

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 OXY USA WTP, LIMITED)
 PARTNERSHIP, FOR AUTHORIZATION TO)
 SIMULTANEOUSLY DEDICATE A STANDARD)
 SPACING AND PRORATION UNIT IN THE)
 WOLFCAMP FORMATION TO A HORIZONTAL)
 WELL AND TWO VERTICAL WELLS, EDDY)
 COUNTY, NEW MEXICO)

CASE NO. 13,908

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Legal Examiner
 RICHARD EZEANYIM, Technical Examiner

June 21st, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Legal Examiner, and RICHARD EZEANYIM, Technical Examiner, on Thursday, June 21st, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
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I N D E X

June 21st, 2007
Examiner Hearing
CASE NO. 13,908

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:33 p.m.:

3 EXAMINER BROOKS: At this time we will call Case
4 13,908, Application of OXY USA WTP, Limited Partnership,
5 for authorization to simultaneously dedicate a standard
6 spacing and proration unit in the Wolfcamp formation to a
7 horizontal well and two vertical wells.

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm of Holland and
11 Hart, L.L.P. We represent OXY USA WTP, Limited
12 Partnership, in this matter, and I have two witnesses who
13 need to be sworn.

14 EXAMINER BROOKS: Okay. The witnesses will be
15 sworn.

16 (Thereupon, the witnesses were sworn.)

17 MR. CARR: May it please the Examiner, as we
18 begin this hearing, with your permission I'd like to make a
19 brief opening statement.

20 EXAMINER BROOKS: You may proceed.

21 MR. CARR: When the Application was originally
22 filed as it is styled now at this time, there were some
23 questions raised by the Division about whether or not we
24 should style this as an attempt to simultaneously dedicate
25 wells to a standard spacing and proration unit, or if it

1 should be styled as an attempt to simultaneously dedicate a
2 number of wells to a project area for a pre-existing
3 horizontal well. And if I could just explain how we happen
4 to be before you in this posture --

5 EXAMINER BROOKS: Okay.

6 MR. CARR: -- it will make, particularly, the
7 land testimony easier.

8 If you'll look at Exhibit 1, which is on the top
9 of the package, this is a plat that will be reviewed
10 actually by both of my witnesses. But the red block in the
11 center is a four-section project area for a horizontal
12 wellbore. It was approved by the BLM, and the reports have
13 been accepted by the OCD, but the well on this exhibit is
14 from a surface location in the extreme northwest of Section
15 23 and has two laterals, one extending almost due north
16 into Section 15, then another going due south down into
17 Section 26. And it contains eight laydown 320-acre
18 standard spacing units on which there are existing wells.

19 As you know, there's a lot of interest now in new
20 ways to develop the Wolfcamp formation in southeastern New
21 Mexico, and what we are looking at in this case is a
22 standard 320-acre unit in the south half of Section 15.
23 The reason we're looking at this on a spacing unit basis
24 instead of a project area basis really requires us to look
25 at terms as they are defined in Division Rule 111.

1 And we know what spacing unit is, we know what a
2 project area is for a horizontal well. And then the rule,
3 when we start talking about how you can set allowables for
4 wells in project areas, there is a sentence that we think
5 is instructive. And it is in Rule 111.C.(3). And it talks
6 about when establishing an allowable for project areas, it
7 includes production from all wells, including vertical
8 wellbores on standard spacing units inside the project
9 area. This suggests that when you add wells in a project
10 area, that you are looking at it on a spacing unit basis.

11 And I'd suggest that -- although I wouldn't
12 pretend anyone thought of this when the rule was drafted,
13 it does make some sense because if someday in this case the
14 horizontal wellbore was abandoned and you have more than
15 the allowed wells on each of these eight spacing units,
16 when the horizontal well goes away you would suddenly have
17 a number of spacing units with too many wells on them. And
18 so for that reason we're approaching it to simultaneously
19 dedicate three wells for the south half of Section 15.

20 And my first witness is Mr. David Evans.

21 EXAMINER BROOKS: I'm sorry, I didn't get the
22 last name?

23 MR. CARR: Evans --

24 EXAMINER BROOKS: Evans, okay.

25 MR. CARR: -- E-v-a-n-s.

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DAVID RAY EVANS,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your full name for the record?

A. David Ray Evans.

Q. And Mr. Evans, where do you reside?

A. 1506 Douglas, Midland, Texas 79701.

Q. By whom are you employed?

A. OXY USA WTP, Limited Partnership.

Q. And what is your current position with OXY?

A. Land negotiator.

Q. Have you previously testified before the New
Mexico Oil Conservation Division?

A. Yes, I have.

Q. At the time of that testimony, were your
credentials as an expert in petroleum land matters accepted
and made a matter of record?

A. Yes, they were.

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

A. Yes, I am.

Q. And are you familiar with the status of the lands
in the subject area?

1 A. Yes, I am.

2 MR. CARR: We tender Mr. Evans as an expert
3 witness in petroleum land matters.

4 EXAMINER BROOKS: Okay, are you a CPL, Mr. Evans?

5 THE WITNESS: I was formerly a CPL.

6 EXAMINER BROOKS: Formerly?

7 THE WITNESS: Yeah, the dues got a little high.

8 EXAMINER BROOKS: Okay. He's so qualified.

9 Q. (By Mr. Carr) Mr. Evans, would you briefly
10 summarize for the Examiners what it is that OXY seeks with
11 this Application?

12 A. OXY seeks the authorization to dedicate a
13 standard 320-acre spacing and proration unit comprised of
14 the south half of Section 15, Township 20 South, Range 28
15 East, Eddy County, New Mexico, in the Wolfcamp formation,
16 North Burton Flat-Wolfcamp Gas Pool, to the following three
17 wells:

18 The Government AC Well Number 1, drilled as a
19 vertical well, located 660 from the south line, 1980 feet
20 from the west line of Section 15;

21 The Government AA Com Well Number 2, that has
22 been drilled as a dual lateral horizontal wellbore,
23 directional well, from a surface location of 190 feet from
24 the north line, and 350 feet from the west line of Section
25 23, to a bottomhole location 675 feet from the north line,

1 261 feet from the east line of Section 15, and a second
2 lateral with a bottomhole location of 678 feet from the
3 south line, 237 feet from the west line of Section 23;

4 And finally the Government AC Com Well Number 4,
5 drilled as a vertical well, located 660 feet from the south
6 and east lines of Section 15.

7 Q. And that's the way you want to add to the spacing
8 unit?

9 A. Yes.

10 Q. What rules govern the development of the Wolfcamp
11 formation in this area?

12 A. 320-acre spacing units, optional infill wells and
13 the quarter section only containing the original well, 660-
14 foot setbacks.

15 Q. And this additional well that you propose to add
16 is at a standard location?

17 A. Yes.

18 Q. Is this a prorated pool?

19 A. No.

20 Q. Could you refer to Exhibit Number 1, identify the
21 spacing unit and simply explain from the land perspective
22 what is shown on this exhibit?

23 A. This exhibit reflects our spacing unit in the
24 south half of 15, and our government AC Number 4 well.
25 Along to the west is the AC Number 1 well. It also shows

1 the project are for the horizontal well, the AA Number 2.

2 Q. If we go to what has been marked OXY Exhibit
3 Number 2, is this a copy of Rule 111 which I discussed in
4 my opening statement?

5 A. Yes, it is.

6 Q. And was the language in this rule the reason that
7 OXY decided to simultaneously dedicate just the spacing
8 unit instead of the project area for the horizontal
9 wellbore?

10 A. Yes, it is.

11 Q. When was this horizontal wellbore actually
12 approved?

13 A. This was approved, let's see -- February the
14 17th, 2004.

15 Q. Are the documents that constitute the approval of
16 this wellbore contained in what has been marked as OXY
17 Exhibit Number 3?

18 A. Yes.

19 Q. And this is on a federal form, the application
20 for permit to re-enter --

21 A. Correct.

22 Q. -- and behind that are various C-102s and
23 calculations that show the location of the laterals on this
24 well; is that right?

25 A. That's right.

1 Q. What is the status of the mineral ownership in
2 this four-section?

3 A. The mineral ownership is common and --

4 Q. Are the interests communitized throughout the
5 four sections?

6 A. Yes, they are.

7 Q. And is a copy of the communitization agreement
8 covering this acreage what has been marked as OXY Exhibit
9 Number 4?

10 A. Yes.

11 Q. This agreement has been amended and includes all
12 four sections, does it not?

13 A. Correct.

14 Q. Does the joint operating agreement cover this
15 acreage?

16 A. Yes, it does.

17 Q. And is a copy of that joint operating agreement
18 what has been marked as OXY Exhibit Number 5?

19 A. Yes, it is.

20 Q. Have you proposed the well, or the recompletion,
21 to all the other working interest owners in this four-
22 section area?

23 A. Yes, we have.

24 Q. Would you identify what has been marked as OXY
25 Exhibit Number 6?

1 A. This is OXY's AFE for expenditures that has been
2 executed by all the working interest owners.

3 Q. So all working interest owners in the south-half
4 spacing unit have agreed to the recompletion of this well
5 in the Wolfcamp?

6 A. Yes, they have.

7 Q. And these are the same owners that are the owners
8 throughout the four-section project area as well; is that
9 not true?

10 A. That is correct.

11 Q. Is OXY Exhibit Number 7 an affidavit confirming
12 that notice of this hearing has been provided in accordance
13 with the Rules of the Division?

14 A. Yes, it is.

15 Q. And to whom has notice been provided?

16 A. To all the owners in the area.

17 Q. This includes all the owners in the spacing unit
18 and the project?

19 A. And the project, yes, sir.

20 Q. Since they're the same?

21 A. Yes.

22 Q. Will OXY call an engineering witness to review
23 the technical portions of this case?

24 A. Yes, they are.

25 Q. Were OXY Exhibits 1 through 7 either prepared or

1 compiled under your direction?

2 A. They were.

3 MR. CARR: May it please the Examiner, at this
4 time I would move the admission into evidence of OXY
5 Exhibits 1 through 7.

6 EXAMINER BROOKS: 1 through 7 are admitted.

7 MR. CARR: That concludes my direct examination
8 of Mr. Evans.

9 EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. Okay. Was notice only given to the owners within
12 the project area? Is that what I understand?

13 MR. CARR: That is correct.

14 THE WITNESS: That's correct.

15 Q. (By Examiner Brooks) Okay, so no notice was
16 given to offsets?

17 A. The offsets to the well, yes, sir.

18 MR. CARR: You know, Mr. Brooks, I mean, that's a
19 -- the ownership is common offsetting the south-half
20 spacing unit in all directions except to the west.

21 EXAMINER BROOKS: Except to the west, right?

22 MR. CARR: Correct.

23 EXAMINER BROOKS: Over in Section 16?

24 MR. CARR: Correct. Because it's all within the
25 same project area.

1 EXAMINER BROOKS: Is there a Wolfcamp operator in
2 Section 16?

3 THE WITNESS: I do not know.

4 MR. CARR: We can check that and confirm it --

5 EXAMINER BROOKS: Okay.

6 MR. CARR: -- and either re-notify or bring a
7 waiver from --

8 EXAMINER BROOKS: Under the policies that we've
9 taken with regard to these simultaneous dedications in the
10 Wolfcamp, we would have to have notice to the offset --

11 MR. CARR: Okay.

12 EXAMINER BROOKS: -- affected persons.

13 That's my only question.

14 EXAMINATION

15 BY EXAMINER EZEANYIM:

16 Q. On that Number 1, Exhibit Number 1, what is that
17 AC Number 4? What is that?

18 A. The AC Number 4 is currently a well in the Morrow
19 formation. It's the one we propose to recomplete into the
20 Wolfcamp.

21 Q. Okay, that's what -- that triangle?

22 A. Yes, sir.

23 EXAMINER EZEANYIM: Okay.

24 EXAMINER BROOKS: Okay, any questions?

25 MR. SWAZO: No questions.

1 EXAMINER BROOKS: Very good. Anything further,
2 Mr. Carr?

3 MR. CARR: At this time I would call David
4 Lofton --

5 EXAMINER BROOKS: Very good.

6 MR. CARR: -- L-o-f-t-o-n.

7 EXAMINER BROOKS: Next witness may take the
8 stand.

9 DAVID W. LOFTON,
10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. CARR:

14 Q. Would you state your full name for the record?

15 A. David Wayne Lofton.

16 Q. Mr. Lofton, where do you reside?

17 A. I live at 5504 Ridgemont in Midland.

18 Q. By whom are you employed?

19 A. By OXY Permian, or OXY USA WTP.

20 Q. What is your current position with OXY?

21 A. I'm a reservoir engineer.

22 Q. Have you previously testified before the New
23 Mexico Oil Conservation Division?

24 A. No.

25 Q. Would you review for Mr. Brooks and Mr. Ezeanyim

1 your educational background and then summarize your work
2 experience?

3 A. I graduated from Texas Tech in 1986 in mechanical
4 engineering, and I worked for approximately four years for
5 Unocal in Oklahoma, and then I worked 10 years for Samedan
6 or Noble Energy in Oklahoma, west Texas, as well as
7 offshore and international. And then in 2000 is when I
8 came to work for OXY in Midland.

9 Q. Does the geographic area of your responsibility
10 for OXY include southeast New Mexico?

11 A. Yes.

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

14 A. Yes.

15 Q. Have you made an engineering study of the spacing
16 unit and the well you propose to add to the spacing units?

17 A. Yes.

18 Q. And are you prepared to share the results of that
19 study with the Examiners?

20 A. Yes.

21 MR. CARR: We tender Mr. Lofton as an expert
22 witness in reservoir engineering.

23 EXAMINER BROOKS: Okay. Mr. Lofton, are you a
24 registered engineer in New Mexico or elsewhere?

25 THE WITNESS: No, I'm not.

1 EXAMINER BROOKS: Very well. He is so qualified.

2 Q. (By Mr. Carr) Have you prepared exhibits for
3 presentation here today?

4 A. Yes.

5 Q. Could you refer to what has been marked for
6 identification as OXY Exhibit Number 8 and review this for
7 the Examiners?

8 A. Exhibit 8 is the -- basically the same base map
9 that you saw before, with the exception of I've included
10 some drainage areas that I've calculated. And I'll walk
11 through the basis for those drainage calculations in the
12 following exhibits. But first off, I've listed here some
13 of the major reasons for us deciding, you know, that the
14 current wells are not adequately draining the reservoir,
15 and so kind of -- I'll start here.

16 The higher bottomhole pressures that we've
17 encountered in our wells that we've drilled in the last few
18 years are certainly a very important evidence of poor
19 drainage from the older wells. Most of these wells have
20 been producing, with the exception of just one or two,
21 since the early '70s. And I'll kind of go through these.

22 The Government AC Number 4 was a well, when we
23 drilled it to the Morrow we took a -- we did a DST as well
24 as an open hole -- or an open-hole DST as well as open-hole
25 RFTs, to establish the pressure before we ran pipe in the

1 Morrow zone. And we discovered the bottomhole pressure
2 there to be 3078 pounds, from both tests.

3 And then you compare that to the AC 1 that was --
4 in a bottomhole pressure survey that we had done in 2003,
5 to only be 1300 pounds or so, and I've listed that here.

6 And then in addition --

7 EXAMINER EZEANYIM: Why the difference there?
8 Too much difference, because -- 3000 and 1300. This AC 1
9 is in the same section here, right?

10 THE WITNESS: That's right --

11 EXAMINER EZEANYIM: What difference --

12 THE WITNESS: -- that's right.

13 EXAMINER EZEANYIM: -- is it? Why is the
14 pressure higher in AC Number 4?

15 THE WITNESS: Kind of, you know, several
16 different things, I think, are contributing that, one of
17 which is just the relatively low permeability of this
18 reservoir, and in some cases we've got some geologic things
19 contributing in terms of baffles and things like that.

20 And I know another thing -- and you'll see it on
21 the production curve -- is that it is a retrograde
22 condensate reservoir. So we'll see -- I think we're seeing
23 some banking of the condensate, which is impeding the
24 drainage of the reservoir, impeding the permeability.

25 And then -- and that's a -- you know, of course

1 that was a -- you know, when we found the 3000 pounds that
2 was very encouraging to us in terms of the infill drilling
3 potential.

4 Q. (By Mr. Carr) Let's look at some of the other
5 wells and the --

6 A. Okay.

7 Q. -- bottomhole pressure disparity.

8 A. Right. And one thing I want to kind of stress
9 is, you know, the recent activity, since we kind of --
10 since I had done a study back in 2003 in taking the
11 bottomhole pressures, all of the wells that we've drilled
12 and taken pressures in this area have found much higher
13 pressures out in the reservoir, so to speak, than at the
14 existing wells.

15 So kind of continuing down the list here, the
16 Government R 1 is over in the south half of Section 14. We
17 encountered a bottomhole pressure there of approximately
18 2900 pounds, whereas the vertical well, the vertical
19 Government R 1 that we were producing from prior to that
20 was already down to roughly 1100 pounds.

21 And then the Government AA -- that should read
22 the Government AA 1 that's in the south half of 23.

23 Q. Is that marked on the exhibit as the Z 1?

24 A. No, it's marked as the A 1.

25 Q. Okay --

1 A. And it should be the --

2 Q. -- all right.

3 A. -- it should be the AA 1.

4 Q. Okay.

5 A. I just noticed that.

6 Once again, we encountered a bottomhole pressure
7 of 2800 pounds, whereas in the vertical well we had taken a
8 survey the prior -- actually a few years back, of 1766
9 pounds.

10 And then the Government Z 1, we did not have a
11 static bottomhole pressure to compare to, but once again
12 the pressures are much higher than the offsets, and I've
13 listed here the pressure that we encountered when we
14 drilled that horizontal lateral.

15 Q. So basically this information would suggest
16 there's poor drainage occurring in the reservoir at this
17 time?

18 A. Yes.

19 Q. You've got also on this exhibit some conclusions
20 concerning the Government AA Well Number 2, the well with
21 the two horizontal laterals. Is the information contained
22 in the subsequent exhibits going to support these
23 conclusions?

24 A. Yes.

25 Q. Why don't you just state what they are, and then

1 we'll work through the data?

2 A. Okay. Here at one point, you know, in addition
3 to the other, is the poor drainage indicated by the flat
4 decline rate. We do have -- I've got a total production
5 plot in the following exhibits. And then as he mentioned,
6 the Government AA 2 really only expected to drain 97 acres.
7 I've got pressure information leading -- to let us know how
8 much we've drained there. And this represents only the
9 width of the drained area, as you see here, of around 450
10 feet. And as he's mentioned, I've got the calculations and
11 the things to support that in the following exhibits.

12 Q. And the information you have shows that with
13 8000 feet of lateral, you're really going to only run 97
14 acres --

15 A. That's right.

16 Q. -- of that formation?

17 A. That's right. It's actually 9200 feet. This
18 8000 was just a round number --

19 Q. Okay.

20 A. -- for this presentation. But the 9200, the
21 actual length of the two laterals, is stated in the
22 following exhibits.

23 Q. Let's go to what has been marked as Exhibit
24 Number 9. Would you identify that and review it for the
25 Examiner, please?

1 A. Okay, this is the total production plot of the --
2 of all the wells that are identified as Wolfcamp producers
3 in the yellow area here. And as you can see, you see the
4 condensate production fall off more rapidly than the gas
5 production. And an indication that we'd see from very,
6 very flat declines, is lack of drainage of the area. We're
7 just not draining effectively the entire area.

8 Q. Let's go to Exhibit 10. What is this?

9 A. This is a P/Z versus cum for the Government AA
10 Number 2, the long lateral that's in the middle of the
11 project area. As you can see, it points to an ultimate
12 recovery of between 2 and 2.5 BCF. And it's this 2.5 BCF
13 that I've based my drainage calculations on.

14 Q. What is Exhibit Number 11?

15 A. Okay, Exhibit Number 11 is the actual production
16 plot versus time of the Government AA Number 2. And one
17 thing, you know, I especially want to point out here is,
18 you know, the condensate production fell off very rapidly,
19 whereas the gas production has been held fairly constant.

20 One of the things that I've done to calculate the
21 reserves is, I've honored the pressure data, as opposed to
22 any kind of decline analysis for this. And the main reason
23 for that is that continually over time we're lowering our
24 flowing pressure such that we're able to maintain the gas
25 rate, but in reality our reservoir pressure of the drained

1 area is dropped off a lot, so to speak, so...

2 Q. That's why the production curve is flat, and the
3 production slopes down?

4 A. That's right, that's right. Once again, I've
5 honored the pressure data.

6 Q. All right. Now with this information, you've
7 taken it and you have calculated a drainage area; is that
8 right?

9 A. That's right.

10 Q. Is that summarized on Exhibit 12?

11 A. That's right, and I kind of walk through it here
12 in this last slide, that I've taken the initial bottomhole
13 pressure, and with an abandonment bottomhole pressure of
14 500 pounds, the 2.25 BCF, the volume that I would need --
15 the volume that will be drained is 3380 acre-feet. And
16 then with an average reservoir thickness based on the logs
17 in this area I expect a height, an average net thickness,
18 of 35 feet. So that gives me the 97 acres.

19 And then when you take that 97 acres with 9200
20 feet of lateral length, that's where I got the 450 feet in
21 order to draw it on here, that that's the drainage area
22 that we have.

23 Q. Now you want to add the AC Number 4 to this
24 spacing unit?

25 A. Yes.

1 Q. How far is that well from the AA Number 2, the
2 horizontal well?

3 A. It's approximately 1000 feet.

4 Q. What conclusions have you reached about the
5 necessity of adding this well to the spacing unit?

6 A. That it will provide us incremental reserves, and
7 we will not capture those reserves without it.

8 Q. And at its current location it is beyond the area
9 that will be drained by the horizontal well?

10 A. That's right.

11 Q. In your opinion, will approval of this
12 Application result in the recovery of reserves that will
13 otherwise be left in the ground?

14 A. Yes.

15 Q. Will it protect the correlative rights of the
16 interest owners in this spacing unit?

17 A. Yes.

18 Q. Were Exhibits 8 through 12 prepared you?

19 A. Yes.

20 MR. CARR: Mr. Examiner -- or both Mr. Examiners,
21 at this time I would move the admission of OXY Exhibits 8
22 through 12.

23 EXAMINER BROOKS: 8 through 12 are admitted.

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

EXAMINATION

BY EXAMINER BROOKS:

Q. Okay, this horizontal well was drilled in when, '04?

A. Yes.

Q. So you've got a significant amount of production data on that well?

A. Uh-huh.

Q. Okay, and the reason for the simultaneous dedication being brought at this time is that you're going to be recompleting the AC Number 4?

A. That's right.

EXAMINER BROOKS: Okay, I believe that's all my questions.

Mr. Ezeanyim?

EXAMINATION

BY EXAMINER EZEANYIM:

Q. The Government AA Number 2, is that a horizontal?

A. Yes.

Q. And you can only drain 97 -- from your calculations, can drain 97 acres?

A. Yes, yes.

Q. The other two wells, did you do a calculation on them on how much they are draining?

A. The other two wells?

1 Q. Yeah, the other two vertical wells.

2 A. I've done -- not directly. They're so much older
3 that I don't have some good pressure data to point back to
4 the original, and there's some issues there with the
5 overall, I guess, history, and I've got some problems with
6 data to try to calculate those.

7 Q. Right, but they are still producing?

8 A. They're still producing, yes.

9 Q. Do you have any idea how much they are producing
10 now?

11 A. The AC 1 -- they're in the neighborhood of, I
12 want to say, you know, like 150 to 200 MCF per day. In
13 other words, the rates have fallen way, way off. In fact,
14 the rates are so low that there's really not much left on
15 those wells, and roughly 10 barrels of condensate a day.
16 It's pretty much representative of all the vertical wells
17 in this area.

18 Q. Now you said that the oil here is retrograde, you
19 know, condensate, and -- Could you use this P/Z, you know,
20 collective to determine how much gas? Can you do that
21 under the circumstances? Could you use P/Z to determine
22 the drainage area?

23 A. That's what I've done there in the AA Number 2,
24 in that --

25 Q. Yeah, I was wondering what -- whether it's,

1 you know, the most accurate thing to use to come up with
2 that drainage area --

3 A. It --

4 Q. -- because I'm concerned about the drainage area,
5 how much that horizontal can drain.

6 A. Right, right. In this case, you know, we
7 certainly -- We've got good data on the AA Number 2 in that
8 we've got good shut-ins and we've seen the pressure build
9 to a certain point. And we're reaching a point now where
10 we've continually opened up -- you know, so to speak,
11 opened up the choke. And we're going to start seeing some
12 serious declines, and we -- that all fits together with
13 draining this amount of gas.

14 So, I mean -- so in other words -- I'm not sure
15 I've answered your question.

16 Q. Yeah, you're trying. But -- so you think that
17 that well can only drain 97 acres, approximately 100 acres;
18 would you say that?

19 A. Yes, I feel comfortable with that.

20 Q. On your Exhibit Number 11, which is the rate, the
21 red and green, which one is -- the notation here --

22 A. Okay --

23 Q. -- which one is oil and gas?

24 A. Yeah, the green is the oil, or condensate, and
25 the red is the gas. And that's another -- you know,

1 another reason for comfort with the pressure calculations,
2 the pressures that we're dealing with, is that as this
3 condensate drops off, therefore your yield is dropping off
4 and in a retrograde condensate the lower yield also is
5 another indication of the pressure being depleted.

6 So you can see here that with the steep decline
7 of our oil production, along with relatively flat gas
8 production, our yield has dropped off significantly.

9 Q. Okay. And you say that formation is generally a
10 tight formation, on your analysis?

11 A. Yes, and I make that inference from the
12 standpoint of the lack of drainage of the entire reservoir,
13 once the condensate drops off into the reservoir.

14 Q. Did you say that ownership in this area is
15 identical?

16 MR. CARR: Yes.

17 Q. (By Examiner Ezeanyim) Did I hear something like
18 that?

19 MR. CARR: Yes, it is, Mr. Examiner. The
20 ownership is identical throughout the four-section area.

21 EXAMINER EZEANYIM: Okay, that's it.

22 FURTHER EXAMINATION

23 BY MR. CARR:

24 Q. And one other question, Mr. Lofton, and this may
25 also be responsive to some of Mr. Ezeanyim's questions.

1 If you look at Exhibit Number 8, under each of
2 the Wolfcamp producers you have included the cumulative gas
3 and oil production as well as the current rate is shown
4 there, is it not?

5 A. Yes, sir. Yeah, we've got cum oil in the green
6 and cumulative gas in the --

7 EXAMINER EZEANYIM: Okay --

8 THE WITNESS: -- red.

9 EXAMINER EZEANYIM: -- is that in Exhibit Number
10 8, right?

11 MR. CARR: Yes, sir.

12 And that concludes my examination of this
13 witness.

14 EXAMINER BROOKS: Very good. Is there anything
15 further? Do you have anything further?

16 MR. CARR: The only thing is just the notice
17 question, and I don't know whether you prefer to leave the
18 case open for a couple of weeks, and we can attempt to
19 secure a waiver of objection, which would enable us to wrap
20 it up in a couple of weeks. And if we're unable to do it
21 in that time, then we continue it to --

22 EXAMINER BROOKS: Yeah --

23 MR. CARR: -- and if -- for some notice in the
24 meantime --

25 EXAMINER BROOKS: -- we would need to continue

1 it, because we might --

2 MR. CARR: All right.

3 EXAMINER BROOKS: -- in case -- because we would
4 need to give notice of hearing if we have to give notice.
5 So we will continue this until the July 12th hearing, if
6 you prefer to do that --

7 MR. CARR: I think so because --

8 EXAMINER BROOKS: -- in order to present a
9 waiver.

10 MR. CARR: -- we may be able to get the waiver at
11 that time.

12 EXAMINER BROOKS: Okay. Then Case Number 13,908
13 will be continued until July the 12th for purposes of
14 notice.

15 (Thereupon, these proceedings were concluded at
16 2:02 p.m.)

17 * * *

18
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. _____,
23 _____, Examiner
24 Oil Conservation Division
25

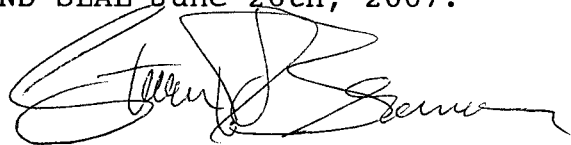
CERTIFICATE OF REPORTER

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 June 26th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010