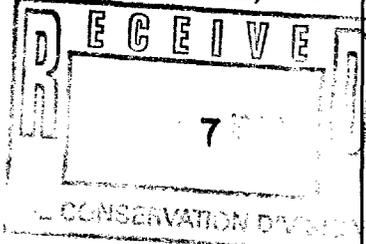


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF INTERCOAST OIL AND GAS)
COMPANY FOR APPROVAL OF A UNIT AGREEMENT)
AND AN UNORTHODOX WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

CASE NO. 11,614



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 3rd, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 3rd, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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October 3rd, 1996
 Examiner Hearing
 CASE NO. 11,614

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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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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:21 a.m.:

3 EXAMINER STOGNER: Call Case Number 11,614.

4 MR. CARROLL: Application of InterCoast Oil and
5 Gas Company for approval of a unit agreement and an
6 unorthodox well location, Lea County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan.

11 We represent InterCoast Oil and Gas Company, and
12 I have two witnesses.

13 EXAMINER STOGNER: Are there any other
14 appearances in this matter?

15 Will the witnesses please stand to be sworn at
16 this time?

17 (Thereupon, the witnesses were sworn.)

18 EXAMINER STOGNER: Mr. Carr?

19 DAVID R. DEFFENBAUGH,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

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

25 A. Yes, my name is David R. Deffenbaugh,

1 D-e-f-f-e-n-b-a-u-g-h.

2 Q. Mr. Deffenbaugh, where do you reside?

3 A. Tulsa, Oklahoma.

4 Q. By whom are you employed?

5 A. InterCoast Oil and Gas Company.

6 Q. And what is your position with InterCoast?

7 A. Senior landman.

8 Q. Have you previously testified before this
9 Division and had your credentials as a petroleum landman
10 accepted and made a matter of record?

11 A. I have.

12 Q. Are you familiar with the Application filed in
13 this case on behalf of InterCoast Oil and Gas Company?

14 A. Yes, I am.

15 Q. And are you familiar with the proposed Savage
16 Exploratory Unit?

17 A. Yes, I am.

18 Q. Now, Mr. Deffenbaugh, originally the name, when
19 you originally proposed this unit, was the McMillan
20 Exploratory Unit; is that right?

21 A. That's correct.

22 Q. And it has been changed to the Savage Exploratory
23 Unit?

24 A. That's correct.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER STOGNER: They are.

3 Q. (By Mr. Carr) Could you briefly summarize for
4 Mr. Stogner what it is that InterCoast seeks in this case?

5 A. Yes, we seek the approval of the Commission for
6 the creation of a voluntary exploratory unit containing
7 approximately 160 acres of 100-percent fee lands in Lea
8 County, New Mexico.

9 Q. Are you also seeking approval of an unorthodox
10 well location?

11 A. Right, we seek the approval of an unorthodox oil
12 well location for our proposed Savage 34-1, to be drilled
13 at a location 1275 feet from the north line and 2600 feet
14 from the east line in Unit B of said Section 34, that being
15 the northwest-northeast of Section 34.

16 Q. Have you prepared exhibits for presentation in
17 this case?

18 A. I have.

19 Q. Could you identify for Mr. Stogner what has been
20 marked as InterCoast Exhibit Number 1?

21 A. Yes, this is a voluntary unit agreement prepared
22 by myself, based on the API model form unit agreement for
23 the creation of this Savage Exploratory Unit.

24 Q. And what formations are to be unitized with this
25 unit agreement?

1 A. The Devonian formation only.

2 Q. Let's go to Exhibit Number 2. Can you identify
3 that?

4 A. Yes, this is a plat showing the Section 34
5 outlined in the asterisks, and then the pound signs show
6 the outline of our proposed 160-acre unit, being composed
7 of the east half of the northwest quarter and the west half
8 of the northeast quarter, to comprise 160 acres.

9 Q. And these two tracts are separate fee leases; is
10 that correct?

11 A. That is correct.

12 Q. Now, Mr. Deffenbaugh, we failed to put the well
13 spot on this exhibit. Can you identify approximately the
14 location of the proposed well that's involved in this case?

15 A. Yes, it is -- if you were to divide the west
16 half, northeast, into a north and south half, in other
17 words, the northwest-northeast and the southwest-northeast,
18 this location would be just in that southwest corner of
19 that plat.

20 Q. It's virtually -- almost in the center of the
21 proposed unit; is that right?

22 A. That's correct.

23 Q. All right. Let's go to Exhibit Number 3. Will
24 you identify that, please?

25 A. Yes, this is a breakout, essentially it's a

1 breakout of our -- This is the Exhibit A to the voluntary
2 unit agreement, and what this does is shows the tracts that
3 we ask to be included in our voluntary unit, and shows
4 their participation in the unit being 80 acres apiece, and
5 therefore 50-percent apiece, and then breaks down the
6 ownership of the working interest in the unit, then shows
7 all of the oil and gas leases that will be through approval
8 and commitment to this agreement, included in the Savage
9 Exploratory Unit.

10 Q. What percentage of the working interest has been
11 committed to this unit agreement?

12 A. One hundred percent, as you can see by looking at
13 the voluntary agreement, is signed in joinder to this unit.

14 Q. And what is the current status of the commitment
15 of royalty to the proposed unit plan?

16 A. Well, as to royalty owners, based on what we have
17 in hand committed and verbal commitments, we have 50-
18 percent-plus.

19 Because of some recent acquisitions that have
20 been made out here, we have a pending title opinion and we
21 have some parties that have not yet been -- granted us
22 approval.

23 But we believe that we will have 100 percent, and
24 all parties with the right will have the right to -- and
25 the opportunity to participate in this voluntary unit

1 agreement.

2 Q. And you will seek a royalty commitment from all
3 royalty owners within the unit area as soon as the title
4 opinion is --

5 A. Absolutely.

6 Q. And this percentage of commitment of the working
7 interest and the royalty interest will give you effective
8 control of unit operations in the Devonian formation?

9 A. Yes, it will.

10 Q. Does InterCoast desire to be designated operator
11 of the unit?

12 A. Yes, we do.

13 Q. Will InterCoast also be calling a geological
14 witness to review that portion of this case?

15 A. Yes, we will.

16 Q. Were Exhibits 1 through 3 prepared by you or
17 compiled at your direction?

18 A. Yes.

19 MR. CARR: At this time, Mr. Stogner, we would
20 move the admission into evidence of InterCoast Exhibits 1
21 through 3.

22 EXAMINER STOGNER: Exhibits 1 through 3 will be
23 admitted at this time.

24 MR. CARR: And that concludes my direct
25 examination of Mr. Deffenbaugh.

EXAMINATION

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BY EXAMINER STOGNER:

Q. In referring to Exhibit Number 3, you're talking about the pending title opinion?

A. Yes, sir.

Q. Now, under the oil and gas leases committed, this represents about a 50 percent, you said?

A. Fifty-percent-plus. It's probably -- We have some verbal commitments and some already committed in writing.

What we will do with regards to commitment from royalty owners is, upon the successful approval of this by the NMOCD, we will then file of record this agreement and then ask for ratification or joinder to this agreement by ratification from all the royalty interest owners.

Q. Have you identified the other 50-minus percent?

A. Oh, absolutely. We know who they are through -- We just don't have that definitively down on a title opinion.

Q. Well, I'm concerned about the unorthodox location, because this is 40-acre spacing. If somebody doesn't -- either can't be found, not notified, or whatever the case may be, then how is this going to protect their interest? If you're moving against somebody and they don't join and they're outside the unit but yet they're draining

1 off their acres?

2 A. Essentially, you know, we believe -- and I
3 believe you'll see this from the geologic exhibits that are
4 following, that this is the most and possibly the only way
5 to get to the high point of this reservoir that we're
6 identifying, and the most equitable sharing of those rights
7 comes from the combination of these two tracts.

8 We would commit that, and we fully believe that
9 we will obtain acceptance to this agreement from 100
10 percent of the working interest -- or excuse me, the
11 royalty interest owners.

12 MR. CARR: Mr. Stogner, we are simply waiting on
13 a title opinion that we have been promised by the end of
14 this week.

15 We will go forward immediately with the royalty
16 interest commitment and can advise you when that is
17 received. We do believe we will have it all.

18 EXAMINER STOGNER: I'll suspend asking any
19 further questions at this point until we hear from the
20 geological witness, and then perhaps ask Mr. Carr your
21 opinion on either continuing this case until such time as
22 everybody has had a chance to be notified and identified in
23 this matter, but let's go ahead and conclude --

24 MR. CARR: Okay.

25 EXAMINER STOGNER: -- with this witness at this

1 time and hear your geological evidence.

2 MR. CARR: At this time we would call Mark Scott.

3 MARK S. SCOTT,

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

6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q. State your name for the record, please.

9 A. Mark Steven Scott.

10 Q. And where do you reside?

11 A. Garland, Texas.

12 Q. By whom are you employed?

13 A. InterCoast Oil and Gas Company.

14 Q. And what is your current position with InterCoast
15 Oil and Gas?

16 A. I'm the exploration manager.

17 Q. And what is the exploration manager?

18 A. I supervise the budget that InterCoast has for
19 exploratory wells to be drilled.

20 Q. And what is your professional training by
21 education?

22 A. I graduated from the South Dakota School of Mines
23 and Technology in Rapid City, South Dakota, in 1972 with a
24 BS in geological engineering.

25 Q. Have you previously testified before this

1 Division?

2 A. No, I have not.

3 Q. Since receiving your bachelor of science in
4 geological engineering, for whom have you worked?

5 A. Immediately after graduation, I started with
6 Texaco Oil and Gas out of New Orleans, Louisiana, working
7 the offshore as an exploration and development geologist.

8 After about three and a half years with Texaco, I
9 went to work as a reservoir engineer for Northern Natural
10 Gas in Omaha, Nebraska. And in 1976 I moved to Dallas and
11 have been with about five companies, and I'm on my own in
12 Dallas since 1976 as an exploration geologist.

13 Q. Are you familiar with the Application filed in
14 this case on behalf of InterCoast?

15 A. Yes, I am.

16 Q. Have you made a geological study of the area
17 surrounding the proposed Savage Unit?

18 A. Yes, I have.

19 MR. CARR: Mr. Stogner, we would tender Mr. Scott
20 as an expert witness in petroleum geology.

21 EXAMINER STOGNER: Mr. Scott is so qualified.

22 Q. (By Mr. Carr) Now, Mr. Scott, we're unitizing in
23 this case only the Devonian formation; is that correct?

24 A. That is correct.

25 Q. That is the only objective in the well?

1 A. Yes.

2 Q. Is this portion of the Devonian included within
3 any existing oil or gas pool?

4 A. No.

5 Q. It's a wildcat well?

6 A. Yes.

7 Q. Let's go to what has been marked InterCoast
8 Exhibit Number 4. Could you identify this exhibit and
9 review it for the Examiner, please?

10 A. The exhibit before you is a bubble map.
11 Basically it's just a plat map for your orientation of the
12 prospect that we want to drill. We call that prospect the
13 Chrysler 34B prospect, and that's located on the southeast
14 corner of the map that you're looking at.

15 The map shows the location of the prospect being
16 due east of the Denton field and south and east of the
17 King, Bronco, Bronco West and Gladiola South fields,
18 located to the north.

19 The bubble map, for your information, has the
20 size of the reserves produced, and it's a color-coordinated
21 map showing the reserves from the formations being produced
22 in the area. The most immediate area that the Devonian has
23 been produced, it shows here, is the Denton field due west.
24 Within the immediate area of the map to the prospect only
25 the Wolfcamp has produced, and then there is a Wolfcamp

1 well which is not been colored on this map, with Section
2 34, the section that we want to drill, which is located in
3 Township 14 South, Range 38 East.

4 Q. If we look at the area identified as the Savage
5 prospect down in the lower right-hand corner of the
6 exhibit, that is a prospect area; that boundary does not
7 come inside with the unit boundary; is that correct?

8 A. That is correct.

9 Q. There are 80 additional acres on the west side of
10 the prospect area that have not been proposed for inclusion
11 in --

12 A. And there was a typo error or a drafting error
13 here, just inclusion of that 80 acres.

14 Q. Let's go to Exhibit Number 5. Will you identify
15 and review that for Mr. Stogner, please?

16 A. This is a subsea structure map on a scale of 1 to
17 1000. The contouring you see here is on a scale of one
18 inch -- of 100 feet.

19 The base map information there shows that within
20 Section 34 of 14 South, 38 East, it shows our proposed
21 location centered basically within that 160-acre unit,
22 which is outlined on this map, for our proposed unit.

23 The two wells, one of which is located due --
24 northwest of the proposed location, is the Aviara, which
25 was drilled by Columbia Gas, the 34-1 McMillan well. That

1 well had a TD of 11,900 feet and did not reach the
2 Devonian.

3 And then east northeast of the proposed location
4 is the Greathouse, Pierce and Davis Number 1 Barnes, which
5 was drilled to 13,036 feet and did penetrate the Devonian
6 but was a dryhole. And the subsea top for the Devonian
7 there is 9218.

8 The other thing we note here is that this well is
9 used as our type log just for the stratigraphic information
10 to our prospect.

11 The geological information contained in the map
12 has an orientated north-south fault to the west of the
13 proposed location, which is down-to-the-west fault or an
14 up-to-the-east to our -- and there are locations to the
15 east of that.

16 And then immediately to the east of the proposed
17 location is another fault tying in on the back side of the
18 down-the-west fault that runs north-south, and that fault
19 is also a down-to-the-northeast, with an upside on the
20 proposed location side, which then shows that we have a
21 horst block in which we want to drill, controlled by these
22 faults.

23 This interpretation here was based upon the
24 subsea information and geological subsurface -- geological
25 information, and also tied in with a 3-D seismic survey

1 that was conducted over the area.

2 Q. This exhibit also shows the proposed unorthodox
3 well location, does it not?

4 A. Correct.

5 Q. And what is that location?

6 A. That location is 1275 from the north line and
7 2600 feet from the east line of Section 34.

8 Q. In your opinion, is this the best possible
9 structural position for the development of the Devonian
10 formation within the unit?

11 A. Yes.

12 Q. And in your opinion, is this a structure that can
13 probably be fully developed with one well?

14 A. Yes.

15 Q. Let's go to Exhibit Number 6. Will you identify
16 that for the Examiner?

17 A. This is a type log, and I've identified it as the
18 Greathouse, Pierce and Davis Number 1 Barnes well that was
19 drilled in the northeast of Section 34. This is outside
20 our proposed unit, and it's strictly used as a reference
21 for the stratigraphy we believe that we're going to see
22 within our proposed unit in the drilling of our well, the
23 34-1 Savage well.

24 We see that we had -- on this particular section,
25 starting at 9000 feet going down to 13,000 feet, had a

1 section of Wolfcamp, the Pennsylvanian, of the upper
2 Mississippian, Mississippian limestone, the Woodford shale,
3 and going into the Silurian-Devonian Section. That's our
4 objective section.

5 Q. Can you summarize the conclusions you've been
6 able to reach from your geologic study of this area?

7 A. What we see is that in our combined seismic and
8 subsurface evaluation of the data, that the best location
9 is at our proposed location. We see that many of these
10 structures in this area are horst-block oriented features
11 that are productive features that we would like to explore
12 for, and that we have identified this on our mapping, and
13 this is what we want to drill.

14 We feel that this location we've chosen optimizes
15 that structural feature that we want to drill in this horst
16 block, and it keeps us in a safe position away from the
17 faulting, to keep us into a well that we feel will give us
18 the best optimal drainage position for the reservoir.

19 Q. Mr. Scott, in your opinion will approval of this
20 Application and the drilling of this well be in the best
21 interest of conservation, the prevention of waste and the
22 protection of correlative rights?

23 A. Yes, that's exactly why we have proposed this
24 well.

25 Q. Were Exhibits 4 through 6 either prepared by you

1 or compiled at your direction?

2 A. Yes.

3 MR. CARR: Mr. Stogner, at this time we would
4 move the admission into evidence of InterCoast Exhibits 4
5 through 6.

6 EXAMINER STOGNER: Exhibits 4 through 6 will be
7 admitted into evidence.

8 MR. CARR: And that concludes my direct
9 examination of Mr. Scott.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. Scott, in referring to Exhibit Number 5, the
13 Columbia Gas Development Number 34-1 --

14 A. Yes.

15 Q. -- I'm sorry, I guess that's the McMillan 34
16 Number 1 well --

17 A. Yes.

18 Q. -- that is shown as a black dot in Unit C, that's
19 the northeast of the northwest quarter. What's the
20 background on that well? Did it penetrate the Devonian
21 or --

22 A. No, it did not, it only got into the upper
23 Mississippian. It was perforated and completed in the
24 Wolfcamp section, and it's currently producing in the
25 Wolfcamp.

1 Q. Now, the fault which is shown here, is that just
2 conducive to the Devonian, or does that also come up and
3 take in some of the higher Pennsylvanian and Mississippian
4 formations?

5 A. Yes, the fault comes up through the Pennsylvanian
6 section.

7 Q. Did that particular Columbia well that I referred
8 to, did that help establish the existence of that fault?

9 A. Yes, it does, because what it shows, the
10 relationship between the Greathouse well to the east, the
11 Number 1 Barnes, is that it was in a lower, thicker
12 structural position -- not -- stratigraphically thicker and
13 in a lower structure position to the Greathouse well. They
14 were running low, and that's why they stopped the well.

15 And so they were -- at the TD of the well,
16 they're basically on the downthrown side of that fault.

17 Q. Okay. Now, in your Exhibit Number 4, you show
18 other Siluro-Devonian production up to the north and back
19 to the west, but your map doesn't extend down to the south.
20 What is some of the closest Devonian production to this
21 area to the south?

22 A. The closest that I know of is Denton South field,
23 which is basically due south of Denton field.

24 Q. It's more of an extension to that Denton, isn't
25 it?

1 A. In the fault-extension orientation, not a
2 structural extension to the field. It's along the same
3 fault trend that the Denton field was established on. It's
4 on the high side of the up- -- horst block side of the
5 fault.

6 Q. What essentially is our -- Is this a marine
7 sediment, an environment?

8 A. The geology of the Siluro-Devonian, I believe, is
9 a marine sediment. It's a limestone which is basically --
10 it's a magnesium limestone. And the section is believed by
11 a lot of people to be exposed at one time, and it caused
12 karsting of this section.

13 But overall, the deposition of the Siluro-
14 Devonian is a marine section.

15 Q. So it's a highly permeable area?

16 A. The rocks themselves in the primary state
17 probably were not very permeable. In the dolomitization of
18 the section into limestone, I'm sure it caused -- it's
19 typical of dolomitic limestone. You get secondary porosity
20 developed. We ranged the porosities of 6 to 14 percent,
21 generally, within the section. You get various types of
22 porosities, you can get vugular porosities, fracture
23 porosities, and primary porosities, just intercrystalline
24 porosity.

25 We feel that in the prospect that we want to

1 drill, the horsting of this block adds to the fracture
2 porosity, which is what we're hoping to get in addition to
3 the vugular porosity, and there are intercrystalline
4 porosities that exist in the formation.

5 But permeabilities range between zero and 300
6 millidarcies. So we want to rely upon -- hopefully get to
7 that fracture porosity.

8 Q. What type of completion mechanism or stimulation
9 will be necessary or usually is taken into account on these
10 Devonian completions?

11 A. On the completion side, what we're leaning toward
12 is just a top -- going to the top of the formation and do
13 basically an open-hole type or just a very topset type of
14 completion.

15 We feel that there's a water bottom drive, that
16 you have a water drive mechanism that will drive anything
17 to our wellbore at the structural position that we want to
18 drill here, and it would be the best optimal location for
19 drainage purposes because of that.

20 So we don't think that we're going to need to --
21 some people have gone into and drilled the entire section
22 and made a complete -- you know, thinking that they have
23 maybe different porosity zones within the carbonate section
24 itself, and some people have tested with and tried ideas as
25 far as drilling the full Devonian section and making

1 completions in the Devonian.

2 But we feel that we're -- with the type of
3 geology we're looking at here, that it would be best,
4 maybe, to just drill on the top of it and make a completion
5 through the top.

6 EXAMINER STOGNER: I have no other questions of
7 Mr. Scott at this time. You may be excused.

8 I'd like to recall your first witness, Mr. Carr.

9 MR. CARR: Mr. Deffenbaugh.

10 EXAMINER STOGNER: Yes.

11 DAVID R. DEFFENBAUGH (Recalled),

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

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Deffenbaugh --

17 A. Yes, sir.

18 Q. -- in reviewing this Exhibit Number 3, you show
19 that all -- 100 percent of the working interests have
20 joined this unit?

21 A. Yes, sir, that's correct.

22 Q. Okay. This essentially means that 100 percent of
23 the royalty interests have leased at one time or another to
24 one or more of these parties?

25 A. Yes, sir, that's correct.

1 Q. In this type of a unit agreement, should, for
2 instance, somebody that's outside -- and I'm assuming at
3 this time it's going to be a 40-acre proration unit --

4 A. Yes, sir.

5 Q. -- and their acreage is outside of that quarter-
6 quarter section, by virtue of this agreement, whether they
7 ratify or not, is their interest protected, or are they
8 part of the agreement through their working interest or
9 through their lease agreement?

10 A. Yes, sir, basically the oil and gas leases
11 provide that from the basis of pooling or from the
12 standpoint of pooling, we are not allowed to pool anything
13 larger than that is standardly approved by the regulatory
14 agency involved.

15 And therefore what we are doing -- and again
16 we've talked to a number of these people, and they are in
17 agreement -- what we will do is ask for their joinder, and
18 therefore their lease, by their approval, can then be
19 committed to this unit agreement.

20 I believe that truly this is the best way to do
21 this particular project.

22 Q. Let's say one of them does not ratify.

23 A. One of them from -- ?

24 Q. As a royalty interest standpoint --

25 A. Yes, sir.

1 Q. -- but they've already assigned a lease to one --
2 somebody other than you, say Brigham Oil and Gas, Limited,
3 Partnership. Because I don't ratify the unit, and I'm not
4 part of that 40-acre proration unit by virtue of my lease
5 with Brigham and their agreement in this package, are they
6 still a part of the unit?

7 A. No.

8 MR. CARROLL: So they wouldn't share in
9 production?

10 THE WITNESS: No, that's right.

11 EXAMINER STOGNER: Okay.

12 MR. CARR: Mr. Stogner --

13 EXAMINER STOGNER: Mr. Carr?

14 MR. CARR: -- if we went forward with this well
15 without the unit, we'd be on 40-acre development and we
16 would have given notice to the offsets. Those are the
17 other working interest owners, now, in the unit. So in
18 essence, the other working interest ownership is either
19 waived or at least joined in the unit effort.

20 As to a royalty interest owner, they have the
21 opportunity of committing their interest to the unit plan
22 or staying out. If they stay out, they are compensated on
23 a lease basis, whether it's the 40 with the well or on the
24 other tracts that will be unitized.

25 But I can tell you, we have encountered virtually

1 no resistance from royalty owners, especially those in the
2 tracts that we're still wrestling with the title on,
3 because one well, whether it's at standard location or at
4 the proposed unorthodox location, would virtually drain the
5 reservoir, structural position. I mean, leaving some attic
6 oil being the issue here.

7 But basically since, by signing the -- and
8 ratifying the agreement, these owners share in production
9 that otherwise wouldn't. We really have encountered no
10 opposition from anyone to date.

11 We hope to have the title opinion tomorrow, and
12 believe that within two weeks we could confirm the status
13 of it, if you desire.

14 But as it stands right now, each of these people
15 we're going to has a lease, a contractual arrangement with
16 one of the parties, the operators, who's already ratified.

17 If they have a complaint about the location, they
18 have two options. I mean, they can join and share in the
19 production, or they can lodge a complaint under their lease
20 contract back with the working interest owner.

21 We do think that, in fact, we're not going to
22 have any problem because by assigning this share.

23 EXAMINER STOGNER: My concern, of course, is the
24 notification portion for the unorthodox location. And --

25 MR. CARR: If we were on a 40-acre basis, we

1 would notify the operators, and those operators have
2 joined.

3 EXAMINER STOGNER: And that was essentially my
4 question to you, or seeking your opinion of --

5 MR. CARR: Right.

6 EXAMINER STOGNER: -- has notification been
7 satisfied pursuant to 1207 in our rules and regulations?

8 MR. CARR: As to the location --

9 EXAMINER STOGNER: For the type of location --

10 MR. CARR: We would need to -- Anyone required
11 under 1207 to be notified has been notified as to the
12 location.

13 All we're doing now is asking the royalty owners
14 in the offsetting tracts if they want to commit and share
15 in the unit production.

16 Q. (By Examiner Stogner) One final question of Mr.
17 Deffenbaugh. What is the time frame as far as drilling
18 this well?

19 A. We would like to see the well drilled as soon as
20 possible, in 1996. Certainly, I have a directive within
21 the company to have this thing released by October 29th.

22 Q. Okay, so that was my next question: When is the
23 rig availability for -- in this project?

24 A. Well, again, I can't speak to the rig
25 availability. We have had a pretty good record of getting

1 rigs pretty quickly.

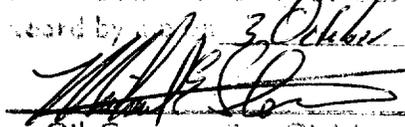
2 From my standpoint by saying releasing, I intend
3 to, from the land standpoint, have this project ready to
4 release to the engineering or the drilling engineers to go
5 ahead and begin the settling of damages and the contracting
6 of rigs, and it is our objective to drill this well during
7 1996. More than likely if I'm able to meet my October 29th
8 commitment, we would begin operations in November.

9 EXAMINER STOGNER: Okay. Thank you, Mr.
10 Deffenbaugh. You may be excused.

11 At this time, if nobody else has anything further
12 in 11,614, this case will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 8:55 a.m.)

15 * * *

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21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the hearing held on the 3rd of October 1996, in
24 Case No. 11614.
25

Examiner
Oil Conservation Division

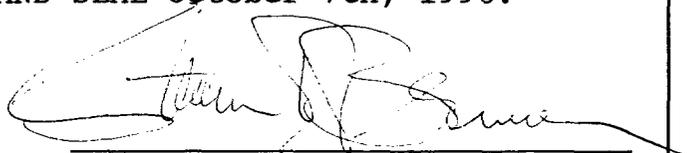
CERTIFICATE OF REPORTER

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

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 October 7th, 1996.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998