. Bracken, do you disagree with
6 Mr. Thoma's breaking up the Wolfcamp into five
7 separate pays?

8 A. I agree only in the sense that there are
9 separate pays. But I don't think you can map them
10 like he's done it. I think that would be an
11 exercise in -- you know, you're just kidding
12 yourself if you think you can correlate that stuff.

13 Q. Okay.

14 A. There are separate pays, yes --

15 Q. Would you?

16 A. -- I would agree with that.

17 Q. Would you also agree that some of those
18 pays may be productive, while others are not?

19 A. Yes.

20 Q. Now, you mapped it, as I understand it
21 total -- totalled all those pays to make your
22 isopach^{ch}?

23 A. Yes, sir.

24 Q. Will that reflect individual
25 depositional environments for the separate pays?

1 A. I believe so. They're all going to --
2 well, I'll just leave it at that.

3 Q. Now, looking at -- I'll pick out your
4 Exhibit 2 here.

5 A. Uh-huh.

6 Q. I believe you testified that your
7 drawing the isopak perpendicular to the structure --

8 A. Perpendicular to strike.

9 Q. Well, isn't -- if that's the case,
10 shouldn't your orientation be from the northwest to
11 the southeast?

12 A. Well, I think you're splitting hairs, if
13 you're going to go into that. I see -- that map is
14 a small portion of a larger regional map that I've
15 done and it's clearly east-west direction and on --
16 another thing is that there has been some tilting
17 that has taken place, I believe during the Tertiary
18 time, that is going to -- I'm trying to think of a
19 word.

20 EXAMINER MORROW: Change?

21 A. Yes, change the original structure at
22 the time of deposition.

23 Q. I've also made a note that you said this
24 pool was effectively developed on 40 acres?

25 A. Yes, sir.

1 Q. Could you explain that?

2 A. Sure can. I'll show you on here. Who
3 do you want me to show it to?

4 Q. We need to find a display that -- you
5 need to find a display that everybody can recognize.

6 A. I think we've already gone into it on
7 previous testimony, but, Mr. Examiner, if I could
8 draw your attention to the, say, west half of
9 Section 17, and the east half of Section 18, there's
10 a cluster of three wells in there that all produce
11 -- they're all direct offsets to each other.

12 You can go over to Section 16 to the east
13 and in the southwest quarter of that section, again
14 you see three wells that are more or less -- well,
15 not more or less, they are effectively 40 acre
16 spacing in relation to each other.

17 Q. Let's look at Section 17.

18 A. Okay.

19 Q. In the west half of Section 17, and then
20 the west half of the east half of Section 17, that's
21 about 480 acres. How many wells are in there?

22 A. Say that again? I didn't follow you.

23 Q. Excluding the east half of the east half
24 of Section 17 --

25 A. Uh-huh.

1 Q. --how many wells are producing from the
2 Wolfcamp?

3 A. Looks like there's six wells.

4 Q. Could you divide 480 by 6 for me?

5 A. Eight, I believe.

6 Q. I believe that's 80?

7 A. Eighty? Yeah, 80.

8 Q. So in other words, there's one well
9 every 80 acres in Section 17; isn't there?

10 A. Right. Legally there's one well for 80
11 acres. But effectively there's -- in some instances,
12 there's physically one well for 40 acres.

13 Q. In the area of interest, I do recognize
14 that looking at Section 18 there is a 40-acre direct
15 offset; isn't there?

16 A. Uh-huh.

17 Q. But really, if you look at Sections 8,
18 17, and 18 -- and 7, that's really the only instance
19 of a 40-acre offset; isn't it? A direct 40-acre
20 offset?

21 A. Well, like I said, over in the southwest
22 quarter of Section 16, that-- I can draw your
23 attention again down to Section 21, in the east half
24 of the west half, you've got three wells that are
25 stacked on top of each other, 40 acres apart.

1 Q. We're a little closer to Section 17,
2 aren't we?

3 A. Yeah.

4 Q. How many other Wolfcamp wells has Hanley
5 drilled in New Mexico?

6 A. What do you mean Wolfcamp wells, we've
7 drilled? Wolfcamp wells we've produced from or
8 wells that we've drilled to the Wolfcamp?

9 Q. How many Wolfcamp wells are you
10 operating right now in New Mexico?

11 A. No Wolfcamp producers.

12 Q. Now, I believe you said structure is
13 important?

14 A. Yes.

15 Q. Our proposed location -- And what is the
16 difference between Santa Fe's proposed location and
17 Hanley's location?

18 A. Santa Fe's proposed location and --

19 Q. Yes.

20 A. -- Right?

21 Q. Yes, footage difference in structure.

22 A. In structure is between 25 and, say,
23 30 feet. Again we're dealing with a 50 foot
24 contour in there.

25 Q. Okay.

1 A. We would be at 25 to 30 feet higher than
2 their proposed location at the base of the lower
3 Wolfcamp.

4 Q. Okay. Then drop down to Section 17, and
5 take that well in the southwest to the northwest
6 quarter of Section 17?

7 A. Southwest of the northwest, E --
8 Quadrant E?

9 Q. Yes.

10 A. Uh-huh.

11 Q. How much lower structurally is that well
12 than Hanley's proposed location?

13 A. Proposed location -- about 67 feet
14 lower.

15 Q. Are you aware of how much that well has
16 produced?

17 A. Yeah, I am.

18 Q. How much?

19 A. Oh, somewhere in the 200,000 range. It
20 also produces from a different reservoir from the
21 one that the Santa Fe Kachina 8 Federal produces
22 from.

23 Q. Okay. Well, let's get into that. So
24 the wells do produce from some of the different
25 pays; right?

1 A. Right.

2 Q. And so that might affect your comments
3 about effective 40-acre spacing, because some of
4 those wells might be producing from different pays,
5 even though they're direct 40-acre offsets; isn't
6 that correct?

7 A. It's correct, although some of the
8 intervals in the wells have perforated over a large
9 -- large intervals where there's no way to
10 determine what zone is producing. You just know
11 you're getting oil out of a couple hundred feet of
12 section.

13 MR. BRUCE: I'll pass the witness to
14 Mr. Carr.

15 MR. KELLAHIN: Mr. Bracken, why don't you
16 have a seat.

17 EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Bracken, if I understood your
20 testimony, you stated that you believe the Hanley
21 location was structurally higher than that proposed
22 by Santa Fe; is that correct?

23 A. Yes.

24 Q. And if I also understood your testimony,
25 you stated that one of the benefits that would come

1 from a higher structural location is that you would
2 have less of a potential water problem in the well;
3 is that what you said?

4 A. Less risk of water production, right.

5 Q. Now, I know you told Mr. Bruce that you
6 don't operate any Wolfcamp wells in New Mexico. You
7 have studied the wells in the general area of this
8 location, have you not?

9 A. In this location, as well as throughout
10 the southeastern New Mexico and Midland Basin areas,
11 Permian Basin.

12 Q. And if I look at your structure map,
13 it's on the base of all Wolfcamp structures; is that
14 correct? On Exhibit Number 2?

15 A. Base of the lower Wolfcamp structure?
16 Right.

17 Q. And what you said was you're
18 experiencing a drop off as you move toward the
19 south; is that right?

20 A. There is dips -- down-dip structure to
21 the south.

22 Q. And the yellow spots on this will show
23 Wolfcamp wells; is that right?

24 A. Uh-huh.

25 Q. And they are south of your proposed

1 location?

2 A. That is right.

3 Q. And they're down structure?

4 A. That is right.

5 Q. And are you aware of any real water
6 problems anyone is having down there?

7 A. Yes, I am. But I'm not prepared to
8 testify to that. Somebody else will.

9 Q. You're going to have testimony on the
10 water problems that are coming down structure?

11 A. You bet.

12 Q. With a -- how much difference are you
13 talking about between the proposed location and the
14 Santa Fe location?

15 A. How much difference in what?

16 Q. In structure. How much lower?

17 A. Between our location and the proposed
18 location of Santa Fe?

19 Q. Yes.

20 A. Again, between 25 and 30 feet. Their
21 location is going to be between 25 and 30 feet low,
22 at the base of the lower Wolfcamp.

23 Q. Now, you prepared the structure map?

24 A. Yes.

25 Q. And in preparing it, did you use any

1 seismic?

2 A. No, sir, I did not.

3 Q. It's all well control?

4 A. Yes.

5 Q. If I look at the wells off -- I think
6 they're -- well, I believe they're deeper wells.

7 Are they Morrow -- they're the wells in Section 7.

8 There's one with a letter B by it and it's a circle
9 with a dot.

10 A. Yes.

11 Q. That's a deeper well than the Wolfcamp?

12 A. Well, if you look at the legend there, a
13 dot with a circle around it means that it reached
14 the Wolfcamp. And what I mean by reaching the
15 Wolfcamp, that may be just the top of the upper
16 Wolfcamp --

17 Q. Okay. What does NDE mean?

18 A. It means not deep enough.

19 Q. So that's not a well that you used in
20 structuring a structure map on the base of the
21 Wolfcamp?

22 A. On the base of the Wolfcamp, now, I have
23 a up -- top of the lower Wolfcamp which I do have a
24 structure point on that.

25 Q. But my point is when you say NDE on --

1 A. It's not deep enough at that point,
2 correct.

3 Q. Now, if I look at this I don't see wells
4 north -- or really west of the proposed location
5 that seem to have penetrated the Wolfcamp; is that
6 right?

7 A. You don't see them on that -- that
8 display.

9 Q. And this display goes, oh, a mile west
10 and at least a mile north?

11 A. That is correct from my --

12 Q. And how close did you have actual
13 Wolfcamp control north that you're not showing on
14 this map?

15 A. I'm going to say -- let me see. Okay, I
16 believe -- let's see. It would be between 29, 30,
17 31, 32 -- I believe I have -- I don't believe it, I
18 know I had a well control up here. And then I have
19 well controls farther off this map in the same
20 township (indicating).

21 Q. And you were showing that you had well
22 control northeast and east; is that right?

23 A. Northeast and north and northeast.

24 Q. North and northeast?

25 A. Yes.

1 Q. Do you have anything to the west?

2 A. To the west -- I do, I do. I'm just
3 trying to remember the -- how far north they go. I
4 do have well control to the west, and to establish
5 that -- you'll just have to take my word for it.

6 Q. Well, let me ask you this: In terms of
7 the contours that you placed, say, in Sections 4, 5
8 and 6, were you using just well control in the
9 Wolfcamp to map that?

10 A. Well, like I said, I've got well control
11 to, I believe it's Section 32, it would be 17 South,
12 33 east. In fact, I have a value for that. And I
13 simply try to maintain a constant contour interval
14 from that point to where I gain well control again.

15 Q. And--

16 A. It's simple.

17 Q. In doing this mapping, were you only
18 using Wolfcamp data or were you trying to draw data
19 from formations above and below?

20 A. Both.

21 Q. Did you use some information from, say,
22 Bone Springs information to project your general
23 trends in this area?

24 A. Yeah.

25 Q. In your general mapping actually the

1 Wolfcamp shelf is off the north; isn't it?

2 A. The Wolfcamp shelf is off to the north,
3 that is right.

4 Q. And you wouldn't be able to necessarily
5 expect Bone Springs information to mirror what you
6 get in the Wolfcamp; isn't that fair to say?

7 A. Say that again?

8 Q. Could you look at the slope in, say, the
9 Bone Springs, and be able to project what the
10 Wolfcamp is doing from that, or would you have to
11 have other data to do that?

12 A. Project it with what degree of accuracy?
13 Just that they are conformable?

14 Q. Did you utilize that in concluding --

15 A. Yes, yes. The beds from -- like I said,
16 from the Yates down to the -- gosh, upper Penn would
17 be more or less conformable and would exhibit this
18 north-to-south structural dip.

19 Q. When we look at your contours on the
20 base of the lower Wolfcamp and we look at your 70-
21 to 50-foot contour, this is the section that you
22 selected out of the regional map to show the trend
23 in this area; isn't that correct? You were the
24 person that decided to use this portion of it?

25 A. Me, solely?

1 Q. Well --

2 A. That map, yes, I did use that -- I did
3 choose that.

4 Q. Okay. And when we're drawing this
5 contour, you're utilizing the points that you have
6 north, northeast and somewhere off to the west --
7 three points is that what you were telling me?

8 A. Yeah.

9 Q. And based on that and integrating your
10 general regional study, this is your best
11 interpretation of the lower Wolfcamp as it comes
12 across the subject area?

13 A. It's my best interpretation; right.

14 Q. And if we look at the three sections
15 north of it, we see your 7250 foot contour coming --
16 going south. If we move to the west, it drops south
17 about a thousand feet a section, doesn't it?

18 A. A thousand feet a section? No, about --

19 Q. How many feet would you say you have
20 come down on, say, the east side of Section 6 from
21 the north line of that of section?

22 A. Well, every one of those heavy black
23 lines is 250 feet. So that would be about 250 feet
24 difference from the -- if you pick a point there at
25 the northeast corner of that Section 4, is 100 and

1 something -- excuse me, 250 feet high to a point,
2 say, two-thirds of the way down on the left-hand
3 side of Section 6.

4 Q. And you're saying that on the surface of
5 the ground from the corner of Section 6, to where
6 your contour intersects it is 250 feet?

7 A. Not on the surface of the ground.

8 Q. How many feet on the surface of the
9 ground? About 3,000 feet?

10 A. On the surface of the ground?

11 Q. Yes, sir.

12 A. It -- no.

13 Q. I'm asking you how many feet to the
14 south your contour moves if you look straight down
15 on it?

16 A. Well, you're confusing me now. Are we
17 talking about the surface out there where you walk
18 or are we talking about this map?

19 Q. I'm talking about your map, Mr. Bracken,
20 and I am asking you, since you say these contours
21 are north-south, I'm asking you how much -- when you
22 look down at it -- how much to the south you are
23 moving on the west line of Section 6? Where does
24 this intersect with the west line of Section 6?

25 A. Midpoint? Two-thirds of the way down.

1 Q. Okay, now --

2 A. About 250 feet difference from the top
3 of that section, north part of that section down to
4 that two-thirds point on that section.

5 MR. STOVALL: Mr. Carr, maybe to qualify,
6 you're talking about horizontal displacement of a
7 single contour elevation. And I believe the witness
8 is talking the vertical difference between that
9 northwest corner of the section.

10 Do you understand this -- what he is
11 saying?

12 A. I think now, after you -- say it again?
13 I'm sorry, I'm not trying to be difficult. Say it
14 again.

15 Q. I'm asking you if you know how many feet
16 are on the side of Section 6 -- on the west side of
17 Section 6.

18 A. About a mile -- 5,280 feet Sorry.

19 Q. And if we have 5,280 feet, you have
20 moved the contour, the 7,250 foot contour how many
21 feet down? Two-thirds of that 3,000 feet maybe?

22 A. Yes.

23 Q. And so that means as we go across three
24 sections and we're moving south -- which I imagine
25 is toward the bottom of your map; is that a fair

1 assumption?

2 A. Uh-huh.

3 Q. That you have gone -- you have tilted
4 this contour approximately a thousand feet per
5 section across those three sections; is that right?

6 A. One thousand feet horizontal
7 displacement; is that what you're saying?

8 Q. That's what I'm talking about.

9 A. Yeah, okay.

10 Q. Now, if we go to your 75 foot contour --
11 there's a 7500 feet contour --

12 A. Uh-huh.

13 Q. It again slopes generally from northeast
14 to southwest, horizontally?

15 A. Uh-huh.

16 Q. All right? And I think you stated that
17 you would expect the Wolfcamp to lay perpendicular
18 to the slope of your formation?

19 A. Yeah.

20 Q. Wouldn't you expect the slope -- isn't
21 the slope of the formation basically a
22 northwest-southeast slope based on these contours
23 that you picked?

24 A. Based on both contours --

25 Q. That you picked.

1 A. To answer your question, yes.

2 Q. And you picked them?

3 A. Yes.

4 Q. And if it lies perpendicular to these,
5 the formation would tilt from northeast to southwest
6 based on this exhibit?

7 A. It does not tilt northeast -- or --

8 Q. Let me just ask you this --

9 A. It does not tilt northeast to southwest
10 based on that contour. It's the exact opposite.

11 Q. If we were drawing a line perpendicular
12 -- the slope of this formation based on these
13 contours is northwest-southeast?

14 A. Based on that? Right.

15 Q. And perpendicular to that would be
16 northeast-southwest?

17 A. Perpendicular to that would be --

18 Q. Perpendicular --

19 A. --would be northeast-southwest, yes.

20 MR. KELLAHIN: I don't want to intrude,
21 but I think the directions are wrong. To be
22 perpendicular, the directions would be northwest to
23 southeast. I think you misspoke.

24 MR. CARR: The slope is southwest to --
25 you would tilt northeast to southwest.

1 MR. KELLAHIN: It's backwards.

2 EXAMINER MORROW: Do you have any
3 questions, Mr. Kellahin?

4 MR. KELLAHIN: No, sir.

5 EXAMINER MORROW: Let me ask you a
6 question about perpendicular. On Exhibit Number 2,
7 zero contour line --

8 THE WITNESS: Uh-huh.

9 EXAMINER MORROW: -- runs on your isopak
10 map, runs generally east-west; is that correct?

11 THE WITNESS: Right.

12 EXAMINER MORROW: And this 7500 foot line
13 on the contour, ^{minus} 7500 foot ^{sub sea} subsection, on the
14 contour map, the base of the map at least, is
15 running north and south; is that correct?

16 THE WITNESS: I'm sorry. My attention
17 span lapsed there for a ^{second} section.

18 EXAMINER MORROW: The mine's ^{minus} 7500 feet C
19 line right there. At this point is it running north
20 and south?

21 THE WITNESS: Oh, yes.

22 EXAMINER MORROW: Is that what you mean
23 by perpendicular, the zero line is perpendicular to
24 the -- ^{minus} mine's 7500 foot ^{sea} Sub-~~0~~ line; is that what
25 you mean?

1 THE WITNESS: No, I mean that the total
2 accumulation of rock, clean rock, debris, as
3 indicated by the isopak, has a north-south direction
4 perpendicular to the depositional -- or structural
5 strike which has a more or less east-west direction.
6 And this is -- this is parallel to the Perma Pan
7 reef front to the north as well as the Abo reef
8 front.

9 There are minor variations in the-- in
10 the strike -- structural strike, due to the fact
11 that there was postdepositional tilt to the west.

12 EXAMINER MORROW: I can see that these
13 ridges that you've contoured here on your isopak^{ch} map
14 on Exhibit Number 2 --

15 THE WITNESS: Uh-huh.

16 EXAMINER MORROW: -- are perpendicular to
17 the Bone Springs dip, as shown on Exhibit 3. Is
18 that what you mean by perpendicular, that the
19 general regional dip --

20 THE WITNESS: Yes.

21 EXAMINER MORROW: --as reflected on
22 Exhibit Number 3, is perpendicular to the ridges of
23 accumulation of rock on your isopak^{ch}?
24

25 THE WITNESS: Yes, yes.

EXAMINER MORROW: Is the Santa Fe

1 Number 1, was that the subject well -- the well that
2 was the subject of the subpoena?

3 THE WITNESS: Yes.

4 EXAMINER MORROW: Do you know when
5 Hanley's force pooling case was filed relative to
6 Santa Fe's, in time?

7 THE WITNESS: I wouldn't have that. I
8 wouldn't know that.

9 EXAMINER MORROW: Did you say you'd
10 recommend 150 percent penalty for the north location
11 and 200 percent for the south locations?

12 THE WITNESS: Yes.

13 EXAMINER MORROW: That's all I have.

14 MR. STOVALL: I do have a couple of
15 questions. And I preface them with a statement that
16 I am supposed to be an attorney, so I am, by
17 definition, unqualified for anything.

18 MR. KELLAHIN: I'd like a copy of that.

19 MR. CARR: I'd like a copy of that.

20 EXAMINATION

21 BY MR. STOVALL:

22 Q. When I look at the structure map, in
23 your -- I think it's your Exhibit 2 -- well, they're
24 both the same structure map; aren't they -- on both
25 of your exhibits, and your structure map is the base

1 of the Wolfcamp; is that what I understand you to
2 say?

3 A. The base of the lower Wolfcamp.

4 Q. Right. Now, if I look at Mr. Thoma's,
5 the one I can see over on the wall, which I believe
6 is their Exhibit Number 7, looking at the structure
7 map which is -- one end is identified as the
8 structure map that's actually on a -- those
9 structures are drawn on a different interval in the
10 Wolfcamp; is that correct?

11 A. Can I look at the map?

12 Q. Please do. I want to make sure that I'm --

13 A. Top of the AG. Yes, yes.

14 Q. Now, would you -- when I looked at
15 these, it appeared to me that -- sitting back here
16 looking at them -- they look, the strike,
17 essentially the same on the two of them.

18 A. You say my map more or less compares to
19 his as far as structure?

20 Q. Generally speaking. I'm not talking
21 exact.

22 A. Generally speaking, yes.

23 Q. Now, you might look at it and say your
24 7250 line, it's geographic location, roughly the
25 same as I think Mr. Thoma's -- is it 7500 feet -- or

1 7,000 foot line, I believe. Kind of across the top
2 of Section 5?

3 A. 7250 and what -- 7,000?

4 Q. Is that his 7,000?

5 A. Yeah.

6 Q. So that would indicate that the marker
7 he's used is about 250 feet higher than the marker
8 you've used to mark the structure, to map the
9 structure; is that right?

10 A. Is 250 feet higher? I don't --

11 Q. His is -- the portion of the formation
12 that he's mapping is about 250 feet higher than
13 yours?

14 A. Yes.

15 Q. Am I correct?

16 A. Yes.

17 Q. But yet using different portions of the
18 -- and we're talking about the Wolfcamp, how thick
19 are we talking about, the total Wolfcamp?

20 A. The total Wolfcamp interval is about 650
21 feet, roughly.

22 Q. You're mapping the bottom of it and he's
23 mapping a third of the way up from the bottom of it;
24 is that right?

25 A. Yeah, a third. Yeah.

1 Q. We're not talking exact. Remember, I'm
2 the Division lawyer here. So even though you're
3 mapping different intervals, you're going about the
4 same direction really?

5 A. Structurally.

6 Q. So the strike of a Wolfcamp, you're
7 pretty consistent on that, it looks like?

8 A. Structurally.

9 Q. Structurally. Now, I guess what you're
10 saying, though, is when you look at your isopach^{ch},
11 your isopach^{ch} map generally orients the thickness,
12 more north-south, and his is more
13 northeast-southwest?

14 A. Northeast-southwest, correct. Uh-huh.

15 Q. What's the significance -- what's the
16 difference? What difference does it make to us from
17 the standpoint of trying to evaluate the
18 information?

19 A. It makes a big difference, because he
20 would like you to believe that our location is going
21 to have less rock than their location, which is --
22 in my opinion, there's no justification for that
23 conclusion.

24 I feel we're going to have -- by the way,
25 I've drawn it, based on other parameters, that we'll

1 have just as much rock in our location as the
2 location in the south quarter section, if not more.
3 That's always a possibility, because you have to
4 remember that isopak^{ch} map is a total of all kinds of
5 zones and piles of debris coming down. We might get
6 lucky and get another zone.

7 Q. Yours is the total Wolfcamp clean line;
8 right?

9 A. Yes.

10 Q. Yours is one isopak showing all the
11 clean line?

12 A. Yes.

13 Q. Within the Wolfcamp that's known as the
14 Wolfcamp formation?

15 A. Lower Wolfcamp.

16 Q. Lower Wolfcamp, okay. Now, there's
17 three different isopaks^{ch} picking three different
18 zones within that lower Wolfcamp area; is that
19 correct?

20 A. Uh-huh.

21 Q. So again the numbers aren't the same.
22 But you're saying that by piling it more
23 north-south, you get more thickness on your location
24 than he would give you by piling it
25 northeast-southwest?

1 A. That's right.

2 MR. STOVALL: I don't have any more
3 questions. I've got myself far enough into geology
4 to get myself into trouble.

5 EXAMINER MORROW: Anyone else?

6 MR. KELLAHIN: No, sir.

7 EXAMINER MORROW: Thank you, Mr. Bracken.

8 MR. KELLAHIN: I'd like to call at this
9 time Mr. Bill Huck.

10 WILLIAM R. HUCK,
11 was called as a witness and, having been previously
12 duly sworn, was examined and testified as follows:

13 EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. Huck, would you please state your
16 name and occupation?

17 A. My name is William R. Huck. I'm a
18 petroleum engineer.

19 Q. Mr. Huck, would you summarize your
20 educational background?

21 A. I graduated from Marietta College in
22 1977 with a BS in petroleum engineering.

23 Q. Subsequent to graduation, summarize your
24 employment as a petroleum engineer?

25 A. I've worked as a petroleum engineer for

1 the past 14 years in West Texas and New Mexico for
2 various companies, namely Marathon, Hanley, Arco
3 Petroleum.

4 Q. During the course of performing your
5 duties, are you familiar with doing reserve
6 calculations for Wolfcamp wells in the Permian
7 Basin?

8 A. Yes, sir, I am.

9 Q. Are you also familiar with the details
10 of preparing and evaluating AFEs for the drilling of
11 Bone Springs Wolfcamp wells and wells to other
12 formations in the Permian Basin?

13 A. Yes, I am.

14 Q. Have you, as an engineer, made any
15 estimate, studies of the potential for the Wolfcamp
16 on a reservoir basis within the Corbin Wolfcamp pool
17 that we're discussing today?

18 A. Yes, I have.

19 MR. KELLAHIN: We tender Mr. Huck as an
20 expert petroleum engineer.

21 EXAMINER MORROW: Accept his
22 qualifications.

23 Q. Mr. Huck, let me direct your attention,
24 sir, to what is marked Exhibit Number 5. Would you
25 identify that for us?

1 A. Exhibit Number 5 is a map of the south
2 Corin Wolfcamp field. The Wolfcamp completions are
3 shown in yellow. This map -- the numbers beside
4 each well indicate the cumulative oil production
5 through September of 1990 for each Wolfcamp
6 completion in the field.

7 And then after the slash, it indicates
8 the average daily oil production for September of
9 1990 for that particular well. For example in
10 Section 8, on the two wells at the bottom of the
11 section, the well in Unit M -- Number 9-M, has
12 accumulated 51,457 barrels, and in September was
13 producing 16 barrels a day.

14 Well Number 11-O has accumulated 135,434
15 barrels, and in September was producing 170 barrels
16 a day.

17 The asterisks beside some of the
18 cumulative production indicate that that well has
19 ceased production from the Wolfcamp.

20 Q. In order to properly prepare yourself to
21 make engineering conclusions and calculations
22 concerning the Wolfcamp production in the Corbin
23 Wolfcamp have you also studied the production
24 history for the well in the pool?

25 A. Yes, sir, I have.

1 Q. And are you familiar with the production
2 information for each of those wells?

3 A. Yes, sir, I am.

4 Q. Were you assigned the responsibility as
5 Hanley's petroleum engineer to try to evaluate and
6 quantify the Wolfcamp potential for the 40 acres in
7 the north half of this spacing unit in relation to
8 the Wolfcamp potential oil in the south half of the
9 spacing unit?

10 A. Yes, sir, I was.

11 Q. What was the methodology applied by you
12 to come to a basis to form opinions?

13 A. Basically, I used a logical sequence to
14 -- we'll be drilling this well, searching for oil.
15 We try to establish trends as to where oil
16 accumulations might be in the south Corbin Wolfcamp
17 field. The start of this was this Exhibit Number 5,
18 seeing the cumulative production for each of the
19 wells in the field.

20 Q. Once you've done that then, what is the
21 next process in your analysis?

22 A. Looking at the production histories on
23 each of the wells in the field. You try to
24 establish -- or I tried to establish a typical well
25 in the field, a good well in the field, a poor well

1 in the field, for purposes of economic analysis and
2 evaluating their investment.

3 Q. In making that evaluation, did you
4 prepare an isoproduction map?

5 A. Yes, sir, I did.

6 Q. And what does that mean?

7 A. Shall I show it now?

8 Q. I'll give it to you in a moment.

9 A. Isoproduction map would be similar to --
10 in geology, an isopa^{ch}~~ch~~ map where they contour the
11 thickness of a reservoir. I would contour the
12 cumulative production or estimate ultimate recovery
13 from the individual wells.

14 Q. Why is that information useful to you as
15 an engineer?

16 A. It leads me to conclusions as to where
17 the oil may be accumulated in the south Corbin
18 field, where the most oil may be accumulated in the
19 south Corbin field.

20 Q. Let me draw your attention to what is
21 marked as Hanley Exhibit Number 6. Is this your
22 isoproduction map?

23 A. Yes, sir, it is.

24 Q. Describe for us how you prepared the
25 map?

1 A. Exhibit Number 6, to the upper right of
2 each Wolfcamp producer is the estimated ultimate
3 recovery for that well based on the decline curve
4 analysis in thousands of barrels. These estimated
5 ultimate recoveries were then contoured on 50,000
6 barrels to obtain this isoproduction or iso EUR map.
7 Shown in blue, to the lower right of each well, is
8 that well's average 1990 water production through
9 September expressed as a percent.

10 Q. When we look at the isoproduction map,
11 can you draw any conclusions about the risk involved
12 in encountering water when you test for production
13 in the Wolfcamp zones?

14 A. Yes, sir, you can. The occurrence of
15 water seems to coincide with the south or downdip
16 side of each of these oil accumulations. Let me
17 further define the oil accumulations, that they
18 happen in isolated areas that are defined in part by
19 the presence or absence of porosity in the Wolfcamp.
20 And then are also limited on the south side, or
21 downdip side, by the presence of water in a lot of
22 cases.

23 Q. When you look at the value of the
24 40-acre tract in the north versus the value of the
25 40-acre tract in the south for the spacing unit,

1 what conclusion do you reach?

2 A. I've reached the conclusion that the
3 value in the south -- or the well in the south
4 quarter, quarter section of the proposed unit is a
5 greater -- much greater risk to us, reservewise,
6 than a well in the north quarter, quarter section of
7 the proposed unit.

8 Q. Have you examined Mr. Bracken's geologic
9 interpretation to see whether or not you can draw
10 any conclusions based upon his work as compared to
11 your isoproduction map?

12 A. Yes, sir, I have. The total
13 accumulation -- or gross accumulation of oil, tends
14 to mirror his isopakus map, in that these oil
15 accumulations have occurred in a north-south
16 direction. The individual accumulations or -- to
17 break up these accumulations, they occur in isolated
18 areas, that are more or less oriented on an
19 east-west direction, being pinched on the north by a
20 porosity absence and pinched on the south by either
21 porosity absence or the presence of water. It
22 squeezes the shapes of these accumulations.

23 Q. If you have to choose between
24 Mr. Bracken's geologic interpretation and that of
25 Mr. Thoma, and draw a comparison to your

1 isoproduction map, which geologic interpretation is
2 the closer fit to your conclusions about the
3 isoproduction map?

4 A. Mr. Bracken's.

5 Q. Why?

6 A. Again, his gross line interval orients
7 in a north-south direction. And that corresponds to
8 the occurrence of hydrocarbons, which is what we're
9 looking for in this case.

10 Q. Having come to the conclusion that the
11 Hanley 40-acre tract has greater oil potential in
12 the Wolfcamp than the Santa Fe-Heyco tract to the
13 south, did you attempt to specifically try to
14 quantify the reserve potential for each of those
15 tracts?

16 A. Yes, sir, I did.

17 Q. What was the methodology applied by you
18 to come to a reasonable engineering certainty about
19 the accuracy of your numbers?

20 A. To start with the accumulation pod
21 around the Santa Fe Kachina well -- or to start with
22 the Santa Fe Kachina well itself. That well
23 potential for one of the highest rates in the field
24 and had the highest tube and pressure of any well
25 that we know of in the field. Therefore, we give it

1 the highest reserve value.

2 And in light of the pay that appears to
3 be above the current producing zone, we feel
4 confident it will produce a quarter of a million
5 barrels easily. The shape of the producing -- the
6 accumulation pod around that well, was drawn to
7 match the shape of the pods to the south.

8 If you look at the contour lines, you'll
9 see a well on our location that we assume will
10 produce on the order of a quarter of a million
11 barrels of oil, while the well in the center of the
12 south quarter quarter section will produce on the
13 order of 130,000 barrels of oil. I think this is a
14 generous assessment of the well in the south's
15 potential, due to both moving downstructure from the
16 Kachina 8 Number 1 and the possible disappearance of
17 porosity.

18 Q. Have you prepared your reserve estimates
19 and your economic assessment in the terms of an
20 exhibit?

21 A. Yeah. I've run a standard cash flow
22 analysis.

23 Q. Let me share that with everybody. Hang
24 on just a minute.

25 I've passed out Exhibit Number 7,

1 Hanley's Exhibit Number 7, Mr. Huck. Would you
2 identify and describe that display?

3 A. Exhibit Number 7 is a comparison of the
4 reserves we expect between a well in the north half
5 of the proposed unit and a well in the south of the
6 proposed unit, and the resulting economics for
7 producing these reserves. The well in the northwest
8 northwest quarter of that section, we think would
9 produce approximately a quarter of a million barrels
10 of oil, minimum, while the well in the south end
11 would produce a maximum of 130,000 barrels.

12 Assuming the same net investment for
13 either location to Hanley Petroleum, which would be
14 50 percent or \$334,000, it would take roughly the
15 same amount of oil to pay out the drilling
16 investment for this well. Although a well on the
17 south end, because of a lesser initial rate, would
18 pay out in eight months instead of four months for
19 the north well.

20 The main impact would be in the pretax
21 cashflow to Hanley. A well in the north end of the
22 unit would return to us roughly \$1.6 million, net of
23 investment, while the well in the south end would
24 only return roughly \$600,000, a difference of almost
25 \$1 million.

1 Our discounted net present value for a
2 well in the north end would be \$1.2 million,
3 compared to \$450,000 per well in the south end,
4 again a difference of roughly three-quarters of a
5 million dollars. Likewise our royalty interest
6 under this 40-acre tract would suffer to the tune of
7 a quarter of a million dollars.

8 Q. In terms of the net present value, what
9 does that show?

10 A. The present value to the royalty
11 interest?

12 Q. That's the bottom line on the display,
13 the 432?

14 A. Yes. Royalty interests, net present
15 value for a well in the north end would be \$432,000
16 compared to \$185,000 for a well in the south end.
17 As I mentioned, the difference of a quarter of a
18 million dollars.

19 Q. The next portion of the display the
20 captioned risk analysis?

21 A. Yes, sir.

22 Q. What are you studying here and what are
23 the conclusions?

24 A. This is a statistical summary of the
25 EURs for all the wells in the South Corbin Wolfcamp

1 field, which there's 32 by our count. It doesn't
2 include the wells that were dry holes in the
3 Wolfcamp.

4 Statistically speaking, if you can lump
5 these wells into categories, the first category
6 being zero to 45,000 barrels, the amount to pay out
7 -- required to pay out your drilling investment, 13
8 of these wells or over 40 percent will not produce
9 the 45,000 barrels.

10 An additional 7 wells, for a total of 20,
11 or 63 percent, would produce less than 90,000
12 barrels of oil, or the amount which would be
13 considered minimum economics for a development
14 location.

15 Q. Mr. Offenberger was using the assumption
16 that the well in the west half of the northwest
17 corridor would have 100,000 barrels of oil
18 recoverable, if I remember that correctly?

19 A. Yes, sir.

20 Q. If that is the assumption, would that be
21 economically profitable to the working interest
22 owners, if that's all the reserves there were to
23 share in the 80-acre spacing units?

24 A. That would be borderline economics.
25 What we would consider the minimum reserves

1 necessary to require -- to justify the investment in
2 a development Wolfcamp location.

3 I might point out, if you want to go back
4 to Exhibit Number 5, the cumulative production from
5 these wells, you'll see -- and also Exhibit 6, the
6 EURs -- there's a range of zero to 250,000
7 barrels. There's -- nowhere does the average hover
8 around 100,000 barrels per 80-acre unit. You can
9 move diagonally away from a good well and get a poor
10 well if you look at -- on Exhibit 7 -- well, we'll
11 just stay with Exhibit 5.

12 You move southwest from the southeast
13 quarter of Section 8, Well Number 11-O has produced
14 135,000 barrels of oil. You move southwest, you
15 find a well that watered out after producing only
16 30,000 barrels of oil. Then you come to a well
17 that's produced over 200,000 barrels and we expect
18 it to produce around a quarter of a million.

19 EXAMINER MORROW: What's the location
20 again? You lost me.

21 THE WITNESS: You would be starting with
22 the well in the southeast quarter of Section 8 and
23 Unit O, and move southwest diagonally, you come to
24 the well in the northwest quarter of 17. It watered
25 out and no longer produces from the Wolfcamp.

1 You move further southwest to the well
2 along the west line of 17, it's produced 213,000
3 barrels and we expect it to produce a quarter of a
4 million.

5 You move further southwest to the next
6 well. It's produced 39,000 barrels. We expect it
7 to accumulate around 75,000 barrels. It's producing
8 at an 85 percent water cut right now.

9 EXAMINER MORROW: Okay.

10 Q. When you look at the ultimate recovery
11 number that you've put on Exhibit Number 7, did you
12 derive that number based upon a volumetric
13 calculation?

14 A. No, sir, it was derived on decline curve
15 analysis.

16 Q. Let me have you describe for us your
17 decline curve analysis that gave you those results
18 and ultimate recoveries.

19 A. If I might offer --

20 Q. Yes, sir, we need to find where the
21 curves are.

22 A. Mr. Examiner, this is a graphic
23 representation of the --

24 MR. KELLAHIN: Excuse me, Bill.

25 A. Sorry.

1 Q. All right, please continue, Mr. Huck.

2 A. Okay. This is a graphic representation
3 of the historical oil production from every well in
4 the field. I apologize, it's a lot of data on a lot
5 of wells.

6 But, basically, each well has been
7 separated by color. The estimated declines in the
8 future that these EURs are based on show a stash
9 line out to the right of the solid lines, which is
10 the actual data to date.

11 Q. Let me stop you --

12 EXAMINER MORROW: -- To the right --

13 A. The dash lines out to the right signify
14 the estimated future oil stream that I used in
15 evaluating the EURs for each well in the field.

16 Q. Let me stop you and ask you whether or
17 not for the Wolfcamp you can take the typical
18 volumetric calculation and come up with a reliable
19 estimate of recoverable oil for a given spacing
20 unit?

21 A. No, sir, you can't.

22 Q. Why not?

23 A. To use volumetrics, you've got to assume
24 a uniform thickness or uniform porosity over an
25 entire drainage area. The depositional nature of

1 these limestone pods would give you variations in
2 porisity and permiability, well to well, over short
3 distances. You just have to make too many
4 assumptions to have a valid reserve estimation for
5 each well.

6 Q. How would the multiplicity of fractures
7 in the varying size and shape and length of those
8 fractures affect a volumetric calculation?

9 A. It could affect it dramatically if
10 they're shorter than appear to be by well log, or
11 longer than would appear to be by your well log.

12 Q. Volumetrically, is there any reliable
13 way to calculate the -- in a realistic basis, the
14 poor volume that would contain the oil in the
15 reservoir?

16 A. No, sir.

17 Q. The best choice then is the decline
18 curve analysis?

19 A. Yes, sir, that's what you get back from
20 the well.

21 Q. Let's talk then about Exhibits 8, 9 and
22 10, and have you take us through the main points of
23 that information to show us how you support the
24 reliability of your ultimate recovery numbers
25 utilized in Exhibit Number 7.

1 A. Okay. Again, each well's production
2 history is plotted on a similog paper in a
3 historical fashion. To the left you see oil rate
4 and barrels per month. And on the bottom scale you
5 just see time in years. And you see different
6 starting points for each well, because this is an
7 actual historical representation.

8 In all cases, you see a fairly steep
9 decline indicative of primarily solution gas drive
10 for the first year to two years -- the average is
11 about 60 percent. Then it levels off to 23 to 30
12 percent over the rest of the 12-year life.

13 You can fit or match a good well to this,
14 start a well out at top allowable, decline it at
15 60 percent for almost two years, then flatten it
16 out. You'll match up with some of the better wells
17 in this field. You can start out a well at a half
18 allowable, around 200 barrels a day, let it decline
19 likewise for two years, and flatten it out. And you
20 will match up with some of the mediocre wells in
21 this field.

22 Q. Based upon your engineering study,
23 Mr. Huck, do you have a recommendation for the
24 Examiner for a risk factor penalty to be applied if
25 he allows Hanley the opportunity to have the well

1 located in the north 40-acre tract of the spacing
2 unit --

3 A. Yes --

4 Q. -- versus locating it in the south 40?

5 A. Yes, sir, I do.

6 Q. What is that opinion?

7 A. Based on the expected reserves
8 recoverable in these locations, we feel much less
9 risk to be applied to a well in the north end of the
10 proposed unit.

11 Q. Do you have a percentage level in
12 accordance with the risk factor penalty formula that
13 you can recommend to the Examiner?

14 A. I feel a risk factor of 150 percent
15 would be equitable to the risk -- relative risk
16 involved with the north location.

17 Q. Have you also examined the rules that
18 apply to the Corbin Wolfcamp pool, Mr. Huck?

19 A. Yes, sir, I have.

20 Q. Let me show you what is marked as
21 Exhibit Number 11, and ask you if this is a true and
22 accurate copy of the rules as you know them to
23 exist?

24 A. Yes, sir, it is.

25 Q. Santa Fe has urged that there should be

1 maintained some kind of sequence so that the
2 opposite 40-acre tracts, in fact, have the well. Do
3 you find in your examination of the rules that apply
4 currently to the pool, that there's that type of
5 limitation or restriction?

6 A. No, sir, there's no limitation other
7 than that a well has to be within 150 feet of a
8 governmental quarter -- within 150 feet of the
9 center of a governmental quarter, quarter section.
10 In fact, Rule 2 specifically provides for the
11 drilling of wells on adjacent quarter, quarter
12 sections.

13 Q. With regards to the possibility of
14 having Rule 3 of the special rules used as a
15 solution to this problem, whereby each operator is
16 allowed the opportunity to drill a Wolfcamp well and
17 then have a nonstandard operation unit dedicated
18 consisting of 40 acres, is that a viable solution in
19 your opinion?

20 A. In my opinion it's a more viable
21 solution for Hanley, rather than participating in a
22 well in the south end to drill 100 percent well in
23 the north end and accept the penalty.

24 Q. If the well is awarded in the north 40
25 acres, and it's on a 40-acre spacing unit, what

1 would its producing allowable be in relation to the
2 offsetting Kachina 8 Number 1 well?

3 A. It would be half.

4 Q. Would that be equitable and fair?

5 A. As far as rules of capture, no, it
6 wouldn't. Interference between the wells -- there
7 would, I think, still be drainage happening to the
8 Kachina 8's advantage.

9 Q. If the well is located as Santa Fe
10 proposes in the south 40, what will happen to the
11 oil reserves underlying the north 40-acre tract in
12 terms of capture by the competing wells in the
13 immediate area?

14 A. I feel that they'll be more likely
15 captured by the closest well to that unit, and also
16 the more structurally favorable well to that unit,
17 which is the Kachina 8 Number 1.

18 Q. Let me direct your attention now, Mr.
19 Huck, to the topic of the estimated cost for the
20 drilling of the well. Let me show you, sir, what is
21 marked as Exhibit Number 12.

22 A. I think you're --

23 MR. KELLAHIN: Take a moment,
24 Mr. Examiner, and see if I haven't mixed these all
25 up.

1 EXAMINER MORROW: We'll take about five
2 or ten minutes here. Let's say, be back at ten till
3 3:00.

4 (A recess was taken at 2:35 p.m. until
5 2:53 p.m.)

6 EXAMINER MORROW: All right, let's
7 continue.

8 Q. Mr. Huck, let me turn your attention now
9 to the estimated well costs that you have prepared
10 on behalf of your company and analysis you have made
11 of Santa Fe Energy's AFE that they have applied to
12 your company. In doing so, let me direct your
13 attention not only to Hanley Exhibit Number 12, but
14 to have you get a copy of the Santa Fe Energy
15 Exhibit Number 9. You have both of those before
16 you?

17 A. Yes, I do.

18 Q. Summarize and describe for us those
19 important elements to you as an engineer?

20 A. First off, Exhibit Number 12 is
21 essentially, line-by-line comparison of the AFEs on
22 Hanley's format. I'll work from Hanley's Exhibit
23 Number 9, since everybody is already seen it and is
24 familiar.

25 Santa Fe objected to Hanley's omitting

1 omitting conductor pipe from the AFE. As our
2 drilling contracts are structured, conductor is set
3 at the expense of the contractor and a lot of
4 contractors, if left to their own devices, leave it
5 out. In any event, the rat hole machine is also at
6 the contractor's expense and that's all included in
7 the drill and footage rate.

8 They objected to labor for tank battery
9 installation. This was an omission on the Hanley
10 AFE. We expect it to cost between \$8,000 and
11 \$10,000.

12 Battery to the south with a heated^{er}
13 treater, a thousand barrels of storage and 500
14 barrels of water storage recently cost us \$6500 to
15 install.

16 They objected to fencing. We include
17 that in our AFE costs -- or in our location costs of
18 \$16,000. And that's within the line of what we've
19 experienced in our wells in the area.

20 They objected to drilling equipment
21 rental. Inspect[?]in of intangibles and further down
22 testing. All those -- we lump and include in our
23 contingencies. And they are inevitably covered by
24 our contingencies.

25 They object on the bottom to us not

1 including drilling overhead As Hanley proposed --
2 or the joint operating agreement as proposed by
3 Hanley, includes the provision that drilling
4 overhead in addition to being placed at \$5,000,
5 compared to Santa Fe's \$6260, and producing rate was
6 requested to be made \$500 a month, compared to
7 Santa Fe's \$620.

8 In addition to proposing those rates, we
9 also proposed that the provision that makes them
10 include first-line supervision and technical support
11 and employee salaries be included in the overhead
12 rates.

13 Hanley has included some \$10,000 for
14 supervision in the drilling of this well. This will
15 be absorbed -- this is more than what we figure the
16 overhead will be for drilling the well. The cost
17 will be absorbed by Hanley. So no overhead is shown
18 on the AFE because Hanley proposes that -- again,
19 that any overhead charges in the JOA be made to
20 observe first-line supervision, engineering and
21 technical salaries and charges.

22 We had a couple of objections to their
23 AFE. From the technical standpoint, they were going
24 to run eight and five-eighths 24-pound pipe to 3,000
25 feet. Using standard practices for casing design,

1 we think the collapse rating of this pipe will be
2 exceeded at a depth below 2200 feet. So we have
3 recommended an ^{on our AFE} RAFE -- or propose an ^{on our AFE} RAFE with
4 32-pound pipe be used in your intermediate string
5 below 2200 feet, and we can furnish it at a cost
6 some \$6,000 less than their intermediate ^{String} strength.
7 Likewise, on the production ^{String} strength,
8 they've proposed five and a half, 1515 K55 casing as
9 a portion of their design. You can -- conventional
10 API design will allow you to use some 3500 feet of
11 that pipe in your string, but due to the probability
12 of uphole completions later and stimulation down the
13 casing, we'd prefer and are willing to furnish --
14 again, at a lesser cost -- at least 17-pound K pipe,
15 if not 17-pound M80, in the drilling -- if we get to
16 operate the well.

17 Thus, the basic differences in the AFE.

18 Q. When you get down to the bottom line
19 totals on a dry hole versus AFE and a completed well
20 versus each AFE, where are we?

21 A. For a dry hole? As Mr. Roberts stated,
22 when you adjust for this omission of drilling
23 overhead and abandonment costs-- which we don't
24 include in a development well -- for dry hole costs
25 they're essentially the same. But for a completed

1 well, Hanley is some \$80,000 to \$90,000 cheaper.

2 Q. In your opinion, Mr. Huck, does Hanley
3 Petroleum Company have the qualified personnel and
4 the expertise and experience to be designated by the
5 Division as the operator of this well?

6 A. Yes, sir, they do. Hanley operates over
7 300 wells in the Permian Basin and has interests in
8 hundreds more. We've produced some 1 million
9 barrels of oil last year, and right at 3 bcf of gas.
10 We've been around since the turn of the century.
11 We're qualified to operate in the Permian Basin.
12 We've operated some -- if we might go to a -- I'm
13 probably getting ahead of myself.

14 We've operated some five wells in this
15 immediate area -- three wells in this immediate
16 area. There's a Bone Spring well to the south, a PD
17 to 8700 feet. There's another Bone Spring well to
18 the township to the west, PD'd at 8800 feet. We
19 drilled a well to the Morrow to the west in Township
20 29 east -- Range 29 east. We drilled through the
21 Wolfcamp in that well.

22 We're -- we have drilled in this area and
23 we're qualified to drill in this area.

24 Q. Does the fact that Santa Fe Energy --
25 does the fact that they have drilled more wells in

1 the immediate vicinity than Hanley cause you, as an
2 engineer, to conclude that they're more qualified to
3 be operator than you are?

4 A. Not more qualified, sir, no.

5 Q. Do you have some actual costs to compare
6 your AFE cost, too, so that the Examiner can have
7 confidence that your AFE, which is lower than
8 Santa Fe's is a reliable, realistic number?

9 A. Yes, sir, I do.

10 Q. How do you make that comparison?

11 A. I have a summary of AFE versus actual
12 costs on a well drilled, if we might go ahead and
13 offer it.

14 Q. Yes, sir. It will be Exhibit -- Exhibit
15 13, is it? Is that what you have?

16 A. Yes, 13.

17 Q. Thirteen.

18 A. Everybody has copies?

19 Q. Yes.

20 EXAMINER MORROW: Is that the one marked
21 12?

22 MR. KELLAHIN: It's this one. Let me
23 give it to you, if it didn't get marked.

24 EXAMINER MORROW: Thank you very much.

25 A. Exhibit Number 13, Gentlemen, is a

1 comparison of AFE versus actual costs for an 8700
2 foot Bone Spring test drilled three miles to the
3 south of this subject acreage.

4 To summarize the comparison, the well is
5 completed. These costs are 99 percent complete, are
6 actual costs for \$542,000 compared to an AFE cost of
7 \$536,000. We overspent the AFE by one percent. And
8 we had some extra rig time that -- due to holes in
9 the drill pipe kind of caused most of that.

10 The well was spudded on December 29th.
11 It was completed on February 6th. This being
12 March 8, I think it's fair to note that 30 days
13 after the completion of the well, our first line
14 accounting procedures on the well is complete. We
15 have a summary of our charges in, checks have been
16 written, bills have been paid, where this joint
17 interest well would be invoicing the partners at
18 this point.

19 I might also ^{add} had this \$542,000 was a
20 completed Bone Springs producer through the tanks.
21 Earlier, Mr. Roberts, I believe, referred to
22 allocating some \$660,000 of completed well costs to
23 the Bone Springs in the subject acreage. We believe
24 that's a little excessive.

25 Q. What does it cost you for a Bone Springs

1 completion?

2 A. In this case it waas \$542,000.

3 Q. Turn now to Exhibit Number 14, and
4 identify and describe that display?

5 A. Exhibit Number 14 is a list of wells
6 operated by Hanley in New Mexico to date. And then
7 below that a list of outside operated wells in which
8 Hanley has a working interest in New Mexico to date.
9 Keep in mind we have really started focusing and
10 working over here in 1983.

11 Q. Have you analyzed the question of cost
12 allocation so that if the Examiner feels it's
13 appropriate to allocate costs between the Bone
14 Springs and the Wolfcamp portion of this well, that
15 he may do so in some fair and reasonable way?

16 A. Yes, sir, I have.

17 Q. What is the basic information that you
18 utilized upon which to draw conclusions about
19 appropriate cost allocations?

20 A. I've read the record of some prior cases
21 in which cost allocation was adopted for shallower
22 zones. I've studied the completed well costs of
23 shallower wells in the area, compared to deeper
24 wells in the area. And, basically, that's it.

25 Formulated what I believe is a fair and

1 equitable method of cross-identification.

2 Q. Specifically, Mr. Huck, did you make
3 yourself familiar and aware of the Division
4 Order R-9093C entered in the Yates Energy
5 Corporation case on November 29, 1990?

6 A. Yes, sir.

7 MR. KELLAHIN: Mr. Examiner, I show you a
8 copy of that order for your information.

9 Q. In addition, have you proposed cost
10 allocation and is that formula shown on Exhibit 15?

11 A. Yes, sir, it is.

12 Q. And then, finally, on Exhibit 16 is that
13 the Copus Bulletin Number 2 that shows a method of
14 determining cost allocations for joint operations?

15 A. I have -- as part of Exhibit 15, or
16 should be Exhibit 16, I think there's an example
17 allocation.

18 Q. We are missing that from the package.
19 If you'll give me some more copies, we'll add that
20 to Exhibit 15.

21 A. Here you go. Somehow it got folded up
22 over here.

23 Q. I'm going to mark your example cost
24 allocation as Exhibit Number 17, Mr. Huck. This one
25 is not in the package.

1 A. Okay.

2 Q. Let's go back then to Exhibit 15 and
3 have you compare it -- well, first of all, go to 15
4 and describe for us the methodology you propose to
5 utilize for the allocation of costs between the
6 shallow formations and the Wolfcamp test?

7 A. Yes, sir. First off, we propose and ask
8 that shallow costs be allocated on the basis of --
9 on this basis for a well drilled in either the north
10 end or the south end of the proposed unit. This
11 exhibit outlines Hanley's proposed method of
12 allocating costs between the Wolfcamp and any
13 shallower zones of different ownership, should the
14 well bore no longer produce from the Wolfcamp. This
15 method of allocation is outlined in the Copus
16 Bulletin Number 2 that we've offered as Exhibit
17 Number 16, entitled determination of values for well
18 cost adjustment of joint operation and has been
19 adopted by the Commission in prior cases, most
20 notably Order Number R9093C, as mentioned by Mr.
21 Kellahin.

22 To summarize the parameters we propose
23 under Section A, the determination of intangible
24 costs, we would like to see the actual historical
25 costs used. And if the Wolfcamp produces and

1 adjustments are made down the road, these historical
2 costs could~~e~~ be amortized using the straight-line
3 method in Section 3, where the number of years
4 produced are divided by the total number of years
5 expected to be in the life of the well.

6 Under Section B, the allocation of these
7 intangible costs, we refer to Subsections 1A and 2
8 of the Bulletin --

9 (A five-minute recess was taken from
10 3:10 p.m. until 3:15 p.m., to replace a broken
11 stenograph machine.).

12 MR. KELLAHIN: Go ahead.

13 A. To continue, again, the determination of
14 intangible costs, we ask that the actual historical
15 costs be used. To allocate intangible costs we
16 refer to Subsections 1A and 2, which allocate such
17 costs on a drill and day ratio. We ask that this
18 day ratio equal the number of days to drill to
19 100 feet below any shallow zone of interest, be
20 divided by the total number of days from spud to rig
21 release and any activities known to be zone specific
22 such as DSTs or coring be withheld from the total
23 cost and the corresponding days deducted from the
24 total days before making this division.

25 We propose the tangible costs be

1 determined as in Subsection 1A, which is basically
2 the actual costs at the time of installation and
3 depreciated according to Subsection 2B, which is a
4 time straight line depreciation over seven years.
5 The -- I believe that's the normal life of tangible
6 goods for tax purposes.

7 We ask that these tangible costs be
8 allocated according to Subsections 1, 2 and 3, to
9 summarize casing that any -- if both zones produce
10 then any casing that serves both zones be equally
11 -- the costs be equally divided between those
12 zones.

13 If only one zone produces or only a
14 shallower zone produced, then the casing that serves
15 that zone will be 100 percent attributable to that
16 zone.

17 Well head and production tankage are
18 referred to in Sections 2 and 3 and basically the
19 same allocation formula is proposed.

20 As Part 2 of this proposal that -- for
21 the purpose of these calculations, Hanley proposals
22 that the operators of the subject well be required
23 to provide all working interest owners an accounting
24 of the actual well costs within 60 days of the
25 completion of drilling and completion operations.

1 Exhibit 17 is simply an example
2 allocation using these proposed parameters. I've
3 assumed that the shallow zone is the Wolfcamp at
4 9,000 feet. The costs are from Hanley's AFE
5 furnished on 1/7/91, totaling \$667,000.

6 And the drilling day ratio is taken from
7 Santa Fe's Kachina 8 Federal Number 1 where it took
8 15 days to drill to 9,000 feet. We allowed two
9 extra days there making a total of 17 for logging
10 and running casing.

11 They spent a total of 33 days on the
12 well. We took out for the -- the attempted DST and
13 the TC problem for a total of 30 under total days.

14 Q. Let me interrupt you for a second.

15 A. Yes, sir.

16 Q. I think you misspoke when you said
17 Wolfcamp at 9,000 feet?

18 A. I'm sorry, I meant Bone Springs at
19 9,000 feet.

20 Going back to the drill day ratios, the
21 resulting ratio would be 17 divided by 30, or .566.
22 My main point of this exhibit without going into
23 every line, if you look at the total dry hole costs
24 attributable to the Bone Springs, it amounts to
25 \$278,000.

1 This compares to a total dry hole cost on
2 Hanley's Federal 24 well, with Bone Spring producer
3 to the south, of \$287,000, and compares to a -- an
4 equivalent dry hole cost on a Kachina 8 Federal
5 Number 1 at this depth of \$261,000.

6 So the method, the result of the method
7 is in line with what would actually be expected to
8 drill a Bone Springs well in the area, and we feel
9 it's fair and equitable.

10 MR. KELLAHIN: That concludes my
11 presentation, Mr. Huck.

12 We move for introduction of his
13 Exhibits 5 through 17.

14 EXAMINER MORROW: Exhibits 5 through 17,
15 were there that many?

16 MR. KELLAHIN: Yes, sir.

17 MR. STOVALL: It didn't seem like it.

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

20 (Hanley Exhibits 5 through 17
21 admitted into evidence.)

22 MR. CARR: I just have a couple of short
23 ones.

24

25

EXAMINATION

1
2 BY MR. CARR:

3 Q. According to Mr. Kellahin, I have proven
4 I don't know what perpendicular means. Now, I'm
5 going to show you I don't know what an isoproduction
6 map is. My question is what are you mapping here?
7 This is your Exhibit Number 6.

8 A. If we can refer to it as an
9 isoproduction map or iso-EUR, that is the estimated
10 ultimate recovery values for each Wolfcamp producer.

11 Q. So what you take is the ultimate
12 recovery and then are you -- what are you mapping, a
13 drainage area or --

14 A. You're contouring it, from 50,000 barrel
15 intervals.

16 Q. Okay. Does this in any way relate --
17 do you integrate geology or the isopax^{ch} maps that are
18 prepared by the geologists into this or is this an
19 independent tool that you use?

20 A. Initially, it's independent. You
21 contour it and you see has shape you come up with.
22 In this case we found out that these pods,
23 particularly the areas that would give you 150,000
24 to 250,000 barrels per well are extremely small and
25 isolated. The overall pods, going down to the

1 smaller reserves seem to be squashed into an
2 east-west elongation due to, we think, water
3 production on the south end.

4 After you get the shapes, that's
5 determined independently. They also happen to
6 correspond to this area. The overall oil
7 accumulation corresponds to the area of greatest
8 overall clean carbonate thickness in the Wolfcamp.

9 Q. So if we look at the pod you've drawn
10 around your proposed location and the Kachina 8
11 Number 1, you've elongated that east-west; is that
12 right?

13 A. I've elongated it somewhat east-west.

14 Q. If we look at other ones, like the one
15 down in 16, that seems to be a elongated
16 north-south, why is that?

17 A. You have to --

18 Q. It would move around --

19 A. Yes. I know where you're talking about,
20 down but -- down in the southeast corner of 16?

21 Q. Yes, in the southeast. It's got a 50
22 with a question mark after it on the isoproduction
23 map I have. Why would you go north-south there?

24 A. That's been -- the zero line has been
25 pulled to the north a little bit there honoring this

1 100 barrels that was produced off to the northwest,
2 and which ought to really be considered a dry hole.
3 But it produced 100 barrels, so we put it on there.

4 The well to the southeast, which just
5 completed, we've given it 125,000 barrels of
6 reserves. Its potential was for 400 barrels a day,
7 but if the tubing pressure was down around
8 300 pounds, I believe. It's going to be a good
9 well, but how good we don't know.

10 Q. And so what you're doing, for the
11 record, is you're taking these points that show, I
12 guess, ultimate recovery in 500 -- or 50,000 barrels
13 increments, and you're honoring these and building a
14 map just like you built a structure map with
15 geologic points. Is that similar?

16 A. Yes, a similar process.

17 Q. Now if I go to the pods that you've
18 drawn around your proposed location and the
19 immediate east offset, how is it that you've
20 structured -- placed that so that it extends over
21 the 40-acre tract that you own and control in that
22 area?

23 A. Again, I've shaped it to match the
24 orientation and the shape of the pods to the south
25 which have -- a lot of those wells have produced

1 for, some of them five, six, some of them as much as
2 twelve years.

3 Q. If I look at this map, you've shaded
4 some of these spots blue, and that is the percent
5 water cut; is that what that is?

6 A. The blue number to the lower right of
7 each well is the percent water cut. The blue
8 coloring is a relative coloring of the dot. Ninety
9 percent is nearly entirely blue; 50 percent is half
10 blue.

11 Q. And can you tell me what in your opinion
12 these blue dots show you about this reservoir?

13 A. The blue dots show me that as you sit on
14 the south or downdip side of these oil
15 accumulations, these pods, they seem to be limited
16 or trapped on the north by the absence of porosity.
17 And as you sit on the southwest side you produced
18 water sooner. You produced greater quantities of
19 it, and your ultimate recovery is affected by it.

20 Q. Does that mean that if you're
21 downstructure, you've got a water problem?

22 A. Yes, sir, in most cases.

23 Q. If you look at the Kachina 2 Number 8, I
24 think that's it, it's the well in the southeast --
25 I'm sorry, southwest, southwest of Section 8?

1 A. Southwest -- that would be well
2 Number 9M.

3 Q. Well, it's the Kachina -- I think
4 8 Number 2. It's in Section 8 in the southwest
5 southwest. It has -- what?

6 EXAMINER MORROW: I think Number 2 is a
7 proposed well, I believe.

8 Q. All right. Well then let's look at the
9 well down here in the southwest southwest.

10 A. Yes, sir.

11 Q. If we look at that well -- and I go back
12 to your structure map -- it appears that it has a
13 -- it's at a depth of 7459; might be?

14 A. Okay, yes, sir.

15 Q. And if you compare that well and you go
16 down in Section 17 to the south, slightly east,
17 there's a well down there in the northeast of the
18 southwest that's got a 10 percent water cut?

19 A. Northeast of the southwest? Yes, sir.

20 Q. And that well, if I relate it back to
21 your structure map, is at a minus 7474. That would
22 be deeper -- a deeper depth than this well in the
23 southwest southwest?

24 A. Yes, sir.

25 Q. How do you explain the fact that it's

1 got a 10 percent water rate being deeper in the
2 reservoir than that well -- than the well in the
3 southwest, southwest?

4 A. The well in Section 17, Number 2 K, I
5 believe is what it's called, is completed and would
6 be either the AC or AD carbonates as referred to in
7 the uppermost part of the zone. The well in the
8 southwest southwest of Section 8, well Number 9 M, I
9 think it's West Corbin Number 9 M, is completed and
10 I would call it the E zone -- or it would probably
11 correspond to the E zone.

12 Additionally, it seems to be on the south
13 side of another pod, another trap mechanism.

14 Q. So, correct me I'm not trying to
15 misstate has you're saying. That's because it's --
16 perhaps because it is in a different part of the
17 Wolfcamp.

18 A. Probably a different part of the
19 Wolfcamp and/or a different porosity pod.

20 Q. If we move from the well in the
21 southwest southwest of 18 and move to the east, we
22 get a well that, I guess, has a five percent water
23 cut. Do you see that well? It's in Section 8.
24 It's in the southwest of the southeast and it's got
25 a 5 by it, a 5 percent water cut?

1 A. Yes, sir.

2 Q. Now, compare that to the structure map
3 that's at a depth of minus 7500 feet, or 41 feet
4 lower than the well in the southwest southwest?

5 A. Yes, sir.

6 Q. Again, if I asked you to explain that
7 would your answer be the same?

8 A. Again, that well is completed in what
9 would be considered -- Santa Fe calls their AG.
10 We'll call it the basal line of the lower Wolfcamp
11 package. It's a very good well, by the way. You
12 see that here -- you'll see a good well like in the
13 southeast of Section 8, like in the northwest of
14 Section 17.

15 And like in the southeast of Section 16,
16 you'll see one good well that will produce these
17 kind of reserves. But then as they've moved away
18 from it, there's locations move away from it, you
19 see a greater increase in water, particularly on the
20 downdip side.

21 Q. Okay. And could that be again because
22 it's in a different part of the Wolfcamp?

23 A. A different part or different porosity.

24 Q. Pcds?

25 A. Pcd.

1 Q. Or could it be a different stringer or
2 different strand in the reservoir?

3 A. A different porosity pod; we'll call it
4 pay zone. Again there's a trapping mechanism on
5 the north side -- oh, or on the updip sides of the
6 stuff that has to be an absence of porosity. But
7 this map is an evaluation of the local Wolfcamp
8 interval, that's why you have these variations.

9 Q. And that's consistent with the way your
10 geology has been done on this portion?

11 A. It happens to match it, yes, sir.

12 Q. If you get these differences because
13 they're in different zones, wouldn't it be better to
14 evaluate it on the different stringers, as Mr. Thoma
15 has, of the different zones instead of grouping it
16 all together?

17 A. Not for picking our one location in our
18 one chance at oil in this reservoir. We need to
19 evaluate them on a cumulative basis.

20 Q. If I go to your Exhibit Number 7?

21 A. Yes, sir.

22 Q. And you have an ultimate recovery
23 estimated for a well at your location of 260,000
24 barrels?

25 A. Yes, sir.

1 Q. Now, how did you come up with that
2 number?

3 A. I think due to structural position and
4 proximity -- proximity with a capital P, that we'll
5 have reserves comparable to the Kachina 8 Number 1.

6 Q. And then how did you get that number.
7 I mean is it --

8 A. We gave the Kachina 8 Number 1 a quarter
9 of a million barrels, again because it had the
10 highest potential of any well recorded in the field,
11 had the highest tube pressure along with that
12 potentiality. So we give it an ultimate recovery
13 equal to the highest in the field.

14 Q. And then, because you're a little bit
15 higher than that, you increase the number; is that
16 fair? I'm not trying to testify.

17 A. If you call it increasing from 250 to
18 260. I think the total on my economic analysis came
19 out to 260; that's just the way the decline totaled.
20 That extra barrel 12 years in the future is
21 insignificant.

22 Q. So you're expecting a well that would be
23 comparable to the offsetting well?

24 A. Yes, sir.

25 Q. Did you take into account you would have

1 two wells in this one pod competing for those
2 reserves, and how that might affect the number?

3 A. Yes, it may reduce their well.

4 Q. But it would not reduce yours?

5 A. It's possible that it might. Yes, it's
6 possible.

7 Q. But you didn't factor that in in
8 reaching this?

9 A. There's such an open end on the up sides
10 of these reserves for these two wells on the north
11 end. You can give the Santa Fe well a quarter of a
12 million barrels just out of the 30 feet they got
13 perforated, and they've got 40 to 60 feet above that
14 in a middle zone, and they've got another zone above
15 that.

16 I don't think either well will produce
17 less than a quarter of a million barrels.

18 Q. And you're basing that on the one point
19 in this circle of the isoproduction map?

20 A. Yes, sir, I am.

21 Q. And from that point you're going to
22 extrapolate into the northwest northwest of the
23 section?

24 A. Yes, sir, I am.

25 Q. And you can put two wells in a pod

1 that's about the same size as some of these that
2 have 250 foot total pods?

3 A. Yes, sir.

4 Q. And you can say each of them will get a
5 quarter of a million?

6 A. You say 250 for the total pod.

7 Q. No, that's probably a misstatement.
8 You've got 250 on the existing well in the pods?

9 A. Uh-huh.

10 Q. And you're -- it's your estimate that
11 you've got two wells in there that each would
12 produce that?

13 A. Yes, sir.

14 MR. CARR: That's all thank you.

15 EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Huck, were you here when
18 Mr. Offenberger testified?

19 A. Yes, sir.

20 Q. And did you hear him comment about
21 pressure drop in the Wolfcamp?

22 A. Yes, sir.

23 Q. And if I remember, I believe he said
24 that pressure drop on offsetting 40 acre Wolfcamp --
25 in the north well Wolfcamp was about a thousand

1 pounds in six months; is that correct?

2 A. I recall a thousand pound pressure drop
3 in his testimony. If you say it was six months --

4 Q. Let's assume for now it's six months.

5 A. Yes.

6 Q. Would that have any effect on your
7 calculations of reserves for Hanley's proposed
8 location?

9 A. Again, it's the up side is so great on
10 the Kachina 8 Number 1, you can put a quarter of a
11 million barrels comfortably in the only zone they've
12 got perforated. I think there's interference, or
13 will be interference, between their well and the
14 well in the north end of our tracts. But that
15 interference is a two-way street. It shouldn't all
16 go to the Kachina 8 Number 1.

17 Q. Well wouldn't 25 percent pressure
18 depletion within six months kind of alarm you?

19 A. Yes, it would.

20 Q. Now, referring to Exhibit 6, again, you
21 draw these pods, and you have one rather large one
22 in the south covering parts of Sections 17 and 16,
23 18?

24 A. Yes, sir.

25 Q. Couldn't -- looking at Section 18,

1 isn't it possible, if you're correct on these pods,
2 that perhaps the well in the northwest quarter of
3 Section 18 and the one in the northwest and
4 northeast of the of Section 18 would form a separate
5 pod from those to the east?

6 A. Yes, sir, I think it's possible that it
7 could. There's not enough control to close off the
8 circles.

9 Q. And by the same token, the other four
10 wells, the two in the east half -- east half of
11 Section 18, and the two wells in the northwest
12 quarter of Section 17 could form a separate porosity
13 pod?

14 A. Two wells in the northwest -- I don't
15 think so. You have a production limitation on the
16 north side here that allows all the wells basically
17 in Section 17 on the south end of 17, to be in the
18 same pod.

19 Q. Okay. Well let's take that then. All
20 the wells in the south end of Section 17 could be on
21 one pod. And then you just admitted that over to
22 the west those two wells on Section 18 could be in
23 pods. If that was the case those pods would be
24 oriented in a northeast southeast direction,
25 wouldn't they?

1 A. Are you talking about their shape?

2 Q. Yes, their shape. Kind of an oval
3 shape, or with the --

4 A. I agree with the oval shape. I don't
5 agree with the northeast southwest axis.

6 Q. No, why not?

7 A. You have your data points on the west
8 half of 17 and the east half of 18; that precludes
9 you from shifting or twisting that elongation around
10 to the southwest.

11 Q. Well, you do have a porosity pod over in
12 Section 16 that's oriented in a north-south
13 direction or after that fashion, isn't it?

14 A. Again, we had to honor those points --
15 that 100 barrel point up in -- or I have honored
16 the hundred barrel up in the northwest corner of
17 16. That stretches that pod. If you eliminate
18 that, that pod itself squishes more into a circular.

19 Q. But it's possible, for instance, you
20 know, in the area of the Kachina 8 Number 1 well,
21 that pod could be oriented either north-south or
22 northeast-southwest?

23 A. It's possible, although even if you
24 orient it that way, if you'll look at the well in
25 the southwest corner of Section 16, Well Number 2 N,

1 I believe it is, it's Federal 16 Number 2 N. It has
2 a 75 percent water cut. That well come in every bit
3 as good as Number 1 J up in the bullseye of the pods
4 produced for seven months and the water hit and
5 production dropped off to near zero.

6 Q. Which one is higher structure, really?

7 A. It really shows the Number 2 to be
8 higher on the base of the Wolfcamp structure,
9 really.

10 Q. The one that has the 75 percent water
11 cut is higher structurally than the one that has a
12 50 percent water cut; is that has you're saying?

13 A. Yes, sir. But I might add to it, they
14 are in different zones. The one that has the dashed
15 50 percent, again, that's according to gas
16 engineering committee records and that water cut
17 coming up suspiciously at the same time that Well
18 Number 2's water cut came up. But well number two
19 is the only one that developed in production.

20 But going back to my original point, Well
21 Number 1 J is in what would be the basal carbonate
22 zone. Well Number 2 is in has would be the middle
23 carbonate zone to us.

24 Q. Now in your estimation which well,
25 looking at Section 8 -- which of these wells is

1 going to drain, the north -- or I should say the
2 north half of the northwest quarter?

3 A. Which wells would better drain?

4 MR. KELLAHIN: You're talking between
5 Santa Fe's proposed well and Hanley's proposed
6 well?

7 Q. Well, I'm saying which of these wells?
8 Look at them. Say, take the Kachina 8 Number 1.
9 There's a well that will -- still to be completed in
10 the northeast of the southwest and then there will
11 be Hanley's well, assuming Hanley's well gets its
12 location.

13 A. So which of those three would better
14 drain the south half of the proposed unit? It
15 would depend on which location would have a porosity
16 zone connecting into the south half of that
17 proration unit. And I would assume that to be any
18 units -- that the closest would have the best
19 location.

20 Q. So it could be Hanley's location?

21 A. More likely Hanley's location.

22 Q. It could be the well in the northeast or
23 the southwest, couldn't it?

24 A. Less likely, it's further away.

25 Q. But that well in the northeast of the

1 southwest doesn't have a 40-acre offset, does it?

2 A. No, sir, it doesn't still.

3 Q. Mr. Huck, how did you arrive at ultimate
4 recovery for the 8 Number 1 well?

5 A. Again, it was its potential for the
6 highest oil rate of any well in the field and its
7 flow in pressure was higher than any well in the
8 field, so we gave it an EUR highest of any of the
9 wells in the field.

10 Q. And for that you used those declining
11 curves -- I forget the exhibit number?

12 A. No, there's no curves, just potential
13 some 60 days ago. It's still producing to my
14 knowledge at top level.

15 Q. Now, your basis for the recovery of the
16 other wells you have on this Exhibit 6, that is
17 based on declining curve analysis; isn't it?

18 A. Yes, sir, it is.

19 Q. And these wells, say, looking at
20 Section 17 that's based on 80-acre spacing, isn't
21 it?

22 A. The ones that are currently drilled yes,
23 sir. Except for the 5E, that's offset 40 acres to
24 the west.

25 Q. That's the only one that is offset by a

1 40-acre well; is it not?

2 A. Yes, sir, it is.

3 Q. One final question, Mr. Huck. Do you
4 know if Santa Fe's application is granted, will
5 Hanley join in that one?

6 A. I would recommend that they not. I
7 would recommend that they apply for their own
8 location to the north.

9 MR. BRUCE: Thank you, Mr. Examiner.

10 EXAMINER MORROW: You have anything Mr.
11 Kellahin?

12 MR. KELLAHIN: No, sir.

13 EXAMINER MORROW: On Exhibit 5,
14 Mr. Huck, you showed a cumulative and current
15 prediction. I believe you said through September,
16 or the current one as of during the month of
17 September.

18 THE WITNESS: September 1990.

19 EXAMINER MORROW: That was what they
20 produced, averaged in September. On Exhibit 7,
21 tell me again why the payout was different for the
22 two cases.

23 THE WITNESS: The lower indication or
24 the 130 barrel case at the Santa Fe location, it
25 requires roughly --

1 EXAMINER MORROW: The payout time is
2 what I'm getting at, the four months and eight
3 months.

4 THE WITNESS: The declining curve to
5 match those reserves would start at a lesser rate,
6 it would take that well eight months to produce that
7 85,000 barrels of oil.

8 EXAMINER MORROW: So you don't think it
9 would produce at top allowable?

10 THE WITNESS: No, sir, I don't.

11 EXAMINER MORROW: Okay. What is top
12 allowable?

13 THE WITNESS: Top allowable is 445
14 barrels a day for an 80-acre well.

15 EXAMINER MORROW: And you recommended
16 150 percent risk penalty for a Hanley well. What
17 would you recommend for the Santa Fe well, you said
18 higher?

19 THE WITNESS: It's a higher risk well.
20 I assume that a higher risk would apply. They've
21 been quoting 200 percent.

22 EXAMINER MORROW: Let's see on
23 Exhibit 6, again, that everybody talks about in
24 Section 8, the two wells with a Santa Fe Kachina 8
25 Number 1 has a 250 beside it.

1 THE WITNESS: Yes, sir.

2 EXAMINER MORROW: And the well down in
3 the southwest of the southeast has a 257 beside it.

4 THE WITNESS: Yes, sir.

5 EXAMINER MORROW: Did you have any
6 control points between those two --

7 THE WITNESS: No, sir.

8 EXAMINER MORROW: -- wells?

9 THE WITNESS: There are none.

10 EXAMINER MORROW: Do you think there's
11 any secondary recovery potential in this reservoir
12 -- secondary or tertiary after primary is
13 recovered?

14 THE WITNESS: I think we -- I think you
15 would find it a grossly inefficient flood. I don't
16 think you'd see water I put in one well showing up
17 anywhere else.

18 EXAMINER MORROW: You don't think it
19 would be?

20 THE WITNESS: I think it would be
21 unsuccessful.

22 THE EXAMINER: Unsuccessful. If
23 Santa Fe drilled a well, or if Hanley drilled a
24 well, would the ^{billing} building be on the actual cost or
25 estimated cost?

1 THE WITNESS: You're talking about for
2 allocation?

3 EXAMINER MORROW: Billing of partners,
4 ^{bill your} would you bill the partner on your estimated AFE
5 costs or actual AFE costs.

6 THE WITNESS: I believe it's on the
7 actual field costs as the tickets come in off the
8 well. I don't know -- I don't think Hanley
9 prebills.

10 EXAMINER MORROW: On the allocation of
11 costs, what is the bottom line on that Exhibit 17,
12 what -- say, if Hanley did drill a well and the
13 costs were allocated, and assume you made at least
14 [?] three types of wells, what would you allocate to
15 the --

16 THE WITNESS: For a complete -- what
17 would I allocate to the Wolfcamp?

18 EXAMINER MORROW: Yes, sir.

19 THE WITNESS: As this stuff works the
20 partners would be billed for actual costs at the
21 time the Wolfcamp was completed. Then at the time
22 the well was completed to the Bone Spring, the
23 allocation would be made and the Bone Spring owners
24 would reimburse --

25 EXAMINER MORROW: They will reimburse?

1 THE WITNESS: The Wolfcamp owners based
2 on the relative positions.

3 EXAMINER MORROW: You indicated you had
4 recommend that the Hanley drill a well in that north
5 40 acres if faced with the choice of joining
6 Santa Fe or not. Would the rules, current rules,
7 permit you to do that?

8 THE WITNESS: Yes, sir, they would.

9 EXAMINER MORROW: That's all I have.

10 MR. STOVALL: Before I start, I want to
11 find out if Mr. Kellahin has any other witnesses.

12 MR. KELLAHIN: Yes, I do. I have one
13 last witness, Mr. Stovall.

14 MR. STOVALL: What are his areas of
15 expertise and scope of testimony?

16 MR. KELLAHIN: He is the president of
17 Hanley Petroleum Company.

18 MR. STOVALL: He's the one I want.

19 MR. KELLAHIN: He's a geologist.

20 MR. STOVALL: The main man is here.
21 I'll wait.

22 EXAMINER MORROW: Mr. Huck, you may be
23 excused.

24

25

1 L.D. ROBBINS,
2 was called as a witness and, having been previously
3 sworn, was examined and testified as follows:

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Robbins, for the record would you
7 please state your name and occupation?

8 A. My name is L.D. Robbins, and I am the
9 president of Hanley Petroleum.

10 Q. Do you hold a professional degree in
11 either petroleum geology or engineering?

12 A. I have a Bachelor's in petroleum
13 geology, and a Master's from Tulsa University.

14 Q. In ^{what} years did you obtain each of
15 those degrees?

16 A. 1955 and 1967.

17 Q. Have you testified before the Oil
18 Conservation Division of New Mexico on prior
19 occasions in either your capacity as president of
20 Hanley Petroleum, Inc., or in your capacity as a
21 petroleum geologist?

22 A. Yes, sir.

23 Q. Have the employees of your company that
24 have testified previously in this case been under
25 your control and management with regards to their

1 analysis of the data available to your company and
2 available to you?

3 A. Yes, they have.

4 Q. Based upon your own professional
5 judgment as a geologist, as well as your perspective
6 as the president of Hanley Petroleum, Inc., do you
7 have certain conclusions and recommendations to the
8 Examiner with regards to these applications?

9 A. Yes, I do.

10 MR. KELLAHIN: We tender Mr. Robbins as
11 an expert petroleum geologist.

12 EXAMINER MORROW: Mr. Robbins was that
13 '57 or '67?

14 THE WITNESS: '67.

15 EXAMINER MORROW: You certainly
16 qualify. And we'll accept his qualifications.

17 Q. Mr. Robbins, earlier this morning
18 Mr. Murphy testified that he had an oral
19 conversation with someone at Hanley Petroleum -- I
20 think in the spring of 1990, in which he first asked
21 your company to contribute in some fashion,
22 participation of your 40-acre tract with the well
23 that has actually been drilled. It's the Kachina 8
24 Number 1 well?

25 A. (Witness nods).

1 Q. Did he have contact with you, sir?

2 A. No, sir.

3 Q. To the best of your knowledge, did he
4 have contact with any of your employees or
5 personnel?

6 A. Not to my knowledge. And along those
7 lines we have about 28 employees, and all but about
8 7 of these are in the field pumping wells and doing
9 work like that. So within our office, those that
10 are there, four are accountants. And so the rest of
11 the group are just right next door to each other.

12 Along those lines, you know, we were told
13 this morning that Hanley Petroleum had been sitting
14 on their lease forever and that this was Santa Fe's
15 prospect. Just to set the record straight, we
16 bought our lease in 1986 at a competitive federal
17 sale, a 40-acre lease. The adjoining acreage owned
18 by the federal government was unleased.

19 Q. There is adjoining acreage that later
20 -- is in Section 8?

21 A. The north half of Section 8.

22 Q. The north half, okay?

23 A. And that acreage was then put up for
24 sale in 1990, I believe, and we were outbid by a
25 combine composed of Santa Fe and Yates. So it was

1 very prudent for us to wait for the rest of the
2 acreage to come up where we could complete the
3 leaseholds on our prospects that we had long before
4 Santa Fe had a leasehold in the area.

5 Q. Before the federal acreage came
6 available to 40 and 80 acres spacing units?

7 A. (Witness nods).

8 Q. What then happened?

9 A. Well, the next thing that happened was
10 that we had -- Santa Fe had got that acreage and we
11 noticed they staked the location. And we thought,
12 well, they would surely contact us. Usually when
13 you're drilling a well next to an offset operator,
14 you'll contact them for support.

15 I went to all my employees about anything
16 coming from Santa Fe asking us that they would join
17 or support our well and they said, no, nobody called
18 anybody. We polled everyone that worked there in
19 the office. We never received anything in writing,
20 a proposal to drill a well, ask for dry hole
21 support, or join in the well.

22 So we were still sitting there where we
23 thought their well was a location, and the next
24 thing, we start getting things in the mail,
25 registered mail, certified, return receipt, you will

1 do this in 10 days, and all this stuff.

2 And, you know, if you've been down these
3 roads before, you say, what's going on with this
4 well up there. And then when the thing started to
5 unravel and we finally got the data smoked out, we
6 saw they had completed a major well just 510 feet
7 from our leasehold.

8 Q. As a petroleum geologist have you been
9 involved with your technical people in analyzing and
10 evaluating the geology with regards to the choice of
11 location between the Hanley acreage and the Santa Fe
12 - Heyco acreage south of the spacing unit?

13 A. Yes, sir, I have. I might add to that
14 starting back in 1968, out in the basin here in New
15 Mexico, there were these different types of wells
16 that would start to show up where the people would
17 be drilling to deeper horizons and it was hard to
18 explain what kind of rock it was.

19 And, anyway, it developed and later when
20 I was with Marathon Dr. John Larms, Lloyd Pray, and
21 others, studied these carbonate debris flows in the
22 Wolfcamp and in the Bone Springs. And their
23 analysis based on cores and outcrop studies and
24 other things, were that these deposits were, indeed,
25 deposited out in the deep basin off of the high

1 standing reef fronts that in this particular area
2 were to the north and trended generally from the
3 west towards the east.

4 And this goes clear up through Abo. And
5 because of the nature of the deposits being density
6 flows and this rubble comes rolling down, for
7 whatever reason, they tend to take the path of least
8 resistance, which is down slope.

9 Q. Prior to today, had you had an
10 opportunity to actually see the Santa Fe geologic
11 interpretation as to the well locations?

12 A. No, sir. Except I might add from one
13 previous hearing they had, on one particular
14 so-called zone. I might add, too, about these
15 deposits, they're -- you can correlate a deposit
16 like the lower Wolfcamp that may be 600 feet thick
17 and it may be a mile or so, or two miles wide, and
18 it may be some miles long.

19 But when you get within this, all of this
20 rubble and stuff, and you look at a well, that's a
21 penetration of the whole thing, and you get another
22 location from it, or maybe two locations. You may
23 sometimes be able to trace a block or a pile of
24 blocks or something.

25 But when get much beyond this, and you

1 start correlating it, then you're fooling yourself,
2 because it is not continuous. And so when you layer
3 cake something that isn't layer cake, you're just
4 manufacturing a map that will show, you know, thicks
5 where maybe 11 out of 15 or 20 wells, or whatever it
6 is, are dry holes.

7 Q. You're the man that writes the check.
8 You're the guy that's going to decide for your
9 company where you're going to spend your dollars?

10 A. When you look at Mr. Bracken's geologic
11 interpretation and you have that to contrast against
12 Mr. Thoma's geologic interpretation, you have two
13 geologists and you must make the business judgments
14 about which to believe and where to put your money,
15 what are you going to do?

16 A. Well, I prefer the northwest northwest
17 of Section 8 because this location will recover the
18 most oil. It will recover the most oil in the
19 Queen. It will recover the most oil in the Bone
20 Springs. It will recover the most oil in the
21 Wolfcamp.

22 I think Mr. Huck's analysis of contouring
23 the ultimate recovery of these wells, from all of
24 the various zones in this interval of lower Wolfcamp
25 shows that the high productive areas are what we

1 fondly refer to as sweet spots, are isolated, and
2 your best chance of recovering the most oil is in
3 the closest proximity you can get to that. And it's
4 also referred to as closeology.

5 Q. Mr. Thoma has got an analysis that pods
6 lie in the carbonated reservoir in the northwest to
7 northwest of 8 to what Mr. Bracken has. Now, how
8 are you going to resolve that?

9 A. There again, when you contour all of the
10 clean carbonates in the lower Wolfcamp, it contours
11 in a north-south direction, more or less parallel to
12 what the structural strike was at that time. This
13 was keeping its orientation because this was the
14 depositional position of it. When you get up in the
15 structure, there's a tertiary tilt involved and you
16 cut a window in a map, it may look like it has a
17 little skew.

18 Nonetheless, this is the way we expect
19 the most rock, and therefore the most potential and
20 the most zones to be.

21 Q. Mr. Thoma dismisses the importance of
22 water in the Wolfcamp formation as a question for
23 people in your position in terms of deciding well
24 locations.

25 A. Well, it is astonishing testimony when

1 you see Mr. Huck's exhibits and here are, like where
2 there's some productive history on the wells down
3 there, 18 and 17 -- wells making 85 percent water,
4 85 percent water, 85 percent water, to say that
5 water is not important in this trend.

6 Q. When you take water into consideration,
7 where then would you place this well in this spacing
8 unit?

9 A. I would get as high as I could. Now I'm
10 not any reservoir engineer, but believe me, I
11 understand oil and water and structure.

12 Q. In the absence of a well in the
13 northwest of the northwest of 8, what is your
14 assessment about your abilities to protect your
15 protective rights from competition by the Santa Fe
16 Kachina 8 Number 1 well immediately to the east of
17 your 40-acre tracts?

18 A. Well, first off, they're 510 feet from
19 our lease line right now, and they're producing oil
20 and they've been producing oil, for well over a
21 month. So we're in jeopardy right now. And,
22 also, our royalty owner, the federal government,
23 where they have a quarter royalty under us at these
24 rates and an eighth for the offsetting acreage. So
25 we're concerned about royalty.

1 Q. What is your recommendation to the
2 Examiner regarding a risk factor penalty to be
3 applied in this pooling case?

4 A. Well, Santa Fe is proposing, I believe,
5 a 200 percent penalty, which I think is the maximum,
6 above recovery of the costs on their proposed
7 location for the 8-2. We feel ours has
8 substantially less risk, so we're willing to cut
9 this to 150 percent.

10 Q. And your assessment, Mr. Robbins, is
11 Hanley Petroleum, Inc., ready, willing and able to
12 act as an operator? Can you do so in a prudent and
13 effective manner if the Division allows you the
14 opportunity to be the operator?

15 A. Yes, sir. We will. We've been in the
16 business a long time. We operate over 340 wells in
17 the Permian Basin and have interests in hundreds of
18 others. And Mr. Huck summarized what oil we
19 produced last year. And I know we're a
20 demonstrated, qualified operator and that we can do
21 an efficient job and that we can do it cheaper.

22 MR. KELLAHIN: That concludes my
23 examination of Mr. Robbins.

24
25

EXAMINATION

1
2 BY MR. CARR:

3 Q. Mr. Robbins, if I understood your
4 testimony, you obtained the property in 1987?

5 A. '86, I believe, is right. Isn't that
6 correct, Mr. Rogers?

7 MR. ROGERS: We acquired it in a sale in
8 the fall of '86, the lease was effective January 1.

9 MR. STOVALL: We have a sworn witness
10 who's trying to say something. I'm going to ask the
11 Examiner to strike that.

12 A. '86 approximately, sometime ago.

13 Q. You've been holding the property since
14 that time. Why did you decide to go forward with
15 the pooling case now?

16 A. Our lease has been in effect since that
17 time. It was a 10-year lease.

18 Q. And why now did you go forward with the
19 pooling? Was it the drilling of an offsetting
20 well?

21 A. Yes.

22 Q. And when you decided to go forward with
23 this well, did you contact the other interest owners
24 about putting together a tract for the -- for the
25 drilling of this well?

1 A. We have no other interest owners in our
2 40 acres. We own it 100 percent.

3 Q. Did you consider putting together an
4 80-acre tract form of a well?

5 A. We have proposed to force pool the west
6 half of the northwest quarter into an 80 acre
7 Wolfcamp proration unit with the stipulation that
8 the location be in the northwest northwest.

9 Q. With this proposal, did you ask Santa Fe
10 to join with you in that effort?

11 A. Yes, I think we did ask them.

12 Q. Did you ever contacts Yates and ask them
13 to voluntarily participate?

14 A. No, we've never contacted Yates. We
15 understood they were not the operator.

16 Q. And you knew --

17 A. We did contact Yates though, pardon me,
18 to support us as operator of a well. And we were
19 informed they would support us as operators of a
20 well. They later reversed their position that they
21 would support us as operators of the well.

22 Q. You did know they had an interest in the
23 tract that was going to be pooled?

24 A. Yes, they have a -- it is our
25 understanding in the Santa Fe lease they own

1 25 percent, they own 50 percent.

2 Q. Did you ever ask them to join and pay
3 their share in the well?

4 A. We were asking Yates to do that through
5 our pooling.

6 Q. Did you ever ask them for farmout or any
7 other way voluntarily join?

8 A. No, we have not asked Yates or Santa Fe
9 of a farmout of interest. We figured, you know,
10 with the type of well that they had, that would be a
11 waste of our time.

12 Q. Did you see the answer that was filed in
13 this case?

14 MR. KELLAHIN: In which case Mr. Carr?

15 MR. CARR: I'm sorry, the pooling case
16 for Hanley?

17 A. Hanley's application or Santa Fe's?

18 Q. Hanley's.

19 MR. KELLAHIN: Let me find a copy in
20 here. Just a second.

21 I'm sorry for the interruption.

22 Q. Now my question was, sir, have you seen
23 the answer filed in this case by Hanley Petroleum,
24 Inc.?

25 A. I have. I think I have general

1 knowledge of it. I did not write it and I did not
2 prepare it.

3 Q. Let me just --

4 MR. CARR: Tom, if you want to look at
5 this, that's the transmittal letter and the
6 application.

7 EXAMINER MORROW: What is that,
8 Mr. Carr?

9 MR. CARR: That is a copy.

10 MR. STOVALL: We have it in the file,
11 too.

12 MR. CARR: That's a copy of application
13 that was filed by Hanley.

14 MR. STOVALL: I'll find it for you.

15 MR. CARR: May I show that to the
16 witness?

17 EXAMINER MORROW: Why don't you hold up
18 just a minute, until we find it. We don't have it.

19 MR. STOVALL: Here's a copy.

20 EXAMINER MORROW: Continue.

21 Q. (By Mr. Carr) I'd like to show you what
22 we understand to be and have received as the
23 application filed in this case on behalf of Hanley.
24 Would you look at that for a minute, please, sir?

25 A. I just got through reading it.

1 Q. I'd like to direct your attention to
2 Paragraph 4 on Page 2 where it states that Hanley
3 has sought voluntary agreement from the interest
4 owners in the well and has been unable to obtain
5 their voluntary agreement; isn't that correct?

6 A. That's what this says.

7 Q. And then if you go to the back of that
8 on the very last page, find the signature pages, is
9 an Exhibit A that shows Harvey Yates is one of the
10 interest owners that needs to be pooled?

11 A. That's correct.

12 Q. And I understand your testimony to be
13 that you didn't ask Yates to voluntarily --

14 A. I think we sent Yates an AFE, a copy of
15 our AFE.

16 Q. Do you know when that might have been
17 sent?

18 A. Let me see. I think I have it right
19 here. January 7.

20 Q. And this application was transmitted to
21 the Oil Conservation five days before, isn't that
22 true?

23 A. That's what the dates show.

24 Q. And this morning Mr. Kellahin asked
25 Mr. Murphy if he didn't think it was strange to

1 commence pooling before he --

2 MR. KELLAHIN: I'm going to object. I
3 think Mr. Robbins is not the right witness. I'm the
4 witness Mr. Carr wants to address. I did the
5 application on behalf of my client and I'll be happy
6 to testify if he likes.

7 MR. CARR: I'm asking questions of
8 Mr. Robbins, and that's an appropriate question.

9 MR. KELLAHIN: If he knows the answer,
10 he can respond.

11 MR. CARR: Did you --

12 A. Let's back up now and begin at the
13 beginning.

14 Q. I'm asking --

15 A. If you begin at the beginning, all of
16 this business of drilling a well, and keeping it
17 tight, and no potential on it for 60 days, and
18 forced pooling started with Santa Fe, who is Harvey
19 Yates' partner.

20 Q. Did you hear the question I was asking
21 Mr. Murphy this morning?

22 A. Yes.

23 Q. My question is, why did you file a
24 pooling answer before you had attempted to negotiate
25 with Heyco?

1 A. Because Heyco was Santa Fe's partner.

2 Q. But you haven't negotiated directly with
3 Heyco?

4 A. No.

5 MR. CARR: Okay. May it please --

6 A. And Heyco was not the operator was the
7 reason. It was nothing to do with Heyco, per se.

8 MR. CARR: I have no further questions
9 of this witness.

10 EXAMINER MORROW: Mr. Bruce?

11 EXAMINATION

12 BY MR. BRUCE:

13 Q. Mr. Robbins, I believe you answered that
14 Hanley has had their lease for about four years or
15 so -- owned this lease, the northwest northwest of
16 Section 8?

17 A. Yes, something over four years.

18 Q. And how long have you been aware that
19 there was a good Bone Springs potential or good
20 Wolfcamp potential in the northwest quarter?

21 A. Our study in the area began, oh,
22 somewhere in '83 or in when we started putting more
23 of the emphasis on this particular trend in New
24 Mexico. And so we had been studying the area for a
25 long time and preparing maps, and analyzing data and

1 trying to get a leasehold. We were successful in
2 getting a few tracts along the trends.

3 We mentioned a couple that we just
4 finished developing, and this was a tract, and this
5 was one of our prospects we developed here.

6 Q. You bought the lease because you thought
7 it was a good area?

8 A. Well, as I recall, we paid about, almost
9 \$400 an acre for this acreage, for the royalty on
10 it. With a quarter royalty on it.

11 Q. Well, how come sometime sooner than
12 this, you didn't drill a 40-acre Bone Spring well or
13 maybe also drill it down to the Wolfcamp with a
14 40-acre nonstandard unit? I believe Mr. Huck said
15 40 acre units would be preferable to Hanley?

16 A. I know you're not an oil man, obviously.
17 You don't drill a 40-acre, 12,000 foot wildcat well.
18 You try to build yourself a block where if you're
19 lucky enough to find something, you don't have all
20 your risk riding on one well and you're able to make
21 a real economic success, like Santa Fe and Yates,
22 when they formed their combine on the rest of the
23 acreage [?]she sets theirs up a block to drill their
24 wildcat well.

25 Q. And their testimony was they have

1 interests, or Santa Fe any way has interests, in
2 about 3,000 acres in this immediate area?

3 A. Well, I'll just have to rely on your
4 knowledge for that.

5 MR. BRUCE: I have nothing further.

6 EXAMINER MORROW: Mr. Robbins, did
7 Santa Fe contact you concerning your participation
8 in the their Kachina 8 Number 2 prior to their
9 filing the compulsory pooling application?

10 THE WITNESS: I think we got a letter,
11 some days -- I'm just relying on my memory here, and
12 my landman handled all this. But my recollection is
13 we handled a certified return request letter which
14 was a sort of a -- you know, reply within 10 days to
15 join or farmout on a, you know, unacceptable type of
16 a proposal.

17 And then shortly after that and I think
18 it was in a matter of days rather than weeks, they
19 filed their forced pooling.

20 EXAMINER MORROW: Do you know on their
21 forced pooling application whether or not it was
22 filed prior to your forced pooling application?

23 THE WITNESS: Yes, sir, it was, I know
24 that.

25 EXAMINER MORROW: It was filed earlier?

1 THE WITNESS: Yes.

2 EXAMINER MORROW: Bob, do you have any
3 questions?

4 MR. STOVALL: Yes, I do have a few,
5 Mr. Examiner.

6 EXAMINATION

7 BY MR. STOVALL:

8 Q. I guess I'll back up and do this
9 chronologically, now. You say Hanley bought the
10 lease in 1986, is that correct, the 40 acres?

11 A. I believe that's correct.

12 Q. And perhaps if somebody could find
13 Santa Fe Exhibit 2 for you, we can use that as kind
14 of a reference so that I know whether we're talking
15 on the same thing.

16 And did I hear you say then that the
17 balance of the acreage in Section 8 was unleased at
18 the time you purchased it?

19 A. That's my -- yes, sir, it was either
20 unleased or it was leased and expired and then
21 became available. But it was not -- it was not in
22 the lease sale when we bought the 40 acres that was
23 all that was included in our prospect. And my
24 recollection is that it was unleased.

25 Q. Are you familiar with the BLM nominating

1 process for leases at that time?

2 A. For the BLM?

3 Q. This is federal acreage; is that
4 correct?

5 A. Yes, sir.

6 Q. Do you know a process they used --

7 A. Our lease was bought, as I recall, on a
8 KGS sale.

9 Q. Which would -- that was back in the
10 time when they still -- did they have the
11 competitive and noncompetitive processes; is that
12 correct?

13 A. That's correct. And if I recall right,
14 we bought ours at a oral sale. I may be wrong on
15 that, but I'm thinking it was an oral sale.

16 Q. Based upon your belief, you know, if it
17 was KGF, if it went to competitive sale, it was
18 KGF. Would that mean that the rest of the north
19 half would also have been KGF?

20 A. For some reason I don't know the details
21 on it, I'd have to ask my landman. But when this
22 other part came up, it was in a different type of
23 sale. It was not a KGF sale because it had this
24 one-eighth royalty on it.

25 Q. It came up in 1990, approximately?

1 A. I think that's right.

2 Q. I will state for the record I am aware
3 that the BLM changed its bidding processes between
4 1986 and 1990 and then eliminated.

5 A. Yes, and I was dismayed when I found out
6 this other had a eighth royalty and our 40 had a
7 sliding scale.

8 Q. Do you know about the acreage in Section
9 7 -- do you know what the status of that was at the
10 time you purchased the --

11 A. As I remember -- again, I'm not
12 qualified as a land expert, but just as my general
13 knowledge of the area, I think it was held by
14 production.

15 Q. Were you president of Hanley at the
16 time?

17 A. Yes, sir, since 1982.

18 Q. And in Section 5 what was --

19 A. I think this was held for production.

20 Q. What about the south half of Section 8?

21 A. Well, I think -- I'm not sure, but as I
22 recall it was held by production. I do remember
23 this, that the lease situation in here, that the
24 only acreage in terms of trying to build a block to
25 evaluate a prospect, our strategy was to get this

1 first tract that came open and then buy this other
2 when it came up at the sale.

3 And then we proposed to drill a well. We
4 would approach offset operators for support.

5 Q. Do you know when in 1990 the balance of
6 Section 8 became available -- when it was purchased?
7 Let me say that -- let me rephrase that question.

8 A. I'm not sure. I'm looking at this map
9 that Santa Fe provided, and it says H.E. Yates,
10 et al., 6-1-90.

11 Q. So that would indicate that it was
12 probably purchased, actually became under lease, in
13 about May?

14 A. First of June 1990, I'd guess.

15 Q. Now would it be safe to say at that
16 point you realized that the 40 acres was all you
17 were going to have in that area?

18 A. That's sure the way it looked.

19 Q. Did you -- what did you do? What did
20 your company do then at that point?

21 A. Well, we kept our powder dry and waited
22 to see what the other lease holders were going to
23 do, those that had enough acreage to drill a wildcat
24 well on.

25 Q. So you didn't initiate any efforts --

1 A. No, it would be the tail trying to wag
2 the dog, so to speak, at this point. At this point
3 what we're talking about is development drilling.

4 Q. Okay. When did you first propose
5 drilling a well? When did you internally -- when
6 did you, as president of Hanley, authorize drafting
7 an AFE and proposing a well for your acreage?

8 A. After we got this forced pooling from
9 Santa Fe, and we were able to subpoena their data
10 and find out what the well data indicated and to
11 evaluate the prospects.

12 Q. I'm going to go through the sequences
13 and make sure I understand it. Now the first thing
14 you say, Hanley testified that they thought they'd
15 contacted you about the Number 1 well?

16 A. Yes.

17 Q. It's your belief that nobody in your
18 organization --

19 A. Yes that's -- to my recollection, I
20 never talked to anybody. And I specifically asked
21 all my employees if they ever talked to anybody, and
22 they say they never talked to Santa Fe about it.
23 And it's my knowledge -- it's something like over 40
24 years in the oil business -- when you want to set
25 the drill, the prudent thing is to write a letter

1 and ask for support. And we did not receive this.

2 Q. Were all the same employees with you now
3 that were with you back at the time?

4 A. Yes, sir.

5 Q. Okay. Then we've got the packets --
6 excuse me, Santa Fe Exhibit Number 3 which goes
7 through the history of correspondence, and we'll
8 just let that stand in the record. We don't need to
9 go back and read all that.

10 But Santa Fe approached Hanley in
11 November; Hanley did not agree to participate at
12 that time?

13 A. I don't know that that's a correct
14 summarization of our position. We received -- and
15 if you'll read the letter that we received from
16 Santa Fe, it was not, "come over and talk about
17 drilling a well with us. " It was a very cut and
18 dried, give or take, 10 days.

19 And when we got there letter we said,
20 "what is going on up there"? And they said, well
21 they've got a lease up there. I said, well,
22 somebody better go up there and see that location,
23 also.

24 And when we got there, the well is down
25 and here we're getting this letter.

1 Q. You're talking about the Number 1 well?

2 A. The 8 - 1.

3 Q. I'm talking Number 2 and the stuff
4 that's in Exhibit Number 3. They sent a letter
5 offering to either have you join the well or
6 farmout?

7 EXAMINER MORROW: Let me be sure I
8 understand. When you got the correspondence on the
9 8 Number 2, you sent someone up there to see about
10 the 8 Number 2; is that correct.

11 THE WITNESS: Yes, sir. We wanted to
12 see what was going on. We were caught flat-footed.

13 EXAMINER MORROW: You never did -- .

14 THE WITNESS: I never did get any
15 correspondence on 8-2.

16 MR. STOVALL: Mr. Examiner, can I take
17 one minute? I have got to answer a phone call.

18 (A brief recess was taken.)

19 MR. STOVALL: Now I'm just going to
20 summarize what I understand the record to be.
21 There's no point to having you retestify to the
22 whole thing. And we're talking only about the
23 Number 2 well at this point.

24 The record indicates that Santa Fe first
25 approached Hanley on November 12, 1990. Hanley

1 responded asking for more information and suggesting
2 that they would like to operate the well, that
3 Hanley would like to operate the well.
4 Conversation was had in -- more communication took
5 place in December and sometime in early to mid-
6 December, Santa Fe filed their application for
7 forced pooling.

8 A. Our --

9 Q. Is that it so far?

10 A. Is this our exhibit you're reading
11 from?

12 Q. This is Santa Fe Exhibit Number 3.

13 A. Did we present our exhibit?

14 MR. KELLAHIN: We have not yet presented
15 our documents -- set of correspondence. It may be
16 slightly different than Santa Fe's, because we have
17 a few more bits and pieces than --

18 A. We had prepared an exhibit that was a
19 chronological order of all the documents we know of
20 that pertain to this case. Our landman was going to
21 present it, but in the interest of time he's not
22 going to testify. And so we haven't submitted that,
23 but we can submit it.

24 But whatever chronological order that
25 that shows is what we believe happened. Now what

1 you're saying, seems to me to be the right
2 chronology of events.

3 But if there's a very important point
4 hinging on this, I really can't testify to that,
5 because I'm not looking at it.

6 Q. Okay. I'm just trying to get a general
7 summary.

8 A. I think what you're saying is generally
9 right.

10 Q. Is it that what you would offer would
11 supplement this?

12 MR. KELLAHIN: I propose to offer our
13 package of documents.

14 MR. BRUCE: And I have no objection.

15 MR. KELLAHIN: Without calling
16 Mr. Rogers to authenticate it, so that again, with
17 both sets of correspondence you hopefully have all
18 the pieces.

19 Q. Let me just follow this line of thinking
20 then, because I don't think it hinges on specific
21 details. Sometime in early to mid-December the
22 Santa Fe application for forced pooling was filed;
23 is that correct?

24 A. I think that's right.

25 Q. Okay. Now as far as -- and this is what

1 I'm really concerned with -- the Hanley application
2 for forced pooling was filed on -- I believe it was
3 January 2nd, I believe the record shows, the date of
4 the application. I've got it right here. It's got
5 the OCD received stamp on January 2nd.

6 Did you authorize and direct that that
7 application be filed?

8 A. Yes.

9 Q. If I'm not mistaken the original
10 application, the Santa Fe application, was scheduled
11 for hearing on January --

12 MR. KELLAHIN: 10th.

13 And then there was the subpoena issue
14 that came up.

15 A. (Witness nods).

16 MR. STOVALL: Mr. Kellahin, perhaps you
17 can help me again. What was the Commission's order
18 on the subpoena issue?

19 MR. BRUCE: February 15th, Mr. Stovall.

20 MR. STOVALL: February 15th.

21 MR. KELLAHIN: There were several
22 hearings on the subpoena.

23 MR. STOVALL: The Commission order is
24 the one that I'm concerned with. The one that you
25 finally --

1 EXAMINER MORROW: I don't know if they
2 agreed, before it was issued.

3 MR. STOVALL: I think the Commission
4 issued an order; is that not correct?

5 MR. KELLAHIN: Yes, sir. It's dated
6 February 15, 1991.

7 Q. (By Mr. Stovall) Okay. Hanley filed
8 an amended application prior to that time to move
9 their proposed well to the northwest quarter; is
10 that not correct?

11 A. Yes, sir. I know that's right.

12 Q. And did you authorize that?

13 A. Yes.

14 Q. Upon what information did you make that
15 decision?

16 A. On the data that we had at that time.
17 And previously we didn't have this data because we
18 didn't have this subpoena to obtain the additional
19 data. We had also attained additional data about
20 their well from the field. So it was -- as our
21 knowledge and our understandings and everything of
22 the area progressed, we amended our filing.

23 MR. KELLAHIN: Mr. Examiner, I'm sorry.
24 Mr. Stovall, Mr. Examiner, the amended application
25 specifically changing in writing the location was

1 filed on February 12th, which was after the time
2 that Mr. Bruce and his client furnished us some of
3 the information.

4 MR. STOVALL: Okay.

5 EXAMINER MORROW: The original Hanley
6 filing had it in the south half of that 80; is that
7 correct?

8 MR. STOVALL: It was the same location,
9 I believe, as the original Santa Fe location; is
10 that not correct?

11 MR. KELLAHIN: Yes.

12 MR. STOVALL: So they were both
13 competing to operate the same well at this same
14 location as originally filed?

15 MR. KELLAHIN: Then based on a
16 preliminary analysis of the information that
17 Mr. Bruce had provided to us after the January 24th
18 hearing in which Mr. Catanach made some preliminary
19 rulings. I'm not sure if it was -- I believe it
20 was the 24th.

21 MR. STOVALL: It was the 18th.

22 MR. BRUCE: I think we originally had the
23 argument before Mr. Catanach about -- a week later
24 being on the 18th. We did it before the Commission,
25 Santa Fe -- before the written order was issued,

1 turned over logs and certain other data
2 approximately the 30th or 31st of January. And the
3 written order issued on February 15th, and Santa Fe
4 hand-delivered the remaining data to Mr. Kellahin, I
5 believe. On the 25th of February.

6 MR. KELLAHIN: So that's right. So
7 after the delivery of the first package of
8 January 31st, I filed the amended application, that
9 is my recollection of the sequence.

10 MR. STOVALL: Okay. I think one more
11 question will take me through there then.

12 Q. Did you authorize or direct your
13 landman, after you decided to change the location to
14 contact any other working interest owner in the west
15 half of the northwest quarter of Section 8 to
16 attempt to seek joinder of a well at your new
17 proposed location?

18 A. No, I don't think we did.

19 MR. STOVALL: I have no further
20 questions.

21 EXAMINER MORROW: Mr. Kellahin?

22 MR. KELLAHIN: No, sir.

23 MR. CARR: Mr. Bruce, do you have
24 questions?

25 MR. BRUCE: No, I have not.

1 EXAMINER MORROW: Anything further of
2 this witness? Would you wish to introduce another
3 exhibit?

4 MR. KELLAHIN: Yes, sir, if now is an
5 appropriate time.

6 EXAMINER MORROW: I hope we're getting
7 close to finished.

8 MR. KELLAHIN: Exhibit 18, Mr. Examiner,
9 is my Certificate of Mailing for the original
10 pooling case to complete that aspect of
11 presentation.

12 And then if you'll permit me, I have
13 simply collectively marked as Hanley Exhibit 19,
14 Mr. Rogers' copies in chronological order of the
15 documentation that -- from his perspective that
16 dealt with the efforts of Santa Fe and Hanley and
17 Heyco to come to agreement on various aspects of the
18 case. And we would liked that introduced as Exhibit
19 19. Copies for Mr. Carr and Mr. Bruce.

20 MR. BRUCE: Thank you, I think.

21 MR. KELLAHIN: Okay. That completes our
22 presentation, Mr. Examiner.

23 EXAMINER MORROW: Are all the exhibits
24 in?

25 MR. KELLAHIN: Yes, I think so.

1 MR. STOVALL: Let's get one thing on the
2 record. Mr. Bruce and Mr. Carr, do you stipulate to
3 the Commission of Exhibit 19 or -- actually it has
4 not been truly sponsored by a witness.

5 MR. BRUCE: I have no problems with it,
6 Mr. Examiner.

7 EXAMINER MORROW: Are you through?

8 MR. STOVALL: I'm through with the
9 witness.

10 MR. KELLAHIN: Have you admitted all
11 your ^{Exhibits} witnesses? It will be Exhibits 18 and 19, we
12 move that they be admitted at this time.

13 EXAMINER MORROW: Okay we admit 18 and
14 19 at this time.

15 And Mr. Bruce now wants to recall one of
16 his witnesses.

17 (Exhibits 18 and 19 were
18 admitted into evidence.)

19 MR. BRUCE: I would like to recall
20 Mr. Thoma.

21 JOHN L. THOMA,
22 was recalled as a witness and, having been
23 previously duly sworn, was examined and testified as
24 follows:
25

EXAMINATION

1
2 BY MR. BRUCE:

3 Q. And Mr. Thoma, I'll ask you one
4 question. Could you address the importance of
5 structure and its effects on water production in the
6 Wolfcamp?

7 A. Yes. I'll make this very brief. I
8 think it's worth taking a moment to look at this.

9 MR. KELLAHIN: Speak up John, so she can
10 hear you.

11 A. I'm sorry. I believe that you can
12 segregate the producing reservoirs in this field.
13 You can say that you can't, but the fact of the
14 matter is, I've done it.

15 If you look at the structure map which is
16 on top of the AF carbonate, the same structural
17 inclination dips and has no features that Fred has
18 shown on his structure map. And you look at -- you
19 take the Exhibit 6, of Hanley Petroleum, and you
20 post the water producing, or water cuts, on the
21 wells and then look to each one of these isopaks and
22 look at where the water is structurally occurring on
23 -- in each one of these zones in the AG zone,
24 which is the zone productive in the 8 Number 1.
25 We're at a zero water cut.

1 Look at the West Corbin Number 12, and
2 the West Corbin Number 18. The 18 has a two percent
3 water cut; the 12 has a 15 percent water cut. Look
4 where we are structurally. The 8 Number 1 is 71,
5 minus 7179. The 12 is minus 7257. The 18 is minus
6 7246.

7 We are roughly 61 feet down dip at the 18
8 and we're producing essentially water free. The
9 location that we've proposed is 21 feet down dip
10 from the 8 Number 1. Look at the AF zone. Zero
11 water cut in the AF, and our well untested
12 obviously.

13 Go down dip and again we're looking now
14 at structures immediately on top of this carbonate.
15 Go down dip into the 12 and you've got a 15 percent
16 oil cut. And on the AF you are 61 feet down dip.

17 If you look at the AE, you've got two
18 wells producing, the West Corbin 12, and the West
19 Corbin 11. The West Corbin 11 is also open in the
20 AC which I do not have an isopak of. But on the
21 structure map the West Corbin 11 is at 7299, 200
22 feet down dip from the 8-1. And it's producing a
23 5 percent water cut.

24 If you look at the structure map,
25 Mr. Examiner, the high water cuts are coming in down

1 here at 7270, 7309, 7343, and over here in 16
2 they're fairly high, where you're down below the
3 7000 contour.

4 So I would contend, based on this
5 mapping, that your water encroachment is not a
6 problem anywhere in basically the north half of 17,
7 the north half of 18, the entire Section 8 and
8 Section 7. And from in the north. That's all I
9 wanted to point out.

10 EXAMINER MORROW: Mr. Kellahin, do you
11 have any questions of Mr. Thoma concerning his
12 testimony?

13 MR. KELLAHIN: No.

14 EXAMINER MORROW: Mr. Bruce, anything
15 further?

16 MR. BRUCE: Just one final thing,
17 Mr. Thoma. Santa Fe is drilling a well in
18 Section 5, is it on that acreage officially.

19 THE WITNESS: No, we don't. I believe
20 that if Hanley Petroleum honestly wanted to build a
21 block out here, they could have built a block.
22 Section 5, which -- this acreage here was acquired
23 from ^{Oxy}Oxi Petroleum within the last six months. The
24 acreage was available, if you were doing your home
25 work.

1 MR. BRUCE: Thank you, Mr. Thoma.

2 THE WITNESS: Thank you

3 EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Mr. Thoma, do you know what Hanley bid
6 for the balance of the acreage in the north half of
7 the 8, when it came up for public sale against your
8 company?

9 A. No, I don't, Mr. Kellahin.

10 Q. When you look at your Well Number 12,
11 isn't that well producing out of all the zones in
12 the Wolfcamp and wouldn't that mask the presence or
13 contribution of water to any of those zones?

14 A. No, it wouldn't. Because it's producing
15 from the AG, the AF, and the AE. If there was water
16 production from any one of those zones, you would
17 see it. The other wells on the map that Hanley has
18 presented, they've lumped all the zones together and
19 where they're wet, you see the water.

20 Q. I'm confused your position Mr. Thoma.
21 This morning you told me that water was not a
22 problem insofar locating Wolfcamp wells in
23 Section 8?

24 A. I don't believe that water is a problem
25 in this reservoir, period. I still belief that the

1 water we're seeing down dip is not water
2 encroachment from a water log but it's a matter of
3 the reservoir depleting, the oil depleting from the
4 reservoir and increased friction and developments of
5 conate water being produced.

6 EXAMINER MORROW: Excuse me. We can
7 continue this if you'd like to. I believe you've
8 made your point to us, you don't believe this
9 structure or that water production has anything to
10 do with structure. And the other side has made
11 their point that they think it does.

12 And if you want to dwell on it some more,
13 we'll stay so long as you want to. But I think we
14 understand each side's position.

15 Q. (By Mr. Kellahin) And that was my last
16 question to you, Mr. Thoma. You and Mr. Huck have a
17 total disagreement about water in the Wolfcamp?

18 A. Yeah, we do. But I think that this
19 data, the data I've provided on this montage,
20 demonstrates that there is not going to be a water
21 problem in Section 8 and structure will not be a
22 factor.

23 MR. KELLAHIN: I understand your
24 position. Thank you.

25 EXAMINER MORROW: Anything more in this

1 case?

2 MR. KELLAHIN: No, sir.

3 MR. BRUCE: I have nothing further,
4 Mr. Examiner.

5 EXAMINER MORROW: The cases 10211 and
6 10219 will be taken under advisement.

7 And we did have one more thing we needed
8 to say on the record concerning Case 10241. It
9 needs to be --

10 MR. STOVALL: Yes, in the hearing
11 yesterday we left that case open because we weren't
12 sure, we thought it maybe had to be continued for
13 one more hearing, and that is correct. That case
14 for an advertising purpose needs to be continued to
15 the next -- the first of March.

16 EXAMINER MORROW: Adjourned.

17 (The hearing was adjourned at 4:42 p.m.)
18
19
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21
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23
24
25

1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF SANTA FE)
 3
 4

5 REPORTER'S CERTIFICATE

6 I, GAIL D. VINSON, CCR, a Certified Court
 7 Reporter and Notary Public, DO HEREBY CERTIFY that I
 8 stenographically reported these proceedings before
 9 the Oil Conservation Division; that the foregoing is
 10 a true, complete and accurate transcript of the
 11 proceedings of said hearing so taken and transcribed
 12 under my personal supervision.

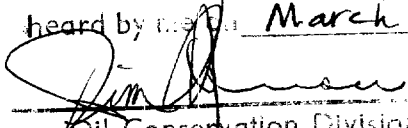
13 I FURTHER CERTIFY that I am not related to
 14 nor employed by any of the parties hereto, and have
 15 no interest in the outcome hereof.

16 DATED at Santa Fe this 24th day of April,
 17 1991.

18 

GAIL D. VINSON, CCR
 Certified Court Reporter
 CCR 297, Notary Public

20 My commission expires:
 5/14/94

21
 22 I do hereby certify that I am
 23 a certified court reporter and
 24 the Executive Secretary of the Oil Conservation Division, 10211 + 10219
 heard by me on March 8, 1991
 25  , Examiner
 Oil Conservation Division

Corrections To Transcript
 Shown in Pencil.