

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. 13,469

APPLICATION OF MYCO INDUSTRIES, INC., )  
FOR AN EXCEPTION TO DIVISION RULES )  
104.C.(2).(b) AND (c), EDDY COUNTY, )  
NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 5th, 2005

Santa Fe, New Mexico

2005 MAY 19 AM 9 03

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 5th, 2005, 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.

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Examiner Hearing  
CASE NO. 13,469

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## A P P E A R A N C E S

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: MICHAEL H. FELDEWERT

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:16 a.m.:

3           EXAMINER CATANACH: At this time I'll call Case  
4 13,469, the Application of Myco Industries, Inc., for an  
5 exception to Division Rules 104.C.(2).(b) and (c), Eddy  
6 County, New Mexico.

7           Call for appearances.

8           MR. FELDEWERT: May it please the Examiner,  
9 Michael Feldewert with the Santa Fe office of the law firm  
10 of Holland and Hart. I'm appearing on behalf of the  
11 Applicant, Myco Industries, Inc., and I have one witness  
12 here today.

13           EXAMINER CATANACH: Okay. Will the witness  
14 please stand to be sworn in?

15           (Thereupon, the witness was sworn.)

16                   BRUCE A. STUBBS,  
17 the witness herein, after having been first duly sworn upon  
18 his oath, was examined and testified as follows:

19                   DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21           Q.    Could you please state for the record your name  
22 and where you reside?

23           A.    My name is Bruce Stubbs, I reside in Roswell, New  
24 Mexico.

25           Q.    Mr. Stubbs, by whom are you employed and in what

1 capacity?

2 A. I'm employed by Pecos Petroleum Engineering,  
3 Incorporated, as a petroleum engineer.

4 Q. And were you asked by Myco to do an independent  
5 study of this project?

6 A. Yes, that's correct.

7 Q. Do you have any financial interest in this  
8 project?

9 A. No, I do not.

10 Q. Have you previously testified before the Division  
11 as an expert in petroleum engineering?

12 A. Yes, I have.

13 Q. And are you familiar with the Application that  
14 was filed by Myco and the status of the lands in the  
15 subject area?

16 A. Yes, I am.

17 Q. Have you conducted a technical study of this area  
18 that is the subject of the Application?

19 A. That's correct.

20 MR. FELDEWERT: Mr. Examiner, are the witness's  
21 qualifications acceptable?

22 EXAMINER CATANACH: They are.

23 Q. (By Mr. Feldewert) I want you to turn to Myco  
24 Exhibit 1, identify it and explain it to the Examiner,  
25 please.

1           A.   Exhibit 1 is a land plat showing Section 35 of 21  
2 South, 27 East. The north half of Section 35 is a  
3 proration unit for the Reeves Federal Number 1. It's a  
4 Wolfcamp well in the East Carlsbad-Wolfcamp Pool. It's  
5 located in unit letter B of Section 35.

6           Also located in the northeast quarter of 35 is  
7 Myco's Boise Federal Number 1 well, located in unit letter  
8 H. The little red dot is too far to the right. It should  
9 be more toward the center of that quarter section. So it's  
10 just a little bit off, but that's just a representation of  
11 where that's at.

12           Q.   Now, so you have the Reeves Federal Number 1,  
13 which is completed in the Wolfcamp?

14           A.   That's correct.

15           Q.   And then you have the Boise Federal Number 1 in  
16 the same quarter section?

17           A.   That's correct.

18           Q.   Why don't you give the Examiner a brief history  
19 of the Boise Federal Well Number 1?

20           A.   The Boise Federal Number 1 well was spudded mid-  
21 December of 2004. It was drilled to 12,000 feet as a  
22 Morrow test. 5-1/2-inch casing was run, and a completion  
23 attempt was made in the lower Morrow from 11,913 to 11,924.  
24 It had a show of gas, but it wasn't commercial; it was  
25 about 15,000 MCF a day.

1           So they set a cast-iron bridge plug and moved up  
2 to the upper part of the Morrow, perforated 11,604 to  
3 11,610, 11,642 to 11,653, acidized it, frac'd it, and it  
4 had an indeterminate gas rate of -- on a 22/64 choke, of 18  
5 p.s.i. flowing tubing pressure. So the well --

6           Q. Let me stop you right there. In terms of this  
7 history that you're going over, is this in a report that  
8 we're going to provide to the Examiner?

9           A. That's correct.

10          Q. Okay.

11          A. So it was determined that the Morrow was not  
12 commercial, and it was abandoned. Subsequently they -- and  
13 it's not in the report -- they just finished testing the  
14 Strawn interval, and it's tested wet. So it's not  
15 commercial.

16          Q. So this well has not been a success in either the  
17 Morrow or the Strawn?

18          A. That's correct.

19          Q. Was this well originally -- This was a Morrow  
20 test well, right?

21          A. Yeah, it was originally designed as a Morrow  
22 well.

23          Q. Now, Delta operates a Morrow well in the north  
24 half of this unit, do they not?

25          A. Yes, that's the Reeves Federal Number 2, located

1 in unit letter C.

2 Q. And was this well essentially drilled with the  
3 approval of Delta?

4 A. That's correct, Myco has a contractual agreement  
5 with Delta to develop some other undeveloped acreage.

6 Q. Okay, but we're at a point now where the only  
7 chance to salvage this well is to try to -- a completion in  
8 the Wolfcamp?

9 A. That's correct. There's only three zones that  
10 produce in this area, and the Morrow -- well, really four.  
11 The Morrow, there's a couple of Atoka completions, some  
12 very small Strawn completions, and then the Wolfcamp is a  
13 major producer in the area.

14 Q. And with respect to the Wolfcamp, this is spaced  
15 on 320 acres, right?

16 A. That's correct.

17 Q. Okay, and the administrative problem that Myco  
18 faces in trying to salvage this well here in the Wolfcamp  
19 is that you have an existing Wolfcamp well in that  
20 northeast quarter section operated by Delta, correct?

21 A. That's correct.

22 Q. All right. So is Myco here seeking two  
23 exceptions, one -- the first is an exception to the single-  
24 operator rule?

25 A. That's correct, there needs to be two operators

1 now in that quarter section -- or that north proration --

2 Q. And second is that they're seeking an exception  
3 to the Division Rule that requires the infill well to be  
4 located in a different quarter section from the original  
5 well, correct?

6 A. That's correct.

7 Q. All right. With respect to this Reeves Federal  
8 Number 1 that's operated by Delta and completed in the  
9 Wolfcamp, what is the status of that well, at least from  
10 what you've been able to ascertain?

11 A. The well was drilled in the mid-1970s. I think  
12 it started producing in 1976, and it has produced 38,000  
13 barrels of oil and 409 million cubic feet of gas and 1200  
14 barrels of water. The ONGARD records show the last  
15 production was September of 2004.

16 I just checked yesterday on the OCD website and  
17 there's been no applications to rework the well or  
18 anything, and no current production. So the last  
19 production is September of '04, that we know of.

20 Q. Records don't indicate it's been TA'd or anything  
21 like that?

22 A. No, I don't see anything in the records.

23 Q. Have you been in -- Have you talked to Delta's  
24 engineer about the status of the well?

25 A. Well, we've tried. I think Myco talked to him a

1 few weeks ago and didn't get a real answer. And then  
2 subsequently we checked with him yesterday, and the  
3 engineer has fallen ill and he's gone, so he's been out of  
4 the office for a few weeks, I think, so we really don't  
5 have a clear picture of what their plans are for that well.

6 Q. Okay. Has Myco identified all of the Division-  
7 designated operators in the eight quarter sections that  
8 offset the quarter section in which these two wells are  
9 located?

10 A. Yes, they have.

11 Q. And who are they?

12 A. To the south and the southeast quarter, Mewbourne  
13 is the operator. They have a Morrow well there. Western  
14 Oil Producers is in the southwest quarter of 35, and they  
15 operate a Wolfcamp well. Delta is in Section 36, also in  
16 the southwest of 25. And OXY is up in Section 26.

17 Q. So we have Delta Petroleum, Mewbourne, Western  
18 Oil and OXY; those are the offset operators?

19 A. That's correct.

20 Q. Is Myco Exhibit Number 2 an affidavit with the  
21 attached letters providing notice of this hearing to these  
22 offset operators?

23 A. That's correct.

24 Q. Has Myco been in touch with -- or been in contact  
25 with all of these affected parties?

1 A. Yes, they have.

2 Q. And has anyone voiced any objection to this  
3 Application?

4 A. No, they haven't.

5 Q. And has Myco, in fact, received waiver letters  
6 from two of these operators?

7 A. That's correct, Western Oil Producers has signed  
8 a waiver letter, and Mewbourne has signed a waiver letter.

9 Q. And are those marked as Myco Exhibit Number 3?

10 A. That's correct.

11 Q. Now, that takes care of two of the offset  
12 operators. Has Myco had contact with Delta Petroleum about  
13 this? Well, let me stop you there. Have they had contact  
14 with OXY about this project?

15 A. Yes, they have, and it's my understanding that  
16 OXY wasn't too concerned about it and didn't have enough  
17 time to really review it, so they haven't signed a waiver  
18 letter. But they don't have any objections.

19 Q. Okay, and what about Delta Petroleum?

20 A. Delta Petroleum is in agreement to complete this  
21 well. They have a working interest in the well and also  
22 the contractual agreement to develop undeveloped reserves  
23 in this area.

24 Q. Did they have a working interest?

25 A. Yes, sir.

1 Q. So they have an interest in seeing this well  
2 succeed, I guess?

3 A. Yes, they do, they have a financial interest in  
4 completing the well.

5 Q. Okay. Now, before I get to your technical study  
6 of this area, I want to address one other matter. This  
7 Boise Federal Well Number 1, what's the location of that  
8 well?

9 A. That well is located 1877 feet from the north  
10 line and 1312 feet from the east line of Section 35.

11 Q. Does that location comply with the Division's  
12 well that gas wells be located at least 10 feet from the  
13 quarter-quarter line?

14 A. Well, if it was a perfect square mile it  
15 wouldn't, because it would only be 1320 feet, and it would  
16 be eight feet off the line. But this section is an odd-  
17 shaped section, and the quarter section measures 2671 feet  
18 east to west and 2648 feet north to south. So the  
19 centerline is really 1335 feet from the east line.  
20 Therefore, the Boise well is 23 feet off the line, off the  
21 quarter-quarter line.

22 Q. And is Myco Exhibit Number 4 the C-102 that shows  
23 a survey of this quarter section and sets forth the actual  
24 dimensions of this quarter section?

25 A. That's correct.

1 Q. And accordingly, is the Boise Federal well --  
2 does it comply with the Division's Rules that it be 10 feet  
3 off of the true quarter-quarter line?

4 A. That's correct, it's 23 feet off, so it's 13 feet  
5 more than it needs to be.

6 Q. Okay. All right, then let's turn to your -- then  
7 the technical study of the Wolfcamp production from this  
8 field. Could you please first identify for the Examiner  
9 what the breadth of your study area was?

10 A. My study involves Section 35 and then the  
11 surrounding eight sections. So it's nine sections, three  
12 sections by three sections.

13 Q. Okay. And is Myco Exhibit Number 5 a map showing  
14 the Wolfcamp completions in this area?

15 A. That's correct.

16 Q. And how many Wolfcamp completions are there in  
17 your study area?

18 A. In the study area there's 17. There's -- on this  
19 map there's -- Sections 11 and 12 down at the bottom are  
20 also included, just to show the trend. But I didn't  
21 include those well in my study. So there's three more in  
22 -- two more in Section 11, one more in Section 12.

23 Q. Okay. And does this map show the cumulative  
24 production of the wells in this particular area?

25 A. That's correct.

1 Q. All right, we'll leave this map out, and we turn,  
2 then, to Myco Exhibit Number 6. Is that your report?

3 A. Yes, sir, it is.

4 Q. Which consists of your study of this nine-section  
5 area?

6 A. That's correct.

7 Q. Okay. Now, with respect to this nine-section  
8 area, what conclusions have you reached with respect to  
9 this field in general?

10 A. Well, generally speaking it's -- the Wolfcamp  
11 zone is -- there's about a 100-foot interval of laminated  
12 limestones. Typically, the upper 50 or 60 feet are  
13 completed. Those limestones have relatively low porosity,  
14 in the range of 2 to 7 percent, with an average of  
15 somewhere around 3 to 5.

16 It has correspondingly low permeabilities too.  
17 We have a little core analysis, but it's more demonstrated  
18 by the production. Most of these wells come on at a few  
19 hundred MCF a day, or maybe even a million a day, but drop  
20 off and level off at very low production rates. So it's  
21 relatively low permeability.

22 It's in a high-pressure area. Some of the  
23 original bottomhole pressures were in excess of 6100  
24 pounds, which gives you a pressure gradient of about .63  
25 p.s.i. per foot. Typically, when people drill through this

1 Wolfcamp in this area, they carry a flare, so we know it's  
2 overpressured, which helps production.

3 It's a condensate reservoir. The separator gas  
4 is about .68 gravity, the reservoir gas is probably  
5 somewhere around 1.23 gravity. The average condensate  
6 yield was about 52 barrels of condensate per million cubic  
7 feet of gas.

8 Q. Now, with respect to the producing  
9 characteristics, what did your study show with respect to  
10 the recovery rates in particular areas of this field?

11 A. The better wells -- as you can see on Exhibit 5  
12 that gives the -- shows the production -- there's kind of a  
13 north-south trend on the east side of the field where the  
14 majority of the production comes from. As you move to the  
15 west-northwest, the permeability and reservoir quality  
16 decline and you have low recoveries.

17 Q. Do you have a figure in your report that would  
18 kind of give a picture of what you're talking about here?

19 A. Yeah, if you would, please turn to Figure 5 in  
20 the report. It's the second colored map.

21 Q. That would be Figure 5 to Myco Exhibit Number 6,  
22 right?

23 A. Right.

24 Q. Okay.

25 A. This is a map just showing what I'm calling the

1 recovery ratio, and what I did was figure -- calculate the  
2 reserves for one acre-foot of -- or one porosity-foot over  
3 160 acres, and came up with about a BCF of gas that would  
4 be recoverable. I used that number and divided what the  
5 wells have produced by 1 BCF, basically, to come up with a  
6 recovery ratio.

7 And you can see that the wells on the eastern  
8 side, or the right-hand side of the page, have recovered  
9 well over what you would predict from 160 acres, while the  
10 wells on the west side or the northwest side are less.

11 The Reeves well falls in an area that is low  
12 perm, recovery is relatively low, and it's only recovered  
13 about 32 percent of the gas in place in that area.

14 The Toothman well, which is up in the upper right  
15 corner, has recovered over four times what you would  
16 predict, so it's draining a larger area, maybe even  
17 draining a little more efficiently. And that's somewhat  
18 exhibited by the State 36 well, which is just south of that  
19 well. It was drilled about -- almost 20 years after the  
20 Toothman well, and although it has good pay, it has low  
21 recovery. So the Toothman well has probably got a lot of  
22 reserves out of that area. That's why it's so big.

23 There's also the Pecos wells, also have gotten  
24 about three times what you would predict from it.

25 So there are areas that do have good perm and

1 drain large areas, but there are probably more areas that  
2 are tight and don't drain very well.

3 Q. And is the Reeves and Boise Federal well in an  
4 area that's fairly tight and has low drainage?

5 A. Yes, that's correct. Like I said, the Reeves  
6 well has only recovered about 32 percent of the gas in  
7 place. The Boise well is in area that we would expect to  
8 recover 60 percent of the gas in place if it had virgin  
9 pressures.

10 Q. While you're on that, let me ask you what  
11 conclusions you've drawn with respect to the Reeves Federal  
12 Number 1 in particular, in the northeast quarter of the  
13 section.

14 A. It's probably -- Like I said, it's only drained  
15 about 32 percent of the reservoir gas in place in that  
16 area, so it's probably -- its effective drainage area is  
17 probably less than 60 acres.

18 Q. How long has it been producing?

19 A. Since 1976, so almost 30 years.

20 Q. The fact that it effectively drained about 60  
21 acres, what does that indicate to you in terms of the  
22 reserves in this quarter section?

23 A. Well, you would expect somewhere in excess of  
24 1.5-BCF reserves, so it's not draining that quarter  
25 section.

1 Q. Okay. That, then, kind of segues us into the  
2 next area, and that is, what are your conclusions about  
3 Myco's proposal to complete the Boise Federal well in the  
4 Wolfcamp in this same quarter section, and first with  
5 respect to the issue of waste, and then second with respect  
6 to the issue of correlative rights?

7 A. Well, we might turn to Figure 8, and we have some  
8 interesting information that sheds a little light on that.  
9 Figure 8 is a log section out of the Boise Federal Number  
10 well [sic], showing the Wolfcamp. The top of the limestone  
11 sequence starts at about 9700 feet and extends down --  
12 well, the main section is pay, it extends down to about  
13 9750, so there's about a 50-foot interval that could be  
14 productive.

15 Myco ran a formation tester to give some  
16 bottomhole pressures. They're shown there on the right-  
17 hand side, SFT, under the SFT column. The first zone, the  
18 upper zone, is 2640 pounds, so that zone is partially  
19 depleted. It only has about 40-some percent of the  
20 original bottomhole pressure.

21 The middle interval had 3175 p.s.i.

22 But the bottom interval has 5038. It has over 80  
23 percent of the original bottomhole pressure, so that  
24 interval doesn't appear to be drained. If you calculate  
25 it, it shows that about 5 percent of the gas in place has

1 been removed to get to that pressure from 6100 pounds. So  
2 it still has real good bottomhole pressure in that bottom  
3 interval.

4 Porosities range from 2 percent to 6 percent.

5 The perms -- of course, the zone that has the  
6 lowest pressure, the 2640, the upper zone, has .11  
7 millidarcies perm, whereas the lower zones that still have  
8 pressure have relatively low perms, like the bottom zone is  
9 .069 millidarcies.

10 Q. Do you believe that completion of the Boise  
11 Federal in the Wolfcamp will result in recovery of reserves  
12 in the northeast quarter that will not be recovered by the  
13 existing Delta Reeves well?

14 A. That's correct.

15 Q. Do you have an estimate of the additional  
16 recovery that you would expect?

17 A. I think about -- I calculate about .4 of a BCF  
18 and 20,000 barrels of oil.

19 Q. Now, with respect to the issue of correlative  
20 rights, do you have an opinion as to whether the completion  
21 of the Wolfcamp well in the northeast quarter will  
22 negatively impact the correlative rights of the offsetting  
23 properties?

24 A. I don't believe so. I don't expect the upper  
25 zone with the lower pressure to really deliver much gas, so

1 it's probably not going to drain very much out of that  
2 zone. The bottom zone that has the good pressure, it  
3 hasn't been affected, or affected very little, over 30  
4 years, so it's not connected to those other wells, at least  
5 in a good way, just a minor way.

6 Q. What kind of a drainage pattern would you expect  
7 from a completion of this well, the Boise Federal, in the  
8 Wolfcamp?

9 A. Probably similar to the Reeves well, 60, maybe 80  
10 acres.

11 Q. Okay.

12 A. So maybe just a little better permeability in  
13 this area, but not a very large drainage area.

14 Q. Are there sufficient reserves in this particular  
15 area and in the offsetting area that would warrant the  
16 drilling of a well to recover these Wolfcamp reserves?

17 A. Based on what we see in the Boise well, I don't  
18 think so. If we're talking .4 of a BCF, by the time you  
19 take out operating cost, probably something on the order of  
20 \$1.5 million to drill a well, it's going to be just about a  
21 wash, you're just trading dollars. So I don't see the  
22 economics on drilling a full-blown Wolfcamp well.

23 Q. So in your opinion, if the Boise Federal is not  
24 recompleted in the Wolfcamp, will these reserves that you  
25 estimate still exist, would they otherwise not be

1 recovered?

2 A. That's correct.

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

6 A. Yes, it will.

7 Q. Is Myco Exhibit Number 7 an affidavit of  
8 publication of this Application in the *Artesia Daily Press*?

9 A. Yes.

10 Q. And with the exception of this affidavit and the  
11 notice affidavit, were the remaining exhibits offered here  
12 today compiled by you or under your direction and  
13 supervision?

14 A. Except for the last exhibit, yes.

15 MR. FELDEWERT: Okay. I'd move the admission  
16 into evidence, Mr. Examiner, of Myco Exhibits 1 through 7.

17 EXAMINER CATANACH: Exhibits 1 through 7 will be  
18 admitted.

19 MR. FELDEWERT: And Mr. Examiner, that concludes  
20 my presentation.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Stubbs, the offset wells in Sections 25, 26  
24 and 36, are they still producing?

25 A. Most of them are, yes.

1 Q. And those are -- Let's see.

2 A. The only wells that are inactive are in 27J, 27E,  
3 and 34K.

4 Q. Okay, so Delta is in Section 36, they operate  
5 both wells?

6 A. That's correct.

7 Q. And then 25 is also Delta?

8 A. Let's see, 25 is -- Yes, the Toothman well is  
9 operated by Delta.

10 Q. And then in Section 26 those wells are operated  
11 by OXY; is that correct?

12 A. That's correct.

13 Q. And OXY didn't have any problem with your  
14 Application?

15 A. No. Well, I take that back. The well in 26,  
16 26F, the Baumgartner Federal, is OXY. Delta is operating  
17 26P.

18 Q. Okay, the Delta well is currently -- as far as  
19 you can tell, it's shut in?

20 A. That appears to be the case. Like I say, there's  
21 been no production reported since September.

22 Q. Do you know what the last production rate on that  
23 well was?

24 A. Yes, I do. Let's see here, production in  
25 September, 2004, was reported at 75 barrels of oil, 1120

1 MCF of gas. That's 2.5 barrels of oil a day and 37.3 MCF  
2 of gas per day.

3 Q. I'm sorry, that came out to 37.3?

4 A. 37.3 MCF of gas.

5 Q. Is that economic?

6 A. I think they have a compressor on that well, so I  
7 think their operating costs are on the order of \$5000 a  
8 month, you know, if you have your normal operating costs,  
9 and then about \$3000 for a compressor. So that's going to  
10 be right at a little over 1000 MCF a month times five or  
11 six dollars. So you're maybe grossing \$6000 or \$7000, and  
12 by the time you pay royalties and taxes you're probably  
13 netting \$5000, so I think it's probably a wash.

14 Q. Was the Delta well completed in that lower zone  
15 that you said still had --

16 A. Yes, it was. Most of the wells out there  
17 completed in that top 50, 60 feet.

18 Q. Okay, so it just didn't drain that lower zone  
19 very well?

20 A. No, when you look at the resistivity log, most of  
21 the resistivities are, you know, 2000-ohms-plus. So it's a  
22 very tight chunk of rock.

23 Q. And the permeabilities can vary from well to well  
24 in this area?

25 A. Up here, yes.

1 Q. And you hope to recover approximately what the  
2 Delta well did --

3 A. Right.

4 Q. -- in the Boise well?

5 A. That's correct, not quite as much but, you know,  
6 around .4 of a B.

7 Q. And you don't know what they're going to do with  
8 the Delta well at this point?

9 A. No. No, we tried to find out and haven't had a  
10 very informative response.

11 Q. Now, Myco owns an interest in the north half?

12 A. Myco earned an interest. I think they had a  
13 drill-to-earn agreement with Delta. I think Delta has  
14 interest in roughly four sections in that area, and Myco  
15 earned interest in those four sections by drilling wells  
16 and carrying Delta as a -- to carry and then on the -- is  
17 the first three wells, is a carried interest.

18 Q. So they earned -- in the north half of Section 35  
19 they earned interest in the Morrow and in the Wolfcamp?

20 A. That's correct.

21 Q. Do you know what breakdown that is, on the  
22 interest ownership in the north half?

23 A. In the Reeves well, Delta has about a 75-percent  
24 working interest. In the Boise well, Delta has a 30.25, I  
25 believe it is. 31.25.

1 Q. And the balance is owned in both wells by -- Do  
2 you know in the Delta well --

3 A. No, I --

4 Q. -- does Myco have an interest in that well?

5 A. -- but I know the other -- the other interest  
6 owners in the Delta well farmed out to Myco.

7 Q. So Myco owns the remaining interest in the Delta  
8 well?

9 A. No, not the Delta well. The partners do. But  
10 the other 25 percent in the Delta well farmed out in the  
11 undeveloped acreage there, 25 percent.

12 Q. Okay, so who owns that?

13 A. Myco, in the undeveloped acreage.

14 Q. And in the Boise well, Myco owns the remaining  
15 balance of the 31.25?

16 A. Yeah, Myco *et al.*

17 Q. So there are other working interest owners  
18 involved in these two wells?

19 A. That's correct.

20 Q. Now, are they aware of the situation with the two  
21 wells?

22 A. I believe they are, because the working interest  
23 owner in the Reeves well, is the other 25 percent, farmed  
24 out to Myco their interest in that northeast quarter for  
25 the Morrow well.

1 Q. For the Morrow?

2 A. Well, for the -- yeah, the Boise well. I think  
3 it includes all interests that will be developed in the  
4 Boise well.

5 Q. Okay. So Myco doesn't receive any production  
6 payments from the Delta well; is that right?

7 A. No, they don't. No.

8 Q. So they're still -- the 25 percent that farmed  
9 out to Myco, they still retain their interest in the Delta?

10 A. Right.

11 Q. But you don't know who those are?

12 A. No, I don't.

13 Q. Okay.

14 A. We can provide that to you, maybe, if we could --

15 EXAMINER CATANACH: Yeah, I think I would like to  
16 see that, the interest breakdown.

17 MR. FELDEWERT: Mr. Examiner, Shari Darr Hodges  
18 is here, and she can testify by -- as to the interest  
19 owners in the other well --

20 EXAMINER CATANACH: Okay.

21 MR. FELDEWERT: -- if you'd like her to.

22 Q. (By Examiner Catanach) Mr. Stubbs, do you know  
23 if there's any plans to drill additional wells in the north  
24 half of 35?

25 A. I don't believe so. There's already a Morrow

1 well in the northwest quarter, and it's made about 2 BCF,  
2 so it's probably pretty well drained that area.

3 Q. And that's -- Is that a Delta well?

4 A. That's a Delta well, yes. That's that Reeves  
5 Number 2 well, in unit letter C.

6 Q. Did the -- did the Delta well -- did the Delta 1  
7 well produce from the Morrow?

8 A. Let's see here. It produced 191 million from the  
9 Morrow. It was also drilled to 12,000 feet.

10 Q. I think that's all I have.

11 Now, the Boise well hasn't been completed  
12 Wolfcamp yet, has it?

13 A. No, it has not.

14 Q. So there's a chance that the wells may not even  
15 be produced simultaneously, depending on what Delta decides  
16 to do with the --

17 A. That's correct --

18 Q. -- the Number 1?

19 A. -- yes.

20 EXAMINER CATANACH: Okay. I have nothing further  
21 of Mr. Stuffs. He can be excused.

22 MR. FELDEWERT: Mr. Examiner, I can call Ms.  
23 Hodges to the stand. She can talk about -- address your  
24 land questions.

25 EXAMINER CATANACH: Okay, could I have Ms. Hodges

1 stand and be sworn in, please?

2 (Thereupon, the witness was sworn.)

3 SHARI A. DARR HODGES,

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

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

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

10 A. My name is Shari Darr Hodges, and I reside in  
11 Artesia, New Mexico.

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

13 A. Myco Industries, Inc., as their land manager.

14 Q. And have you previously testified before this  
15 Division?

16 A. Yes, I have.

17 Q. And are you familiar with the Application that's  
18 been filed by Myco in this case?

19 A. Yes, I am.

20 MR. FELDEWERT: Mr. Examiner, I would offer Ms.  
21 Hodges as an expert in petroleum land matters.

22 EXAMINER CATANACH: She is so qualified.

23 Q. (By Mr. Feldewert) Were you here for the  
24 questioning of Mr. Stubbs?

25 A. For the most part.

1 Q. Okay.

2 A. Little late, sorry.

3 Q. Would you explain to the Examiner the ownership  
4 situation in the north half of Section 35?

5 A. Myco has a deal with Delta Petroleum that's  
6 larger than this, but as to the north half Myco and its  
7 partners own everything save and except the two Reeves  
8 wells, which Delta retained ownership in. Delta owns 75  
9 percent in another company by the name of BWAB, out of  
10 Denver, owns the other quarter.

11 MR. FELDEWERT: And that's the only intelligent  
12 question I can come up with, so I'm going to pass the  
13 witness.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Let's see if I understand it. Delta, I guess,  
17 farmed out their interests to Myco in the entire north  
18 half?

19 A. And some other areas outside of that, but the  
20 north half, that's correct.

21 Q. So in the Delta wells Myco owns no interest?

22 A. That's correct.

23 Q. And in the Boise well -- did Delta retain some  
24 interest in those wells?

25 A. They had a -- subsequent operations, they have

1 the right to participate with their 31 percent, and they  
2 did that in this well, in the Boise well.

3 Q. Okay, so... And the balance of the interest in  
4 the Boise well is owned by Myco and its partners, right?

5 A. That's correct.

6 Q. In the Delta well, are there additional working  
7 interest owners in that well, besides --

8 A. Just that one company, BWAB out of Denver.

9 Q. BRAB?

10 A. BWAB, it's B-W-A-B.

11 Q. Okay.

12 A. I don't know what it stands for.

13 Q. So they're working interest owners in the Delta 1  
14 and 2, do you know?

15 A. That's correct.

16 Q. And are they the only other working interest  
17 owner?

18 A. As far as I know.

19 Q. Is the north half -- is this -- what type of  
20 lease is this?

21 A. Federal.

22 Q. It is a federal lease.

23 A. Yes.

24 Q. Is it a single federal lease?

25 A. Yes, sir, it is.

1 Q. Do you know if this company, BWAB, is aware of  
2 the situation in this quarter section?

3 A. Yes, they are. I visited with BWAB in an effort  
4 to try and find out what was going to go on in the Reeves  
5 Federal Number 1 well, and then we keep in contact with  
6 them. They're well aware of it. And they also stand to  
7 gain from completing in the Wolfcamp on the Boise because  
8 they have an interest in that, override at this point.

9 Q. Can you submit something that kind of sums this  
10 up in writing, because --

11 A. Sure, I'd be glad to --

12 Q. -- it's a little hard to --

13 A. -- I'd be glad to.

14 Q. -- follow up with that.

15 EXAMINER CATANACH: Okay, I think that's all I  
16 have of Ms. Hodges. Anything further, Mr. Feldewert?

17 MR. FELDEWERT: No, Mr. Examiner.

18 EXAMINER CATANACH: All right, there being  
19 nothing further, This Case 13,469 will be taken under  
20 advisement.

21 THE WITNESS: Thank you.

22 EXAMINER CATANACH: Thanks.

23 (Thereupon, these proceedings were concluded at  
24 8:55 a.m.)

25

\* \* \* I do hereby certify that the foregoing is  
a complete record of the proceedings in

the Examiner hearing of Case No. 13469,

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

May 5, 2005  
David R. Colwell, 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 May 5th, 2005.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006