

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 EDGE PETROLEUM)
EXPLORATION COMPANY FOR A NONSTANDARD)
GAS-SPACING AND PRORATION UNIT,)
LEA COUNTY, NEW MEXICO)

CASE NO. 13,506

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: RICHARD EZEANYIM, Hearing Examiner

JUL 23 2005

July 14th, 2005

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, July 14th, 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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July 14th, 2005
Examiner Hearing
CASE NO. 13,506

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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FOR CIMAREX ENERGY COMPANY:

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Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 8:51 a.m.:

3 EXAMINER EZEANYIM: At this time I will call Case
4 Number 13,506. I want to do that before we go to 13,484,
5 see whether we can get out of this before we go to the
6 other one. Case 13,506 is the Application of Edge
7 Petroleum Exploration Company for a nonstandard gas-spacing
8 and proration unit, Lea County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant. I have two witnesses.

12 EXAMINER EZEANYIM: Any other appearances?

13 MR. HALL: Mr. Examiner, Scott Hall, Miller
14 Stratvert, P.A., Santa Fe. I've entered an appearance in
15 this case on behalf of Cimarex Energy Company, and I have
16 no witnesses this morning.

17 EXAMINER EZEANYIM: Mr. Bruce, do you have some
18 witnesses to be sworn?

19 Okay, may the witnesses be sworn, please?

20 (Thereupon, the witnesses were sworn.)

21 MR. BRUCE: Mr. Examiner, the way I've prepared
22 my exhibits, they cover both cases. I'm just going to have
23 one set of exhibits for -- at least land exhibits, for this
24 case and for the compulsory pooling. It was easier to do
25 them that way.

1 EXAMINER EZEANYIM: Yeah, maybe I threw you off
2 guard, but why I wanted to do that, there are some
3 questions I have in 13,484 --

4 MR. BRUCE: That would be --

5 EXAMINER EZEANYIM: -- that might be answered in
6 13,506 --

7 MR. BRUCE: Yes.

8 EXAMINER EZEANYIM: -- so I don't have to ask
9 those questions when it comes up, so once you have --

10 MR. BRUCE: Okay, that's -- that's fine.

11 EXAMINER EZEANYIM: -- that's why I rearranged --

12 MR. BRUCE: Okay, and I'll run through them
13 separately, but we'll change our testimony a little bit,
14 but that's fine.

15 EXAMINER EZEANYIM: Okay.

16 JEFF A. SIKORA,

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. BRUCE:

21 Q. Would you please state your name and city of
22 residence for the record?

23 A. My name is Jeff Sikora, and I'm from Houston,
24 Texas.

25 EXAMINER EZEANYIM: Jeff -- ?

1 THE WITNESS: Sikora.

2 EXAMINER EZEANYIM: Can you spell Sikora for me,
3 please?

4 THE WITNESS: It's S-i-k-o-r-a.

5 EXAMINER EZEANYIM: Go ahead.

6 Q. (By Mr. Bruce) And who do you work for and in
7 what capacity?

8 A. I am the senior landman for Edge Petroleum
9 Exploration Company.

10 Q. Have you previously testified before the Division
11 as a landman?

12 A. Yes, I have.

13 Q. And were your credentials accepted as a matter of
14 record?

15 A. Yes, they were.

16 Q. And are you familiar with the land matters
17 involved in the nonstandard unit application?

18 A. I think I'm as familiar with them as anybody,
19 yes.

20 Q. And in going through this, let's -- we'll first
21 address the nonstandard unit application and leave the
22 pooling until later. But going through these exhibits, Mr.
23 Sikora, what is Exhibit 1?

24 A. Exhibit 1 is a land map. It's a Midland base
25 map, and it highlights the south half of Section 28. And

1 what we're seeking here is a nonstandard 320-acre unit
2 comprising the south half of Section 28.

3 Q. Now, what is -- Is the Morrow formation the
4 primary zone of interest in this well?

5 A. The Morrow zone is our primary objective, yes.

6 Q. Okay, and what Morrow pool is involved?

7 A. This is in the Lusk-Morrow Gas Pool, and that
8 currently is spaced on 640 acres under Order Number R-2373.

9 Q. And skipping ahead here a little bit, Mr. Sikora,
10 are all of the pool rules regarding -- or all of the orders
11 regarding the Lusk-Morrow Pool submitted as Exhibit 2A?

12 A. Yes, they are, they're 2A.

13 MR. BRUCE: And Mr. Examiner, just to shorten
14 this a little bit, under Order R-2373, 640-acre spacing was
15 established for the pool.

16 And then all of the subsequent orders are
17 attached, and the most recent order of interest is not the
18 last order but the second-to-last order, which is R-2373-D,
19 as in dog, and that order was entered at the request of
20 Marbob Energy Corporation. 640-acre spacing was retained,
21 but the rules were changed to allow one well per quarter
22 section and to allow the normal 660-foot setback from a
23 quarter-section line.

24 Q. (By Mr. Bruce) And in the special rules, Mr.
25 Sikora, does it provide for applying for a nonstandard

1 unit?

2 A. Yes, Special Rule Number 4 allows for you to
3 apply for a nonstandard unit.

4 Q. Okay. And that is set forth in the original
5 Order R-2373, is it not?

6 A. Exhibit 2A, I believe.

7 Q. Exhibit -- Yes.

8 A. Yes.

9 Q. And then moving on to Exhibit 2B, is this the
10 order that limited the effect of the special pool rules
11 just to the pool as defined? *R-6147*

12 A. Yes, it is.

13 Q. And so the 640-acre spacing does not apply within
14 a mile of the pool? *JS*

15 A. It does not have the mile boundary, as you see in
16 a lot of these situations; it just applies strictly to the
17 pool.

18 Q. Okay. Now, with respect -- We've already
19 mentioned the Marbob Energy case. Because of the findings
20 in that order of a limited drainage in this pool, do you
21 think that a 320-acre unit is proper in the south half of
22 Section 28? *OK*

23 A. I do believe that that is proper. *J*

24 Q. And will Edge's geologist also discuss the
25 reasons for the nonstandard unit?

1 A. Yes, we have -- we will present geologic evidence
2 that will support that.

3 Q. Okay. Now, under the special pool rules you have
4 to notify offset operators, and was that done?

5 A. That was done. On Exhibit 1, it will show the
6 offset operators were Chesapeake and EOG Resources --
7 Chesapeake Operating, EOG Resources and Marbob Energy.

8 Q. And then to the west it's Gruy Petroleum. Now,
9 is that now Cimarex or part of Cimarex?

10 A. Gruy Petroleum is part of Cimarex, Magnum-
11 Hunter --

12 Q. -- and Prize Energy?

13 A. Prize Energy. And as we go through this
14 testimony, if I refer to Magnum-Hunter I'm referring to
15 Cimarex who has recently taken over Magnum-Hunter. Magnum-
16 Hunter acquired numerous companies over the years, all of
17 which are not probably properly reflected in the records.
18 So if you see Prize Energy, UPRC and we think Damson Oil
19 Company International, those are all entities that were
20 acquired at one time or another by Magnum-Hunter. So...

21 Q. Including Gruy?

22 A. Including Gruy. So if I say Cimarex or Magnum-
23 Hunter, I'm referring to Prize Energy as well. Those are
24 all --

25 EXAMINER EZEANYIM: Okay, the parent company is

1 Magnum-Hunter; is that --

2 THE WITNESS: Recently Magnum-Hunter was bought
3 by Cimarex, so the parent company is actually Cimarex.
4 That was very recently done. So I'll try to refer to
5 Cimarex as we go through this, but I've been dealing with
6 these -- with various people at Magnum-Hunter over the last
7 few months, and so I may accidentally just continue to say
8 Magnum-Hunter because that's what it was up until recently.

9 EXAMINER EZEANYIM: Is Gruy also included in this
10 -- you know --

11 THE WITNESS: I believe Gruy is the operating
12 company for Cimarex, so they are one and the same.

13 Q. (By Mr. Bruce) And notice to those offsets was
14 given as shown on Exhibit 3; is that correct, Mr. Sikora?

15 A. Yes, that is correct.

16 Q. Now also -- and that's just under the special
17 pool rules, giving notice to offsets.

18 Now, under the Division's procedural rules,
19 you're also required to notify the interest owners excluded
20 from the nonstandard unit; is that correct?

21 A. Yes.

22 Q. And who are they?

23 A. Those interest owners would be the United States
24 of America, which is the mineral owner of the north half of
25 Section 28. The working interest owner is a Wilbur

1 Shackelford. And there's an overriding owner; it's Mobil
2 Producing Company.

3 Q. Now, these people are listed on Exhibit 4, are
4 they not?

5 A. Yes, they are.

6 Q. Now, they are -- Now, first of all, these are the
7 working interest owners in 240 acres out of the north half
8 of Section 28, correct?

9 A. Correct.

10 Q. Okay. And with respect to these owners, Wilbur
11 Shackelford is the only working interest owner in the
12 Morrow formation?

13 A. That's correct.

14 Q. And you had title searches run to confirm that?

15 A. Yes.

16 Q. Secondly, the United States of America, even
17 though it was notified -- it is also the mineral owner in
18 the south half; is that correct?

19 A. Yes, the BLM is the mineral owner in all of
20 Section 28, north half and south half.

21 Q. Okay. So even though we notified them, they're
22 not being excluded from the as such?

23 A. No, no.

24 Q. And then finally, we did not notify, with respect
25 to the nonstandard unit, the people in the east half of the

1 northeast quarter of Section 28, the remaining 80 acres.

2 Why is that?

3 A. Those owners are the identical owners to the
4 south half, which is where our well is proposed. So they
5 won't be harmed by our nonstandard unit because they're
6 essentially in our nonstandard unit.

7 It's the same ownership in the east half of the
8 northeast as it is in the south half of Section 28 as to
9 the Morrow.

10 Q. Okay, and we'll get into that interest ownership
11 later.

12 And is Exhibit 5 the affidavit of notice to the
13 -- Mr. Shackelford and Mobil Producing?

14 A. Yes --

15 Q. Okay.

16 A. -- it is.

17 Q. Now, even though it's really not relevant as such
18 to the nonstandard unit, just so the Hearing Examiner has
19 an idea of the parties involved, what does Exhibit 6 show?

20 A. Exhibit 6 is a breakdown of the working interest
21 ownership in the southwest quarter of Section 28; it's the
22 Strawn formation. We'll get into that later when we talk
23 about the pooling.

24 Q. And here's where -- Mr. Sikora, if you could
25 explain the Prize Energy/Damson interests?

1 A. Yeah, I was going to go to that.

2 If you notice under A, Number 1A, we've got
3 interest owners of Prize Energy and Damson Institutional
4 Oil and Gas. We believe that both of those two entities
5 are Cimarex now, through acquisitions over the years that
6 were not properly reflected in the record title. These
7 were mergers or, you know, combinations of companies where
8 there wasn't actually an assignment of interest from one
9 party to the other, it was just a merger of the companies.
10 So generally there's a merger document of some sort, but we
11 were not able to locate that.

12 Q. And in the case of Damson, Damson went bankrupt
13 and conveyed its assets to a predecessor to Pride Energy;
14 is that correct?

15 A. As best we can tell, yes.

16 Q. But it didn't specifically include this property?

17 A. Correct.

18 Q. And so there's a break in the chain of title, and
19 so that's why that is shown.

20 Now, just with respect to the nonstandard unit
21 Application, Mr. Sikora, is it your opinion that the
22 granting of this Application is in the interest of
23 conservation and the prevention of waste?

24 A. Yes.

25 Q. And were Exhibits 1 through 6, so far as they

1 affect the nonstandard unit, prepared by you or under your
2 supervision, or compiled from company business records?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, for purposes of the
5 nonstandard unit Application, I'd submit land Exhibits 1
6 through 6.

7 MR. HALL: No objection.

8 EXAMINER EZEANYIM: No objections? Okay,
9 Exhibits 1 through 6 will be admitted into evidence.

10 Mr. Hall?

11 MR. HALL: I have no questions, Mr. Examiner.

12 MS. MacQUESTEN: May I ask -- Mr. Bruce, on your
13 affidavit of notice it said that Number 5 --

14 MR. BRUCE: Uh-huh.

15 MS. MacQUESTEN: -- it appears you won't be able
16 to get a return receipt from Mr. Shackelford?

17 MR. BRUCE: Yes, Ms. MacQuesten, there's --
18 whoops, I've got too many notice affidavits in here. Yes,
19 and I -- No, I didn't didn't bring it with me. I received
20 that letter back, and I will supplement the record with
21 that. I forgot to bring it. I got it late yesterday
22 afternoon. It was returned, not because it was
23 undeliverable but because it was not claimed by Mr.
24 Shackelford.

25 However, I know that address is correct because

1 on behalf of Edge I have sent other documents to him that
2 have been accepted. He just never picked this one up.
3 Because it was unclaimed rather than being undeliverable, I
4 do not think that publication notice was necessary. But I
5 will send you the actual envelope showing that it was
6 unclaimed by addressee. And that is what this postal
7 service website shows.

8 MS. MacQUESTEN: Do you know if the Division has
9 adopted that policy in other cases?

10 MR. BRUCE: I can't cite that to you, Ms.
11 MacQuesten, but if it's a correct address and the party
12 simply refuses to pick it up I don't think we have any
13 obligation to publish notice as against that person. If
14 they are not -- if it's a wrong address, sure, or an
15 address that's not deliverable.

16 MS. MacQUESTEN: And how do you know it's a
17 correct address?

18 MR. BRUCE: Because I can submit to you another
19 letter I sent to him about two months ago, to the same
20 address, where he picked it up and signed for it.

21 But we will do whatever the Division desires.

22 MS. MacQUESTEN: I'll take a look at the Rule and
23 if I have any concerns I'll give you a call.

24 MR. BRUCE: But I will submit that regardless.

25 MS. MacQUESTEN: No other questions.

1 EXAMINER EZEANYIM: Okay. I don't know, I know
2 you have another witness, but anyway let me ask some of the
3 questions I have. Maybe it will be answered in the next
4 testimony.

5 EXAMINATION

6 BY EXAMINER EZEANYIM:

7 Q. You know, you just mentioned that this is in the
8 interests of conservation and the prevention of waste, and
9 that's really why we're here; if that is established, then
10 that's very good.

11 First of all, is this the appropriate time to ask
12 the reasons why you want to develop them on the 640 --

13 A. Well --

14 Q. -- or do we have to get that information from the
15 next testimony?

16 A. I think that the geologic testimony will support
17 what I'm about to say. But, you know, three things come to
18 mind for me on this.

19 First of all, there was a well drilled in the
20 northwest quarter of Section 28 that penetrated the Morrow.
21 It no longer produces from the Morrow. It was an older
22 well and it either depleted or it was not commercially
23 productive in the Morrow. So you have the northwest
24 quarter of Section 28, which is basically condemned to the
25 Morrow.

1 We did submit notices to the offset parties. No
2 one has objected. And also Marbob has shown in previous
3 orders that the drainage out here for Morrow wells is based
4 on 160 acres. It's been proven that a Morrow well in this
5 area cannot drain 640 acres.

6 And outside of that, the land situation out here
7 is very complicated, and probably if we can't a 320-acre
8 unit approved, it's going to be very difficult for us to
9 drill this well within the time frame that we have to drill
10 it.

11 I have taken -- the Morrow interval out here is
12 -- With the exception of the southwest quarter of the
13 southwest quarter, which is owned by Edge, we bought that
14 lease at a federal lease sale a couple years ago. So we
15 own 100 percent as to all rights in the southwest of the
16 southwest.

17 The remainder of the south half of Section 28 has
18 the Morrow interval only. It's owned by Devon Energy and
19 Fidelity, both of which I have farmed in the interests of
20 and have basically until November to drill a well under
21 these farm-ins.

22 So we're on a tight fuse and rigs are hard to
23 come by. And, you know, based on the well in the northwest
24 quarter not being productive in the Morrow, we feel like a
25 southwest -- or a south-half unit is justifiable.

1 Q. Okay, and you talk about notice. Have you also
2 noticed everybody in the north half? Who is -- Maybe I
3 missed it when you were talking about the north half of
4 that Section 28.

5 A. The ownership?

6 Q. Yeah, in that north half?

7 A. As to the Morrow section --

8 Q. Yeah.

9 A. -- Mr. Shackelford owns the northwest quarter and
10 the west half of the northeast quarter.

11 As to the east half of the northeast quarter,
12 those are the same Morrow owners as are in the south half.
13 We've already farmed in their interest in the south half --

14 Q. Uh-huh.

15 A. -- so they're on notice, and they're agreeable to
16 the south half. It's Mr. Shackelford, really, is the only
17 offset owner that could be potentially adversely affected.

18 But again, a well was drilled to the Morrow on
19 this tract in the northwest quarter, and it's depleted. So
20 essentially, if he was in our unit he'd just -- he'd be
21 sharing in production that really he's not entitled to.
22 His tract is depleted.

23 Q. Okay, and this well, you said, is in an orthodox
24 location. What is the location, physical location?

25 A. The location of the well?

1 Q. The well, the physical location.

2 A. It's in the southwest quarter of the southwest
3 quarter.

4 Q. Yeah.

5 A. It's --

6 Q. The footage location.

7 A. -- 660 feet from the south line of Section 28 and
8 830 feet from the west line of Section 38 ²⁸ [sic]. It's a
9 standard --

10 Q. Eight hundred and what?

11 A. 830. It's a standard location.

12 Q. 660 from the south, 830 from -- ?

13 A. -- from the west.

14 Q. -- from the west?

15 A. Yes, sir.

16 Q. And this is by R-2373-D -- oh, no, I mean --
17 actually maybe -B, the setback requirements might be --

18 A. The setback requirements are 660-660.

19 Q. Okay, good.

20 A. It's Unit M.

21 EXAMINER EZEANYIM: Okay, I reserve my comments
22 now until we hear from the geologist.

23 THE WITNESS: Would you like me to step down?

24 EXAMINER EZEANYIM: Yeah.

25 Next witness, you have been sworn.

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JOHN HASTINGS,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Could you please state your name for the record?

A. John Hastings.

Q. And where do you reside?

A. In Houston, Texas.

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

A. I work for Edge Petroleum Exploration Company, and I am the vice president of exploration.

Q. Have you previously -- are you a geologist by trade?

A. Yes, I am.

Q. Have you previously testified before the Division?

A. Could you summarize your educational and employment background for the Examiner?

A. I have an undergraduate degree from Dartmouth and a master's degree from Texas A&M, and I've been working for Edge Petroleum for roughly 11 years, and then before that I worked for Shell Oil Company, starting in 1984. So I have roughly 21 years of petroleum business experience.

Q. And where has that experience been, besides --

1 has it been mostly Permian Basin or elsewhere too?

2 A. It's been really broadly throughout the U.S. and
3 the offshore United States, Gulf of Mexico, various basins
4 around the country.

5 Q. And how many years of experience do you have in
6 the Permian Basin, west Texas, New Mexico?

7 A. Four to five years.

8 Q. Does your area of responsibility at Edge include
9 this part of New Mexico?

10 A. Yes, it does.

11 Q. And are you familiar with the geology involved in
12 this Application?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I'd tender Mr. Hastings
15 as an expert petroleum geologist.

16 EXAMINER EZEANYIM: Mr. Hastings is so qualified.
17 If I may make a comment here, you say you were at
18 Texas A&M?

19 THE WITNESS: Yes, sir.

20 EXAMINER EZEANYIM: What year was that?

21 THE WITNESS: In 1984, so I was in 1983 and '84.

22 EXAMINER EZEANYIM: I left a long time ago, I
23 left in '79. So that's good to have somebody who went
24 there then, that's good.

25 Okay, Mr. Hastings is so qualified.

1 Q. (By Mr. Bruce) Mr. Hastings, Mr. Sikora has
2 addressed some of the issues that we'll be touching, but if
3 you could first go to your structure map, which I've
4 submitted as Exhibit 11, could you just briefly discuss the
5 structure in this area?

6 A. Okay. If you'll open your map, what you'll see
7 is a subsea structure map on top of the middle Morrow
8 formation, which is the primary objective in this hearing.
9 The structure map is color-coded for ease of viewing. The
10 structurally high areas are in the rose and pink color.
11 Then you've got this light-green color which is
12 structurally lower, and then the yellow color is even
13 lower.

14 And so you see a broad nose that trends
15 northwest, toward the southeast, that comes through our
16 area of interest. The orange box shows the location of our
17 proposed unit, 320 acres. Our proposed location is the
18 pink dot. There's a cross-section that I'll discuss later
19 on, B-B', that's indicated.

20 There's two gas symbols that are recent wells we
21 drilled in Section 33 and Section 34, "we" being Edge. And
22 there was one well Mr. Sikora referred to that had
23 previously been drilled in the northwest quarter of Section
24 28. And as you see from the structure map, we are roughly
25 at the same elevation as that well, as well as roughly at

1 the same elevation as the well number three to the south
2 southeast of our location in Section 28.

3 Q. Is structure all that important in the middle
4 Morrow?

5 A. It's not as important as where the sandbodies
6 are.

7 Q. Okay. Now, let's get back to that well in the
8 northwest quarter of Section 28. That is the Plains Unit
9 Well Number 2?

10 A. Yes, it is.

11 Q. And that well did test the Morrow, correct?

12 A. Yes.

13 Q. And it produced for some time. Do you have an
14 idea of when it was plugged and abandoned, in the Morrow?

15 A. In the Morrow, it was roughly -- It started
16 producing in the early 1970s and produced roughly .8 BCF,
17 with a modest amount of condensate, over a period of
18 roughly 20 years. So it was a relatively low-rate
19 producer.

20 Q. So it has been -- It has not produced from the
21 Morrow in a dozen years or so?

22 A. Yes, sir.

23 EXAMINER EZEANYIM: Is it plugged and abandoned
24 now?

25 THE WITNESS: It's producing from the Strawn. 

1 EXAMINER EZEANYIM: Oh, right now?

2 THE WITNESS: At low rates, right now.

3 EXAMINER EZEANYIM: -- back to the Strawn?

4 THE WITNESS: Yes.

5 Q. (By Mr. Bruce) What amounts has it produced from
6 the Strawn?

7 A. It's produced roughly 150,000 barrels of
8 condensate and .2 or .3 of a BCF. I've got the specific
9 information on a cross-section --

10 Q. That's okay.

11 A. -- to confirm.

12 Q. Well, let's go in and discuss the Morrow that
13 you're looking for in a little bit more detail. Could you
14 move on to your Exhibit 12 and discuss the primary Morrow
15 zones of interest and where they are present in Section 28?

16 A. Okay, this is the next map that I'll be showing,
17 Exhibit 12, I believe. This is a map that is intended to
18 show the outlines of the three sandbodies that compose the
19 Middle Morrow formation. They are productive in many
20 different sections.

21 And as you'll see from this map, in Section 28 we
22 are predicting that we'll encounter all three sands. But
23 one of the important things to notice on this map is that
24 the yellow-ocher sand, kind of the orangeish-yellowish
25 outline, is not present in the north half of Section 28,

1 and therefore can't be -- or that -- the north half does
2 not have that sand.

3 Also, the blue outline and the green outline, the
4 Plains Unit well penetrated those at the fringes of that,
5 at the edge of that outline, which might explain why the
6 well has been relatively tight. So we feel that part of
7 the justification for this south-half unit is that one of
8 the main sandbodies is not even present in the north half.
9 And therefore, they should not enjoy the production from
10 it.

11 Q. And even looking at this map, even though there
12 -- a couple of these sandbodies do appear to be partly in
13 the northwest quarter, they're pretty much absent from the
14 northeast quarter?

15 A. Yes, it would appear that all three sandbodies
16 are not present in the northeast quarter.

17 Q. Now, based on this, is it your opinion that a
18 south-half unit is proper from a geologic standpoint?

19 A. Yes, it is.

20 Q. And as you said, the northwest quarter is now
21 depleted in the Morrow. It wasn't prolific in the Morrow,
22 was it?

23 A. No, not by Morrow standards, a low-rate producer.

24 Q. And the southwest quarter, southwest quarter is
25 owned by Edge and its partners Chisos and Pure; is that

1 correct?

2 A. Yes.

3 Q. And that lease is only a couple of years old, I
4 believe?

5 A. The southwest of the southwest?

6 Q. Yes.

7 A. Yes, that's actually a fairly recent lease.

8 Q. So Edge and its partners never shared in
9 production from that northwest quarter?

10 A. That's correct.

11 Q. And in all probability, the other interest owners
12 in the south half, they acquired their interests, it looks
13 like, after that well depleted also, the northwest-quarter
14 well?

15 A. I'm not certain about that, but that makes sense,
16 yes.

17 Q. And so really, the people in the south half, who
18 currently own interest in the south half in the Morrow,
19 never shared in production from that well in the northwest
20 quarter?

21 A. I believe that's correct.

22 Q. Could you then move on to your cross-section, the
23 Exhibit 13 --

24 A. Okay.

25 Q. -- and maybe go into a little more detail about

1 what is and is not present at your proposed location and
2 the immediate offsetting.

3 A. Okay, this is a cross-section that runs through
4 the Plains Unit well in the northwest quarter of Section
5 28.

6 The next well to the right is our proposed
7 location in the southwest quarter, southwest of the
8 southwest of Section 28.

9 The next well is the Lusk Federal 33 well, which
10 has recently drilled.

11 And then a well that Chisos drilled, in 1994.

12 And finally the Edge Lusk Federal 34 well.

13 The location of this cross-section is shown on
14 the structure map, but the main points on this cross-
15 section are focused on the middle Morrow. And I indicated
16 that I had broken up the middle Morrow on the sand outline
17 map here into three separate sands, three separate
18 intervals. Those are shown on the cross-section. And I
19 indicated that the lower, the middle Morrow C zone, which
20 is one of the productive intervals, was not present in the
21 Plains Unit well, and this cross-section demonstrates that.

22 There's also some red markings on these wells
23 that indicate the interval that was perforated, for your
24 reference. And then on the bottom is a plot of the
25 production of the well by year that shows the cum gas, cum

1 oil and cum water production from each of the wells.

2 Q. Now once again, looking at the well in the
3 northwest quarter of Section 28, what you're basically
4 saying, it was on the fringes of the productive Morrow; is
5 that right?

6 A. Yes, it was.

7 Q. And based on the prior Marbob orders, since
8 drainage based on those orders is 160 acres or less, do you
9 think your proposed well will have any adverse effect on
10 the north half?

11 A. No, we believe that our well will not have any
12 impact on the north half of Section 28 and will likely only
13 drain about 160 acres.

14 Q. And of course the people in the north half are
15 free to develop that north half if they so desire?

16 A. Yes, they are.

17 Q. Were Exhibits 11 through 13 prepared by you or
18 under your supervision?

19 A. Yes, they were.

20 Q. And in your opinion, is the granting of the
21 nonstandard unit in the interests of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the admission
25 of Exhibits 11, 12 and 13.

1 MR. HALL: No objection.

2 EXAMINER EZEANYIM: No objection? Okay, Exhibits
3 11, 12 and 13 will be admitted into evidence.

4 Mr. Hall?

5 MR. HALL: I have no questions, Mr. Examiner.

6 EXAMINER EZEANYIM: No questions?

7 EXAMINATION

8 BY EXAMINER EZEANYIM:

9 Q. Okay, let's start with these three sands now in
10 the middle Morrow. You said, I think, in your testimony,
11 that those are not available in the north half of the
12 section?

13 A. Yes, especially the northeast half.

14 Q. The northeast half. Would you rather develop
15 this well using 160s -- I mean, you mentioned here that 160
16 might be even appropriate more than 320. Even though the
17 Rule says 640, you are asking for 320.

18 A. Yes, sir.

19 Q. Would you rather do it on 160? Because you
20 mentioned that mostly 160 would be the drainage that is
21 appropriate.

22 A. Well, I believe we would have the option to
23 develop it on 160 as an additional well in the 320-acre
24 unit, so a 320-acre unit appears to be just fine. *OTR*

25 Q. Of course, you know, what I'm trying to get at is

1 -- you know, what we're trying to see is if you're going to
2 prevent waste, you know, conservation and protect
3 correlative rights, and that's why I'm trying to ask most
4 of these probing questions. And I think from your geology
5 you said that this doesn't exist, it does not have these
6 upper middle sands?

7 A. Yes.

8 Q. And everybody -- I know my attorney asks that
9 question -- everybody that is supposed to be notified here
10 has been appropriately notified about this -- your 320
11 unit?

12 A. I believe --

13 Q. Yeah --

14 MR. BRUCE: I believe so, but subject to what Ms.
15 MacQuesten determines.

16 EXAMINER EZEANYIM: Yeah, that's -- okay, okay.
17 Okay, I've admitted into evidence the exhibits from 11 to
18 13, into evidence, okay.

19 Scott Hall, anything more for this witness?

20 MR. HALL: No questions, Mr. Examiner.

21 MR. BRUCE: The only thing I was going to add,
22 Mr. Examiner, is, the reason for a -- one of the reasons
23 for a 320-acre unit rather than a 160-acre unit is, the
24 thought is just to develop it on the current statewide
25 basis, which provides for 320 acres.

1 EXAMINER EZEANYIM: Okay.

2 And I have nothing further in this case, Mr.

3 Examiner.

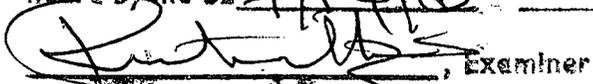
4 EXAMINER EZEANYIM: Okay. Nothing further, then
5 Case Number 13,506 will be taken under advisement. That's
6 good.

7 Let's take a 15-minute break, and then we'll come
8 back together, case -- so be back here around quarter to
9 10:00.

10 (Thereupon, these proceedings were concluded at
11 9:31 a.m.)

12 * * *

13
14
15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings to
the Examiner hearing of Case No. 3506
18 heard by me on 7/14/05.

19 
Oil Conservation Division, Examiner

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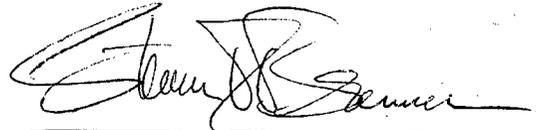
CERTIFICATE OF REPORTER

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 16th, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006