

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF PG&E RESOURCES)
COMPANY)

CASE NO. 10,883

JAN 14 1994

ORIGINALREPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

December 16, 1993

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on Thursday, December 16, 1993, at
Morgan Hall, State Land Office Building, 310 Old Santa Fe
Trail, Santa Fe, New Mexico, before Steven T. Brenner,
Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

December 16, 1993
Examiner Hearing
CASE NO. 10,883

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3
4
5
6
7
8 EXAMINER MORROW: We'll call the hearing to order
9 in Docket Number 36-93 and call Case 10,883.

10 MR. STOVALL: Application of PG&E Resources
11 Company for a unit agreement, Sandoval County, New Mexico.

12 EXAMINER MORROW: Call for appearances.

13 MR. KELLAHIN: Mr. Examiner, my name is Tom
14 Kellahin with the Santa Fe law firm of Kellahin and
15 Kellahin. I'm appearing on behalf of the Applicant in this
16 case.

17 With your permission, Mr. Examiner, I would like
18 to make a statement with regards to the second case so that
19 Mr. Barton, the executive of that company, might be excused
20 from the hearing. With your permission, I would like to
21 dismiss that case, if I may, sir.

22 May we call that so I can --

23 MR. STOVALL: Let's -- Do you want to go ahead
24 and call that? Okay.

25 EXAMINER MORROW: Call Case 10,884, and call for

1 appearances.

2 MR. STOVALL: Application of Gecko, Inc., for an
3 unorthodox oil well location, Lea County, New Mexico.

4 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
5 the Santa Fe law firm of Kellahin and Kellahin, appearing
6 on behalf of the Applicant in that case.

7 Mr. Barton, would you stand, sir? Mr. Barton is
8 the chief executive officer -- thank you -- for that
9 company, and he is the Applicant in this case.

10 Through an inadvertent error, Gecko commenced
11 that well at an unorthodox location.

12 Prior to having the hearing before you today, Mr.
13 Barton received word this morning about one o'clock that it
14 is dry in the Strawn, and therefore I see no reason to
15 proceed with approval of an unorthodox location for a
16 location in a reservoir that cannot be productive, and
17 therefore we would request your permission to dismiss this
18 case.

19 EXAMINER MORROW: Robert?

20 MR. STOVALL: Do you know if they have any intent
21 to use that wellbore for any other formation?

22 MR. KELLAHIN: Mr. Stovall, my understanding is,
23 there's the possibility to re-enter this well at a later
24 date and sidetrack it.

25 We believe that if sidetracking occurs in the

1 wellbore, it will move to the opposite direction of the
2 spacing unit, towards parties that have not been notified
3 in this case.

4 It would be an intentional sidetracking or
5 deviation that may require different action by you under
6 different rules of the Division, and so I see no advantage
7 to the Applicant in terms of expediting a decision by
8 maintaining this case on the records.

9 EXAMINER MORROW: Will you plug the well? Is
10 that the plan, is to plug and abandon the well, or
11 partially plug it, or what is it?

12 MR. KELLAHIN: I think there's a partial plugging
13 process where they can temporarily abandon the well in a
14 temporarily plugged position so that it can be utilized for
15 sidetrack later.

16 EXAMINER MORROW: Do you know if they contacted
17 the District Office concerning their plugging plans?

18 MR. KELLAHIN: We have not yet -- Just received
19 notice this morning that the people in the field have been
20 unsuccessful in their effort, and obviously that's the next
21 course of action, is to deal with the District OCD and
22 determine an appropriate plugging procedure for this well.

23 MR. STOVALL: Mr. Examiner, I think dismissal is
24 probably appropriate in this case, but I think it needs to
25 be understood that this wellbore won't be used for any

1 purpose until -- without prior approval from the Division.

2 MR. KELLAHIN: That's our understanding and I
3 believe Mr. Barton's intent.

4 EXAMINER MORROW: Would be to get approval before
5 conducting any other operations --

6 MR. KELLAHIN: Yes, sir.

7 EXAMINER MORROW: -- except for plugging?

8 MR. KELLAHIN: And Mr. Barton assures me that
9 would have been the original position he had been in, but
10 through inadvertence they misunderstood the well-location
11 requirements of the Casey Strawn Pool. It is slightly
12 unorthodox. If you remember, Casey Strawn requires wells
13 to be located within 150 feet of the center of a 40. This
14 one is, I think, 470, and so it is slightly unorthodox, by
15 about 70 feet, I guess.

16 EXAMINER MORROW: Case 10,884 will be dismissed.
17 And we'll call Case 10,883 again.

18 MR. STOVALL: Mr. Kellahin, you've already
19 entered your appearance in this case, I believe?

20 MR. KELLAHIN: Yes, sir. I have two witnesses to
21 be sworn.

22 MR. STOVALL: Is there anybody else appearing
23 here on the PG&E Resources unit-agreement case?

24 EXAMINER MORROW: Witnesses please stand to be
25 sworn.

1 JERRY R. ANDERSON,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Would you please state your name and occupation?

7 A. My name is Jerry R. Anderson. I'm a district
8 landman for PG&E Resources in Dallas, Texas.

9 Q. Mr. Anderson, on prior occasions have you
10 testified as a petroleum landman before the Oil
11 Conservation Division?

12 A. Not this one, no.

13 Q. All right, sir. Summarize for us your experience
14 as a petroleum landman.

15 A. I graduated from West Texas State University in
16 1964 with a BBA degree.

17 I went to work for J.M. Huber Corporation in
18 Amarillo, Texas, and later moved to Denver. I stayed with
19 them for approximately ten years, and then I have worked
20 for other companies in the land department, and my
21 experience covers 29 years in --

22 Q. What is your current position with PG&E?

23 A. I'm a district landman for Utah and New Mexico.

24 Q. Do your current responsibilities include the land
25 title matters with regards to what we've identified as the

1 Hatch Lake Unit area of Sandoval County, New Mexico?

2 A. Yes, it does.

3 Q. Are you familiar with the agreements that have
4 been proposed to the various interest owners for the
5 formation of this unit?

6 A. Yes, I am.

7 Q. And do you have available to you the tabulation
8 of the interest owners by tract that in your opinion would
9 participate in that production?

10 A. Yes, I do.

11 Q. And have you caused, or individuals under your
12 control with your company, caused the appropriate documents
13 to be filed with the various regulatory agencies for which
14 this unit is subject to approval?

15 A. Yes, I have.

16 MR. KELLAHIN: We tender Mr. Anderson as an
17 expert petroleum landman.

18 EXAMINER MORROW: We accept his qualifications.

19 Q. (By Mr. Kellahin) Mr. Anderson, to orient the
20 Examiner, let me ask you, sir, to unfold Exhibit Number 1.
21 Describe for us what is shown on Exhibit Number 1.

22 A. These are the tracts in the proposed Hatch Lake
23 Unit area. They're broken out and numbered, and the
24 Exhibit B that's attached with this identifies the owners
25 of those tracts, and it stipulates whether they're fee,

1 federal or state lands.

2 Q. Approximate for us the total number of acres that
3 is to be included in the unit.

4 A. Approximately 24,852.84 acres.

5 Q. Is there a legend on Exhibit Number 1 that shows
6 the percentage of allocation of that acreage between
7 federal, state and patented or fee lands?

8 A. Yes, over on the right-hand side.

9 Q. The tract numbers for the tracts within the unit
10 area are identified by those numbers contained within the
11 circles?

12 A. Yes.

13 Q. And each tract number, then, identifies a
14 different and separate lease?

15 A. Yes, it does.

16 Q. And when we look at Exhibit Number 2, sir, would
17 you identify and describe that for us?

18 A. This is the schedule that sets out the ownership
19 of those tracts and their approximate location.

20 Q. To the best of your knowledge, information and
21 belief, is that Exhibit B -- as well as it's marked as
22 Exhibit 2 for the purposes of this hearing -- is it true
23 and accurate?

24 A. Yes, it is.

25 Q. Describe for us what the current status is of

1 your efforts and efforts of others on behalf of your
2 company to consolidate the interest owners on a voluntary
3 basis for this exploratory unit.

4 A. We currently got approximately 80 percent
5 approval of the unit. The other 20 percent is basically
6 the unleased fee. Everyone in the unit has been sent
7 joiners, with the opportunity to join, and we've attempted
8 to lease all of the unopen fee, and we're still attempting
9 to lease that property as of this date.

10 Q. Give us a short chronology of events. The
11 proposed operator is PG&E -- is it Resources Company?

12 A. Yes, it is.

13 Q. That is the proposed operator for the unit?

14 A. Yes.

15 Q. What is your position within the unit in terms of
16 acreage? Do you have an approximation of what your
17 percentage control is?

18 A. I'm not sure exactly because we've been leasing
19 some additional property out there, but it's greater than
20 50 percent, I'm sure, of the other working interest owners.

21 Q. Are there any other major percentage working
22 interest owners within the unit area?

23 A. MW Petroleum Corporation is the second largest
24 working interest owners.

25 Q. MW --

1 A. -- being Apache.

2 Q. That's Apache?

3 A. Yes.

4 Q. We would know it by Apache, I think?

5 A. It is Apache.

6 Q. All right. What is the status of your efforts to
7 get Apache to participate within the unit concept on a
8 voluntary basis?

9 A. They have signed the unit agreement and have
10 agreed to participate, with PG&E as operator.

11 Q. All right. Do you have an opinion as a petroleum
12 landman at this point in time whether or not you believe
13 that you as operator will have effective and efficient
14 control over the unit area pursuant to a voluntary unit
15 agreement?

16 A. Yes.

17 Q. Let's turn now to the regulatory aspects of the
18 process. Let me ask you to identify and describe for us
19 what is marked as Exhibit Number 3.

20 A. This is a letter from the BLM approving our unit
21 as to form. And this was presented, the Application, on
22 November 4th.

23 Q. As part of that approval process, has your
24 company submitted to the Bureau of Land Management the
25 appropriate documentation, including the technical

1 information by which they could make a depth and area
2 review for purposes of this unit?

3 A. Yes, we have.

4 Q. And that has been accomplished, and you now have
5 their letter of approval?

6 A. Yes, we do.

7 Q. What is the status of your efforts to get the fee
8 owners committed to the unit in some fashion on a voluntary
9 basis?

10 A. I don't know the answer to that. All I know is
11 -- right now, as to the leasing of those property -- those
12 fee owners, then we have approximately 61 percent of the
13 fee owners under lease.

14 Q. All right. And you're continuing, then, to
15 attempt to obtain leases or other agreements from any
16 unleased fee mineral owner?

17 A. Yes, we are.

18 Q. For those fee tracts upon which there is a lease,
19 do those leases contain sufficient provisions that the
20 lessee may commit that lease interest to a unit?

21 A. Yes.

22 Q. Let's turn now to Exhibit number 4. Would you
23 identify Exhibit Number 4 for us?

24 A. Exhibit Number 4 is the Rocky Mountain Unit
25 Agreement that was submitted to the BLM.

1 Q. As part of the approval process, has the Bureau
2 of Land Management given approval for this unit form, plus
3 whatever amendments you have proposed to the BLM?

4 A. Yes, they have.

5 Q. Let's turn now to Exhibit Number 5, Mr. Anderson.
6 Identify and describe for us what Unit 5 [sic] is.

7 A. That's the unit operating agreement that was a
8 part of the unit agreement.

9 Q. What kind of form was utilized by your company
10 for purposes of a unit operating agreement?

11 A. It's the Rocky Mountain Unit Operating Agreement.
12 It's been approved by the BLM. It's been submitted so...

13 Q. In order to participate in the unit, if
14 production is obtained, will that production be shared
15 within the unit on a divided or on an undivided basis?

16 A. It will be on an undivided unit basis.

17 Q. I may not have made my question clear to you.
18 Will there be participating areas within the
19 unit?

20 A. Yes, within the unit there will be participating
21 areas, but the unit itself will be an undivided-type
22 federal unit.

23 Q. Okay. There's a mechanism within the unit
24 agreement, though, that once discovery is obtained and you
25 go through the necessary justifications, the BLM can

1 certify or approve participating areas for sharing
2 production on that basis?

3 A. Yes, they can.

4 Q. Do you have an opinion, sir, as to whether the
5 unit operation as proposed by your company, will provide an
6 opportunity for the parties to receive their fair and
7 equitable share of the recoverable oil and gas underlying
8 the lands that are proposed for the unit area?

9 A. Yes.

10 Q. And what is that opinion?

11 A. That they will get their fair share.

12 Q. At this point, do you believe that you have now,
13 or will before you commence your unit well, have sufficient
14 control of percentages of interest owners that you will
15 provide for the orderly and uniform development of the
16 area, and thereby avoid wasteful drilling and competitive
17 practices?

18 A. Yes, I believe we will.

19 Q. What is your recommendation to the Examiner with
20 regards to the unit?

21 A. That it be approved.

22 MR. KELLAHIN: That concludes my examination of
23 Mr. Anderson.

24 We would move the introduction of his Exhibits 1
25 through 5.

1 EXAMINER MORROW: Exhibits 1 through 5 are
2 admitted.

3 EXAMINATION

4 BY EXAMINER MORROW:

5 Q. Mr. Anderson, what approximate percentage is the
6 working interest that you said could be called Apache, or
7 some other name, I believe? Do you know what their percent
8 of the working interest is?

9 A. I don't know exactly, but I'm saying it's
10 somewhere between 35 and 40 percent, if I just guess.

11 Q. Is this Exhibit Number 4 the same unit agreement
12 form which was submitted prior to the hearing?

13 MR. KELLAHIN: Yes, sir.

14 Q. (By Examiner Morrow) The BLM, you said, would
15 approve participating areas.

16 Would any other interest owners have input into
17 the approval of participating areas? I'm sure they would,
18 but what would their --

19 A. Yes, they would.

20 Q. -- what would their input be?

21 A. Well, if you have the people that signed the unit
22 agreement and unit operating agreements and you designate a
23 participating area, they have the right to join into the
24 drilling of that well, or you could go nonconsent under the
25 operating agreement.

1 Q. Okay. If they are in the participating --

2 A. Yes.

3 Q. -- what you've designated as the participating
4 area; is that correct? --

5 A. Yes, correct.

6 Q. -- and if they're outside it, they wouldn't have
7 any --

8 A. No.

9 Q. -- vote on that; is that correct?

10 MR. STOVALL: Mr. Examiner, I'd like to follow up
11 on that.

12 MR. KELLAHIN: I think you got an answer to a
13 different question.

14 EXAMINER MORROW: Oh, I did?

15 MR. KELLAHIN: Yes, sir. My understanding is,
16 there will be a process for discussing the participating
17 area. In other words, the operator will --

18 MR. STOVALL: Mr. Kellahin --

19 MR. KELLAHIN: -- nominate a participating area.

20 MR. STOVALL: -- I'd like to ask you a favor.

21 MR. KELLAHIN: Okay.

22 MR. STOVALL: I'd like to make sure the witness
23 understands and can explain the process to us. He will
24 probably be the person responsible for --

25 THE WITNESS: We need --

1 MR. STOVALL: I think you and I know what you're
2 about to say, but can you explain --

3 THE WITNESS: Are you talking --

4 MR. STOVALL: -- I think we're going the drill
5 block to --

6 THE WITNESS: Yes.

7 MR. STOVALL: If you'd like to take him through
8 that, that would probably be helpful.

9 MR. KELLAHIN: All right, sir.

10 THE WITNESS: Are you talking about the
11 operators' meeting prior to any drilling operations?

12 MR. STOVALL: Well, I think what the Examiner is
13 concerned about is, you have drill blocks that share costs,
14 then you set up participating areas on a commercial well.

15 And I think if we --

16 THE WITNESS: Correct.

17 MR. STOVALL: -- if -- Mr. Kellahin, maybe if you
18 would walk him through the questions --

19 MR. KELLAHIN: Sure.

20 MR. STOVALL: -- I would just as soon have you do
21 it as me.

22 FURTHER EXAMINATION

23 BY MR. KELLAHIN:

24 Q. All right. Let's go to the participating area
25 concept.

1 A. Yes.

2 Q. Let's assume you have your discovery well and now
3 have information from your geologists and engineers that
4 the operator of the unit wants to designate a participating
5 area, okay?

6 A. Yes.

7 Q. You do that, you notify the other working
8 interest owners within the unit, you submit that to the
9 Bureau of Land Management for approval.

10 The question is, will those other interest owners
11 have an opportunity to affect or have input into what the
12 configuration is for that participating area?

13 A. Yes.

14 Q. The -- Once the participating area is designated,
15 if an individual well is drilled within the participating
16 area to expand it or to further develop it, there will be a
17 drill block on a spacing unit basis, 320, 640, whatever it
18 is.

19 Within that spacing unit or drill block, is there
20 a mechanism in the agreements whereby parties can elect to
21 participate or not on an individual well to be drilled?

22 A. Yes, there is.

23 EXAMINATION

24 BY MR. STOVALL:

25 Q. Follow up on that, that a drill block, as Mr.

1 Kellahin has described it, being a spacing unit of such, is
2 not necessarily what will ultimately be the participating
3 area; is that correct?

4 A. That's correct.

5 Q. The participating area could be enlarged or
6 reduced?

7 A. Yes.

8 EXAMINATION

9 BY EXAMINER MORROW:

10 Q. Well, when you designate a drill block and decide
11 to propose a well there, do those owners then elect whether
12 or not they will participate in that well, or do they wait
13 until you have completed the well and designated a
14 participating --

15 A. No, it's prior.

16 Q. Prior?

17 A. Prior.

18 Q. Prior, and possibly after too, I guess, if you
19 change?

20 A. Possibly.

21 FURTHER EXAMINATION

22 BY MR. STOVALL:

23 Q. Yeah. In other words, you'd readjust the costs
24 if you establish a participating area, and it's not a drill
25 block?

1 A. If the drill block changes, yes.

2 Q. How will you treat non- -- unleashed interests in
3 that? What is your intent as far as --

4 A. I don't think you can force them to do anything
5 out there. They're an unleashed nonparticipating party.

6 Q. So if you drill on a drill block that would
7 include some unleashed acreage within it, I assume you'd
8 treat that on a spacing-unit basis?

9 A. Well, I would try not to include any unleashed
10 acreage in my drill blocks.

11 FURTHER EXAMINATION

12 BY EXAMINER MORROW:

13 Q. Would unleashed acreage -- Would the unit
14 agreement and the unit operating agreement affect the
15 rights of any unleashed acreage within the unit area? Would
16 they still have the right to drill a well on their acreage,
17 should they want to --

18 A. Yes, they can.

19 Q. -- develop it?

20 Okay.

21 FURTHER EXAMINATION

22 BY MR. STOVALL:

23 Q. Let me follow up on mine a little bit.

24 It looks like particularly in the southern
25 portion of your unit, you've got some pretty carved-up

1 pieces there; is that correct?

2 A. Yes, sir.

3 Q. Now, this is -- is this in the -- What is it?
4 Regina area? Is that where the unit is, as far as
5 communities?

6 A. I think it's between Cuba and Regina.

7 Q. Okay. Recognize that if you're going to do some
8 development down there in the south half, you may --
9 southern portion of the unit, you may have trouble avoiding
10 unleased areas; is that correct?

11 As I look at this map and kind of look at the
12 unleased tracts mixed in with leased tracts, that is a
13 potential problem, is it not?

14 A. Possibly.

15 Q. Are you aware that you could conceivably form a
16 spacing unit and use the force-pooling statutes to
17 incorporate them into a spacing unit drill block, which
18 could not be further -- Yeah, then you'd have to deal with
19 how to deal with the unit participation.

20 A. Yes, I'm aware of that. I just really don't want
21 to do that if I don't have to.

22 Q. Well, I don't blame you. I don't know if you can
23 avoid it, is my only concern, in this part of the unit, as
24 chopped up as it is.

25 A. But I am aware of the force pooling.

1 MR. STOVALL: Okay.

2 Mr. Kellahin, just for your information, we have
3 received a letter here -- I don't know if you've seen it or
4 not -- from a Mr. Herndon.

5 MR. KELLAHIN: I have not seen the letter.

6 MR. STOVALL: I'll provide you with copies of it.
7 For what it's worth, it expresses opposition to
8 the unit.

9 Of course -- Is Mr. Herndon here, by any chance?

10 Inasmuch as he's not here, I don't know that this
11 constitutes an entry of appearances or just a statement of
12 objection. I think my inclination is a statement of
13 objection to the unit.

14 I'm only giving it to you for your information,
15 not for any response of any kind.

16 MR. KELLAHIN: Thank you.

17 FURTHER EXAMINATION

18 BY EXAMINER MORROW:

19 Q. I might ask if you've received any other
20 correspondence of a similar nature. This all we've gotten,
21 but have you had opposition from other fee owners in the
22 unit area?

23 A. I have not received anything --

24 Q. Okay.

25 A. -- myself. This is the first thing I've

1 received.

2 Q. Any other questions or anything else you would
3 like to say?

4 A. No, sir.

5 EXAMINER MORROW: Mr. Anderson may be excused.

6 THE WITNESS: Thank you.

7 MR. KELLAHIN: Call at this time Mr. John
8 Wingert, petroleum geologist.

9 JOHN R. WINGERT,

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

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Wingert, would you please state your name and
15 occupation?

16 A. My name is John Wingert and I'm a geologist.

17 Q. Mr. Wingert, on prior occasions have you
18 testified before this Division as a geologist?

19 A. Not in front of this Division, no.

20 Q. Summarize for us your education.

21 A. I have a bachelor's and master's degree from the
22 University of Iowa, 1956 and 1958, a total of 35 years of
23 industry experience, 19 of that with Chevron, the balance
24 either consulting or with small independents, most recently
25 five years with PG&E Resources.

1 Q. You'll have to keep your voice up for me. The
2 microphone doesn't amplify your voice; it just assists the
3 court reporter, so it doesn't amplify.

4 A. Sorry.

5 Q. Is this Hatch Lake prospect one that you have
6 been personally involved in?

7 A. Yes, it is.

8 Q. How long and how much effort have you spent on
9 this project, sir?

10 A. -- that's been generated over the past couple of
11 years.

12 Q. And at this point, have you reached conclusions
13 and formed opinions with regards to the feasibility
14 geologically of this unit idea?

15 A. Yes, I have.

16 MR. KELLAHIN: We tender Mr. Wingert as an expert
17 petroleum geologist.

18 EXAMINER MORROW: We accept Mr. Wingert's
19 qualifications.

20 Q. (By Mr. Kellahin) Let me ask you, sir, to unfold
21 what is marked as Exhibit Number 6.

22 Some of Mr. Wingert's displays are rather large.
23 This first one is, I think, manageable. We have some
24 cross-sections that are pretty good size.

25 MR. STOVALL: Unmanageable? Is that the

1 implication?

2 MR. KELLAHIN: Well, they'll take some effort.

3 EXAMINER MORROW: If you like, we could hold one
4 up here and --

5 MR. STOVALL: Yeah, just -- Off the record.

6 (Off the record)

7 Q. (By Mr. Kellahin) Help us understand where we
8 are. Let's use Exhibit Number 6 for that purpose, Mr.
9 Wingert.

10 A. Exhibit Number 6 is a 1-to-4000 scale map showing
11 the -- index map, showing the approximate location of the
12 proposed Hatch Lake Unit area and its relationship to other
13 fields in the area.

14 The project involves -- The main objective in
15 this project is to drill for a fractured Niobrara member of
16 the Mancos shale. And as you know, the -- The unit outline
17 here is shown with the red outline. It's on trend with the
18 Rio Puerco field which produces out of fractured Mancos.

19 MR. STOVALL: Let me just do one thing for the
20 record here. The copy you're using does have a red, but
21 ours is a photocopy which is not red, but it's a dashed
22 line?

23 THE WITNESS: Uh-huh.

24 MR. STOVALL: Okay.

25 THE WITNESS: Rio Puerco field now produces out

1 of the fractured Mancos. Wells there, cumulative
2 production ranges from a few thousand to over 100,000
3 barrels per well.

4 It currently is being developed in horizontal
5 drilling. The three principal operators, Bright, Energy
6 Development and Sam Gary, Jr., is currently drilling in a
7 similar -- roughly a 25,000-acre unit as well.

8 This is along trend with the west Puerto Chiquito
9 field, which has a long production history. It likewise
10 produces out of the fractured Niobrara member of the
11 Mancos.

12 And there are a number of wells. It covers a
13 very large area, and there are a number of wells in that
14 vicinity. I'll show you examples of the zone that we would
15 be drilling for in both these field areas, and I'll start
16 with Exhibit A-A'.

17 EXAMINER MORROW: Before you go on to that, I am
18 not oriented as to where your unit area is in relation to
19 your cross-section here.

20 THE WITNESS: All right, the unit area is --
21 falls between the towns of Cuba and Regina, as pointed out
22 earlier.

23 Cross-section A-A' will be in the Rio Puerco
24 field area.

25 Cross-Section B-B' will start north of the unit

1 area and extend up into the main portion of Rio -- Puerto
2 Chiquito West field. There are no Niobrara tests within
3 the proposed Hatch Lake unit area.

4 There are only two wells that have been drilled.
5 They're both in Section 10, essentially side by side, one
6 roughly 2350 feet and the other one 3109 feet. So they do
7 not penetrate the objective. There are no tests, therefore
8 the cross-section is not in the Lindrith proposed unit
9 area.

10 EXAMINER MORROW: All right, I just saw your
11 label there. That is the unit area. I hadn't seen that
12 before. So go ahead.

13 THE WITNESS: The cross-section A-A' --

14 MR. STOVALL: Can you hold on just a second and
15 let us get unfolded here?

16 THE WITNESS: -- shows the zone that has been
17 completed in the Rio Puerco field area, and it consists of
18 a sandy dolomite member of the Mancos, and in that area the
19 section is a few hundred feet thick, 500 to 700 feet thick,
20 and this cross-section is intended to show the productive
21 interval.

22 We would anticipate drilling through the same
23 member of the Mancos, looking for similar fracture
24 production.

25 MR. KELLAHIN: Jerry, give me a hand with this

1 other one, would you, please?

2 MR. STOVALL: Mr. Kellahin, would it be useful
3 for us to have the colored copy when you're through?

4 MR. KELLAHIN: Yes, we'll trade you.

5 MR. STOVALL: Okay.

6 MR. KELLAHIN: Grab the end of this cross-section
7 so that John can walk down.

8 Q. (By Mr. Kellahin) All right, sir. Let me direct
9 your attention, now, sir, to what has been marked as
10 Exhibit Number --

11 A. -- 7.

12 Q. -- 7.

13 A. This is cross-section B-B', and it shows the same
14 Niobrara member --

15 Q. No, this should be Exhibit 8.

16 EXAMINER MORROW: 8?

17 MR. KELLAHIN: 8. B-B' is 8.

18 MR. STOVALL: Just a second, we'll -- You may
19 have to speak real loud when we go to the other end of the
20 exhibits now.

21 THE WITNESS: This, likewise, is highlighted in
22 the productive interval. It also is a fractured Mancos
23 section, and in this area, the principal productive zone
24 tends to be a little more dolomitic, less sandy, as in Rio
25 Puerco field.

1 The total interval is generally 350 to 400 feet
2 thick, and this represents the principal objective in
3 Puerto Chiquito West field and likewise is the objective
4 zone in the proposed Hatch Lake Unit.

5 The better productive interval in the main part
6 of Puerto Chiquito West is exhibited on a few of the wells
7 on the north end of the cross-section or the right-side.
8 And you'll note that the productive interval is in a very
9 small third zone, sometimes referred to as the C zone.

10 And there are some extremely high cumulative
11 production rates, an example being in the Benson-Greer
12 11-E-10, which has a cumulative production of 2.5 million
13 barrels of oil and 4.4 BCF of gas.

14 We anticipate that in our area, we would see a
15 section similar to but somewhat intermediate between what
16 you saw in the Rio Puerco field area and in the west Puerto
17 Chiquito field area.

18 EXAMINER MORROW: Did you say that single well
19 produced that?

20 THE WITNESS: Yes, that's cumulative production
21 on that well.

22 There are several wells in that area that have
23 produced in the hundreds of thousands of barrels, and of
24 course there's a whole range below that.

25 MR. STOVALL: Is the red the perforated interval?

1 Is that what the --

2 THE WITNESS: Yes, in each one of these where it
3 was perforated it is shown in red.

4 Q. (By Mr. Kellahin) If you'll return to the stand,
5 we'll put this one down and display the last exhibit there.

6 A. The final Exhibit is Exhibit Number 9, which is a
7 time structure map on the Niobrara. It's on a 1-to-2000
8 scale, and the contours on here are in 10-millisecond
9 contour intervals. It's mapped on seismic data control.
10 It's showing what the seismic lines represent on this map.

11 This is in a very unique geologic setting in that
12 we are on the south -- or the eastern flank of the San Juan
13 Basin, and as you know, the basin began to develop with the
14 Laramide deformation in the late Cretaceous, and the flanks
15 of the basin are characterized by the development of
16 monoclines and cross-plunging folds in the early Tertiary.

17 Following that, the east side of the basin and on
18 the eastern edge of this prospect area, the Nacimiento
19 uplift developed in conjunction with the development of the
20 Rio Grande Rift.

21 That deformation continued into the late Tertiary
22 time, resulting in the development of the Nacimiento fault,
23 which is a key parameter in this prospect area in that the
24 eastern margin of the proposed unit outline is the surface
25 trace of the Nacimiento fault where we see maximum

1 displacement of the fault and latest deformation which
2 should enhance the fracturing in the areas.

3 Likewise, the northern boundary of the area is
4 approximately adjacent to the point where the Nacimiento
5 fault turns off to the northeast and passes into the north-
6 plunging folds and into other individual faults.

7 The west margin of the proposed unit area is
8 defined by a subtler basinward monoclinal feature that
9 likewise is prospective and is also -- coincides with the
10 boundary of the Jicarilla Apache Indian Reservation. There
11 is no drilling in the reservation in the adjacent area to
12 the west.

13 The southern boundary of the unit is at the -- is
14 represented by the monoclinal feature that is represented
15 here with the closest-spaced contours, which with increased
16 time indicate increased depth.

17 And in this case, in addition to the monoclinal
18 feature, which was overridden by this much later faulting,
19 there is a well-defined surface expression of a cross-
20 plunging fold.

21 So what we've got here is a continuous develop-
22 ment of structure, the development of fractures with the
23 earliest monoclinal flank position, the development of the
24 cross-plunging folds, and subsequently the latest faulting,
25 which we think has given it a unique combination of early

1 structural development, early fracture development,
2 continuity through time, with the development of open
3 fractures.

4 The proximity to the rift is where there is a
5 higher temperature gradient that should enhance any
6 generation of oil in the general region.

7 And in addition to this, this has always been a
8 structurally high area, so any migration out of the basin
9 would have been enhanced and continued through time in this
10 area.

11 The mapping in here shows a series of flexures
12 and potential closures, but this is not a play based on
13 closures. There is not an accumulation that will be
14 related just to a trap by an anticlinal feature; it's the
15 development of the fractures that specifically are related
16 to this various sequence of folding that was just
17 described, and they will probably result in long linear
18 trends as opposed to circular trends in any kind of a
19 closure.

20 Q. Let me ask you this, sir: What is your geologic
21 plan for the location and exploration, then, for the
22 initial well and any alternative location for that initial
23 well?

24 A. The initial well is proposed to be in the Section
25 4, near the southern end of the unit outline, which would

1 be drilled on the -- in a position to evaluate both the
2 fracture and associated monoclinal folding in the cross-
3 plunging fold and any assistance gotten from the latest
4 thrust-faulting.

5 In the event we can't put together a satisfactory
6 leasehold blocking area because of minor interests, we do
7 have an alternate location, which we consider to be equally
8 prospective.

9 In this case, we're looking at about a 5000-foot
10 depth here, and it would be roughly a 7000-foot depth, and
11 it's because the -- these fracture trends that we're
12 looking for, and not individual features that we're
13 prospecting for. We're just trying to maximize the initial
14 locations on those so that we can identify them next time.

15 We are proposing drilling vertical straight holes
16 initially. Subsequently, we may get into horizontal
17 drilling with the development once we determine the
18 productive potential.

19 Because of the linear trends that we've
20 anticipated, as are indicated in both the Rio Puerco and
21 West Puerto Chiquito fields, we would anticipate that any
22 productive, hence participating, areas would overlap a
23 number of leases.

24 Therefore, we feel that a unit is necessary to
25 properly exploit this in development, as opposed to an

1 individual lease drilling situation.

2 Q. Are you satisfied, Mr. Wingert, that there's a
3 logical geologic or geophysical basis to justify the
4 boundaries of the unit?

5 A. Yes, I am.

6 Q. And in your opinion, will unit operations provide
7 the most effective and efficient means by which to explore
8 for and then further develop any hydrocarbons within that
9 unit area?

10 A. Yes, I do.

11 Q. Is that method of operation preferable to
12 competitive leasehold development in the Niobrara?

13 A. Absolutely, because of the nature of the play.

14 MR. KELLAHIN: That concludes my examination of
15 Mr. Wingert.

16 We move the introduction of his exhibits -- I've
17 lost track of the numbers.

18 MR. STOVALL: Through 9.

19 MR. KELLAHIN: I'm sorry?

20 MR. STOVALL: I think it's through 9, I believe.

21 MR. KELLAHIN: I believe so.

22 EXAMINER MORROW: Okay.

23 MR. STOVALL: Through 9.

24 EXAMINER MORROW: Exhibits through 9 are admitted
25 into the record.

EXAMINATION

BY EXAMINER MORROW:

Q. Explain for me again, sir, what the contour lines represent and help me relate that to something that I'm more familiar with, like depth.

A. Okay, the contour lines are structure-mapped on time data derived from the seismic lines that are shown on this map.

This is all the seismic data we had available, so the mapping is based on that available data. And they represent picked time, with the shallowest time being the shallowest depth, and generally an increase in depth from south to north.

EXAMINATION

BY MR. STOVALL:

Q. Let me ask -- Perhaps it might help. You referred earlier to the Gary-Williams and -- the other -- or Sam Gary and Veteran Energy Development prospect down -- It looks like it's -- what? About eight or ten miles to the southwest; is that correct?

A. That's correct.

Q. Now, are you familiar with -- I assume you are familiar with that project?

A. Yes, I am.

Q. My recollection -- and I think the Examiner was

1 actually involved in the early days of the development of
2 that unit, and a lot of their effort, particularly the
3 horizontal wells, was to come across the fold down there
4 where they saw the maximum fracture; is that correct? Is
5 that your understanding?

6 A. That's correct. It's -- Their play is mainly
7 based on fracturing in the monoclinal flexure, yes, on the
8 margin of the basin.

9 Q. Is -- Now, it appears to me that kind of the
10 structure you've identified is similar and, because of the
11 geographic location, it appears to me that you might have
12 that steep monocline and then the flattening out going down
13 into their area; is that correct? I mean, are we looking
14 at a similar structure?

15 A. It's a similar situation, but not going down into
16 their area. It wouldn't be -- We're quite a ways north.

17 The monoclinal feature that rims the basin -- but
18 not with continuous connected fracturing, mind you -- but
19 rimming the basin is approximately an extension over
20 towards our area, but this is different in that it's
21 overridden by this thrust fault on the east side.

22 So we've got a situation where we had that kind
23 of fracturing developed earlier, and that's certainly
24 prospective.

25 In addition, we have this well-defined surface

1 nose that crosses that.

2 And in addition to that, we have this latest
3 structure faulting that overrode the monocline and, we
4 feel, is going to enhance the fracture potential in this
5 entire area.

6 Q. And you go further north, you get up into the
7 West Puerto Chiquito and East Puerto Chiquito, you kind of
8 have another similar thing where you have the steep
9 monocline, and then it kind of folds and flattens out; is
10 that correct?

11 A. It does. However, the principal production in
12 West Puerto Chiquito field is characterized by fractures in
13 both the anticlinal highs as well as the synclinal lows, so
14 it's the folding that makes the -- that results in fracture
15 potential.

16 And as you know, West Puerto Chiquito field and
17 East Puerto Chiquito field are separated, even though
18 they're on similar type folds.

19 So we don't anticipate that there's continuity
20 throughout the entire region, but a similar type prospect.

21 But we have a unique situation here of being in
22 greater proximity to this maximum overthrust in the
23 Nacimiento uplift area.

24 Q. The Nacimiento is how far above the Mancos
25 Niobrara? Is that --

1 A. The Nacimientos? On the handout there you'll see
2 some estimated tops. Nacimientos is very near the surface
3 in the southern part of the field. San Jose is at the
4 surface. I think roughly 500 feet you get into the
5 Nacimientos formation.

6 MR. KELLAHIN: Mr. Examiner, we didn't mark this
7 as an exhibit. It's simply a reference handout. You're
8 certainly welcome to have that.

9 MR. STOVALL: Why don't we go ahead and mark it,
10 if you don't mind, Tom, just because it's easier to refer
11 to?

12 MR. KELLAHIN: I will mark for the record, Mr.
13 Examiner, as Exhibit 10, Mr. Wingert's written geologic
14 summary of his exhibits.

15 EXAMINER MORROW: Okay, we accept Exhibit 10 for
16 the record.

17 Q. (By Mr. Stovall) I guess -- I mean, the reason
18 why I question -- I'm not a geologist, but I like to
19 pretend once in a while.

20 When you're looking at the Nacimientos surface
21 activity there, I mean, that's basically what you've used,
22 is surface features to identify that faulting and thrust;
23 is that correct?

24 A. In part of the surface -- Oh, yes, for the --

25 Q. Over on the east side?

1 A. Yes, because it's a very -- It's eroded down deep
2 enough to expose the fault and the Paleozoics overriding --
3 and Precambrian -- overriding the younger sediments.

4 Q. And I guess what I'm saying is that they are
5 close enough that you can relate that down to the Niobrara,
6 then, is what I'm hearing you say?

7 A. Yes, yes.

8 EXAMINATION

9 BY EXAMINER MORROW:

10 Q. What about the Mancos east of there? Is it just
11 gone or --

12 A. Well, there's a very large area in the Nacimiento
13 uplift area where all of the younger sediments have been
14 eroded off and Paleozoics and Precambrian are exposed, and
15 volcanics as well.

16 If you go far enough to the east, you do get back
17 into that situation where --

18 Q. But immediately to the east it doesn't exist; is
19 that correct?

20 A. I'm sorry?

21 Q. Immediately to the east, the Mancos formation is
22 not present?

23 A. No, it's not.

24 Q. Okay.

25 A. It's not.

FURTHER EXAMINATION

BY MR. STOVALL:

Q. You don't have the -- have it coming to the surface, as you do further north?

A. There are some erosional remnants that are very high topographically. But basically, the eastern margin here is -- demarcation is by the presence of the Precambrian rocks.

FURTHER EXAMINATION

BY EXAMINER MORROW:

Q. What is the attractiveness of alternate location number 2 up there? Is it --

A. Well --

Q. It doesn't look like the same things occur there which would cause the faulting as do down here on the south.

A. Well, there is a -- On the north side, this is an area where we also see some enhancement with another surface expression of folding in that area, and we think it has similar characteristics, and it's an area where the lease situation is a little less difficult to put together.

FURTHER EXAMINATION

BY MR. STOVALL:

Q. Assume you were able to put together a block for location -- your primary location, location number 1. What

1 would be your development plan?

2 A. At this time we would anticipate that we'd be
3 drilling a straight hole here, and if productive we would
4 at that time have to determine whether we wanted to develop
5 it based on horizontal drilling or continue with straight-
6 hole drilling, which would result in the size of the drill
7 blocks and participating area that we might include at that
8 time.

9 So that's not determined at this point, but we
10 would anticipate development around that area, the
11 immediate area, initially.

12 But because we feel that the play is continuous
13 throughout the area, we would anticipate additional
14 exploratory wells within the unit to further define the
15 potential throughout the area at an early stage.

16 Q. If you develop that southern location number 1 in
17 that area, would you proceed in -- how long would it be
18 before you would proceed, say, to the north and go to your
19 location number 2 and go ahead and drill that as a block?

20 A. I don't have a precise time, but I would imagine
21 it would be within the first year of drilling.

22 Q. Because my concern is --

23 A. First one or two years we would be drilling the
24 north end as well.

25 Q. Okay. So you would anticipate exploring

1 throughout the unit fairly rapidly to determine the
2 productive potential of various parts of it?

3 A. Yes, we have a very large block of acreage here
4 that we want to see evaluated. We don't feel that we
5 totally evaluated with the initial tests, but anticipate
6 that we would be doing additional drilling to expedite the
7 evaluation of the entire unit area.

8 MR. KELLAHIN: Mr. Stovall, as an aside, unless
9 modified by the Bureau of Land Management, the obligation
10 on the operator is to drill a well every six months.

11 Q. (By Mr. Stovall) I was going to ask that
12 question. And then the next question was going to be, have
13 they put any obligation as far as drilling in different
14 parts of the -- I mean, are they asking you to do what I've
15 asked you if you're going to do?

16 A. Not specifically. That would be up to our
17 discretion to make that determination. We haven't made
18 that at this time.

19 EXAMINER MORROW: Anything else?

20 MR. STOVALL: That's all I've got.

21 FURTHER EXAMINATION

22 BY EXAMINER MORROW:

23 Q. Let's see, you show the two -- the primary
24 location and the alternate location, I believe, as to
25 quarter sections.

1 Have you staked them yet or defined exactly where
2 they're going to be, or --

3 A. No, we have not, and it's a good possibility that
4 the southern location will have to be moved into the
5 southwest quarter because of the leasing situation.

6 EXAMINER MORROW: Okay. I don't have any other
7 questions.

8 Mr. Wingert, you may be excused.

9 MR. KELLAHIN: That's our presentation, Mr.
10 Examiner.

11 EXAMINER MORROW: If there's nothing further,
12 Case 10,883 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 9:13 a.m.)

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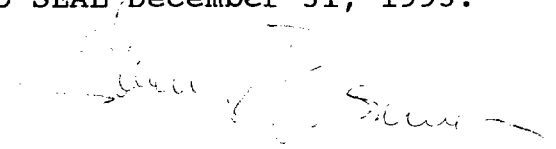
CERTIFICATE OF REPORTER

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I, Steven T. Brenner, Certified Court Reporter
and Notary Public, HEREBY CERTIFY that the foregoing
transcript of proceedings before the Oil Conservation
Division was reported by me; that I transcribed my notes;
and that the foregoing is a true and accurate record of the
proceedings.


I FURTHER CERTIFY that I am not a relative or
employee of any of the parties or attorneys involved in
this matter and that I have no personal interest in the
final disposition of this matter.

WITNESS MY HAND AND SEAL December 31, 1993.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10883,
heard by me on Dec 16 1993.


Jim Morrow, Examiner
Oil Conservation Division