

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 BEACH EXPLORATION, INC.,) CASE NOS. 12,684
FOR STATUTORY UNITIZATION, EDDY COUNTY,)
NEW MEXICO)
)
APPLICATION OF BEACH EXPLORATION, INC.,) and 12,685
FOR APPROVAL OF A WATERFLOOD PROJECT)
AND TO QUALIFY THE PROJECT FOR THE)
RECOVERED OIL TAX RATE PURSUANT TO THE)
ENHANCED OIL RECOVERY ACT, EDDY COUNTY,)
NEW MEXICO)
) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 13th, 2001

Santa Fe, New Mexico

01 JUL 25 AM 7:47
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 13th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

July 13th, 2001
 Examiner Hearing
 CASE NOS. 12,684 and 12,685 (Consolidated)

	PAGE
EXHIBITS	3
APPEARANCES	4
APPLICANT'S WITNESSES:	
<u>ROBERT HINSON</u> (Landman)	
Direct Examination by Mr. Bruce	6
Examination by Mr. Bill Taylor	23
Examination by Examiner Catanach	34
Examination by Mr. Ezeanyim	40
Further Examination by Mr. Bill Taylor	42
<u>CHARLES BEACH</u> (Geologist)	
Direct Examination by Mr. Bruce	44
Examination by Examiner Catanach	48
Examination by Mr. Bill Taylor	53
<u>JACK M. ROSE</u> (Engineer)	
Direct Examination by Mr. Bruce	54
Examination by Mr. Bill Taylor	76
Examination by Examiner Catanach	85
REPORTER'S CERTIFICATE	95

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	94
Exhibit 2	9	94
Exhibit 3	9	94
Exhibit 4	11	94
Exhibit 5	11	94
Exhibit 6A	13	94
Exhibit 6B	13	94
Exhibit 7	13	94
Exhibit 8	15	94
Exhibit 9	22	94
Exhibit 10	20	94
Exhibit 11	22	94
Exhibit 12	22	94
Exhibit 13	45	48
Exhibit 14	45	48
Exhibit 15	46	48
Exhibit 16	46	48
Exhibit 17	46	48
Exhibit 18	55	76
Exhibit 19	56	76
Exhibit 20	58	76
Exhibit 21	59	76
Exhibit 22	60	76
Exhibit 23	62	76
Exhibit 24	64	76
Exhibit 25	65	76
Exhibit 26	66	76
Exhibit 27	67	76

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

A P P E A R A N C E S

FOR THE DIVISION:

DAVID BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
3304 Camino Lisa
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

ALSO PRESENT:

RICHARD EZEANYIM
Chief Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

BILL TAYLOR
HARVEY TAYLOR
Interest Owners
Carlsbad, New Mexico

* * *

1 WHEREUPON, the following proceedings were had at
2 10:12 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order, and at this time I will call Case 12,684, which is
5 the Application of Beach Exploration, Inc., for statutory
6 unitization, Eddy County, New Mexico.

7 I will call for appearances in this case.

8 MR. BRUCE: Mr. Examiner, James Bruce of Santa
9 Fe, representing the Applicant. I have three witnesses.

10 EXAMINER CATANACH: Call for additional
11 appearances?

12 MR. TAYLOR: Mr. Catanach, I'm Bill Taylor and
13 this is my son Harvey Taylor. We just have some questions
14 to ask of the witnesses and also questions concerning
15 exhibits.

16 EXAMINER CATANACH: Okay, Mr. Taylor, I assume
17 that you are an interest owner in this proposed unit?

18 MR. TAYLOR: Yes, sir, I think they will
19 acknowledge that.

20 EXAMINER CATANACH: Okay. Any additional
21 appearances?

22 Okay, will the three witnesses please stand to be
23 sworn in?

24 (Thereupon, the witnesses were sworn.)

25 MR. BRUCE: Mr. Examiner, before we begin I'd ask

1 that this case also be consolidated with the next case,
2 12,685.

3 EXAMINER CATANACH: At this time I'll call Case
4 12,685, the Application of Beach Exploration, Inc., for
5 approval of a waterflood project and to qualify the project
6 for the recovered oil tax rate pursuant to the Enhanced Oil
7 Recovery Act, Eddy County, New Mexico.

8 I assume, Mr. Taylor, you're also entering an
9 appearance in this case?

10 MR. TAYLOR: Yes, sir.

11 EXAMINER CATANACH: Okay. Are there any
12 additional appearances in either of these cases? Okay --

13 MR. TAYLOR: My son is here, sir --

14 EXAMINER CATANACH: Okay, Mr. --

15 MR. TAYLOR: -- he's also --

16 EXAMINER CATANACH: As so noted.

17 Okay, Mr. Bruce?

18 ROBERT HINSON,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of
24 residence?

25 A. My name is Robert Hinson, H-i-n-s-o-n, Midland,

1 Texas.

2 Q. Who do you work for and in what capacity?

3 A. I work for Beach Exploration as their vice
4 president of land.

5 Q. Have you previously testified before the
6 Division?

7 A. No.

8 Q. Would you please summarize your educational and
9 employment background for the Examiner?

10 A. I graduated from Texas Tech in 1977 with a BBA in
11 marketing. I've worked as a landman in Midland since 1977
12 to the present, starting with Freeport Oil Company, ARCO,
13 Hustelan Minerals, Felmont and most recently, for the last
14 12 years, Beach Exploration.

15 Q. Does your area of responsibility at Beach include
16 southeast New Mexico?

17 A. Yes.

18 Q. And are you familiar with the land matters
19 involved in these two cases?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I tender Mr. Hinson as
22 an expert petroleum landman.

23 EXAMINER CATANACH: Mr. Hinson is so qualified.

24 Q. (By Mr. Bruce) Mr. Hinson, would you summarize
25 what Beach seeks in these two cases?

1 A. Okay, in Case 12,684 Beach seeks to statutorily
2 unitize all interests in a portion of the Queen formation
3 underlying 1156.6 acres of federal and state land. In Case
4 12,685 Beach seeks approval of a waterflood project for the
5 unit and certification of the project for the Recovered Oil
6 Tax Rate.

7 Q. What is the proposed unitized and injection
8 interval?

9 A. The unitized interval is the Penrose section of
10 the Queen formation between the depths of 1708 feet and
11 1738 feet, as shown by the Schlumberger compensated neutron
12 lithodensity log dated 4-6-86 in the Exxon Federal Well
13 Number 14, located 1650 feet from the south line, 1650 feet
14 from the east line of Section 18, Township 16 South, Range
15 29 East, NMPM. The unitized formation includes all
16 subsurface points throughout the area correlative to these
17 depths.

18 Q. Would you identify Exhibit 1 for the Examiner and
19 describe its contents?

20 A. Exhibit 1 is a land plat which outlines the
21 proposed unit area and identifies the separate tracts which
22 comprise the unit area. Attached to the plat is a legal
23 description of the entire unit area. There are 12 tracts
24 in the unit. Beach operates all these tracts at the
25 present time. Most recently, we acquired an assignment

1 effective June 1st, 2001, on Tract 11, the M&W Federal
2 well.

3 Q. Okay, now that Tract 11, which is in the
4 southwest corner of the unit, that is the tract in which
5 Mr. Bill Taylor and Mr. Harvey Taylor own interest; is that
6 correct?

7 A. Yes.

8 Q. Okay. Would you please move on to your Exhibit 2
9 and identify it for the Examiner?

10 A. Exhibit 2 is the proposed unit agreement. The
11 unit agreement is a standard form mandated by the State
12 Land Office and similar to agreements approved previously
13 by the Division.

14 The unit agreement describes the unit area and
15 the unitized formation. The unitized substances include
16 all oil and gas produced from the unitized formation, the
17 designated unit operator is Beach Exploration.

18 Q. What is Exhibit 3?

19 A. Exhibit 3 is the proposed unit operating
20 agreement which sets forth the authorities and duties of
21 the unit operator, as well as the apportionment of expenses
22 between the working interest owners.

23 Q. Okay. Does this agreement provide for a penalty
24 against nonconsenting working interest owners?

25 A. Yes, Section 11.7 provides for a 200-percent

1 nonconsent penalty. Previously when this was submitted to
2 working interest owners and the Commission it had a 500-
3 percent nonconsent penalty, which was inadvertently
4 included because of a previous form that we had taken this
5 from.

6 Q. And it has since been amended to the statutory
7 maximum of 200 percent; is that correct?

8 A. In the agreements presented today as this Exhibit
9 3, yes.

10 Q. Okay, from a landman's standpoint is a 200-
11 percent penalty fair and reasonable?

12 A. Yes.

13 Q. Why is that?

14 A. Operating agreements in this area typically
15 provide for nonconsent penalties of 200 percent.

16 Q. Do some of them provide for penalties in excess
17 of 200 percent?

18 A. Yes.

19 Q. Now let's discuss the ownership of the tracts in
20 the unit area. Please describe the tracts and their
21 ownership and how you determine the working and royalty
22 interests in each tract.

23 A. The unit tracts are formed according to common
24 leasehold ownership. If we go back to Exhibit 2, which is
25 the unit agreement, and look at Exhibit B to the unit

1 agreement, you'll find a tract-by-tract listing of the
2 interest owners. The names and interests were obtained
3 from current Division orders or title opinions.

4 Q. Since this unit agreement was submitted to the
5 Division, has Exhibit B changed somewhat?

6 A. Yes, it's changed constantly as we've acquired
7 additional interests.

8 Q. And is Exhibit 4 simply a revised Exhibit B, up
9 to date?

10 A. Up to date, current, that's our current
11 ownership.

12 Q. Okay. How many interest owners are there in the
13 proposed unit area?

14 A. There are 32 working interest owners and 65
15 royalty or overriding royalty interest owners.

16 Q. Okay. Now, let's refer to your Exhibit 5. What
17 does that reflect?

18 A. Exhibit 5 lists all working interest owners in
19 the unit. The working interest owners that have not yet
20 ratified are noted in Exhibit 5, and they're detailed in
21 red on that exhibit.

22 Q. Does Exhibit 5 also contain all overriding
23 royalty owners?

24 A. Yes.

25 Q. And how are they -- The ones who have not

1 ratified, how are they designated?

2 A. I believe we listed one. They're in blue, that's
3 right.

4 Q. Okay, so on Exhibit 5, which is stamped on the
5 back, the overriding royalty owners who have not ratified
6 are in blue?

7 A. Yes.

8 Q. And the working interest owners who have not
9 ratified are in red?

10 A. That's correct.

11 Q. And so the persons shown on that status on
12 Exhibit 5 are the people that you seek to force into the
13 unit?

14 A. Yes.

15 Q. What is the total percentage of working interest
16 owners who have voluntarily ratified the unit to date?

17 A. Ninety-four percent of the working interest
18 owners have ratified the unit and the unit operating
19 agreement to date.

20 Q. Now, all of the royalty here is either federal or
21 state, correct?

22 A. Yes.

23 Q. Okay, including the federal and state royalty
24 plus the overriding royalty owners, what is that
25 ratification status percentage?

1 A. Okay, are you talking about -- The royalty
2 owners, including who you just mentioned, we have -- 96.5
3 percent of the royalty owners have ratified the unit to
4 date.

5 Q. Okay, and that would include the overriding
6 royalty owners?

7 A. Yes.

8 Q. Okay. So at this point you are in excess of the
9 75 percent of working interest and 75 percent of royalty
10 interest that's required under the statute for statutory
11 unitization?

12 A. Yes.

13 Q. Okay. What are Exhibits 6A and 6B?

14 A. That would be copies of the ratifications we've
15 received to date.

16 Q. Okay, 6A is the working interests, I believe, and
17 -- Is that correct, Mr. Hinson? 6A are the working
18 interests and --

19 A. Yes.

20 Q. -- 6B are the overriding royalty interests?

21 A. Yes.

22 Q. Okay. Has the Commissioner of Public Land
23 preliminarily approved unitization?

24 A. Yes, Exhibit 7 is a copy of the Commissioner's
25 letter of preliminary approval.

1 Q. What is the status of the Bureau of Land
2 Management's approval for unitization?

3 A. The status of BLM as we submitted this to them
4 November 8th, 2000, I believe, you know, we had some
5 questions to answer for the state concerning freshwater
6 concerns and changed a couple of times how the unitized
7 interval was described. It's my belief they were waiting
8 on settling some of these, and then they, of course,
9 received a carbon copy of the state's preliminary approval,
10 but we have not yet received in writing the BLM approval.

11 Q. But you have been in contact and you do
12 anticipate their preliminary approval --

13 A. Yes.

14 Q. -- shortly?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I'd request permission
17 to submit the BLM's letter of preliminary approval after
18 the hearing.

19 EXAMINER CATANACH: Do you have that, Mr. Bruce?

20 MR. BRUCE: I don't have it at this point.

21 EXAMINER CATANACH: Okay, you don't know when
22 it's going to be approved?

23 MR. BRUCE: No. I anticipate in a few days.
24 What Mr. Hinson was referring to -- and the engineer can
25 get into it -- most of the water for this waterflood is

1 going to be fresh water, and as you know, the Commissioner
2 of Public Lands does not favor freshwater injection, so we
3 had to go through several steps to satisfy the Commissioner
4 on that issue, which is why their approval came about just
5 a couple weeks ago, after about seven months, and the BLM
6 was waiting on the state to see if the state was satisfied.

7 EXAMINER CATANACH: Okay.

8 Q. (By Mr. Bruce) Now, Mr. Hinson, let's discuss
9 your efforts to obtain voluntary unitization among the
10 parties. Would you just briefly identify what Exhibit 8
11 contains?

12 A. Exhibit 8 contains copies of correspondence
13 regarding -- to soliciting their approval of the unit.

14 Q. Okay. Now, rather than going through the
15 correspondence page by page, let's start with Beach's
16 contacts over the years with the interest owners. When did
17 Beach first consider unitization of this pool?

18 A. This has been considered for quite some time.
19 Initially, probably as far back as 1993, we began
20 purchasing interest in the unit area that we did not
21 already own. Beach had drilled a number of the wells
22 themselves, and then we started in 1993 purchasing other
23 wells and working interest.

24 Q. Now, when was the formal unitization proposal
25 made to the working interest owners and overriding royalty

1 owners?

2 A. That would have been by a letter dated March
3 29th, 2001.

4 Q. And that was to the working interest owners?

5 A. Yes.

6 Q. And then March 30th was the letter to the
7 overriding royalty owners, correct?

8 A. I believe so, yes.

9 Q. Okay. And as to the two royalty owners, they
10 were first submitted the unitization plan in what?
11 November of 2000?

12 A. I'm sorry, as to who?

13 Q. The two royalty owners, the state and the federal
14 government.

15 A. Oh, yes, I believe it would have been November,
16 2000.

17 Q. But they were submitted requests for preliminary
18 approval --

19 A. Yes.

20 Q. -- about seven or eight months ago?

21 A. Yes.

22 Q. Okay. Now, you sent these documents out and
23 there was some subsequent correspondence. At this point,
24 other than the two Mr. Taylors, have you received any calls
25 or letters from interest owners in the unit expressing

1 interest or objection, one way or the other?

2 A. No.

3 Q. Okay. Other than the typographical error you
4 mentioned in the unit operating agreement, did any working
5 interest owner propose any changes to the unit operating
6 agreement?

7 A. No.

8 Q. Now, going back to what is referred to in
9 correspondence or on the land plat as the M&W Federal
10 tract, which is Tract 11, what have been your contacts with
11 the working interest owners or with the operator of that
12 particular tract?

13 A. That particular tract goes also back to 1993. I
14 show in June of 1993 we had made an offer to Hale Petroleum
15 who, at that time, was the operator of the well. And then
16 subsequent to that, in May of 1997, we made another offer
17 to Hale Petroleum trying to purchase that well.

18 Since that time, I believe my first contact with
19 H&S, who is the current operator of that well until we
20 purchased his interest, we contacted H&S March 30th of 2000
21 and made an offer to Herb Spencer, who was the primary
22 person at H&S. Since that time we've had numerous phone
23 calls and letters with Mr. Spencer. We've talked to him in
24 April of 2000, September of 2000, we sent him a follow-up
25 letter in June of 2000. September of 2000 was another

1 follow-up letter to him. All these follow-up letters were
2 again reinstating, you know, would you like to either
3 participate in our unit or sell.

4 October, 2000, we sent a letter to H&S that, you
5 know, still included a purchase offer. We also listed in
6 that letter what it would cost -- what we were anticipating
7 our unit installation cost to be, in case he wanted to
8 consider participating in the unit. I had phone
9 conversations with Mr. Spencer December of 2000. We sent a
10 letter January 4th, 2001, to all working interest owners in
11 the M&W Federal well. Prior to that we had been dealing
12 strictly with the operator.

13 Q. Did Mr. Spencer purport to represent all of his
14 working interest partners in that tract?

15 A. Yes. We did go ahead and send a letter to
16 everybody because we knew we were anticipating a unit
17 hearing and wanted to get the offer out in front of all the
18 working interest owners, even though he was representing
19 them.

20 Let's see. I have a letter of January 9th, 2000,
21 to Herb Spencer at H&S again, with another letter to all of
22 his working interest owners. March 29th, 2000, is when, as
23 I mentioned a minute ago, we sent out a letter to all unit
24 working interest owners, not just the M&W Federal tract
25 that we're discussing right now. That mailing included an

1 AFE cost breakdown, a copy of the actual unit agreement and
2 the unit operating agreement.

3 April, 2001, we received a letter from H&S. He
4 was waiting on replies from his working interest owners
5 that we had solicited to purchase this interest. We
6 followed that up with a letter to Mr. Spencer in April,
7 2001.

8 May, 2001, I had a phone conversation with Mr.
9 Spencer where he'd indicated an agreement to go ahead and
10 sell interest in the M&W Federal well. I followed that up
11 with a letter to him confirming what we believed the trade
12 to be, and at that time he'd indicated which of his working
13 interest owners were agreeable to sell, which at that time
14 I believe was about 75 percent of the interest. Since that
15 time, H&S provided us with a letter with all of his -- the
16 75-percent interest acceptance.

17 June 28, 2001, we sent a letter to Mr. Spencer
18 with an operating rights assignment to go ahead and
19 conclude the deal, and then July 6th, 2001, we sent him a
20 check to complete the trade. So it's gone on for a long
21 period of time.

22 Q. Okay. And with different operators, several
23 years at this point?

24 A. Right, initially with Hale and then following
25 that with H&S.

1 Q. At this point, what percentage of the working
2 interest in Tract 11 has Beach purchased?

3 A. I believe it's about 81 percent.

4 Q. Now, let's skip ahead for a minute, go to Exhibit
5 10, Mr. Hinson, rather than Exhibit 9. Are there any
6 interest owners in the unit who you just have not been able
7 to locate?

8 A. Yes, there is.

9 Q. And is Exhibit 10 an affidavit of notice giving
10 notice to these unlocatable interest owners of the
11 unitization hearing?

12 A. Yes.

13 Q. Now, it lists certain interest owners. I won't
14 have you read them into the record, but these are the
15 unlocatable interest owners at this point; is that correct?

16 A. Yes, I believe from the newspaper listing, since
17 we put that out we've identified at least one on that list,
18 maybe more --

19 Q. But what efforts did you make to locate the
20 people listed in Exhibit 10?

21 A. That also goes back as far as 1993 when we first
22 started trying to purchase interest in our proposed unit
23 area, so we corresponded with working interest owners back
24 to that date by letter and phone calls.

25 Several of the wells we purchased came to us with

1 already missing people on the pay sheets, and since that
2 time -- and that's what represents most of these missing
3 people -- since that time we followed that up with Internet
4 searches, this advertisement and the legal notice in the
5 Carlsbad paper. We sent out certified mailings, we tried
6 return-receipt-type situation to the working interest and
7 royalty owners on June 20th, 2001.

8 We've also sent letters and made phone calls to
9 some of the previous operators that we've purchased these
10 interests from, trying to chase down missing people as well
11 as letters and phone calls to friends and relatives, and as
12 a last resort we've tried all the oil purchasers and some
13 of their pay sheets, trying to find current addresses for
14 these people.

15 Q. Okay. In your opinion, has Beach made a good
16 faith effort to locate these persons listed on Exhibit 10?

17 A. Yes.

18 Q. And also in your opinion, has Beach made a good
19 faith effort to secure voluntary unitization?

20 A. Yes.

21 Q. Has written notice of the unitization hearing
22 been given to all parties who did not voluntarily join in
23 the unit?

24 A. Yes, copies of the notice letter and certified
25 return receipts are attached to an affidavit regarding

1 notice, which is submitted as Exhibit 9.

2 Q. Okay. Now, regarding the waterflood project,
3 does Exhibit 11 list all of the operators or lessees within
4 the area of review as required by the Form C-108?

5 A. Yes, to my knowledge.

6 Q. And was notice of the waterflood Application
7 given to all of these operators or lessees?

8 A. Yes.

9 Q. And was Exhibit 12 the affidavit of notice
10 regarding that particular letter?

11 A. Yes.

12 Q. Mr. Hinson, in your opinion will the granting of
13 these Applications be in the interest of conservation, the
14 prevention of waste and the protection of correlative
15 rights?

16 A. Yes.

17 Q. And were Exhibits 1 through 12 prepared by you or
18 under your direction or compiled from company business
19 records?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I'd move the admission
22 of beach Exhibits 1 through 12.

23 EXAMINER CATANACH: Exhibits 1 through 12 will be
24 admitted as evidence.

25 MR. BILL TAYLOR: I would like to question some

1 of them, sir, that's what I said a while ago.

2 EXAMINER CATANACH: Certainly, Mr. Taylor.

3 MR. BILL TAYLOR: All right, I --

4 EXAMINER CATANACH: You may proceed.

5 MR. BILL TAYLOR: -- you're going to admit them,
6 but you haven't accepted them, all right, sir. Do you want
7 me to proceed, or do you want to --

8 EXAMINER CATANACH: Well, do you have an
9 objection to any of these?

10 MR. BILL TAYLOR: Yes, I do.

11 EXAMINER CATANACH: Then we will refrain from
12 admitting these as evidence until --

13 MR. BILL TAYLOR: I would appreciate it. You may
14 want to afterwards, and that will be your business.

15 EXAMINER CATANACH: Okay, go ahead, Mr. Taylor.

16 MR. BILL TAYLOR: All right, sir.

17 EXAMINATION

18 BY MR. BILL TAYLOR:

19 Q. Mr. Hinson, I'm at a little bit of a loss because
20 a lot of these here have been renumbered and such prior to
21 what have been provided to me before with the Application
22 and with the overnight mailing that you sent to me after I
23 came to Santa Fe.

24 As I told Mr. Bruce, we certainly are not opposed
25 to you waterflooding the project. I don't really

1 understand why you're wanting the M&W, but that's fine.
2 The M&W was the only well that you had to -- that you were
3 not operating, is that correct, at the time that you
4 started this latest proceeding? You had the other wells?

5 A. Yes.

6 Q. All right. So the M&W is the one you began to
7 work with. Your contact to Mr. Herb Spencer offered to pay
8 him how much for that well?

9 A. We offered to pay him \$13,000 for that well.

10 Q. \$13,000. And Mr. Spencer has not gone in and
11 stimulated that since he took over Mr. Hale, and so the
12 well hasn't produced very much, but what is the well
13 producing at the present time with Mr. Spencer's taking
14 care of it, and how much would it make in one year's time
15 at the current rate, which is nothing? It's less than a
16 third of what it will do, and you have an Exhibit, C-108,
17 that will help bear this out. How much is that well
18 making?

19 MR. BEACH: 45 barrels a month.

20 EXAMINER CATANACH: Hold on a second, I'm not
21 sure that this witness is the proper witness. You may
22 cross-examine him on land issues and certain stuff like
23 that, but when you get into producing rates and things like
24 that, it might be more appropriate to ask the engineer or
25 geologist.

1 MR. BILL TAYLOR: All right. Well, now, since I
2 do not know which one is which, and I have -- Is Mr. Rose
3 here?

4 MR. BRUCE: Mr. Rose is here.

5 MR. BILL TAYLOR: Mr. Rose, hello, sir. I have
6 had conversation with Mr. Rose and Mr. Hinson. I had
7 three, quite frankly, with Mr. Hinson. But would both of
8 them be available, and whichever one of them would be the
9 most expertise, could we do it that way?

10 EXAMINER CATANACH: Certainly, each of these
11 gentlemen is going to testify, and I think that you would
12 be able to ask them after they testify.

13 MR. BILL TAYLOR: After, and then whichever one
14 of them can best do it?

15 EXAMINER CATANACH: Yes, sir.

16 MR. BILL TAYLOR: Let's do it that way for the
17 sake of simplicity and time.

18 EXAMINER CATANACH: Okay, but do you have further
19 questions for Mr. Hinson?

20 MR. BILL TAYLOR: There probably are some of them
21 there, but they're intermingled. It takes in some of the
22 exhibits --

23 Q. (By Mr. Bill Taylor) Mr. Hinson, the AFE that
24 you provided to the working interest owners prior to the
25 one that I see here today listed a 500-percent nonconsent

1 penalty or factor on it, did it not?

2 A. The AFE didn't have any mention of a nonconsent
3 penalty.

4 Q. Well, you're right, you're right. The operating
5 agreement. It didn't have an AFE with my first one, you
6 sent me one the other day. But the operating agreement did
7 have a 500-percent nonconsent factor, and that's the one
8 that was presented to the Oil Commission before this one
9 today?

10 A. Right.

11 Q. All right.

12 A. We've already testified that we corrected that
13 today.

14 Q. That's correct. But at the time that you were
15 asking some of us to participate, we were looking at an AFE
16 of 500 percent nonconsent and then some other factors.

17 A. The AFE didn't have anything to do with
18 nonconsent.

19 Q. You're right, I apologize.

20 A. I'm sorry, we're not trying to --

21 Q. Yes, you're absolutely right. We're still on the
22 operating agreement --

23 A. Right.

24 Q. -- then. My apologies to you, sir. Put up with
25 me, and we'll try to --

1 A. That's fine.

2 Q. -- get there.

3 Your unit operating agreement starts off with the
4 percentage in the well that each of us have, and it ends up
5 with -- the operating agreements you have presented here
6 today end up with -- of the tract, myself having a
7 .00486889 percent; is that correct? And my son Harvey
8 having a .00074906 of the West High Lonesome Penrose Unit?

9 A. Just a second. Working interest.

10 Q. Yes, sir. See, I'm as lost with these new
11 numbers as probably what you are.

12 A. These particular numbers are not new. This is
13 the same numbers we've had --

14 Q. All right, but --

15 A. -- all --

16 Q. -- then perhaps you're much more familiar with
17 them, you've been looking at them --

18 A. Well --

19 Q. -- since 197- --.

20 A. -- there's so many numbers, you have to read
21 them --

22 Q. Yes, I agree.

23 A. -- individually, but I didn't hear what you --
24 or --

25 Q. My question is, why don't you just tell us

1 what --

2 A. We show Bill Taylor as a .00592322-percent
3 working interest owner in the unit, Harvey Taylor .00091126
4 working interest in the unit.

5 Q. Well, I'm going to have to find those, sir.

6 A. It would be Exhibit D to the unit agreement.
7 You've got two different exhibits, one shows net revenue
8 interest, one shows working interest. So you've got to be
9 sure you're looking at the one that says Exhibit D, Tract
10 Working Interest, and then it totals it in front of your
11 name on the left side.

12 Q. All right. Then this one that has the red and
13 the blue on it is the net revenue interest?

14 A. Yes.

15 Q. The one that has red and blue numbers?

16 A. Yes.

17 Q. All right, sir.

18 A. Up at the top where it says Exhibit D, Tract
19 working interest, it would be right behind -- Let's see.

20 Q. Well, I have separated them where I do not have a
21 -- the portion of --

22 A. That's, all right, it's basically --

23 Q. What I'm -- what I'm --

24 EXAMINER CATANACH: Can we please try and not --

25 MR. BILL TAYLOR: Yeah.

1 EXAMINER CATANACH: -- talk at the same time?

2 The court reporter is having a real hard time --

3 MR. BILL TAYLOR: Okay.

4 EXAMINER CATANACH: -- with this.

5 MR. BILL TAYLOR: I apologize.

6 Q. (By Mr. Bill Taylor) One of the major things is
7 that you're showing that the M&W has a .04556324 percent of
8 your High Lonesome Unit.

9 A. Yes, sir.

10 Q. All right, sir. You have proposed a unit
11 operating agreement, and that has the 200-percent factor on
12 page 7.

13 It also has another article or two in it, that I
14 wonder if they might not be against statutory -- On page 6
15 of Exhibit 3, at 11.4 it says "Commingling of Funds. Any
16 funds received by Unit Operator under this agreement need
17 not be segregated or maintained by it as a separate fund,
18 but may be commingled with its own funds."

19 You -- I think that the regular orders require
20 any funds not disbursed for any reason will be -- escrowed
21 in Eddy County in this case -- to be paid to the true owner
22 thereof upon and proof of ownership. Would this here allow
23 that to take place?

24 A. No, but I don't know what's statutorily mandated,
25 but I have no idea whether this is a proper paragraph as

1 stated or not.

2 Q. Uh-huh. All right. And you have changed the 500
3 percent to a 200 percent on page 7 in this --

4 A. Yes.

5 Q. -- operating agreement?

6 A. Then -- You also have in this under the
7 accounting procedures -- I believe this is the one, let's
8 see if it's not. It may be the other one. You have two
9 unit agreements, and it must be the other one. But one of
10 them in addition to requesting -- This is not the one
11 requesting monthly cost of overhead and the drilling, is
12 it?

13 A. Yes, that would be in this agreement.

14 Q. That is in this one.

15 A. That's in the COPAS procedure that's attached to
16 the unit operating agreement as Exhibit E.

17 Q. All right. Now, I've got Exhibit 3, and we're
18 looking for Exhibit E of 3?

19 A. Right, and go to page 4 of that exhibit.

20 Q. I finally found it. In this one, you are asking
21 for a drilling well rate of \$3500 a month, and you're
22 asking for a producing well rate of \$375 a month for fixed
23 overhead, and that -- Is that correct?

24 A. Yes.

25 Q. All right, sir. This has changed a little, and I

1 appreciate that. But there is a drilling well rate of
2 \$3500 and a producing well rate of \$375, and then the
3 COPAS, the last page of that, which you still designate as
4 COPAS, which is not quite accurate but you have it
5 designated that way anyway, there is the additional cost
6 that you're wanting for a foreman, field foreman, of \$300 a
7 day and a geologist of \$350 a day, and that is in lieu of
8 some of the other things that's in here.

9 Should this not have been negotiated with us? Do
10 you think that the operating agreement itself should be
11 negotiated, and whatever your drilling rate is and your
12 overhead rates, are those not the proper things to ask for
13 the well information and is this not -- should not been
14 properly negotiated?

15 A. Yeah, I believe it was properly negotiated. I
16 mean, we didn't even know you existed personally,
17 individually --

18 Q. Yes.

19 A. -- as a working interest owner until very
20 recently when H&S told you who you were. These rates were
21 negotiated with our major working interest owners, which
22 these start with, like KNG America is a 50-percent working
23 interest owner in the unit, people like that. And these
24 are rates that are already established, basically with our
25 Red Lake Unit which adjoins this one to the southwest --

1 Q. Right.

2 A. -- other than I believe we went up -- That unit
3 agreement was prepared probably 12 years ago, and I think
4 it had \$350 producing well rates. We've gone up in 12
5 years, \$25 basically.

6 Q. Thank you for that information.

7 I have an objection to an operating agreement
8 coming in in this area, and I want to file a formal
9 objection to it, that that -- it is asking the Commission,
10 I believe, to provide -- or intercede, especially after
11 payout has occurred, as I heard today. And it would be
12 real interesting to see what happens with the other -- the
13 new operating agreements that might come before us.
14 There's some benefits to it, but it needs to be arm's
15 length negotiations.

16 Mr. Herb Spencer did do most of the negotiating
17 on this, and I did come into it late. You and I didn't get
18 the chance to talk until after you had already instigated
19 the force pooling. I knew you were thinking about it.

20 Have you -- You said that you sent Mr. Herb
21 Spencer a check on July the 1st for our interest.

22 A. Well, it wasn't for your interest, it was for the
23 people who had agreed --

24 Q. I'm sorry, for the -- for the -- yes, those who
25 had sold.

1 A. July 6th.

2 Q. July -- All right. Because he had not received
3 it as of the day before yesterday.

4 MR. BILL TAYLOR: I have some questions
5 concerning the difference between this. You're basing your
6 cost your, your production and all of it on a 1993 study
7 that you filed with the Commission as C-108, and you said
8 this goes back to 1993. And so it seems like you're basing
9 most of this on this, but Mr. Stock may be the one I need
10 to address it to --

11 MR. BRUCE: Mr. --

12 MR. BILL TAYLOR: -- but there is differences.

13 MR. BRUCE: Mr. Examiner, Mr. Rose can answer
14 questions about any reservoir study, our engineer.

15 MR. BILL TAYLOR: Well, this has to do with the
16 figures that's associated with it. Will that be Mr. -- I'm
17 sorry, Mr. Rose, I'm sorry, forgive me.

18 EXAMINER CATANACH: What figures, Mr. Taylor?

19 MR. BILL TAYLOR: Well, as an illustration, Mr.
20 Hinson, we have pointed out that this MW in these exhibits
21 indicates a .04556324 percent of the total unit. The study
22 upon which Mr. Rose has based his -- uses that as a basis,
23 and it goes to 5.6 percent that M&W has as a percentage of
24 it. Can you -- Well, and so would that be properly
25 addressed to Mr. Rose or to Mr. Hinson? Mr. Rose?

1 EXAMINER CATANACH: I believe it -- Yeah.

2 MR. BILL TAYLOR: Mr. Rose? All right. May I,
3 since I thought I might be able to talk to both these
4 fellows at the same time on this, may I later ask him a
5 question or two if I should need to, Mr. Hinson, might I do
6 that if it's --

7 EXAMINER CATANACH: Certainly, if you have
8 additional questions of Mr. Hinson --

9 MR. BILL TAYLOR: I might.

10 EXAMINER CATANACH: -- afterwards, we can always
11 bring him back.

12 MR. BILL TAYLOR: I would appreciate it, if it's
13 all right with you, sir.

14 THE WITNESS: That's fine.

15 MR. BILL TAYLOR: Let's let them go ahead with
16 their presentation, then, while I try to get organized.

17 EXAMINER CATANACH: Thank you.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Hinson, what is the status of your
21 negotiations with the remaining working interest owners?
22 Are you continually continuing to try and --

23 A. Yes, we have very few remaining working interest
24 owners, other than Mr. Taylor, that we have either not
25 reached an agreement with or -- The primary ones we don't

1 have right now are mostly the unlocatable people.

2 We do -- some of the ones that are still listed
3 as -- have not ratified the agreement yet are even long-
4 time Beach partners that we expect their ratifications to
5 come in, such as Brock Exploration, for example, and people
6 like that.

7 So right now we really don't have any ongoing
8 negotiations as far as price or anything. It's really a
9 matter of still collecting some paperwork.

10 Q. Okay, some of the interest owners that were not
11 locatable, those are working interest owners?

12 A. Some of them are, yes. I've got --

13 Q. And some are overrides?

14 A. I can tell you specifically which ones or how
15 many, if you'd like that for your...

16 Q. Quite a few of them.

17 A. I show 14, I believe, unlocatable. And of that
18 number seven are working interest owners, and the remainder
19 are overriding royalty owners.

20 Q. Okay. Now, do you hold out any hope for finding
21 any of those interest owners?

22 A. I mean, even since we published that notification
23 in the paper, like I said, I think we had identified one of
24 those people. So it's an ongoing process, yes.

25 Q. Which one did you identify?

1 A. Was it Gail Marr? It's listed under the exhibit
2 Gail and --

3 MR. BRUCE: Gail and Steve Marrs.

4 THE WITNESS: Gail and Steve Marrs, okay.

5 FROM THE FLOOR: Cara Lynn Gant.

6 THE WITNESS: Who?

7 FROM THE FLOOR: Cara Lynn Gant.

8 THE WITNESS: Cara Lynn Gant also, one we've
9 found since then.

10 Q. (By Examiner Catanach) Okay. The unitized
11 formation again is the Penrose portion of the Queen
12 formation, and I see that as the productive interval in
13 this area?

14 A. Yes.

15 Q. In this pool?

16 A. Yes.

17 Q. Okay. And you cited a log that was run on an
18 Exxon well. Is that in here somewhere, in the unit --

19 A. That's something our geologist will be able to
20 testify to. I believe it is.

21 Q. Okay.

22 A. Yes.

23 Q. Mr. Hinson, did you actually conduct meeting with
24 working interest owners in this unit?

25 A. Most of our contacts with working interest owners

1 were either -- most of the working interest owners were
2 already in wells we operated, and those conversations were
3 either by phone or by letter. The other people -- Really,
4 I mean, it came down to pretty much this M&W Federal well
5 was the only one that was outstanding that we hadn't
6 already acquired, you know, by far the majority of interest
7 in.

8 And we talked, as I've detailed there, over a
9 long period of time with Mr. Spencer individually, who said
10 he was representing the working interest owners. And so
11 really no meeting was required. I mean, at the time Mr.
12 Spencer had indicated that our offer was insufficient as to
13 money, and they had indicated to us that they wanted
14 \$24,000.

15 We indicated to them that we couldn't pay them
16 more than what we paid on par with everybody else in the
17 unit, it wouldn't be fair.

18 They indicated that they had a potential buyer
19 that would buy it for that, and we told them to go ahead
20 and sell it to them if they'd like. You know, we didn't
21 try and stand in their way or anything like that.

22 So as far as being a meeting, it was really just
23 a matter of price. There was no questions from Mr.
24 Spencer, and at the time we didn't know Mr. Taylor, of
25 proposed unit operation agreements, so on and so forth. So

1 there really didn't appear to be a need for a meeting at
2 that point.

3 Q. And you subsequently have obtained Mr. Spencer's
4 interest in this --

5 A. His interest, as well as a large number of the
6 other individuals, like I said, totaling approximately 81
7 percent in that well.

8 Q. So he sold his interest to you, he's not
9 participating?

10 A. No, he sold his interest to us.

11 Q. Okay. Has any of the other interest owners,
12 working interest owners in the unit expressed any concern
13 about any part of the unit agreement or unit operating
14 agreement?

15 A. No.

16 Q. Has anybody expressed any concern about the way
17 that production is going to be allocated?

18 A. No.

19 Q. With regards to the question Mr. Taylor had about
20 the overhead rates, is it my understanding the way that
21 this operates is -- The \$375, is that a correct figure for
22 a producing --

23 A. For a producing well, yes.

24 Q. Okay. That doesn't include the additional cost
25 that you cited for --

1 A. I'm sorry, did you say \$350?

2 Q. I'm sorry, I don't -- What were the costs?

3 A. I'm sorry, it's \$375 per producing well and
4 injectors, I believe. Yes.

5 Q. For the --

6 A. Per active well.

7 Q. Okay. And what is the additional cost that
8 you've outlined on the last page for the field foreman and
9 the geologist?

10 A. That's a cost that's just been standard and not
11 just -- I mean for us standard, not just in this operating
12 agreement, but individual well agreements, in wells we
13 operate, and it just covers the expenses that our
14 accounting department believed were not adequately covered
15 by the standard COPAS procedure.

16 Q. So the \$375 --

17 A. Now I'm talking about the back page now, that you
18 were asking me about.

19 Q. Okay, explain that to me.

20 A. If I understand which one you're -- The page 8 to
21 the COPAS procedure that lists charges for a field foreman
22 of --

23 Q. Yes.

24 A. -- \$300 a day --

25 Q. Yes.

1 A. -- engineer, geologists at \$350 a day.

2 Q. Right.

3 A. The way I understand it -- and not being an
4 accountant, but the way I understand that, what you're
5 really doing is clarifying the charges that you're already
6 able to charge for under the COPAS procedure, clarifying
7 what that amount would be. You're already able to charge
8 for your field foreman and engineer and geologist, you
9 know, field expenses, under the COPAS. This is just
10 detailing what that charge would be.

11 Q. So is this in addition to the \$375 per day, or --

12 A. Yes, because the \$375 is just your overhead rate,
13 which would be under any operating agreement in COPAS.
14 This is where you send individuals out into the field that
15 are the technical people that are doing work in the field.

16 Q. Okay, this is just on an as-needed basis, then?

17 A. Right, right, correct.

18 EXAMINER CATANACH: Okay, I understand.

19 I believe that's all I have, Mr. Bruce.

20 MR. BILL TAYLOR: Mr. Catanach --

21 EXAMINER CATANACH: Oh, I'm sorry, did you --

22 EXAMINATION

23 BY MR. EZEANYIM:

24 Q. I wonder, why did you change the 500 to 200
25 percent?

1 A. Excuse me, why was it different?

2 Q. Yeah, why did you change it?

3 A. That number came from -- That was the same that
4 was in our Red Lake Unit agreement.

5 Q. Which one, 500 or 200?

6 A. Five hundred.

7 Q. And then why did you change it to 200 now?

8 A. At the advice of our attorney that that was the
9 rate that would be approved by the Commission.

10 Q. Is that the normal rate you --

11 A. In our operating history, wells in Texas as well
12 as wells in New Mexico, depending on how depth, how deep
13 the well is and other factors, cost, we commonly use
14 anywhere from 300 to 500 percent as a nonconsent penalty.

15 Q. And so you start with your penalty at 200?

16 A. Yes.

17 Q. Instead of 500?

18 A. Excuse me?

19 Q. Instead of 500 you use 200?

20 A. Instead of the 500, yes.

21 MR. EZEANYIM: Okay.

22 EXAMINER CATANACH: This witness may be -- I'm
23 sorry.

24 MR. BILL TAYLOR: May I ask one more question --
25 a couple more questions?

1 EXAMINER CATANACH: Sure.

2 FURTHER EXAMINATION

3 BY MR. BILL TAYLOR:

4 Q. One of them concerning the statement concerning
5 the 500 percent. I discussed this with you over the phone.

6 A. Yes.

7 Q. And then whenever I filed my request to postpone
8 this hearing so we could look at some things and I could
9 also obtain an attorney, you sent me a letter back that let
10 me know that I misunderstood you when I thought that you
11 had inadvertently taken the Red Lake operating agreement
12 and had sent it and had forgotten to change the 500
13 percent. And your letter states to me that I was
14 misquoting you there, that really you had -- when you all
15 submitted that, you did it with the full knowledge of it,
16 is the way I took your next letter then.

17 And so whenever you all submitted that, you were
18 aware that there was 500 percent on that; is that correct?
19 That's the way your letter indicated to me.

20 A. I kind of lost you in your question, but --

21 Q. All right, basically, whenever you submitted the
22 original operating agreement --

23 A. Right.

24 Q. -- with 500 percent on it, you knew it had 500
25 percent on it?

1 A. Right.

2 Q. All right, sir. And so then after our discussion
3 and your discussion with your attorney, you decided that
4 you better take it back down to what the Commission, the
5 statutory allow?

6 A. Right, but you say it was inadvertently put it in
7 there, that was from the point that we did not know that
8 that was not the proper percentage for a unit in New
9 Mexico. That was just in line with -- That's not a
10 percentage that I'm not unused to seeing in any of our
11 operating agreements.

12 Q. I think, Mr. Hinson, your letter makes reference
13 to the fact that you said you'd do what the Commission
14 does, and in our --

15 A. Right.

16 Q. -- conversation you told me that you thought it
17 was 200 percent?

18 A. Right, I said during the course of our discussion
19 I mentioned to you that the 500-percent nonconsent penalty
20 shown on our unit operating agreement was inadvertently
21 left in from a previous form --

22 Q. Uh-huh.

23 A. -- and that we would be governed by whatever
24 nonconsent is approved by the OCD.

25 MR. BILL TAYLOR: All right, sir, thank you.

1 EXAMINER CATANACH: This witness may be excused.

2 CHARLES BEACH,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. Charles Beach.

9 Q. Where do you reside?

10 A. Midland, Texas.

11 Q. What's your job and who do you work for?

12 A. I'm a geologist at Beach Exploration.

13 Q. Have you previously testified before the
14 Division?

15 A. Yes, I have.

16 Q. And were your credentials as an expert petroleum
17 geologist accepted as a matter of record?

18 A. Yes, they were.

19 Q. And are you familiar with the geology involved in
20 these cases?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I tender Mr. Beach as
23 an expert petroleum geologist.

24 EXAMINER CATANACH: Mr. Beach is so qualified.

25 Q. (By Mr. Bruce) Mr. Beach, would you identify

1 Exhibit 13 and describe it for the Examiner?

2 A. Exhibit 13 is a type log of the Penrose sand for
3 the Queen formation from the Beach Exploration Exxon
4 Federal Number 4 well, located in Township 16 South, Range
5 29 East, Section 18, 1650 feet from the south line and 1650
6 feet from the east line. It shows the top of the Penrose
7 sand, which is a lower member of the Queen formation, at
8 1708 and the base of the Penrose sand at 1738 feet. This
9 is the interval to be waterflooded in the proposed unit.
10 There are impermeable beds above and below it, and this
11 zone is easily correlatable throughout the proposed unit
12 area.

13 Q. Would you move on to your Exhibit 4 [sic],
14 identify that and describe the geology of the zone that you
15 seek to unitize and flood.

16 A. Exhibit 14 is an area structure on the top of the
17 Penrose sand in the Queen formation, showing all Penrose
18 penetrations. This map shows structural strike and dip on
19 the top of the Penrose sand. Strike on top of the Penrose
20 sand is northeast to southwest, and dip is northwest to
21 southeast, with southeast being the downdip direction.

22 The map is contoured on a 10-foot contour
23 interval, and the scale is one inch is equal to 2000 feet.
24 It also shows that in this area the Penrose sand is
25 regionally dipping to the southeast with no structural

1 closure mapped, indicating that the trap for the Penrose is
2 a stratigraphic trap. Updip the sand becomes salt-filled
3 in the pore spaces, creating a loss of permeability, and
4 downdip the sand becomes nonreservoir quality, grading into
5 a tight, silty sand with greater amounts of anhydrite and
6 carbonate cements within the sand creating the
7 stratigraphic trap.

8 Q. Are there any faults in this area which would
9 connect a freshwater zone with an injection zone?

10 A. No, there are not.

11 Q. What is Exhibit 15?

12 A. Exhibit 15 is a net thickness isopach of the
13 Penrose sand. The porosity cutoff used to make this map
14 was 12 percent. Density neutron logs are indicated by
15 circles, and neutron logs are indicated by squares. The
16 contour interval is five foot, and the scale is one inch is
17 equal to 2000 feet.

18 The best part of the reservoir, or sweet spot, is
19 located in Sections 17 and 18, which is borne out by the
20 isopach map and by production history.

21 Q. Could you move on to your Exhibits 16 and 17
22 together, identify them and describe the continuity of the
23 reservoir?

24 A. Exhibits 16 and 17 are north-south and east-west
25 cross-sections of wells in the proposed area. The cross-

1 sections are both stratigraphic cross-sections, hung on the
2 top of the Penrose sand.

3 The east-west cross-section extends to other
4 Penrose sand fields along trend and adjacent to our
5 proposed unit area and shows the continuous nature and
6 deposition of the Penrose sand in this area.

7 And the north-south cross-section simply goes
8 through the field showing the correlatable sand throughout
9 the proposed unit.

10 Q. What factors were used to determine the unit
11 outline?

12 A. Primarily sand quality determined by isopach
13 mapping and by production history of the wells.

14 Q. Okay, and will the engineer discuss the
15 production history of the wells?

16 A. Yes. Yes, he will.

17 Q. From a geologic standpoint, has this reservoir
18 been reasonably defined by development?

19 A. Yes, it has.

20 Q. And is the Penrose reservoir continuous across
21 the unit area?

22 A. Yes.

23 Q. Geologically, is this a good candidate for
24 waterflooding?

25 A. Yes.

1 Q. Were Exhibits 13 through 17 prepared by you or
2 under your direction, or have you reviewed the data that
3 went into the preparation of these exhibits, and do you
4 agree with it?

5 A. Yes.

6 Q. In your opinion, is the granting of these
7 Applications in the interest of conservation and the
8 prevention of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I tender the admission
11 of Exhibits 13 through 17.

12 EXAMINER CATANACH: Any objection, Mr. Taylor?

13 MR. BILL TAYLOR: No, sir.

14 EXAMINER CATANACH: Exhibits 13 through 17 will
15 be admitted as evidence.

16 Mr. Taylor, do you have any questions of this
17 witness?

18 MR. BILL TAYLOR: No, I would just like for him
19 to repeat that that reservoir has been defined and it is a
20 good waterflood prospect.

21 THE WITNESS: Yes, it is, it's well defined.

22 MR. BILL TAYLOR: Thank you.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Beach, is this the -- the proposed unit, does

1 that encompass the whole pool in this area?

2 A. No, the pool extends for several miles, as
3 witnessed by the east-west cross-section. Most of the
4 previous or the flood -- the adjacent Penrose sand has
5 already been waterflooded. This is a portion of the pool
6 that has not been waterflooded to date.

7 Q. Okay, so the pool extends to the east?

8 A. It extends to the east and actually extends back
9 to the south.

10 Q. To the south. And a portion of this pool has
11 already been waterflooded to the east and the south?

12 A. Yes, sir.

13 Q. Do you know who operates those floods or flood?

14 A. I don't know. I know Jack has that information
15 and can testify to that.

16 Q. Okay.

17 A. I will say that we -- Beach Exploration actually
18 operates the flood directly south, but I don't know some of
19 the other ones, the operators.

20 Q. Now, you say directly south. Do you know where
21 that is?

22 A. It would be starting Section 24, if you look at
23 one of the maps, and going south from there.

24 MR. BRUCE: It's actually southwest.

25 THE WITNESS: Southwest, yeah, it's -- You're

1 right, it's actually southwest.

2 MR. BRUCE: If you look at Exhibit 16, the
3 locator map on the right-hand side.

4 EXAMINER CATANACH: Okay.

5 MR. BRUCE: That outline to the southwest is a
6 portion of that unit.

7 THE WITNESS: Right.

8 Q. (By Examiner Catanach) Okay, you've got some
9 wells that I assume from the map, it looks like they're in
10 the south half of Section 19, specifically the southwest
11 quarter of 19.

12 A. Uh-huh.

13 Q. Are those Queen-producing wells?

14 A. Yes.

15 Q. And those are not going to be included in the
16 unit?

17 A. No.

18 Q. And they're not included in your other waterflood
19 project?

20 A. No.

21 Q. Is there a reason for that?

22 A. Well, it kind of goes back to the production
23 history and the discontinuous nature. Actually, up in
24 Sections 17 and 18 of the proposed unit area, the sand is a
25 continuous sand, the production history has been good, and

1 it's kind of the sweet spot of the field.

2 As you get south in Section 19, with the
3 exception, really, of the M&W well, those wells in that
4 area have been very much poorer performers, and really
5 economics did not dictate that the wells that you're
6 discussing would go into the unit. And I know that Jack
7 has some information regarding that also, our engineer.

8 Q. Okay, so you're saying the sand quality
9 deteriorates as you move south into that area?

10 A. It does, it becomes much more -- The permeability
11 becomes much more erratic. As a matter of fact, the Red
12 Lake Unit that we have, that I discussed, we have -- The
13 flood that we did down there was marginally successful, and
14 we think it's because of erratic permeability within the
15 sands. And we think that this area, based on the primary
16 production and the net sand map that I made, would be
17 similar to what we experienced down there.

18 Q. Did you have a net sand thickness cutoff that you
19 used?

20 A. I used 12 percent. I will say that --

21 Q. Well, that's porosity cutoff.

22 A. Oh, yeah, yeah.

23 Q. Did you --

24 A. Gross, of the gross sand?

25 Q. Well, of the net sand. It was 12 percent. I

1 mean, did you -- was there a cutoff that you used?

2 A. Oh, a porosity percentage, is that what you --

3 Q. Well, I mean how much net sand thickness did
4 these wells have that was above 12 percent; do you know?

5 A. Yeah, I mean, the ones that are not -- The ones
6 that are on the map or the ones that don't have figures?

7 Like the one, for instance, in the southwest of
8 19, there's one that's got a zero. It had zero feet above
9 that. And there's one that has four, there's one that has
10 six --

11 Q. Okay, but you didn't use a cutoff of net sand
12 that you used to where you say you couldn't include the
13 well with four feet of net sand?

14 A. Oh, no, not necessarily. Really some of the
15 issues are maximum porosity. If you get, for instance,
16 20-percent porosity, and if you've got -- sometimes if you
17 only have six feet of that, you can make extremely good
18 wells, whereas if you get ten feet of 14-percent porosity,
19 for instance, those wells sometimes don't perform as well.

20 Q. Okay. As far as you can tell, the area that
21 you've outlined for the unit, that's going to be continuous
22 enough to where you think that you can inject water into
23 that whole portion and you'll get some response --

24 A. Yes, sir.

25 Q. -- from those producing wells?

1 EXAMINER CATANACH: Okay, I have nothing further,
2 Mr. Bruce.

3 MR. BRUCE: I have nothing further of this
4 witness.

5 MR. BILL TAYLOR: If I could ask one more
6 question.

7 EXAMINER CATANACH: Okay.

8 EXAMINATION

9 BY MR. BILL TAYLOR:

10 Q. Mr. Beach, that Cal-Mon State that Mr. Catanach
11 has raised about wanting to be included in this, I believe
12 that your pumper owns the working interest in that well, is
13 the operator --

14 A. He does, he does.

15 Q. All right, so he will get the benefits of any
16 waterflood that should get outside of our area?

17 A. If he gets some push, he could get benefits from
18 it.

19 Q. Both directions --

20 A. Yeah, he could get benefits from our --

21 Q. -- from this one?

22 A. -- from our Red Lake Unit, from the southwest
23 also.

24 EXAMINER CATANACH: Okay, this witness may be
25 excused.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

JACK M. ROSE,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Jack rose, Midland, Texas.

Q. Who do you work for?

A. I work for Beach Exploration as an engineer.

Q. Have you previously testified before the Division as a petroleum engineer?

A. I have.

Q. And are you familiar with the engineering matters involved in these Applications?

A. I am.

MR. BRUCE: Mr. Examiner, I tender Mr. Rose as an expert petroleum engineer.

EXAMINER CATANACH: Mr. Rose is so qualified.

Q. (By Mr. Bruce) Mr. Rose, what materials did you examine in your study of the reservoir?

A. Well, as Mr. Hinson had stated earlier, this project has been going on since 1993, that was the original idea. A study by T. Scott Hickman and Associates was ordered back in 1993, and primarily most of our engineering

1 emphasis is based on that study in 1993.

2 I've also reviewed logs and production histories
3 and wellbore histories in the area and reviewed Hickman's
4 assumptions and the offset floods.

5 Q. Okay. Now, and you updated the data used in that
6 1993 study?

7 A. Yes, I did. We didn't originally. When we went
8 into it I reviewed the study, and I didn't have any
9 problems with it. On a more formal basis I have gone back
10 and gone through the volumetric calculations, and I think
11 that's Exhibit 19.

12 Q. Okay, well, why don't you move to -- actually
13 Exhibit 18 --

14 A. Yes, 18.

15 Q. -- and describe the calculations you made
16 regarding the secondary recovery for the proposed water
17 flood project?

18 A. Basically the study of 1993 by Hickman went
19 through these calculations, and of course we've had -- from
20 1993 till now we've had some additional cum generated. So
21 what this basically is intended to do is bring those
22 calculations up to date to -- All my calculations are
23 effective April -- or May 1, 2000.

24 We have an original oil in place number of 6.2
25 million barrels, based on -- We have a slight difference on

1 the unit outline from the 1993 study, including the
2 Rosewood State.

3 We have a primary recovery factor which is 8.9
4 percent, and it was 8.8 in 1993.

5 Pore volume is essentially the same at 10,800
6 barrels.

7 We recalculated the current oil saturation at
8 about 55 percent.

9 And our fill-up time with the free gas volume,
10 about 20.6 months, is very similar to the study in 1993.

11 And we see a theoretical recovery under
12 waterflood of 700,000 barrels, just to kind of give us a
13 feel for, are we being reasonable with our...

14 And basically these haven't changed very much,
15 even though we updated the cums, because this is in an
16 advanced state of depletion as far as the field goes.

17 Q. Okay, this portion of the pool is pretty much on
18 its last legs insofar as primary recovery goes?

19 A. That's correct.

20 Q. Okay. Why don't you move on to your Exhibit 19
21 and maybe discuss the Penrose or Queen waterfloods in this
22 area?

23 A. Exhibit 19 is an area map to kind of help you
24 locate what you were talking to Mr. Beach about earlier.
25 It outlines our proposed flood area as a striped outline.

1 The other floods and their operators, we have three floods
2 to the east, the Aceco High Lonesome Queen Sand waterflood
3 in Section 16, Vintage's High Lonesome Penrose Sand unit in
4 Section 15 and Armstrong's High Lonesome Brewer Bosworth to
5 the east.

6 And then we have our Red Lake Unit to the
7 southwest in Sections 24, 25 and 36, and then we have the
8 Kincaid and Watson East Red Lake Unit to the southwest also
9 there. And that kind of orients you.

10 Most of these floods were done in the early 1950s
11 and have been fairly successful floods.

12 Q. Now, before we move off of this exhibit, just for
13 future reference, you have some -- I think some pipelines
14 and some other data on this well. What does that pertain
15 to?

16 A. This map was originally prepared to answer some
17 questions with the Commissioner of Public Land about water
18 sources. These pipelines that are represented in dark
19 black are freshwater Carlsbad Double Eagle water supply
20 system. These other units that are in this area have used
21 that fresh water from Carlsbad. We used it in our Red
22 Lake, the Kincaid and Watson, on the East Red Lake down to
23 the southwest, used fresh water, the Armstrong High
24 Lonesome Brewer up to the east in Section 14 and 13 also
25 used fresh water, as did, I think, the High Lonesome Queen

1 in Section 16.

2 Q. So water supply for injection is a problem in
3 this area?

4 A. Yes, there's very little water source, and we can
5 cover that in more detail later when we go on the C-108.

6 Q. Okay. Let's move on to your Exhibit 20. Could
7 you identify that exhibit and describe briefly the history
8 of this portion of the pool?

9 A. To give you a little background on the High
10 Lonesome-Queen Pool, which basically includes the eastern
11 portion of those floods that we were talking about, there
12 have been a hundred wells drilled, and there are currently
13 42 active. And in that field, 4.6 million barrels has been
14 recovered, about 1.5 BCF of gas and about 11.2 million
15 barrels of water.

16 The plat that we're looking at in Exhibit 20 is a
17 plat of the proposed unit area in gray with the dashed
18 outline. It includes all of the penetrations within that
19 area, including dry holes, and the status of the wells.

20 We have three wells currently shut in, the Exxon
21 Federal Number 2, the Brainard Federal Number 1 in Section
22 19 and the Ryan Federal.

23 Basically what we have in this unit area is 26
24 wells that have been productive, three dry holes, and
25 currently we have 23 active wells.

1 Q. Okay, could you move on to your Exhibit 21 and
2 describe the production from the wells in this portion of
3 the pool?

4 A. This is a plot of the production history from
5 1974. The initial well drilled in this area was drilled in
6 1939, and there are four wells that were drilled in the --
7 Let me take that back. There are three wells that were
8 drilled in the 1939 to 1940 time frame, two wells drilled
9 in the 1950, and then the rest of them were drilled in the
10 1982 to 1987 time frame. So most of the wells are fairly
11 current.

12 This has a current cum for all of that period and
13 covers the cum of the unit area that we looked at on the
14 last exhibit. We see a cum of 533,000 barrels of oil to
15 date, and that date is 5-1 of 2000, cum gas of 374 MMCF and
16 30,000 barrels of water.

17 This also shows our projections of remaining
18 primary. When we went through the flood we extrapolated,
19 basically, these current declines to one barrel of oil per
20 day as an economic limit. The problem with oil price
21 changing and everything, we used one barrel a day as a
22 cutoff for primary reserves, which is really below economic
23 limit, in my opinion, right now. But our calculations
24 indicate that we have a remaining primary of 8500 barrels
25 of oil.

1 This plot also shows our projected performance
2 for secondary, that incremental secondary recovery, and
3 we're projecting that that would recover an additional
4 558,000 barrels, approximately.

5 Q. Okay. Was the waterflood project proposed as a
6 method of extending the life of the reservoir?

7 A. Yes, it was.

8 Q. What is the drive mechanism of this pool?

9 A. Our assumption is that this pool is under a
10 solution gas drive. That's primarily based on declining
11 fluid production, increasing GOR and negligible water
12 production.

13 Q. Why don't you refer to your Exhibit 22 and
14 describe the proposed injection pattern in the unit?

15 A. Exhibit 22 is again a similar plat to what you
16 looked at before, but it has the injection pattern that
17 we're proposing superimposed on the unit outline.

18 We have our philosophy, and it basically comes
19 out of our Red Lake experience to the southwest. We feel
20 like we had some permeability problems in the flood to the
21 southwest, even though the pay was continuous, and we've
22 got our peripheral flood combined with fivespot -- a 40-
23 acre fivespot pattern here.

24 The peripheral flood in the north part in Section
25 18 and Section 17 is basically the sweet part of the

1 reservoir, and our intention there is to inject into the
2 Phase I injectors, which are the darker ones, and when oil
3 or when water breaks through to the white injectors, which
4 would be Phase II injectors, those would be converted to
5 injection.

6 And our better wells, if you remember from Mr.
7 Beach's testimony, the sweet spot and the better recoveries
8 are in the center of that peripheral flood, and our
9 intention is to get water coming in from the outside.

10 In the other areas we don't have -- we feel like
11 we've got more chance in the southwest of being similar to
12 the Red Lake Unit. We have the M&W well down there, which
13 is a pretty good well, it's not -- The best wells out here
14 are about 50,000 barrels, and that's about a 25,000-barrel
15 well. It's a significant producer, and we want to include
16 it, and that's one of the reasons.

17 But we went with the fivespot pattern down there
18 because we don't have the -- a similar situation that we
19 have up in the northern part of the unit.

20 Q. How many production and injection wells will
21 there be in the well [sic]?

22 A. When we initially start with Phase I injection,
23 there will be 13 injection wells and 14 producing wells.
24 As these injection wells in white, Phase II injectors,
25 water out and we convert those, we'll eventually have nine

1 producers and 18 injectors.

2 Q. And again, how many additional barrels of oil do
3 you anticipate recovering as a result of the waterflood
4 project?

5 A. We anticipate 558,000 barrels of oil.

6 Q. How does your estimate of reserves and project
7 life concur with other Queen waterfloods in this area?

8 A. It compares favorably to conservative, I would
9 say.

10 Q. Okay. Could you describe how you calculated the
11 reserves to be recovered by the waterflood project?

12 A. Under Exhibit 23, if you want to --

13 Q. Oh, sure.

14 A. -- the offset floods. This is out of the Scott
15 Hickman study, and this is the floods that we showed on the
16 area map. These are some of the offsetting floods and some
17 statistics on those.

18 Basically, our calculation for economics is that
19 we're going to have a one-to-one secondary-to-primary ratio
20 on this flood. We have approximately -- if you take our
21 cum of 533 plus the 8500 remaining, you're talking about
22 541,000 remaining primary, and we're projecting 557,000.
23 There's a little kicker in there, because we have one
24 undeveloped location and that accounts for the difference,
25 but essentially we're on a one-to-one secondary to primary

1 assumption.

2 If you look at these floods, the three to the
3 east of us are the top three floods, and if you look at a
4 numerical average of the secondary-to-primary ratio that
5 these wells experienced, you're talking about a 1.07
6 secondary-to-primary ratio on a weighted average. Based on
7 reserves it's a .94-to-1, and they vary from as low as .61
8 up to 1.39-to-1.

9 Our Red Lake Unit, which isn't represented on
10 this page because it wasn't in completion when this was
11 formed, we only have about a .5-to-1 secondary-to-primary
12 ratio on that flood.

13 And considerable effort was put into trying to
14 figure out whether we had some artificial plugging going
15 on. And our assumption after looking at all that material
16 was that we had some permeability variations in that, that
17 didn't allow the water to break through. Plus, they
18 superimposed a fivespot pattern on that permeability, and
19 we ended up injecting into some of our better wells. And
20 we got breakthrough on a few wells, but it wasn't as
21 significant. And that's part of our concern in the
22 southwest portion of our new flood.

23 Probably the most comparable to our flood are the
24 Aceco High Lonesome. It's a -- If you look at the primary
25 recovery on these floods on a per-acre basis, this is not a

1 number on this exhibit, but the Aceco flood and the Kincaid
2 and Watson flood both have recovery factors on primary of
3 about 400-some-off barrels per acre. And our field, on a
4 primary basis, if you look at ours, is about 460 barrels
5 per acre.

6 The bigger flood, the Armstrong to the east, is
7 about 1100 barrels per acre. So that's obviously a better
8 quality pay to the east.

9 So the two that are most comparable to ours are
10 probably the Aceco and the Kincaid, based on primary
11 recovery per acre.

12 Q. Okay. What is the estimated life of your
13 project?

14 A. As of 5-1-2000, it's 13 years.

15 Q. What is Exhibit 24?

16 A. Exhibit 24 is the AFE, or basically a cost
17 estimate of what we feel like it would take to put this
18 unit into operation initially. It's a total of \$865,000.
19 It does not include an additional approximate \$64,000 that
20 it will take to convert these Phase II injectors. In our
21 economics, which we'll cover later, we do account for that
22 additional \$64,000, but this is the initial installation.
23 It includes drilling and equipping one producing well,
24 converting injectors and reconditioning the producers,
25 installing waterflood facilities and a water supply line.

1 Q. In your opinion, will the project be economic?

2 A. Yes, we have economics -- The incremental
3 economics are Exhibit Number 25, and as a quick summary,
4 the economics on that which include that \$64,000 in Phase
5 II, we're basically going to generate \$10.2 million in
6 future revenue. That will have a total cost, installation
7 and operating cost, of approximately \$6.2 million, for a
8 total of \$4 million profit. The rate of return is
9 anticipated to be 55.8 percent. And this was all based on
10 a \$22 flat oil price.

11 Q. Okay. In your opinion, is the portion of the
12 pool being unitized suitable for waterflooding?

13 A. Yes.

14 Q. Is the project area so depleted that it's prudent
15 to apply an enhanced recovery program at this time?

16 A. Yes.

17 Q. Is a waterflood project technically and
18 economically feasible at this time?

19 A. Yes.

20 Q. And will the value of the oil and gas recovered
21 by unit operations exceed the unit cost, plus a reasonable
22 profit?

23 A. Yes.

24 Q. Will the waterflood operations result in the
25 recovery of substantially more hydrocarbons from the pool

1 than will otherwise be recovered?

2 A. Yes.

3 Q. In your opinion, will unitization and secondary
4 recovery benefit the working interest and royalty owners in
5 the unit?

6 A. Yes.

7 Q. Is unitized management and operation of this
8 reservoir reasonably necessary to effectively carry out
9 waterflood operations?

10 A. Yes.

11 Q. Because of the estimated additional production,
12 do the wells in the proposed unit qualify for the recovered
13 oil tax rate?

14 A. Yes.

15 Q. Now, let's discuss your proposed tract allocation
16 formula, which is set forth initially in Exhibit C of the
17 unit agreement, but let's move on to your Exhibit 26, which
18 I think describes it in more detail.

19 In your opinion, does this formula allocate
20 produced and saved hydrocarbons to each tract on a fair,
21 reasonable and equitable basis?

22 A. Yes, it does. Our tract participation -- This is
23 a clarification exhibit that we sent to the Commissioner of
24 Public Lands showing each tract, what the cumulative
25 production was on 5-1 of 2000, what we feel like the

1 remaining primary, which was represented by the curve I
2 showed you previously.

3 We have one undeveloped location on the Federal
4 19 tract, which we gave 13,880 barrels to. And the
5 ultimate primary is 555,000, and that includes that
6 additional PUD, and the economics of that proved
7 undeveloped location was included in the secondary
8 economics.

9 Q. Looking at your Exhibit 26, other than for a
10 couple of wells, the pool is basically depleted as far as
11 primary production goes; is that correct?

12 A. That's correct. There were only five wells, I
13 think, producing over a barrel a day.

14 Q. Okay, and that's why you have based the tract
15 allocation formula solely on cumulative production?

16 A. Yes, there's very little error in primary
17 forecast, since it's there.

18 Q. Now, let's discuss your injection operations.
19 Will you identify Exhibit 27 for the Examiner?

20 A. Exhibit 27 is a copy of the C-108 that was an
21 Application for injection that was filed with the OCD.

22 Q. I'll let you run through this pretty much, Mr.
23 Rose, but will you describe how the injection wells will be
24 completed?

25 A. The injection wells, if you look at that first

1 legal-size page, that's Item III under the C-108, there are
2 three pages of injectors listed there with a kind of a
3 pseudo-schematic on the left side, and then individual
4 surface-casing and production-casing layouts.

5 As a summary, these three pages represent all 18
6 wells that we plan to inject into eventually, which
7 includes Phase I and Phase II injectors.

8 Generally, 8-5/8 casing was run and cemented from
9 300 to 400 -- or set at 300 to 400 feet and cemented to
10 surface on these wells.

11 Production casing was generally either 4-1/2 or
12 5-1/2-inch casing, set through the pay interval and
13 cemented to surface or tied back to the surface casing.

14 There are some exceptions to this. Most of the
15 wells in this area, 22 wells, were done in the 1982-to-1987
16 time frame, and they are basically completed like we've
17 described. There are two wells -- there are three wells on
18 the Iles lease that are open-hole sections that were
19 drilled in 1939 and 1940, and then the Big-Mac is also one
20 of the injectors that was drilled in 1956, although that
21 was subsequently cased. And so we do have three open-hole
22 wells, and those are described in that Exhibit 3.

23 Q. Okay. Now, how many wells are there in the area
24 of review?

25 A. There are -- In the area of review, which is a

1 half-mile radius around all injectors, there are 42, and
2 let's -- what that is. Behind that injection well review
3 there is an area map which shows a two-mile radius with the
4 half-mile radius of review, and then behind that there is a
5 detailed area-of-review map, showing all penetrations
6 within the area of review.

7 Q. Are any of these 42 wells plugged and abandoned?

8 A. Yes, we have 11 wells in that area that have been
9 plugged, and the wellbores are attached. We have 18 of our
10 injectors in there, that are in that area of review, of
11 course, eight producers, and then there are five offset
12 producers. And the information in the C-108 includes,
13 under Item VI, unit producing wells, the offset producing
14 wells. And then finally there is a list of 11 P-and-A'd
15 wells with schematics attached, wellbore schematics.

16 Q. Let's go through those a little bit. In general,
17 are the wells in the area of review properly completed or
18 properly plugged and abandoned?

19 A. Generally they are. We have those three older
20 wells that were nitro'd, treated with nitroglycerine, in
21 1939. Although the casing intervals are well within the --
22 most of these -- All of these wells were basically drilled
23 to the Penrose. There are one or two that went deeper.
24 But the intervals in the open hole are basically conducive
25 to our flood.

1 As far as the P-and-A wells, there are two --
2 there was some additional work done in 1993 to see what we
3 needed to go back and plug on plugged wells. Of that list
4 of 11 plugged wells, there are two that the OCD had
5 concerns about in the early 1990s. That was the Number 3
6 well and the Number 4 well or the George Atkins Iles Number
7 5, and the B.H. Nolan/George Atkins Iles Number 1. They're
8 both in Section 17, in Section O and -- or Unit O and P.

9 Q. Could you move on to those wellbore sketches,
10 perhaps, for the Examiner and identify those wells, just
11 describe them briefly?

12 A. The third wellbore sketch back is the George
13 Atkins Iles Number 5. This was a well that was drilled to
14 1866, and we have some fairly thin plugs in that well. I
15 assume that's what we're trying to go back in and -- The
16 main concerns in this area, the State Engineer has been
17 contacted about water. There are some scattered freshwater
18 sands, down to about 100 feet, Triassic sands. There are
19 no aquifers in this area. And water protection is somewhat
20 of a concern, but there is very little water in this area.

21 The other concern you might have is coming out of
22 the zone on our injection well, and are we going to affect
23 other producing horizons. Basically these wells, there are
24 no other producing horizons really within our flood area,
25 and that -- either below us or above us. But the Iles

1 Number 5 is one that the Commission had previously stated
2 we needed to plug.

3 And then the next wellbore sketch, the George
4 Atkins Iles Number 1, was also --

5 Q. So additional work would be required on those
6 wells before injection could begin?

7 A. Yes, that's correct. And we have presented
8 wellbore sketches on the other wells for the Commission's
9 review too and for their consideration and --

10 Q. Okay.

11 A. -- would be glad to comply with whatever the
12 Commission deems necessary on those plugged wells. All the
13 wells in the area have been plugged, it's a matter of
14 whether they've been plugged to our satisfaction.

15 Q. Would you please summarize your proposed
16 injection operations?

17 A. We anticipate an injection rate of approximately
18 200 barrels a day. That's the maximum we're really looking
19 for. There is a pressure concern out here as far as
20 injection pressure. I know the Commission has a .2 p.s.i.
21 per foot, and we're talking about, you know, anywhere from
22 1650 to 1800 feet on these perforations.

23 The study from T. Scott Hickman and Associates
24 shows the injection pressures and average injection rates
25 on these other floods that were successful, and they go

1 from a low of -- and this is in the C-108, they go from
2 a low of -- Let me look at that just to make sure I'm
3 talking --

4 Q. The Scott Hickman study is attached to the C-108?

5 A. Yes, that's correct. The other floods have
6 experienced -- the best injection they experienced was 280
7 barrels a day at 700 p.s.i. The .2 p.s.i. per foot would
8 limit us to about 390 or 400 pounds.

9 The maximum injection pressure on these other
10 floods that were successful was 150 barrels a day at 1100
11 p.s.i. We feel like, based on what we've said previously
12 about the pay quality to the east being better than ours,
13 that we may experience some tighter reservoir in this area,
14 and so we would like to request 1100 pounds, as far as
15 injection maximum.

16 Q. Is there a proposed stimulation program for the
17 injection wells?

18 A. There's no -- These wells were originally treated
19 with a small frac job, generally about 20,000 gallons and
20 about two pounds per gallon of sand. Other than acid jobs
21 to clean up carbonate scale, there's no anticipated
22 treatment. And these wells will be -- we'll run 2-3/8
23 tubing in the wells, use AD-1 tension packers within 100
24 feet of the perms. This will be plastic-lined, we're
25 planning on using seal-type plastic-lined tubing at this

1 point in time to complete the injectors.

2 Q. Moving to the very last pages of the C-108, are
3 there any sources of fresh water in this area?

4 A. Like I stated previously, we've been in contact
5 with the State Engineer and done searches on fresh water.
6 There is one freshwater windmill within a mile of our
7 injectors to the southwest. I think that's the second to
8 the last page on the C-108; it has that Windmill Number 2
9 outlined. And we've included a water analysis on that.

10 That well was -- This water analysis was done in
11 1990 when we did the Red Lake Unit. We have current
12 analysis not included with that; we have current analysis
13 on that well also that we received after the C-108, and it
14 shows similar water quality. That's the only freshwater
15 well we know in the area.

16 Q. Now, you've briefly addressed this before, but
17 again what will be the source of the injection water?

18 A. We did a four-township search in looking for --
19 because the Commissioner of Public Land had some concerns
20 about using fresh water. We did locate -- There are no
21 disposal wells in the two townships we're involved with.

22 To the south there are. Mack Energy operates two
23 disposal wells. One of them, which is five miles from us,
24 does about 6500 barrels a day out of the Yeso and Paddock.
25 We had that analyzed as an option, and that water is

1 extremely cruddy water. We've analyzed it. It has a
2 tremendous amount of solids in it, oil carryover, extreme
3 carbonate scale problems and bacteria.

4 The fresh water coming from Carlsbad water system
5 is three miles to the east of us. It's uphill from us, and
6 we can gravity-flow it to our flood. These other floods
7 have been successful in using this fresh water, and I don't
8 particularly care to use the fresh water, but I think the
9 Big George -- our opinion is that Big George water disposal
10 system water would pose considerable risk to the success of
11 the flood, even if you tried to keep up with it, additional
12 expenses with filters and -- and we really feel like that's
13 our real risk to the success of the unit. So we're
14 requesting the use of Carlsbad Double Eagle fresh water to
15 the east of us.

16 Q. Just one final question, Mr. Rose, if you could
17 turn back to your injection pattern map --

18 A. Uh-huh.

19 Q. -- it's Exhibit 2, and maybe -- There was
20 questions of Mr. Beach about these couple of wells in
21 between the Beach Red Lake Unit and the proposed unit, and
22 if you look down there at the southwest corner of your
23 proposed unit there are a couple of Cal-Mon State wells, I
24 think the Number 1 and 2.

25 A. Yes, that's correct.

1 Q. In your opinion, would it be economic to add
2 those wells into this waterflood?

3 A. We don't think it would be. It wouldn't be
4 advisable in our opinion. The M&W well is a -- as I've
5 stated before -- I think Exhibit 26, which was the
6 allocation of primary recovery, has a map attached to it
7 that has ultimate primary per well and kind of gives you a
8 spatial representation of what kind of primary recovery
9 we've had out of these wells.

10 The better wells in the sweet spot are 50,000-
11 and 40,000-barrel wells. The M&W has about 25,000, which
12 is a pretty decent well in this area. The wells around it
13 are 13, 4, 10 and 4. The two Cal-Mon wells are about
14 11,000-barrel-type wells.

15 Part of our concern is, we -- If you look at the
16 curves on these two wells, they do show some kick, not a
17 normal primary decline, in the 1990s, and we feel like
18 there may be some that we have already swept some oil from
19 the Red Lake Unit to those wells. So we feel like there
20 may have been already some secondary recovery taking place
21 in those wells. If we included those wells, we would
22 probably have to convert both of them to injectors only,
23 and it just wasn't deemed advisable to include them, based
24 on that.

25 Q. If you converted them to injectors, they'd really

1 only be supporting one well, wouldn't they?

2 A. That's correct, the M&W well.

3 Q. In your opinion, is the granting of this
4 Application in the interests of conservation and the
5 prevention of waste?

6 A. Yes.

7 Q. And were Exhibits 18 through 27 prepared by you
8 or under your supervision?

9 A. They were.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Exhibits 18 through 27.

12 EXAMINER CATANACH: Any objection, Mr. Taylor?

13 MR. BILL TAYLOR: (Shakes head)

14 EXAMINER CATANACH: Exhibits 18 through 27 will
15 be admitted as evidence.

16 Mr. Taylor, do you have any questions of this
17 witness?

18 MR. BILL TAYLOR: Yes, sir. I wish I was on the
19 other side of the table, over there with him. I
20 appreciate. You look like you've done your work, and
21 that's good.

22 EXAMINATION

23 BY MR. TAYLOR:

24 Q. You took the 1993 study by the Hickmans and you
25 updated it. That's what this was telling us, and we have

1 your figures as to how your update is. That's where we
2 come up, and you said 558,000. I think it's 555,000 but
3 maybe I'm wrong, I don't remember.

4 A. Well, we have -- if I can clarify that, we have
5 -- 541 is the primary without this additional drilling
6 location.

7 A. Yes, sir.

8 Q. We've put 13,000 barrels on that undrilled
9 location. If you add that to the 41 you get 555,000
10 primary for the whole area, and that gives you about -- I'd
11 have to go back and look, but it gives you something less
12 than 555,000 for this incremental secondary.

13 So actually our secondary-to-primary ratio is a
14 little under 1, based on that additional PUD location.
15 That's a little confusing there.

16 Q. Well, you propose to drill the one well right in
17 the middle of everything, up to the northeast of the M&W --

18 A. Yes.

19 Q. -- in order to take advantage of the five-point
20 system you've got going.

21 A. Yes.

22 Q. And you anticipate it doing how much, you said?

23 A. 13,880. And what that is based on is, it's an
24 average of the eight wells surrounding that location.

25 Q. All right. So --

1 A. Most of which is the M&W.

2 Q. Well, there's really not much risk in drilling
3 that well, then, is there?

4 A. There is an area there, there is risk in drilling
5 that well. The -- going back to Exhibit -- trying to find
6 it, the primary recovery, Exhibit Number 26, and it has a
7 plat with ultimate primary per well on it. If you look at
8 that location, the M&W Federal well to the southwest is a
9 25,000-barrel well. To the northwest our Exxon Federal
10 Number 6 is a 24,000. And to the northeast you've got a
11 24,700-barrel well.

12 But the other wells around that location are, you
13 know, 13,000, 6000, 10,000 and 4000. There is a risk that
14 that may be a tight portion of the reservoir, and we may
15 end up with a 4000- to 10,000-barrel well. And of course
16 that's taking into account our average --

17 Q. But here, on this here, you have indicated it's
18 going to be 13,880 --

19 A. That's correct.

20 Q. -- as your best estimate.

21 A. That's correct.

22 Q. And that's sitting down with no pressure on it?
23 I mean, to say, that was at home.

24 A. Yeah, assuming we haven't drained it, and it's a
25 good location and --

1 Q. Yes, and you intend -- All right. So there
2 really isn't much risk there with that one involved in the
3 first part.

4 You have taken five waterfloods, one of them that
5 you operate --

6 A. Uh-huh

7 Q. -- or Beach operates, to come up with an analysis
8 of what to expect from this one?

9 A. That's correct.

10 Q. And you expect that 555,000, 558,000 barrels,
11 reasonably expected.

12 You are familiar that risk factors, as I
13 understand them -- and the Commission can correct me -- is
14 for drilling and not being able to see what's there and
15 taking a risk. The 200-percent factor is for a wildcat,
16 and this here you have all of these logs, Hickman had all
17 these logs, you've got the porosity, you've got five
18 different wells -- I mean five different floods --

19 A. Uh-huh.

20 Q. -- to fall back on. This is just a pretty well
21 cinch that we're going to get a pretty good percentage of
22 our money back, aren't we?

23 A. I wouldn't classify it as a cinch, because we
24 went into the Red Lake with the same assumption, and we
25 only got a .5 secondary-to-primary ratio. But yes, it's a

1 good candidate and we want to do it. Whether we will
2 succeed is still a question in our minds, but it's a good
3 candidate and we think it needs to be done.

4 Q. You've mulled it over for several years, haven't
5 you?

6 A. Uh-huh, yes.

7 Q. And so if you didn't think it was a good
8 candidate you wouldn't be going with it?

9 A. But there is risk.

10 Q. And you're expecting 555,000 barrels. That's
11 your estimate of what it will produce.

12 A. That's correct.

13 Q. That's not much of a risk. Do you really think
14 it warrants a 200-percent risk factor, because --

15 A. Yes, I do.

16 Q. You don't think that's penalizing us or rewarding
17 you for doing it? I don't mind you seeing a reward. If
18 you have to invest the money, I think you ought to get
19 interest on it. But there's not much risk here. We've got
20 five other flood units that show you how to do it, you can
21 compare their logs with your own logs, and you ought to
22 know what's going to happen. And you're telling us that
23 you expect this 555,000, 558,000 barrels of oil. That's
24 not a 200-percent risk factor, is it, sir?

25 A. I feel like there's nothing in gut sense in the

1 oil industry. I've drilled enough wells to know that
2 anything can happen to you. There's always risk involved.

3 If somebody feels this way and that there's not
4 any risk involved in this, then I would ask them to
5 participate with us and spend their money. If we go out
6 and spend almost a million dollars on this thing and it
7 doesn't work, we're taking that risk that it will not work,
8 and if somebody's not willing to take that risk, that's
9 their option, and they don't have to put out that money.

10 But that's what the 200 percent is designed to
11 do, is if you feel that this is a good project and we're
12 going to get -- We're hoping that it succeeds.

13 Q. I am too, I really do.

14 A. And this would be my -- you know, best projection
15 is yes, let's do it. But if you're not willing to take
16 that chance, then yes, the 200 percent I think is
17 reasonable, if not low.

18 Q. The oil being there is not the risk for some of
19 us.

20 A. That's correct.

21 Q. And that only leaves one thing that's the risk
22 whenever that we don't want to participate. So...

23 A. The risk is also, can you get the oil out?
24 There's no doubt that the oil is there. The oil was there
25 in the Red Lake Unit, but we didn't get as much out as we

1 thought we would for geologic reasons.

2 Q. All right, sir, so I don't feel that the risk is
3 there. You're asking for 200 percent. I think that if
4 you're able to get your interest back on any money, that
5 that would be more than adequate, especially since you
6 haven't given very much for the wells that you have
7 purchased.

8 A. The --

9 Q. Just one year's pay is not much.

10 A. If you look at the M&W economics in our offer to
11 you --

12 Q. Yes.

13 A. -- the M&W is doing 45 barrels a month, which --
14 I don't know what your operating expenses are, but on a
15 pumping well, generally, if you've got a pumping well with
16 electricity, I would assume you're going to be \$1200 a
17 month operating expense. I put \$750 a month on your well,
18 and it doesn't fly at 45 barrels a month, so the value in
19 your well right now is zero, according to economics.

20 And there is value, since we are going to put it
21 in a flood. The value -- And basically the \$13,000, you
22 can either look at it as, we'll pay you for your salvage
23 and your equipment, plus money, because I don't think you
24 have \$13,000 worth of --

25 Q. One year's production even at the 45 barrels a

1 day, but go ahead. I mean 45 barrels a month.

2 A. Yeah, that's quite a bit of value, but you have
3 some cost to get that out, and that's what I'm saying --

4 Q. Uh-huh.

5 A. -- you can't --

6 Q. Well --

7 A. If you'll let me finish, on the --

8 Q. Sure.

9 A. -- the other way to look at this offer is, how
10 much is the flood worth? We're not in the business of
11 trading money and taking a risk without getting a reward.
12 The \$13,000 represents, on our economics that we've
13 presented here, approximately a 30-percent rate of return
14 for our interest. In my experience, I've been in
15 exploration programs and development programs, and
16 generally if you shoot for a 30 percent you might end up
17 with a 10 to 15 percent. And that's generally our -- my
18 approach to purchasing properties.

19 And that's pretty much what we've done with
20 everybody else over the years. I think it's a reasonable
21 offer. It doesn't represent the flood value, and if you
22 want to realize the flood value my charge to you is,
23 participate with us and enjoy the benefits of that
24 participation.

25 Q. I am mulling it over, I really am. But there are

1 so many negative aspects. The oil being there is one of
2 them -- not being one of them, I beg your pardon.

3 But that well, if it did have the bore cleaned,
4 would produce considerably more, we've already seen that in
5 the past, but it just hasn't been done with the present
6 operator. He was considering it until you all started
7 talking to him.

8 You were talking about the cost of the well.
9 What are we going to do -- and maybe Mr. Hinson is the one
10 I need to ask this one about. I have an agreement as to
11 how much that well is going to cost me to pump it and the
12 overhead on it. I have that, that goes back. I have some
13 billings here that show what it is. I pay my share of a
14 hundred and seventy -- let me just be sure, I believe it's
15 \$175 a month for overhead, administrative, overhead and
16 pumping that thing. Now, \$75 for administrative, overhead,
17 \$150 for pumping. And I'll pay my share of that.

18 Now, that's the agreement I have. Are we going
19 to just null and void a private negotiated agreement on
20 that well, or how are we going to handle that?

21 A. I don't understand your question.

22 MR. BRUCE: Mr. Examiner, that's a legal
23 question, but certainly the Statutory Unitization Act
24 requires that the Division approve the unit operating
25 agreement, and the unit operating agreement will supersede

1 Mr. Taylor's agreement with H&S or whoever, to the extent
2 necessary to allow Beach to operate that well as it sees
3 fit.

4 EXAMINER CATANACH: I would have to agree with
5 you, Mr. Bruce, on that.

6 MR. BILL TAYLOR: Well, I appreciate both of you
7 speaking up, because it has been a question. And whenever
8 I talked to two attorneys they couldn't tell me the answer.
9 But I do appreciate that part of it.

10 I suppose, Mr. Rose, that that's probably enough
11 for us today. We need to let this get on this afternoon.
12 I do have a couple things I want to ask of the Commission,
13 and then I'll get out of your way.

14 EXAMINER CATANACH: Thank you, Mr. Taylor.

15 Mr. Rose, just a couple, two or three questions.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. You've identified one location that you're going
19 to drill within the unit. There are some tracts that do
20 not have a well. You have no plans to drill any additional
21 producing wells?

22 A. Not at this time. In the northwest corner
23 there's a 40-acre tract, or maybe not totally 40, but north
24 of the Rosewood State. The Rosewood State was a gassy
25 well, and we feel like that updip, if you remember the

1 structure, there's some gas, and that's probably gas-cap
2 gas. The Rosewood only had 881 barrels of oil, but it
3 produced some gas, and we want to fill that up with water.
4 So we don't feel like there's much reservoir up there.

5 Same reason to the south of that well.

6 Q. Uh-huh.

7 A. Over to the southeast, if you look in Section 20
8 there's a 40-acre tract, the northwest of the northeast
9 quarter of 20, and also the southwest of the southeast of
10 Section 17. Those two 40-acre tracts are undrilled. It
11 appears to us with the well performance, it gets better to
12 the east of that area and it gets better to the west, but
13 that little avenue in there seems to be tight and poorer
14 quality, and that's why we didn't take the unit to the
15 east, because we thought it could have communication from
16 it.

17 Q. Okay. Again, just to go over your costs, you've
18 estimated \$865,000.

19 A. That's correct.

20 Q. And did that include -- You mentioned something
21 about another forty-some-thousand dollars.

22 A. \$64,000 for subsequent --

23 Q. \$64,000.

24 A. -- we're talking about Phase II injectors. There
25 are an additional five injectors that -- or producers that

1 will be converted to injection when they water out, and
2 that's approximately \$64,000 added on to that \$865,000,
3 which would give you a \$929,000 total.

4 Q. Okay.

5 A. And the reason I didn't include it on the initial
6 is, our approach to this peripheral flood in the north is
7 to put the water in the ground and start seeing what's
8 happening, see where it's breaking through. There may be a
9 point in time when we decide to put an injector in the
10 middle of the sweet spot, but this is our initial approach
11 to it, and we'll have to see how it develops and how the
12 rock reacts when we inject water.

13 Q. Okay. You mentioned the fact that three of the
14 wells were treated with nitro. Were those the three open-
15 hole injection wells?

16 A. Yes, that's correct.

17 Q. Do you have any concerns about the annulus in
18 those wells being able to conduct water from the injection
19 zone upward?

20 A. I don't think so. They were cased above the zone
21 and then drilled out open-hole, and they do have cement
22 behind that casing. Generally the cement -- or the casing
23 is -- I think the biggest interval on one of them is like
24 150 feet. The actual Queen sand, which is approximately
25 200 feet above the Penrose, might be a concern, but it

1 doesn't produce in the area. It tends to be wet.

2 There's one well that's got 150 foot of interval
3 in there, but it doesn't come up to the Queen. The fact
4 that these have been treated and producing and were
5 originally nitro, we feel like it's going to stay in.

6 There's nothing above. In between those, we're
7 looking at anhydrite and salts, and there's nothing below
8 us immediately or above us immediately that really would
9 take any water. If water did get behind the casing on that
10 particular well and went into the Queen, we're basically
11 talking about putting it into another water zone, not a
12 productive oil zone. So I don't feel like that's a
13 concern, other than losing injection efficiency.

14 Q. Okay. You've identified two wells that you plan
15 to re-enter and re-plug; is that my understanding?

16 A. Yes, and our understanding from our previous
17 correspondence back in the 1990s was, the OCD would require
18 us to re-enter those two wells and re-plug them. I don't
19 know the details of what would be required as far as plugs,
20 but yes.

21 Q. Do you think that's a good idea?

22 A. Yes. You know, we don't want to spend any more
23 money than we have to, we want to protect any fresh waters
24 in the area. I guess our -- in my discussions with the
25 State Engineer's Office, there doesn't appear to be a whole

1 lot of fresh water in this area. We don't want to damage
2 any that is there. That would be my main concern, is the
3 shallow portion of these wells.

4 I would hope that we wouldn't go to replugging
5 2000 feet, because I don't think we have much danger of
6 affecting other zones down there. If we've got some weak
7 plugs in the 1950s and 1940s that were put in there, maybe
8 ten sacks going into the top of the wellbore and putting
9 some more cement in the top to protect some potential fresh
10 water lenticular sands up there, that's kind of what I see.

11 Q. You've asked for an injection pressure of 1100
12 p.s.i., which is above the .2 standard that we use. Do you
13 have any evidence that you want to present today with
14 regards to the fact that that 1100 p.s.i. will not fracture
15 the Penrose formation?

16 A. I don't have any evidence today. We have gone to
17 hearings before on the Red Lake Unit. I think -- How many
18 hearings did we --

19 MR. BEACH: Just the one, I believe, to increase
20 the pressure.

21 THE WITNESS: One or two to increase the pressure
22 in Red Lake, and we were able to do that. They did step-
23 rate tests on the Red Lake Unit and were able to increase
24 the injection pressures. I don't think it helped us there,
25 because it was a permeability problem between the wells,

1 even though the pay was continuous.

2 We do know that some of this was tight, and we
3 anticipate -- I guess my approach to this is, if we start
4 out with 400 pounds, we may be back here within a week of
5 starting the flood, you know. We're going to have fill-up,
6 and that's going to take about 20 months, and hopefully the
7 water will go in pretty clean.

8 But those are our concerns as far as, you know,
9 taking care of your time and ours also.

10 Q. (By Examiner Catanach) I understand. Generally
11 the orders that we issue have a provision where you can run
12 step-rate tests and then administratively ask for an
13 increase in pressure, and it wouldn't require you to come
14 back, necessarily, to Santa Fe. But unless you have some
15 data that shows that the Queen won't fracture at 1100
16 p.s.i., I'm not sure that I can grant that request at this
17 point.

18 A. Is there any middle ground that we can go to like
19 750?

20 Q. I'm not going to negotiate this.

21 A. Okay, and that's fine. You know, we'll do
22 what it --

23 Q. If you have some data that you would like to
24 submit, even after the hearing, I mean I would be willing
25 to look at it.

1 A. Okay. Well, we may go back and look at some of
2 that.

3 EXAMINER CATANACH: That's really all I have in
4 terms of questions.

5 MR. BILL TAYLOR: Mr. Catanach, I would like to
6 just say that I'd appreciate if the Commission would just
7 allow that operating agreement. It does go over into
8 private ownership and such, and it prevents arm's-length
9 bargaining.

10 I would appreciate it if you would consider a
11 zero risk factor on this. If you want to allow them
12 interest on their money, fine, but they also have some
13 wells. They're going to make money on quite a bit of it.

14 And I would appreciate detailed and proper
15 accounting that has been taking place prior to the Oil
16 Commission. The AFE and such that we received was very,
17 very broad, just hit it the most broadest I've ever seen.
18 And if you all would consider those, I would appreciate it.

19 EXAMINER CATANACH: Is there anything we can
20 provide Mr. Taylor in that area, Mr. Bruce?

21 MR. BRUCE: As far as the AFE stuff?

22 EXAMINER CATANACH: Yes.

23 MR. BRUCE: Yeah, we have more details. We will
24 copy it and slip it into the mail to you within the next
25 day or so.

1 EXAMINER CATANACH: Okay.

2 MR. BRUCE: There are detailed backup sheets to
3 that.

4 EXAMINER CATANACH: Okay, that will help some.

5 MR. BILL TAYLOR: And that in future -- Right now
6 it's not such a large problem to me, because -- even though
7 it's not detailed. The well has what, \$150,000 to drill it
8 and such? And ordinarily we do get more detail so we can
9 scrutinize a little bit more, and this was furnished me
10 since I talked to you, and I appreciate it. I think that
11 they've got some good men working for them.

12 Thank you all.

13 EXAMINER CATANACH: Thank you, Mr. Taylor.

14 Okay, anything further, Mr. Bruce?

15 MR. BRUCE: No, other than give us a week to
16 determine if we'd like to present more data on the
17 injection pressures, and then of course the BLM approvals.

18 EXAMINER CATANACH: Give you a week. I'll tell
19 you what, we'll close the record now, but if you want to
20 submit that, that's fine, additional data regarding
21 pressures, that's fine. If you would do that within a week
22 to two weeks, that would be appreciated.

23 And the BLM approval you're going to submit also?

24 MR. BRUCE: Correct.

25 EXAMINER CATANACH: Okay, there being nothing

1 further in these cases, Case 12,684 and 12,685 will be
2 taken under advisement.

3 (Off the record at 12:10 p.m.)

4 (The following proceedings had at 4:36 p.m.):

5 EXAMINER CATANACH: And this hearing is adjourned
6 until 8:15 --

7 MR. BRUCE: Mr. Examiner --

8 EXAMINER CATANACH: I'm sorry, we're not
9 adjourned yet.

10 MR. BRUCE: If I could, Mr. Examiner --

11 EXAMINER CATANACH: Mr. Bruce.

12 MR. BRUCE: Cases 12,684 and 12,685 were taken
13 under advisement this morning, or early this afternoon, and
14 I had forgotten to move the admission of Exhibits 1 through
15 12 submitted by Beach Exploration, Inc.

16 I will ask at this time Exhibits 1 through 12 be
17 admitted into evidence.

18 EXAMINER CATANACH: Okay, Mr. Bruce, as I recall,
19 there was some objection to those by Mr. Taylor, who was --

20 MR. BRUCE: Mr. Taylor objected to them. I'm not
21 sure what the objection was, but he fully questioned my
22 witnesses regarding those exhibits. I think in particular
23 it had to do with the unit operating agreement. He made
24 his proposal for a no-penalty under the unit operating
25 agreement. As far as I can tell, that was the primary

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

objection.

EXAMINER CATANACH: Okay. Okay, Exhibits 1 through 12 in Case 12,684 and 12,685 will be admitted as evidence.

And we stand adjourned until 8:15 tomorrow morning.

(Thereupon, these proceedings were concluded at 4:38 p.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12684, 12685 heard by me on July 13, 2001 19
David L. Catanach, 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 July 21st, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002