

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:)

CASE NO. 13,175

APPLICATION OF PERMIAN RESOURCES, INC.,)
FOR A NONSTANDARD SPACING AND PRORATION)
UNIT AND AN UNORTHODOX WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Exam

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

March 18th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 18th, 2004, 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.

* * *

I N D E X

March 18th, 2004
 Examiner Hearing
 CASE NO. 13,175

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 8:47 a.m.:

3 EXAMINER JONES: Next case is Case 13,175. Let's
4 call Case 13,175, continued from February the 5th,
5 Application of Permian Resources, Incorporated, for a
6 nonstandard spacing and proration unit and an unorthodox
7 well location, Lea County, New Mexico.

8 Call for appearances.

9 MR. FELDEWERT: May it please the Examiner, my
10 Michael Feldewert with the Santa Fe office of the law firm
11 of Holland and Hart, appearing on behalf of the Applicant
12 in this case, Permian Resources, Inc., and I have two
13 witnesses here today.

14 EXAMINER JONES: Any other appearances?

15 With that, will the witnesses please stand to be
16 sworn?

17 (Thereupon, the witnesses were sworn.)

18 WILLIAM L. PORTER,

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. FELDEWERT:

23 Q. Would you please state your name and address for
24 the record, please, sir?

25 A. My name is Will Porter and I live in Midland,

1 Texas.

2 Q. By whom are you employed and in what capacity?

3 A. I'm employed with Permian Resources, Inc., as
4 land manager.

5 Q. Have you previously testified before this Division
6 and had your credentials as a petroleum landman accepted
7 and made a matter of public record?

8 A. Yes, I have.

9 Q. And are you familiar with the Application filed
10 by Permian in this case and the status of the lands in the
11 subject area?

12 A. I am.

13 MR. FELDEWERT: Mr. Examiner, are the witness's
14 qualifications acceptable?

15 EXAMINER JONES: His qualifications are accepted.

16 Q. (By Mr. Feldewert) I would like to have you, Mr.
17 Porter, turn to Permian Exhibit Number 1. Would you
18 identify that for the Examiner and briefly outline what
19 Permian seeks with this Application?

20 A. Exhibit Number 1 is an ownership map showing
21 Section 17 as highlighted in yellow, our proposed location
22 for our Berry Hobbs Unit 17 Number 1 well, and we would
23 like to seek an order from the Commission approving the
24 drilling of our well at an unorthodox location 2490 feet
25 from the south line, 1850 feet from the east line, being

1 located in Unit J, Section 17, and the approval of a
2 nonstandard 80-acre oil spacing proration unit for this
3 well, which would be a Strawn oil-producing formation
4 comprised of the southwest quarter of the northeast quarter
5 and the northwest quarter of the southeast quarter of
6 Section 17.

7 Q. Okay. Now, what is the initial objective for
8 your proposed well?

9 A. Our initial objective is the Morrow sand. It
10 will be a wildcat, and it would be under a standard east-
11 half spacing unit for the Morrow.

12 Q. Okay. So from the Morrow perspective we have an
13 unorthodox location but a standard spacing unit?

14 A. That's correct.

15 Q. Okay. Is there a secondary objective for this
16 well?

17 A. Yes, our secondary objective is the Strawn
18 formation, which is above the Morrow formation and is
19 Undesignated Northeast Shoe Bar Strawn Pool.

20 Q. Okay, so that would be an oil well?

21 A. That's correct.

22 Q. Okay. Now, I want to -- and again, would this
23 well be unorthodox for that Strawn completion?

24 A. Yes, it will.

25 Q. And for this Strawn completion you're seeking a

1 nonstandard 80-acre spacing unit.

2 Q. Okay. Now, I want to focus a minute on the
3 unorthodox well location. Has the -- This case was
4 initially filed back in September of 2003, right?

5 A. That's correct.

6 Q. Okay, and there's been some delay associated with
7 permitting from the City of Lovington?

8 A. Correct.

9 Q. All right. Has the footage location changed
10 since the filing of that initial Application?

11 A. Yes, it has. We originally advertised it as
12 being 2550 feet from the south line and 1950 feet from the
13 east line, being 90 feet from the northeast quarter of
14 Section 17. We have since moved that location for
15 geological reasons, which will be discussed a little later,
16 to the 2490 feet from the south line, 1850 feet from the
17 east line, which actually moves it more into an orthodox
18 location 150 feet from the northeast quarter of Section 17.

19 Q. Okay, so as advertised it was 90 feet from the
20 northeast quarter?

21 A. Right.

22 Q. And as a result, from geology, you've now moved
23 it to a more orthodox location, and you're now 150 feet
24 from the northeast quarter?

25 A. That's correct.

1 Q. Okay. But nonetheless, your location as stands
2 is still unorthodox for both gas and oil?

3 A. Still unorthodox, yes.

4 Q. All right. Now, I want to focus on the request,
5 briefly, for the nonstandard spacing unit. Again for the
6 Morrow prospect you've got a standard east half; is that
7 right?

8 A. That's correct.

9 Q. For the Strawn prospect are there special pool
10 rules governing this oil pool?

11 A. That's correct, we're required to have 80 acres
12 committed, and the 80 acres should be comprised out of the
13 north half of the section or the south half, the east half
14 or the west half of the quarter section, with wells no
15 closer than 330 feet from the quarter-quarter section line.

16 Q. Okay, so you're seeking an exception to these
17 special rules in that your spacing unit will be crossing
18 the section line?

19 A. The quarter quarter section line, yes, sir.

20 Q. Okay. All right, now is this proposed unorthodox
21 well location, as well as the nonstandard spacing unit in
22 the Strawn -- is that required due to geologic reasons?

23 A. Yes, it is.

24 Q. And is Permian going to present a geologist here
25 today to explain the geology behind this request?

1 A. Yes, we are.

2 Q. What acreage is affected by the unorthodox well
3 location?

4 A. It would be the northeast quarter of Section 17.

5 Q. Okay.

6 A. The well encroaches on that quarter section.

7 Q. And what acreage is affected by the 80-acre
8 nonstandard spacing unit for the Strawn formation?

9 A. That would be the south half of the northeast
10 quarter and the north half of the southeast quarter of
11 Section 17.

12 Q. Okay. Now, with respect to the acreage in the
13 east half of 17, is Permian the operator of this affected
14 acreage?

15 A. Yes, we are.

16 Q. What is the nature of your ownership in this
17 area?

18 A. We own this acreage by virtue of a leasehold that
19 we acquired when we purchased a wellbore there, plus
20 additional leases that we're taking and a farmout from
21 Fasken Oil and Ranch.

22 Q. Okay, and Permian is the designated operator for
23 the entire east half?

24 A. That's correct.

25 Q. Is the ownership in this east half of 17 common

1 throughout the east half of the section?

2 A. Yes, it is.

3 Q. Who's the other interest owner out here?

4 A. The other interest owner is David Petroleum.

5 Q. And is David Petroleum and Permian the record
6 title owners throughout this section?

7 A. That is correct.

8 Q. Is Permian -- Do you have a waiver letter from
9 David Petroleum?

10 A. I do.

11 Q. And has that been marked as Permian Exhibit
12 Number 2?

13 A. Yes, it has.

14 Q. So am I correct that Permian's Application is
15 only affecting the acreage it operates and acreage that has
16 a common ownership throughout?

17 A. That is correct.

18 Q. Were Permian's Exhibits 1 and 2 prepared by you
19 or compiled under your direction and supervision?

20 A. Yes, they were.

21 Q. Okay. Now, does Permian request an expedited
22 order on this Application, and if so, why?

23 A. Yes, we do. We would like to have an expedited
24 order for several reasons. Number one, we do have a
25 farmout that expires April 1. We have executed a contract

1 with the drilling company under very favorable economic
2 terms. If we don't honor that contract, we'll suffer some
3 financial penalties in order to maintain that contract.
4 And those are the two biggest reasons.

5 Q. Do you have a need to move quickly in this well?

6 A. Yes, we do.

7 Q. Are you hoping to have the approval from the
8 Lovington Extraterritorial Zoning --

9 A. Yes.

10 Q. -- Commission shortly?

11 A. Yes, we are.

12 MR. FELDEWERT: Okay. With that, Mr. Examiner, I
13 would move the admission into evidence of Permian Exhibits
14 1 and 2.

15 EXAMINER JONES: Exhibits 1 and 2 are admitted
16 into evidence.

17 MR. FELDEWERT: And that concludes my examination
18 of this witness.

19 EXAMINATION

20 BY EXAMINER JONES:

21 Q. Okay, Mr. Porter --

22 A. Yes, sir.

23 Q. -- I have -- you've answered a lot of the
24 questions, but let me go through it one more time here,
25 because you're asking for an expedited order.

1 On the -- the operator of record in the Morrow is
2 who in that northeast --

3 A. In the east half?

4 Q. In the east half.

5 A. It would be Permian Resources, Inc.

6 Q. So you guys are the operator of record?

7 A. That's correct.

8 Q. And you're only encroaching on the Morrow, on
9 yourself there?

10 A. Well, no, we are -- David Petroleum owns a
11 working interest position in the Morrow as well, and we
12 have entered into a voluntary working interest position
13 with them. They're going to participate in the drilling of
14 the well.

15 Q. Okay, so there's -- in effect, they're sort of an
16 operator also, out there?

17 A. Yes, they could operate the well. However, we
18 have the largest interest there, and they have asked us to
19 operate the well.

20 Q. Okay. Now let's get the location straight one
21 more time here.

22 A. Okay.

23 Q. I've got here 2490 from the south and 1850 from
24 the east; is that going to be the correct location?

25 A. 2490 from the south line and 1850 from the east

1 line, yes, sir.

2 Q. Okay. So the east-west hasn't changed any of the
3 encroachment problems; it's just -- you moved it a little
4 bit further toward an orthodox location?

5 A. Correct.

6 Q. But it's still unorthodox --

7 A. Correct.

8 Q. -- for the Morrow and the Strawn?

9 A. That's correct.

10 Q. Okay. Now, do you have anything showing that
11 Davis -- Is it Davis Petroleum?

12 A. David.

13 Q. David Petroleum.

14 A. Uh-huh.

15 Q. Do you have anything showing that they -- well,
16 you noticed them --

17 A. Right.

18 Q. -- and you got something showing that you noticed
19 them in here?

20 A. Right, yes, sir.

21 EXAMINER JONES: Okay.

22 MR. FELDEWERT: Exhibit Number 2 is a waiver.

23 EXAMINER JONES: Okay, thank you.

24 Q. (By Examiner Jones) And so that -- I think that
25 takes care of my questions on the notice on the Morrow.

1 A. Okay.

2 Q. And we'll talk about the location of the well
3 with the geologist later, but -- Okay, the Strawn --

4 A. Yes, sir.

5 Q. -- now, a minute ago you said the areas affected
6 by the nonstandard proration in the Strawn --

7 A. Uh-huh.

8 Q. -- would be who?

9 A. The area?

10 Q. Yeah.

11 A. It would be the south half of the northeast
12 quarter --

13 Q. Okay.

14 A. -- a laydown 80, as I --

15 Q. Okay, so you're saying that the other alternative
16 here is to do laydown 80s there?

17 A. That's correct.

18 Q. Okay, isn't there another alternative, is to do a
19 standup in the -- let's say the east half of the southeast
20 quarter? That could be a standup?

21 A. Possibly so, yes.

22 Q. And that would be a valid -- Now, why didn't you
23 go for that here?

24 A. Well, we tried to center our wellbore in the
25 middle of what we would consider an 80-acre proration unit.

1 I think if you did an east-half southeast or a west-half
2 southeast, the wellbore would be located in the absolute
3 upper corner of the proration unit.

4 Q. It would, except people do that all the time.

5 A. Okay.

6 Q. But is there any other land reasons why?

7 A. No.

8 MR. FELDEWERT: Geology.

9 Q. (By Examiner Jones) Okay, I can see the geology
10 reason.

11 A. I think when you see the geological reasons it
12 may help out a little bit more in understanding that.

13 Q. Okay. The nonstandard proration unit, it says on
14 the notice, to be given to all owners of interests in the
15 mineral estate. So who would be the interests -- who would
16 own the mineral estate here?

17 A. Permian -- Right now, Permian would own by virtue
18 of leasehold approximately 60 percent of the mineral
19 estate, and David would own the 40 percent.

20 Q. Okay, who would be the -- Who's the revenue
21 interest owners here?

22 A. There's about 60 of them.

23 Q. Okay. And you don't interpret this to mean that
24 you had to notice the revenue interest owners?

25 A. Well, we have discussed that, and we did go ahead

1 and notify in this particular instance the mineral interest
2 owners that are currently subject to the leases. However,
3 the mineral interest owners are the same under the entire
4 section.

5 Q. Okay.

6 A. Okay?

7 Q. Okay. But you did send them a letter anyway?

8 A. Yes, out of an abundance of precaution. There's
9 numerous owners out there, and we just -- we made that
10 decision.

11 Q. So the whole east side of that section is common
12 ownership? I mean, as far as the working interest goes,
13 David Petroleum and Permian?

14 A. That's correct.

15 Q. You guys have --

16 A. We don't own the same percentage, but we're the
17 two working interest owners there.

18 Q. Doesn't David own a certain acreage and you --
19 and Permian own a different acreage?

20 A. No, we own undivided interest --

21 Q. Undivided, okay.

22 A. -- in the entire east half, that's correct.

23 Q. You've leased it as undivided -- leased it
24 together?

25 A. Well, no, when the Berry Hobbs Number 1 well,

1 which is located in the northeast quarter of the northeast
2 quarter there, was drilled, there were approximately 40 of
3 these leases taken.

4 Q. Okay.

5 A. That well still produces. It holds a quantum of
6 leasehold interest by virtue of those existing oil and gas
7 leases. There was a quantum of mineral interest owners
8 that had Pugh clauses or continuous development clauses,
9 the Berry Hobbs family being one of them.

10 The Berry Hobbs well is a Wolfcamp well that is a
11 160-acre proration unit --

12 Q. Yeah.

13 A. -- therefore the Hobbs leases expired as to the
14 west half and southeast quarter. David went in and leased
15 the Berry Hobbs family.

16 Q. Okay.

17 A. So that's how they acquired their interest in
18 that section.

19 Q. Okay.

20 A. In addition to the Hobbs family having a Pugh
21 clause as to surface, it also had a vertical severance in
22 it, which would be below the producing horizon, which is
23 the Wolfcamp out there. So when David took their leases,
24 not only did they take the west-half southeast quarter, all
25 depths there, they also took the northeast quarter below

1 the Wolfcamp, which would include our Morrow formation
2 there. So that's how they own a working interest position
3 in the Morrow in the east half.

4 They own a 40-percent interest, surface to all
5 depths in the southeast quarter. They own a 40-percent
6 working interest below the base of the Wolfcamp to all
7 depths, which would include the Strawn formation as well.

8 Q. Yeah.

9 A. So this is very complex land. This is, in my 20
10 years, the most complex land deal I have worked on, and so
11 that's how the -- all mineral owners at this point in time
12 are voluntarily committed to -- either by virtue of a lease
13 that's held by production, leases taken by David Petroleum
14 into our prospective drilling program out there.

15 Q. Okay. Yeah, if you have this nonstandard
16 proration unit where you propose it to be, the royalty
17 owners south, directly south of that in the southwest of
18 the southeast would not share any production from the
19 Strawn, would they?

20 A. They're the same, though, in the northwest of the
21 southeast. So there's no distinction in -- there's no
22 difference in royalty ownership in that 40-acre tract in
23 the northwest of the southeast and the southwest of the
24 southeast. They're the same owners.

25 Q. Same owners, but they wouldn't get the same --

1 They would get some of the production, but they wouldn't
2 get -- if you made the proration unit in the west half of
3 the southeast, those southeast owners would get all of the
4 production, wouldn't they?

5 A. Yes, but it's the same ownership --

6 Q. Yeah.

7 A. The ownership in that, if you -- that 80 acres
8 that we have outlined in red there --

9 Q. Yeah.

10 A. -- the ownership would be the same if we did a
11 standup west half --

12 Q. Okay.

13 A. -- southeast. Nobody's penalized, in my opinion,
14 by having this nonstandard proration unit as to the royalty
15 ownership.

16 Q. Okay. And as far as the nonstandard location in
17 the Strawn, the -- with your proration unit, if it gets
18 approved the way you propose it, you're only encroaching on
19 yourself there?

20 A. Yes.

21 Q. But -- Okay. So it kind of all goes together.

22 A. Yes, sir.

23 Q. But if you did have a south --

24 A. If we had a different mineral owner in the
25 northeast quarter and a different mineral owner in the

1 southeast quarter, and they had different royalties on
2 their leases, then yes, I think this setup would dilute
3 their royalty interest to a degree.

4 Q. Yeah.

5 A. However, because they're all the same, no matter
6 how you set up the proration unit there, they still benefit
7 the same revenue interest.

8 Q. Okay.

9 A. Yes, sir.

10 Q. Okay, so when you notified these 80 owners or so,
11 you told them exactly what you're going to do here, you're
12 proposing to do?

13 A. Yes, that's correct.

14 Q. Okay, and I can verify that in the Application
15 somewhere?

16 A. Right.

17 Q. Okay. Let's see here. And there was no
18 administrative application here that I could find. Did you
19 guys apply administratively for any of this?

20 A. I don't think we did, no.

21 Q. You just went straight to hearing on that?

22 A. Right.

23 Q. Okay.

24 A. And I think the reason is, is because of the
25 nonstandard proration unit, more than anything, just

1 because it crossed over a quarter-section line.

2 Q. Right.

3 A. Uh-huh.

4 Q. Now, the working interest owner of record in the
5 Strawn, there's a lack of any Strawn production here, so we
6 don't have a -- you just have leasees; is that correct?

7 A. That's correct.

8 Q. Just David and Permian?

9 A. That's correct, yes, sir.

10 EXAMINER JONES: Okay, I don't think I have any
11 more questions.

12 EXAMINATION

13 BY MR. BROOKS:

14 Q. Just to clarify, the mineral interest owners are
15 the same people and the same percentage, correct?

16 A. No, there's approximately 40 to 50 mineral owners
17 in the section, and they don't own all the same mineral
18 interest out there. You have one mineral owner with a
19 certain percentage and another mineral owner with a
20 different percentage.

21 Q. Yeah, but they're the same percentages throughout
22 the east half?

23 A. Yes, they own undivided --

24 Q. Each one owns -- each mineral owner owns the same
25 percentage throughout the entire --

- 1 A. -- east half.
- 2 Q. -- east half?
- 3 A. That's a correct statement.
- 4 Q. And the royalties provided in the leases are the
5 same?
- 6 A. No, they're different.
- 7 Q. Okay. Does that -- What I'm trying to get to is,
8 not only the mineral percentage ownership but the net
9 revenue interest, is that the same --
- 10 A. Yes, it will be --
- 11 Q. -- throughout the --
- 12 A. -- it will be the same. The same -- a mineral
13 owner that would lease, if he has an undivided interest in
14 the entire section, in the entire east half --
- 15 Q. Yeah.
- 16 A. -- he may lease for 3/16 royalty, another mineral
17 owner may have leased for a 1/4 royalty, but he's also
18 undivided under the entire east half --
- 19 Q. Okay, so there's no --
- 20 A. -- so --
- 21 Q. -- difference in the percentage of royalty or --
- 22 A. There's --
- 23 Q. -- from one part of the unit to another?
- 24 A. That is correct.
- 25 Q. Okay.

1 A. Yeah, didn't take a lease from Joe up here for a
2 quarter and take a lease from him down here for a fifth
3 or --

4 Q. Yeah.

5 A. -- that's correct.

6 MR. BROOKS: That was my question.

7 EXAMINER JONES: Okay.

8 MR. FELDEWERT: Mr. Examiner, I just want to
9 clarify a couple things I think Mr. Brooks hit on. We
10 don't see that there's any affected parties by this
11 Application. That's why no notice has been sent.

12 What Permian did, just as a matter of
13 communicating with their royalty owners, they did send each
14 one of the a copy of the Application, but we don't have a
15 notice affidavit or anything like that in the file, because
16 there are no affected parties that are entitled, under the
17 Division Rules, to notice of this Application.

18 So I just want to make sure you understood that.
19 That's why we do not have a notice affidavit like we would
20 normally have in the file.

21 EXAMINER JONES: Okay. Okay, thanks for
22 clarifying that.

23 MR. FELDEWERT: Okay, with that I'll call our
24 next witness.

25 EXAMINER JONES: Yes. Thank you, Mr. Porter.

1 THE WITNESS: Thank you.

2 ROBERT MARSHALL,

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. FELDEWERT:

7 Q. Would you please state your name and where you
8 reside for the record, please?

9 A. I'm Robert Marshall, and I reside in Midland,
10 Texas.

11 Q. And by whom are you employed and in what
12 capacity?

13 A. By Permian Resources, Inc. I'm the CEO and
14 geologist.

15 Q. Have you previously testified before this
16 Division?

17 A. Yes, I have.

18 Q. And at the time of your testimony, were your
19 credentials as a petroleum geologist accepted and made a
20 matter of record?

21 A. Yes, they were.

22 Q. Mr. Marshall, are you familiar with the
23 Application that's been filed by Permian in this case?

24 A. Yes, I --

25 Q. And have you made a technical study of the area

1 in support of this Application?

2 A. Yes, I have.

3 MR. FELDEWERT: Are the witness's qualifications
4 acceptable?

5 EXAMINER JONES: His qualifications are
6 acceptable.

7 Q. (By Mr. Feldewert) Now, I understand from the
8 previous testimony that the initial objective for Permian's
9 well is as a wildcat to test the Morrow sands; is that
10 correct?

11 A. That's correct.

12 Q. And you have a secondary objective that is the
13 oil from the Strawn formation?

14 A. That's correct.

15 Q. Okay. Would you -- Before looking at the
16 exhibits, would you just summarize for the Examiner why
17 this unorthodox well location is important to the project
18 and why a nonstandard spacing unit for the Strawn formation
19 is appropriate in this case?

20 A. Okay. The company acquired 3-D data, 3-D seismic
21 data over its acreage and has identified a Strawn algal
22 mound carbonate under -- at the proposed location. In most
23 cases in this area, all of the Strawn algal mounds are very
24 small in areal extent, and this is the case at the proposed
25 location.

1 The same 3-D data has also identified a Morrow
2 channel which is coincident with the Strawn algal mound at
3 the proposed location, and this coincidence of the Straw
4 and the Morrow being found at the proposed location will be
5 tested, be able to be tested, with one well.

6 Q. Okay. With that, would you turn to what's been
7 marked as Permian Exhibit Number 3, identify that and
8 review that for the Examiner, please.

9 A. Okay, we're looking at Number 3?

10 Q. Yes.

11 A. The reddish-colored map. This is a 3-D seismic
12 amplitude map of the Strawn formation.

13 For clarification and just for orientation on the
14 map, the black lines that you see on the map are the north
15 section line, the east section line, the west section line
16 and then the west half-section line. Okay, those black
17 lines are section lines.

18 The green and the gray lines that are on that are
19 the 3-D grid shot points that were done on it. Then you
20 have the proposed location for the Hobbs 17-1.

21 And basically on this the darker areas are the
22 areas where the Strawn algal mounds are proposed to be
23 developed. What this is showing is at this 1 to 1000 scale
24 that these carbonate mounds are very small in areal extent.

25 Q. Is your proposed location -- is that as close to

1 a standard location as you can get and yet still target the
2 reef?

3 A. Yes.

4 Q. And at your proposed well location, is that the
5 location that is optimum for this coincidence with the
6 Morrow objective?

7 A. Yes, it is.

8 Q. Okay. That algal -- Is it an algal mound?

9 A. Algal mound, right.

10 Q. Okay, and that's located almost on the section
11 line, isn't it?

12 A. Almost on the section line.

13 Q. Okay. All right, would you then move to Permian
14 Exhibit Number 4, identify that and review that for the
15 Examiner?

16 A. Okay, this is the brighter-colored map. Exhibit
17 Number 4, we're also looking for -- This is just a colored
18 map, and you're looking for the darker colors where
19 channels are developed. This is a seismic 3-D map of the
20 Mississippian lime to the Morrow lime. It's an isochron
21 which would show the thicker areas where the sand channels
22 are developed.

23 The black line, the thick black line with the
24 little arrows that goes through that, that would be the
25 proposed axis of the Morrow sand channel.

1 Q. Does that black axis, then, does that intersect
2 with your proposed well location?

3 A. Yes, that's a coincidence of both the
4 intersection of the Morrow channel and a coincidence of the
5 Strawn algal mound.

6 Q. Okay. If I understand it, then, is -- the Strawn
7 mound you're targeting appears to be limited to the
8 southwest quarter of the northeast quarter and the
9 northwest quarter of the southeast quarter; is that right?

10 A. That's correct.

11 Q. Okay. Does that provide Permian with the best
12 chance of testing the -- Does this well location provide
13 Permian with the best chance of testing the Morrow sands in
14 the area and yet provide you an alternative in the Strawn
15 formation?

16 A. Yes, it's a very good location.

17 Q. Is this proposed well location, is it essential
18 to your project?

19 A. Yes, it is.

20 Q. And why is that?

21 A. Because of the limited areal extent of the Strawn
22 and then the relatively narrow channels that you encounter
23 in the Morrow.

24 Q. In your opinion, are the Morrow reserves at this
25 particular area adequate to justify a stand-alone well?

1 A. No.

2 Q. Okay. If this unorthodox location was moved,
3 would that jeopardize your project?

4 A. Yes, it would.

5 Q. In your opinion, will the granting of this
6 Application provide the best means of recovering reserves
7 under this property, prevent waste and protect correlative
8 rights?

9 A. Yes, it will.

10 Q. Were Permian Exhibits 3 and 4 compiled by your or
11 under our direction and supervision?

12 A. They were.

13 MR. FELDEWERT: Mr. Examiner, at this time I
14 would move the admission into evidence of Permian Exhibits
15 3 and 4.

16 EXAMINER JONES: Exhibits 3 and 4 will be
17 admitted into evidence.

18 MR. FELDEWERT: And that concludes my examination
19 of this witness.

20 EXAMINER JONES: Thank you.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Mr. Marshall, it looks on Exhibit -- now why did
24 -- you have the original location 2550 and 1950, and you
25 moved a little bit to the southeast. Why --

1 A. We're trying to take the most coincident location
2 of both zones.

3 Q. So you've reprocessed a little bit?

4 A. Yeah, and this is the geophysicist's
5 interpretation of it. Yeah, I realize that the darkest
6 color is up there right under the lettering. Sometimes you
7 can move those just a little bit and you're still okay.

8 Q. Okay, you are not planning on some kind of a
9 potentially deviated Strawn well?

10 A. Not at this time, no. I mean, we're not.

11 Q. Because I was looking at the records in the
12 southeast -- or southwest. They had -- I think they had a
13 deviated Strawn well.

14 A. I believe that was right. Was that right? Do
15 you remember?

16 MR. FELDEWERT: I don't --

17 Q. (By Examiner Jones) It was dry, though?

18 A. Oh, in the southwest quarter?

19 Q. Yeah.

20 A. The southwest quarter of the whole section, yes,
21 there was one, yes.

22 Q. And why was that one dry? Because it missed that
23 algal mound?

24 A. Yes, and -- Yeah, yes, that's correct.

25 MR. FELDEWERT: That's why we don't remember that

1 one.

2 EXAMINER JONES: Nobody remembers their mistakes.
3 Amazing how that works.

4 Q. (By Examiner Jones) If you drill this well and
5 you don't hit that algal mound -- First of all, what does
6 it look like on the logs, the algal mound? Gamma-ray
7 response, for instance?

8 A. We brought some logs, if you'd like to see it.
9 It's just a -- It curves at about 11,500 feet. You come
10 out of the Cisco shales and limes that are -- you know,
11 have a high gamma-ray content, and then it goes immediately
12 to a clean carbonate, limestone.

13 Q. Okay.

14 A. There's micrite and reef material that are mixed
15 up in that material, and when you have these amplitude
16 anomalies like this, typically you have the algal material
17 developed, and that's where the porosity is.

18 Q. Okay. So can you do any kind of check shots to
19 -- in your survey -- in your seismic within the well, after
20 you get it drilled, before you set pipe, to just decide
21 exactly where you're at there? Or is that just to
22 determine --

23 A. Well, if it's there, it's there.

24 Q. If it's there, it's there.

25 A. Right.

1 Q. If it's not there, you missed it to the
2 southeast; is that right? Or if it's not there --

3 A. Oh, I see, you mean if you ran a dipmeter or
4 whatever and thought that you were building up to the
5 southeast, you'd deviate it over there. I would think, you
6 know, it could work that way. But I haven't -- I've worked
7 this whole Lovington area as far as the Strawn, and I
8 haven't seen anybody deviate a well yet, based on after-
9 drilling information yet.

10 Q. You can't fight your seismic after you get the
11 well TD'd?

12 A. No, this seismic is really good quality --

13 Q. Okay.

14 A. -- and we trust it. There's been a lot of wells
15 drilled. This is some data that was on the seismic market
16 that we bought, and there's been a lot of successful wells
17 drilled on this data.

18 Q. Okay. How big a well are you anticipating if you
19 hit this mound, the way the geophysicist and you predict?

20 A. As far as the mound?

21 Q. Yeah, the --

22 A. We're estimating about 300,000 barrels, plus the
23 gas, 1000 GOR.

24 Q. And you would get that in what, 20 years? Ten
25 years?

1 A. Yeah, you'd probably get -- It's been the case on
2 a lot of wells that you recover about 20 or 30 percent
3 estimated ultimate recovery in the first two or three
4 years. It's real good --

5 Q. Good economics.

6 A. -- good, flush production, because of the nature
7 of the fractured reservoir, and it is pretty good
8 reservoir.

9 Q. Okay. And the Morrow well, what kind of -- you
10 say it's not that good a well?

11 A. Well, the closest well to us that's productive
12 out of the Morrow is about three miles to the west, and it
13 was just drilled by Yates and completed by Yates. We don't
14 have the full results of it. It's called the Global well,
15 for instance, and we're estimating that the wells will
16 probably make maybe 1 to 2 BCF by themselves.

17 At today's gas prices that looks pretty good.
18 But, you know, when you discount the cash flow and consider
19 future gas prices, then that's not -- you know, it's not
20 great.

21 So both of them together make a very viable
22 project.

23 Q. Okay. Are you planning any testing, drill stem
24 testing?

25 A. We will drill stem test both the Strawn and

1 Morrow -- and Atoka, if it develops too.

2 Q. Okay. And how will you drill through the Strawn
3 and not damage it?

4 A. That's not a real problem. We don't see a lot of
5 formation damage in the Strawn. You know, you might see
6 more formation damage in the Morrow than in the Strawn.

7 Q. Okay.

8 A. We've drilled three wells within a five-mile
9 radius for the Strawn. We have not drilled for the Morrow
10 in this area yet, so we do have some experience of it.

11 Q. When you log your wells, do you typically run a
12 lubricator when you log your wells? Open hole logging?

13 A. With the open hole logging, of course, we have a
14 blowout preventer on the drilling rig.

15 Q. An annular?

16 A. Yeah, annular. And I can't tell you the
17 particular configurations that the engineers use. You
18 know, one of the problems is that the tool lengths that we
19 use when we have the combo logs where you combine the
20 neutron density and lateral logs together, the length of
21 those logs can be 60 feet long. And finding a lubricator
22 that tall is pretty difficult.

23 Q. You're aware of the blowout that happened in
24 Carlsbad?

25 A. Yes, sir. We just drilled and completed a Strawn

1 algal mound well one mile from here --

2 Q. Yeah.

3 A. -- called our Chambers well in Section 7, 16-36,
4 and so -- We didn't have any problems at all with it.

5 Q. I don't think I'd be as worried about the Strawn
6 as the Morrow, I guess.

7 A. Yeah. We're going to take every precaution as
8 far as keeping the hole full and all that you have to do.

9 EXAMINER JONES: Okay. Okay, I can't argue with
10 the geophysics here. David, do you have --

11 MR. BROOKS: Me neither.

12 EXAMINER JONES: So good luck in your venture.

13 THE WITNESS: Thank you very much, appreciate
14 your attention in this matter.

15 MR. FELDEWERT: Mr. Examiner, that concludes our
16 presentation. We ask that the case be taken under
17 advisement and, if at all possible, that an expedited order
18 be issued in this case.

19 EXAMINER JONES: Okay, let's take Case 13,175
20 under advisement.

21 (Thereupon, these proceedings were concluded at
22 9:25 a.m.)

23 I do hereby certify that the foregoing is
24 * a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on _____.

25 _____, Examiner
Oil Conservation Division

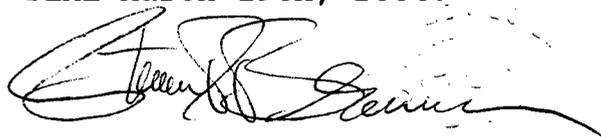
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL March 19th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006