

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14123

APPLICATION OF JUDAH OIL, LLC FOR
APPROVAL OF A SALTWATER DISPOSAL WELL,
EDDY COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: David K. Brooks, Legal Examiner
Richard Ezeanyim, Technical Examiner
Terry Warnell, Technical Examiner

June 26, 2008

Santa Fe, New Mexico

This matter came for hearing before the New Mexico Oil
Conservation Division, David K. Brooks, Legal Examiner, Richard
Ezeanyim, Technical Examiner, and Terry Warnell, Technical
Examiner, on June 26, 2008, at the New Mexico Energy, Minerals
and Natural Resources Department, 1220 South St. Francis Drive,
Room 102, Santa Fe, New Mexico.

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1	INDEX	
2	Examiner Hearing	
3	CASE NO. 14123	
4		PAGE
4	APPEARANCES	3
5	APPLICANT'S WITNESSES:	
6	JAMES CAMPANELLA	
7	DIRECT EXAMINATION BY MR. BRUCE	6
8	CROSS-EXAMINATION BY MS. MUNDS-DRY	15
9	EXAMINATION BY MR. EZEANYIM	17
10	VAN WELCH	
11	DIRECT EXAMINATION BY MR. BRUCE	21
12	CROSS-EXAMINATION BY MS. MUNDS-DRY	40
13	EXAMINATION BY MR. WARNELL	44
14	EXAMINATION BY MR. BROOKS	45
15	EXAMINATION BY MR. EZEANYIM	46
16	FURTHER EXAMINATION BY MR. BROOKS	50
17	APPLICANT'S EXHIBITS 1 & 3 - 6	15
18	APPLICANT'S EXHIBITS 2 & 7	40
19	RESPONDENT'S WITNESSES:	
20	RAY PAUL MILLER	
21	DIRECT EXAMINATION BY MS. MUNDS-DRY	51
22	CROSS-EXAMINATION BY MR. BRUCE	64
23	EXAMINATION BY MR. WARNELL	69
24	EXAMINATION BY MR. EZEANYIM	73
25	RESPONDENT'S EXHIBITS 1 - 6	64

A P P E A R A N C E S

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1 MR. EZEANYIM: At this point, I'm going to call Case
2 No. 14123 on Page 4. And this is the Application of Judah Oil,
3 LLC, for Approval of a Saltwater Disposal Well, Eddy County,
4 New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
7 representing the applicant. I have two witnesses.

8 MR. EZEANYIM: Any other appearances?

9 MS. MUNDS-DRY: Good morning, Mr. Examiner. Ocean
10 Munds-Dry with the law firm of Holland and Hart here
11 representing Marbob Energy Corporation. I have one witness.

12 MR. EZEANYIM: Any other appearances? May all the
13 witnesses stand and state your names and be sworn. Stand up,
14 state your name and be sworn.

15 MR. CAMPANELLA: My name is James Campanella with
16 Judah Oil.

17 MR. WELCH: Dan Welch with VSW2, E&P.

18 MR. MILLER: I'm Ray Miller with Marbob Energy
19 Corporation.

20 [Witnesses sworn.]

21 MR. EZEANYIM: Do you have any opening statements or
22 can we just go ahead?

23 MR. BRUCE: I just have a very brief one,
24 Mr. Examiner. This is a saltwater disposal application. The
25 applicant seeks approval to convert the plugged and abandoned

1 Geronimo 27 State Com Well No. 2 to a saltwater disposal well,
2 disposing the water into the Wolfcamp and Cisco Formations.
3 The well is located in the southwest quarter/southwest quarter
4 of Section 27, 17 South, 28 East.

5 This acreage is state minerals and state surface, and
6 the subject well was plugged and abandoned, I believe, in late
7 2004. Judah has been working for about a year to obtain
8 saltwater disposal approval for this well, and has obtained a
9 business lease from the State Land Office for the saltwater
10 disposal well.

11 We believe that use of the well will prevent waste,
12 and the application should be granted. Thank you.

13 MR. EZEANYIM: Ms. Munds-Dry?

14 MS. MUNDS-DRY: If Mr. Bruce says something, you know
15 I have to say something.

16 This is a case where Marbob is not objecting to a
17 saltwater disposal application or the method or procedure.
18 This really becomes more of a legal issue. Marbob is actually
19 the oil and gas lessee of record on this particular tract. And
20 also, the evidence will show, and Mr. Miller will testify, that
21 they actually own a portion of this well bore. They paid for
22 this well bore and they believe, based not only on the oil and
23 gas lessee of record here, but also having ownership in the
24 well bore and looking at the potential in this well, that
25 there's still productive zones left in this well bore. So we

1 believe the granting of this application would be violating
2 their correlative rights and will cause waste.

3 MR. EZEANYIM: Do you have any information whether
4 the well is plugged and abandoned?

5 MS. MUNDS-DRY: It is plugged and abandoned.

6 MR. EZEANYIM: Okay. You may continue, Mr. Bruce.

7 MR. BRUCE: Mr. Examiner, just to start with, I'm
8 going to give you what's been marked as Exhibit 7. If you
9 could first turn to Page 4 of Exhibit 7, and my witness will be
10 testifying off of that timeline.

11 MS. MUNDS-DRY: Mr. Bruce, do you have another copy?

12 MR. BRUCE: Certainly.

13 JAMES CAMPANELLA

14 after having been first duly sworn under oath,
15 was questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Please state your name for the record.

19 A. My name is James Campanella.

20 Q. And what is your relationship to Judah Oil?

21 A. I am the owner/operator of Judah Oil, LLC.

22 Q. Could you describe your business background for
23 the Examiner in the oil and gas business?

24 A. Well, I actually entered the oil and gas business
25 as I worked for my uncles at age 13 in a pipe yard,

1 straightening the pipe and doing -- cleaning tanks and stuff
2 like that. I was married in 1979 and went to work for my
3 father-in-law in the chemical -- oil field chemical business,
4 and worked for him for eight years; production chemicals,
5 drilling chemicals and whatnot. I also contracted pumps and
6 wells for him.

7 Then I left that position and went to work for a
8 company pumping some wells as a company pumper for a year. I
9 got out of the business for two years and then went back into
10 contract -- well, actually, pumping for Ray Westhoff for a
11 year.

12 And then I moved on to Burnett Oil and pumped and
13 roustabout for Burnett Oil for a year. And then I bought a
14 contract pumping business and pumped for 14 years until 2006.

15 In 1995, I purchased some stripper wells and was able
16 to obtain some more wells as I was pumping. I was able to find
17 some wells. And that's how I got started in the oil and gas
18 producing business.

19 Q. Okay. So you have been employed in the oil and
20 gas businesses for a number of decades and you don't have any
21 particular degree in any profession?

22 A. No, I don't.

23 Q. But for Judah Oil on the operations end, do you
24 oversee or supervise all of its operations?

25 A. Yes, I do.

1 Q. Does Judah Oil have any other saltwater disposal
2 wells?

3 A. Yes, we have one.

4 Q. Okay. So you are familiar with the procedures
5 involved in obtaining a saltwater disposal well?

6 A. Yes, I am.

7 Q. I've referred you to Page 4 of Exhibit 7.
8 Without reiterating everything, could you outline what you have
9 done to obtain saltwater disposal approval for the subject
10 well?

11 A. In roughly July of 2007, I operated a well in
12 Section 28 of 17 South, 28 East. And Edge Petroleum has a
13 well, a gas well that's in this same quarter/quarter section as
14 the well I operate. And they sent me an application for
15 disposal on the Geronimo 28, State No. 1. And at that time, I
16 started looking -- I needed -- I was in the disposal -- I was
17 trying to find a disposal, so this caught my eye. So I started
18 looking in that area.

19 I've actually looked south of Artesia for disposal,
20 but east of Artesia there's a much more need for disposal, so I
21 really started doing an extensive search in that area, looking
22 for a comparable well bore, a well bore that would make a good
23 disposal candidate.

24 Q. Okay. And you finally identified the Geronimo 27
25 No. 2?

1 A. That's correct.

2 Q. Since that time -- now, this matter has been set
3 for hearing. Did you originally apply to the Division for
4 saltwater disposal authority administratively?

5 A. Yes, I did.

6 Q. And did any parties object at that time?

7 A. We had -- RKI objected to the application.

8 Q. Okay. And did you subsequently work with RKI to
9 assuage their concerns?

10 A. Yes. We thought we had a compromise worked out.

11 Q. And is that reflected in Exhibit 1 submitted to
12 the Examiner, the stipulation?

13 A. This is actually in reference to the second time
14 that I applied for the application. We had reached an
15 agreement the first time. Their geologist looked at it and
16 wanted to go ahead and preserve some more zone, so this is the
17 stipulation they came up with and we agreed to satisfy their
18 concerns.

19 Q. And basically, I believe you were originally
20 going to inject at a level of 7100 feet, and you agreed to
21 restrict that to below 7800 feet?

22 A. 7782.

23 Q. 7782 feet. So you applied once, RKI objected,
24 you thought you had addressed their concerns, you reapplied and
25 notified everyone?

1 A. Correct.

2 Q. And RKI objected again?

3 A. That's correct.

4 Q. And that's when you reached the agreement that is
5 reflected in the stipulation?

6 A. That's correct.

7 Q. Okay. And then you applied administratively a
8 third time?

9 A. Right.

10 Q. And was that when -- and again, everybody who is
11 entitled to notice of the C-108 was given notice, correct?

12 A. That's correct.

13 Q. And who objected at that time?

14 A. Marbob Energy and Pitch Energy.

15 Q. And as a result, this matter was set for hearing?

16 A. That's correct.

17 Q. Okay. If you'd refer to your Exhibit 2 which is
18 the C-108, the next witness will address most of the matters in
19 that exhibit, will he not?

20 A. That's correct.

21 Q. But if you could turn to, I think, the second
22 page of that exhibit, could you just discuss basically what
23 type of authority you seek in terms of volumes and pressures?

24 A. We're asking to dispose of between 4,000 to
25 8,000 barrels of water per day and stay within the OCD

1 guidelines with our pressure of 1556 and dispose into no
2 further above 7282. From 7282 down.

3 Q. 7782.

4 A. 7782. I'm sorry.

5 Q. And the OCD's restriction is .2 psi?

6 A. Correct.

7 Q. You do not seek any higher pressure?

8 A. No, I do not.

9 Q. And is exhibit -- what is Exhibit 3? Is that
10 simply my Affidavit of Notice to the objecting parties in this
11 case?

12 A. That's correct.

13 MR. BRUCE: And, Mr. Examiner, we did also give
14 notice to the State Land Office of this hearing, even though
15 they had previously not objected to it.

16 MR. EZEANYIM: Okay.

17 MR. BROOKS: Is the State the surface owner?

18 MR. BRUCE: Yes, sir.

19 Q. (By Mr. Bruce): And then, when did you start
20 working on obtaining a business lease from the State of
21 New Mexico?

22 A. I started on the business lease in February. We
23 actually submitted the business lease to the State of
24 New Mexico Land Office on February 12th, I believe -- is when
25 we mailed the application.

1 Q. Okay. And you have obtained a business lease?

2 A. Yes, I have.

3 Q. And is Exhibit 4 a copy of that business lease?

4 A. Yes, it is.

5 Q. From the Land Office approving this subject well
6 as a saltwater disposal well?

7 A. Yes, sir.

8 Q. What is Exhibit 5?

9 A. This is the Right of Way giving me permission to
10 use the road to access the location approved by the New Mexico
11 State Land Office.

12 Q. Okay. And again, this was needed because it is
13 state surface?

14 A. That's correct.

15 Q. Under the business lease, what does the State
16 Land Office receive?

17 A. Well, they receive -- actually, this year they'll
18 receive \$7,500 plus 10 cents a barrel for every barrel that is
19 disposed of or that the well takes. As of next year, it goes
20 to \$10,000, and that will be an annual fee plus 10 cents a
21 barrel.

22 Q. Is there another saltwater disposal well needed
23 in this area?

24 A. Yes, sir, there is.

25 Q. And what is Exhibit 6?

1 A. Exhibit 6 is some letters that we received from
2 some trucking companies just stating that they need some
3 additional disposal in the area.

4 Q. Okay. Now, what type of -- well, let's get first
5 of all to the costs of this well. Assuming you are allowed to
6 use this well as a saltwater disposal well, what will be the
7 approximate cost?

8 A. We're looking at between \$750,000 to \$1 million
9 to re-complete and build a battery and whatnot.

10 Q. If you had to drill a new saltwater disposal well
11 to the same depth, what would the approximate cost be?

12 A. Approximately around \$2 million.

13 Q. So using this well will prevent economic waste,
14 will it not?

15 A. That's correct, it will.

16 Q. Assuming you obtain or get the -- have the
17 injection volumes you anticipate, what type of revenues will
18 the Land Office receive from its 10 cents per barrel injection?

19 A. We estimate over a 10-year period they would
20 receive roughly between \$1.5 and \$2.5 million in revenue.

21 Q. You said you spent some time looking for an
22 acceptable well bore. Are there any other available well bores
23 in this area?

24 A. We did an extensive search. There may be one
25 that we missed somewhere, but as far as my search, looking at

1 location -- which is very important for a commercial
2 disposal well -- I couldn't find any disposal wells that would
3 pass all the scrutiny that it takes to have a disposal well.
4 With the wells around it -- you have to look at the wells
5 around it to make sure their well bores have been cemented
6 sufficiently and all that.

7 Q. And there are literally hundreds if not thousands
8 of wells in the area, right?

9 A. There are lots of wells in this area.

10 Q. And this was the only one you found?

11 A. This is the only one that I found that was -- for
12 location, this is the only one that I found that we could
13 re-enter and make a good disposal well out of it.

14 Q. How far away is the next available commercial
15 saltwater disposal well?

16 A. About three miles away there is a well operated
17 by I&W, but it is a closed system. They'll just let a couple
18 of others in. I&W is a trucking company. Other than that,
19 they have to go all the way to Loco Hills, which is another 15
20 to 18 miles, to the next disposal.

21 Q. So this will be beneficial to the other companies
22 and operators so they won't have to truck the water so far?

23 A. That's true. And also it will allow other
24 companies in the area to run a pipeline if they need to for
25 this well to service also.

1 Q. Were Exhibits 1 through 6, other than the C-108
2 Exhibit 2, prepared by you or under your supervision or
3 obtained from company records?

4 A. Yes, they were.

5 MR. BRUCE: Mr. Examiner, I move the admission of
6 Exhibits 1 and 3 through 6.

7 MS. MUNDS-DRY: No objection.

8 MR. EZEANYIM: Exhibits 1 and 2 -- I mean, 3 through
9 6 will be admitted.

10 [Applicant's Exhibits 1 & 3 through 6 admitted into
11 evidence.]

12 MR. BRUCE: And I pass the witness.

13 CROSS-EXAMINATION

14 BY MS. MUNDS-DRY:

15 Q. Mr. Campanella, you said you operate one other
16 saltwater disposal well. Where is that?

17 A. It's in Section 33, Township 18 South, 31 East,
18 Unit Letter C.

19 Q. And do you also operate oil and gas as well?

20 A. Yes, ma'am, I do.

21 Q. Where are your operations in relation to this
22 saltwater disposal well?

23 A. I have a well -- actually, like I said before,
24 which is the Welch State No. 1, which is in Section 28, which
25 is the section over from this proposed well. I also have some

1 other wells that are roughly eight miles south of this well. I
2 have some wells south of Carlsbad. I have some production east
3 of Carlsbad. I have some wells in Chaves County also.

4 Q. Thank you. I'm looking at -- and I understand
5 that you have someone else from your company review the
6 C-108 -- but I wonder on Exhibit No. 2 where -- I don't see the
7 date that it was submitted. Do you know when it was originally
8 submitted?

9 A. To be honest with you, I believe this was
10 submitted around the -- you know, I better not say. I know it
11 was between the 6th and the 14th of March that it was
12 submitted.

13 Q. And then I'm looking at your Exhibit No. 5 which
14 is a copy of your right-of-way easements.

15 A. Okay.

16 Q. Do you recall when you first applied for
17 right-of-way with the State Land Office?

18 A. I applied for the right-of-way at the same time
19 that I applied for the business lease, which was in February.

20 Q. And I can't help but notice on Exhibit No. 4 that
21 you got this just in the nick of time. It looks like it was --

22 A. I've been working -- I have been on this.

23 Q. Okay. It got there in time.

24 A. It sure did.

25 Q. Okay. Mr. Campanella, do you know who has

1 ownership for the well bore for the Geronimo?

2 A. The State of New Mexico.

3 Q. How do you know that?

4 A. I talked with Jeff Alvers of the State Land
5 Office. He said once a well is plugged and abandoned on state
6 land it automatically reverts back to the state's possession.

7 Q. Okay. And I think you said -- I just want to
8 make sure I heard your testimony correctly. There is another
9 saltwater disposal well about three miles away from this
10 location?

11 A. The Solt, yes, ma'am.

12 MS. MUNDS-DRY: Okay. I think that's all the
13 questions I have. Thank you.

14 MR. EZEANYIM: Mr. Brooks?

15 MR. BROOKS: No. I don't think I have any questions
16 for the witness.

17 MR. WARNELL: No questions.

18 MR. EZEANYIM: Okay. I have a couple.

19 EXAMINATION

20 BY MR. EZEANYIM:

21 Q. You talked about cost of using this well as
22 compared with using another well. Can you go through that
23 testimony again how much it would cost you to complete this
24 well instead of drilling another well?

25 A. Okay. The cost -- the AFE for this well is

1 roughly \$750,000. And when I made this AFE, it was actually --
2 we wrote it up around February. Now prices have increased
3 since then with steel and other costs. They've raised their
4 costs. Fuel surcharges have gone up. We're looking at from
5 \$750,000 to \$1 million.

6 Q. Okay. If you drill on that, how much will that
7 cost?

8 A. We estimate between \$1.5 and \$2 million to drill
9 the same well.

10 Q. Okay.

11 A. And that's with no problems.

12 Q. Okay. You are talking about state receipts,
13 because state, you know --

14 A. Right.

15 Q. What did you say about that? Can you repeat
16 that?

17 A. Sure.

18 Q. How did you come out with that amount of money?

19 A. We're estimating at 4,000 barrels of water a day
20 at \$0.10 a barrel over a 10-year period. The difference
21 between a disposal well and a producing well is a disposal well
22 doesn't have a depletion ratio, depending on who brings water.
23 I still take as much water now on my one disposal well as I did
24 when I opened it up in 2004.

25 So we based our numbers on the state receiving \$0.10

1 a barrel over a 10-year period at 4,000 barrels of water a day.
2 And we're looking between \$1.5 and \$2.5 million. About \$100 --
3 we're looking at about \$120,000 to \$130,000 a year.

4 Q. Okay. You said there are a lot of wells in this
5 area and the only well you think you could use is this well.
6 Why is that?

7 A. Well, you probably have heard the saying,
8 "Location, location, location."

9 Well, this well is located in a really -- it's 2/10
10 of a mile off of 82, Highway 82, which is the road that goes
11 between Artesia and Loco Hills. It sits 2/10 of a mile off of
12 that. There's a lot of trucks coming from west of Artesia
13 where they're drilling a lot of Wolfcamp wells in that area and
14 taking that. They have access. Plus, there's also several
15 other -- there's a couple of other main roads, 360 and 206,
16 which are main roads coming north and south that tie into 82
17 real close to this also.

18 So the location of this well bore is just really in a
19 great spot for the truckers for them to use. And you want to
20 keep trucks off the road a long ways because it's a lot of wear
21 and tear on their trucks. So if you can stay close to a paved
22 area, it really works to their advantage.

23 Q. And so the system will be open?

24 A. Pardon me?

25 Q. The system will be open?

1 A. Yes.

2 Q. Open system?

3 A. That's correct.

4 Q. Anyway, this is an SWD, right?

5 A. That's correct.

6 Q. You have another SWD? What is the distance from
7 that SWD well to this one?

8 A. The other SWD well is around 20 -- probably close
9 to 25 miles.

10 Q. Okay.

11 A. Maybe even 30 miles away.

12 Q. From this Geronimo?

13 A. From this Geronimo, yes, sir.

14 Q. So you approached the State of New Mexico to get
15 this orphan well from them because once it's plugged and
16 abandoned -- since the State has the surface ownership, you
17 went there and got a right-of-way -- is that a right-of-way?

18 A. Right. It's actually a business lease.

19 Q. Okay. Business lease. Did they, at that
20 point -- did they mention any other party that owns the well?

21 A. From talking with the State, they said once the
22 well is plugged and abandoned, it goes back to the property of
23 the State of New Mexico.

24 MR. EZEANYIM: No further questions.

25 MR. BRUCE: I call Mr. Welch to the stand.

1 MR. BROOKS: Would you want to take recess to allow
2 the witness to set up?

3 MR. EZEANYIM: We'll take a 5-minute recess, then.

4 [Recess taken from 9:49 a.m. to 9:57 a.m., and
5 testimony continued as follows:]

6 MR. EZEANYIM: Let's go back on the record now and
7 continue with Case No. 14123.

8 Mr. Bruce?

9 MR. BRUCE: The next witness is Mr. Van Welch.

10 VAN WELCH

11 after having been first duly sworn under oath,
12 was questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Welch, would you state your name and city of
16 residence for the record.

17 A. Van S. Welch, II, Houston, Texas.

18 Q. By profession, what are you?

19 A. I'm a professional engineer in the State of
20 Texas.

21 Q. Have you previously -- and what is your
22 relationship to Judah Oil?

23 A. We're in partnership in one well in Texas and
24 we're going to be partners in the current Geronimo 27 Well.

25 Q. Have you previously testified before the

1 Division?

2 A. No, I have not.

3 Q. Would you summarize your educational and
4 employment background for the Examiner?

5 A. Sure. I was born and raised in Artesia,
6 New Mexico, and graduated from New Mexico State, Las Cruces,
7 with a mechanical engineering degree. I joined Pan American,
8 which was Amoco in 1968. I've been -- joined them as a
9 production engineer, but moved into reservoir engineering in
10 1970. And I've been a reservoir engineer for the last
11 37 years.

12 I've worked about 20 years internationally and
13 20 years in the US. I have done extensive reservoir
14 engineering simulation studies in US, Mexico, South America,
15 M.E., Russia, Africa, and North Sea. I've done a great deal of
16 acquisition evaluations in the US, Gulf of Mexico, Algeria,
17 Egypt, Argentina, Russia, Brazil, Bolivia, China Sea, Indonesia
18 and Venezuela. I've also done a great deal of exploration work
19 during the course of this time. I've had prior litigation,
20 deposition, expert witness testimony at various times.

21 Currently I'm under contract to Shell Oil Company --
22 I have been for the last two years -- involved with their very
23 confidential, unconventional oil processes. I've spent one
24 year where we are working on the process to -- it's called
25 Insitu Conversion, where we crack Kerogen downhole and produce

1 it back as a fluid product, gas product -- in Colorado Oil
2 Shales.

3 And for the last year, we're in the process of
4 starting up one of the first IUP processes which is Insitu
5 upgrading Bitumen where we crack it downhole, produce it back
6 as a gas. We're hoping to kick off a project there in the next
7 few years as a first major project in Canada.

8 Q. And you are a registered professional engineer?

9 A. Yes. I am in the State of Texas.

10 Q. And you've previously testified before the Texas
11 Railroad Commission?

12 A. Yes.

13 Q. And are you familiar with the engineering matters
14 related not only to the conversation of the saltwater disposal
15 well, but as to other reservoir matters in this area?

16 A. Yes, I am.

17 MR. BRUCE: Mr. Examiner, I tender Mr. Welch as an
18 expert petroleum engineer.

19 MS. MUNDS-DRY: No objection.

20 MR. EZEANYIM: Mr. Welch, which country did you work
21 in in Africa?

22 THE WITNESS: Algeria and predominantly -- Algeria
23 and Egypt, two years in each.

24 Q. (By Mr. Bruce): Now, Mr. Welch, I've submitted
25 your PowerPoint presentation as Exhibit 7, and those pages are

1 numbered, so as you roll through your exhibits, it would
2 probably help, in case the Examiners are reviewing what's in
3 front of them rather than what's on the screen, if you could
4 identify the page number for them.

5 A. Sure. Page number should basically be on each
6 exhibit. There are a couple of minor revisions that I did last
7 night and this morning, so that handout will have a couple of
8 very minor differences.

9 Q. And maybe start off, once you get to it -- if you
10 want to introduce it and then maybe move to Page 3 to just --
11 an area plat to show where we are.

12 A. This is a map of the general area where the Judah
13 proposed saltwater disposal Geronimo No. 27 is. It's in Unit M
14 in Section 27 of Township 17 South, Range 28 East, which is
15 located right here. There are only two other deep penetrations
16 in this area that intersect the Wolfcamp Cisco that could
17 possibly be saltwater disposal. One of them is already
18 approved for saltwater disposal for Edge Energy, which is
19 located here. Then you have a producing well, the Geronimo 33,
20 which is a gas production in the pen.

21 Q. And again, that inner circle is the one-half mile
22 area review for the C-108?

23 A. Right. I've got a better map of this coming up.

24 Q. Okay.

25 A. No. 5 was the summary of my work history. No. 6

1 is a legend of the local area of production within a half-mile
2 radius of the Geronimo. Basically, there are six productive
3 horizontals. They're color-coded and I'll show up a map in
4 just a minute. But basically you have the Yates-Seven Rivers
5 at about 500 feet. You have -- within this area, you have two
6 different Queen-Grayburg-San Andres designations. One is
7 called the Red Lake and one is called the Artesia.
8 Essentially, they're the same production horizon.

9 Below that you have production in the Glorieta-Yeso.
10 It's very common for the Glorieta-Yeso to be commingled with
11 the Queen-Grayburg-San Andres. Below that you have the mighty
12 Empire Abo Field, which covers most of the area in this part.
13 The Wolfcamp, Empire Wolfcamp is also productive. And the
14 Empire Penn State, which is about 10,000 feet, has also been
15 produced.

16 This is Exhibit No. 7. I went through the state
17 records and color coded all the wells, basically, within the
18 one-half mile radius that I could find, and they're color coded
19 for production. The ones marked with a slash I think are
20 either abandoned or they don't produce any further. You have a
21 great deal of shallow production in the area. Nearly every 10
22 acres are -- excuse me -- every 40 acres or 10 acres you'll
23 have an Empire Abo well, which are shown in green. Then you
24 have your Glorieta-Yeso production. You have one well here,
25 one well here.

1 Q. When you say "here," state the section, please.

2 A. Sure -- excuse me. This is the Section 34
3 Unit D. In the section right here, Section 28, you have a
4 Yeso-Glorieta well. You also have Yeso production in
5 Section 27 in P, Unit P. So there's a great deal of production
6 in the area. And there's the No. 33 well, which I said is an
7 Empire Abo well. So you have some limited deep production, but
8 predominantly it's shallow production.

9 Next, I'd like to just discuss the current injection
10 projects that exist in the area. There are saltwater disposal
11 wells. Marbob State MO #1, there's a Wolfcamp injection. I
12 found in the records that a Washington #34 -- it was connoted
13 as an Arco Permian. I understand this may be a BP well. I'm
14 not positive. In the records I found it as an Arco.

15 Edge Petroleum Geronimo 28 is approved for a Cisco
16 saltwater disposal. You also have an Artesia
17 Queen-Grayburg-San Andres waterflood at about 1270 feet. The
18 Empire Abo Unit has been under injection for years, of
19 different sorts.

20 The following is a cross section for the saltwater
21 disposal wells. First you have the Geronimo well which was
22 approved for the Cisco, which is located here.

23 MR. EZEANYIM: Mr. Welch, please, could you go back
24 to the last slide?

25 THE WITNESS: Yes, sir.

1 MR. EZEANYIM: Are these wells here?

2 THE WITNESS: Yes. These are wells, but this is a
3 waterflood unit, and this is the Empire Abo waterflood gas
4 injection unit.

5 MR. EZEANYIM: Okay. The other one then --

6 THE WITNESS: These are all individual wells.

7 MR. EZEANYIM: Saltwater disposal?

8 THE WITNESS: Yes. These three wells here, two of
9 them are on saltwater disposal according to the latest records.

10 MR. EZEANYIM: That one going to the Wolfcamp-Cisco,
11 how far away are they from Geronimo; do you know?

12 THE WITNESS: Yes. It's right here. This is the
13 Geronimo No. 28. It's within one-half mile. This is a
14 half-mile ring. And this is the Judah proposed well. This is
15 the Marbob State MO #1 Wolfcamp injector.

16 MR. EZEANYIM: Okay.

17 THE WITNESS: And then a mile away you have this Arco
18 Washington #34 Wolfcamp-Cisco injector.

19 Q. (By Mr. Bruce): Mr. Welch, the Edge well, the
20 Geronimo 28, injection has not commenced yet?

21 A. It has not commenced yet. It is approved by the
22 State, but they have not converted it. It's been a deep Penn
23 well, and I think they'll probably convert fairly soon. This
24 is the well that my partner -- James Campanella tried to
25 acquire that well bore, but they wouldn't sell.

1 Q. Okay.

2 MR. EZEANYIM: Go ahead.

3 A. Okay. This is a cross section. This is the same
4 down here. This is a cross section of the well logs for just
5 to demonstrate where the different wells are injecting or would
6 be injecting if this well was converted. This is, again, the
7 Geronimo No. 28. It's approved for injection strictly in the
8 Cisco over about 300 feet. It's about 8,000 feet to, I think,
9 8300 feet. The Marbob well -- I'm sorry -- I can't read my
10 numbers there -- but the Marbob well only injects into the
11 Wolfcamp, and that's from about 7900 feet to 8,000 feet.

12 The Judah well that we are recommending would be
13 injecting into the interval of 72 -- excuse me -- 7782 feet in
14 the Wolfcamp down through the Cisco to 8300 feet. The
15 Washington 34 Well, about a mile away, is approved for
16 injection in the Wolfcamp-Cisco, and that total interval is
17 from 7200 feet down to 9140 feet. So it's a very significant
18 interval that has been accepted as a disposal throughout this
19 area.

20 MR. EZEANYIM: Who owns No. 28?

21 THE WITNESS: Excuse me?

22 MR. EZEANYIM: Who owns 28?

23 THE WITNESS: 29 is Edge Petroleum.

24 MR. EZEANYIM: Okay. And the Judah owns No. 27?

25 THE WITNESS: Right. And Marbob owns the State

1 MO #1.

2 MR. EZEANYIM: Okay. State MO #1 is an injection
3 well where?

4 THE WITNESS: It's a Wolfcamp.

5 MR. EZEANYIM: Wolfcamp at 7900 to --

6 THE WITNESS: Right. 7900 to 8000 feet.

7 MR. EZEANYIM: And the Judah will be at --

8 THE WITNESS: They're going to be at 7782 down to
9 8300 feet.

10 MR. EZEANYIM: That is the proposed well?

11 THE WITNESS: Yes. And the Arco or BP well has a
12 very extensive interval approved for injection.

13 MR. EZEANYIM: Okay.

14 A. Okay. Next I'd like to cover fresh water in the
15 area. This was extracted from the applications that have been
16 submitted to the State. Fresh water does exist in the area
17 down to approximately 150 feet. And geologically there's no
18 known faults or hydrological connections to the fresh water
19 from anything below the fresh water zones in that area. These
20 are your typical casings to protect the fresh water.

21 This is the Geronimo 27, which is proposed. This is
22 the Geronimo 28, which is approved. And this is the
23 Geronimo 33, which is a gas production well. All of these
24 wells have surface casing down to 440 to 520 feet. And the
25 cement is circulated to surface. So fresh water is very well

1 protected there.

2 They then run a short string down approximately
3 2700 feet. And they circulate all the way back to surface on
4 that short string to protect fresh water, and obviously to
5 protect the hydrocarbon zones as well. But the fresh water is
6 very well protected.

7 Q. (By Mr. Bruce): So by injecting into the
8 Geronimo 27 there wouldn't be any movement of fluid between
9 zones?

10 A. No, we do not believe this. This is typical
11 protection of hydrocarbons. This is the proposed 27 well. You
12 have hydrocarbon zones down to at least -- we're down to the
13 Abo. Here you have short string. Normally that's run to the
14 production zone all the way to the Penn, and it has cement
15 normally that goes up into the short string of at least
16 500 feet so all the shallow zones and the zones down to our
17 injection zone are protected by cement. So we feel that this
18 particular well, which is one of the things we look for very
19 much, is to make sure that where we inject, we will not
20 contaminate fresh water or interfere with any hydrocarbons.

21 Now, I'd like to address the zones that I have, and
22 this is Slide No. 14. Our injection zone starts at 7782, which
23 is right here, and goes down much deeper all the way to 8300
24 feet. This is the mud log on the Geronimo 27, the proposed
25 saltwater disposal well. Dominion had some gas shows in this

1 area right here. Dominion came in and perforated this interval
2 at 7860 or 7898. We have no results of that from the records.
3 But they abandoned that, went up hole and completed in the
4 Wolfcamp at 7168 to 7180. This implies that there was no
5 commercial production within that zone. This is a larger log
6 of the entire injection zone.

7 MR. EZEANYIM: Let's go back to that slide.

8 THE WITNESS: Sure. Absolutely.

9 MR. EZEANYIM: The 7782 to 8300 is the Dominion test,
10 there is no production?

11 THE WITNESS: No results were reported in the
12 records. I only have access to public records, and they did
13 not -- there was nothing that I was able to find.

14 MR. EZEANYIM: That doesn't mean they don't have any
15 production.

16 THE WITNESS: Right. No. And I'm not implying that.
17 I said I have no results. But they left that zone and went up
18 the hole and re-completed up higher.

19 MR. EZEANYIM: Up hole there?

20 THE WITNESS: Oh, they completed it. Yeah, they
21 completed the Wolfcamp at 7168, which is about 600 feet higher.
22 So we feel like they -- they tested a whole lot of zones in
23 this well before they actually got to abandon it.

24 Q. (By Mr. Bruce): Was there much production from
25 the upper Wolfcamp?

1 A. I can't remember. I can't remember. But it was
2 commercial for some time, but I don't remember.

3 MR. EZEANYIM: Yeah. Go ahead.

4 MR. CAMPANELLA: They did not produce from the upper
5 zone. They tested it and then they shut it in because it was
6 not commercial.

7 MR. EZEANYIM: Which zone are you talking about?

8 MR. CAMPANELLA: Dominion completed it.

9 THE WITNESS: I apologize.

10 MR. EZEANYIM: Which zone is that?

11 MR. CAMPANELLA: That would be the upper Wolfcamp.

12 THE WITNESS: 7168 to 7180?

13 MR. CAMPANELLA: That was the last perforation that
14 they perfered that well at, 7160 to 7180, and they didn't produce
15 it. They abandoned that location. Well, they actually sat on
16 it for three years and then abandoned the well.

17 MR. EZEANYIM: Is there anything on the record to
18 show that that is a fact that you are stating?

19 THE WITNESS: I could probably find something very
20 rapidly. I've gone through a whole lot of wells here, but I
21 will check that at the end of this presentation. I'll have it
22 on file on my computer here.

23 MR. BRUCE: And that data was -- I did look at it,
24 and that data was in the Division's well files, as far as
25 completion and subsequent abandonment.

1 MR. EZEANYIM: Okay.

2 THE WITNESS: Well, I can verify that very rapidly.
3 And I do apologize for that.

4 The next one is a dual lateral log of the Geronimo
5 27. The interval again being 7782 down to 8300. This is the
6 interval that was tested in the proposed injection interval by
7 Dominion and it was the best looking interval within this
8 section from a log interpretation and from the mud log.

9 Q. (By Mr. Bruce): Now, Mr. Welch, you've got a few
10 slides that deal with correlative rights. And in Marbob's
11 pre-hearing statement, they raised the issue of correlative
12 rights, did they not?

13 A. They said that a re-completion within the
14 Geronimo 27 that there may be some -- they didn't say -- they
15 say it may impact correlative rights. I'm not here to say
16 whether there is or not, because I don't know the different
17 interest owners and all their little subdivisions. And there's
18 so much production out there, I can't state for the record
19 whether there is or not.

20 I can address what would be associated with
21 correlative rights from a technical standpoint, and that's all
22 I wanted to do here today is to discuss correlative rights in
23 the Glorieta-Yeso Formation as it would occur technically from
24 the perspective of the Geronimo 27.

25 As basically -- I see no apparent issues in Unit M,

1 Section 27 that would require Geronimo 27 to be completed
2 shallow, from a correlative rights issue. Location M-27 may
3 have Glorieta-Yeso offset production correlative rights issues
4 along the west line and the south line. Geronimo 27 is not a
5 technical solution to Glorieta-Yeso correlative rights, due to
6 the distance from the offset drainage wells at the lease line.

7 Lease M-27 requires wells from 330 feet from the
8 south line to protect drainage from offset Marbob well, A State
9 No. 2, in Unit D, Section 34, 17 South, 28 East. And 330 feet
10 from the west line drainage from Marbob's Hanover No. 3,
11 Unit P, Section 28, 17 South, 28 East.

12 Q. Before we get into that --

13 MR. EZEANYIM: Don't go on yet. I want to ask
14 questions. Go back there. Number one, you said you can't
15 complete on 27 shallow because there's nothing there; is that
16 what you're saying?

17 THE WITNESS: No. You can complete it, but it
18 doesn't have anything to do with -- there's no relative deed to
19 correlative rights from drainage.

20 MR. EZEANYIM: Okay.

21 THE WITNESS: This well is too far away from any
22 other wells that are in competition with drainage off of this
23 10-acre section, which I'm going to demonstrate.

24 MR. EZEANYIM: And then explain the second line
25 there. What do you mean by that?

1 THE WITNESS: Okay. Here, again, it's the fact that
2 the 27, where it's located -- I think I covered this much
3 better -- I'm going to show you a map and show you where the
4 wells are located. I think it will be much clearer.

5 MR. EZEANYIM: Yeah. If you would. But, I want to
6 talk about the Geronimo No. 27 North, a technical solution.
7 What do you mean by that?

8 THE WITNESS: Because, to protect correlative rights,
9 you have to be in the same drainage area. That's where you
10 have a well draining another acreage, offsetting acreage. And
11 if you completed the 26 in the Yeso-Glorieta, it wouldn't be
12 protecting drainage off of its acreage. Because the other well
13 is located very near the lease line where this is far away. So
14 technically it's not going to be a drainage issue.

15 Q. (By Mr. Bruce): And Mr. Welch, just for the
16 record, I believe the footage location of the proposed
17 injection well is 990 from the south line --

18 A. That's correct.

19 Q. -- and 660 from the west line?

20 A. And offset drainage in the Yeso -- and the offset
21 acreage is 330 feet from the lease line, not 990 feet from the
22 lease line. So it could not protect drainage off of this
23 lease. If there is a correlative rights issue, which I cannot
24 state because I don't know who all has an interest in the
25 leases.

1 This is shallow production that basically just shows
2 Marbob wells in red.

3 Q. So in this particular quarter/quarter section,
4 where the blue is the proposed saltwater disposal well --

5 A. That's correct.

6 Q. -- Marbob already has four Grayburg-San Andres
7 wells?

8 A. Three Grayburg-San Andres wells and this well up
9 here is at Seven-Rivers.

10 Q. Seven-Rivers?

11 A. Yeah. Yates Seven-Rivers.

12 Q. Okay.

13 A. And I've got a map showing -- here's the
14 Glorieta-Yeso production in this area. This is basically a
15 relatively new production horizon. I think the first well
16 drilled was over here, and I think it was in 2005.

17 Q. And that is in Section 27?

18 A. Right. And it says No. 3, that's in MNOP.
19 That's in P.

20 Q. Unit O.

21 A. Yeah. Unit P, Section 27. Marbob drilled three
22 Glorieta-Yeso wells offsetting Unit M in Section 27. The first
23 well, I believe they drilled, was a State No. 1, which was in
24 early -- or excuse me -- late 2006. The well has approval for
25 commingling with the Glorieta-Grayburg-San Andres. I found

1 nothing in the record to say whether it was commingled or not
2 or completed in the Grayburg, but I do know that it's completed
3 in the Yeso from the records. The State No. 2 produces from
4 the Yeso.

5 Q. And that's 330 feet?

6 A. That's 330 feet. I have a diagram on the next
7 map to illustrate the distances. And then you have the Hanover
8 No. 3, which was completed about mid-2007.

9 The proposed saltwater disposal well is mis-numbered
10 here. It's 27 -- I do apologize. This location for the State
11 No. 2 is 330 feet south of Unit M, Section 27, and that's at
12 that State No. 2 in Unit D of Section 34.

13 The Hanover No. 3 is 330 feet -- excuse me -- I said
14 meters. I work off of meters -- 330 feet from the east line
15 and it's located in Section 28, and there's 330 -- to protect
16 correlative rights if there is an issue between drainage from
17 this acreage to this acreage or from this acreage to this
18 acreage, it would have to be drilled at 330 from the lease line
19 to be equivalent to protect drainage off of this lease line.

20 Q. And so what you're saying is that the saltwater
21 disposal well is not well located to protect against drainage?

22 A. It's 990 feet. If we completed this well, it
23 would not protect drainage off of this lease down here from a
24 correlative rights standpoint.

25 Q. Now, one other thing on this plat, you mentioned

1 the three -- on this plat, they're blue, the three Grayburg-San
2 Andres wells?

3 A. Right.

4 Q. Just from a reservoir standpoint, do you see a
5 need for a fourth Grayburg-San Andres well in that small
6 portion of the quarter/quarter section?

7 A. No, I don't. I think the Grayburg-San Andres is
8 pretty well covered right here.

9 Q. And so just from a correlative rights standpoint,
10 this well is ill-suited to protect the southwest
11 quarter/southwest quarter from any offset drainage?

12 A. That's correct.

13 Q. Okay.

14 A. This is my last slide, 21. Judah Oil
15 respectfully requests the OCD to grant the Geronimo No. 27
16 saltwater disposal application. The proposed Judah Oil
17 saltwater disposal well: One, protects surface fresh water;
18 two, protects any potential shallow hydrocarbon zones with
19 cement casing; three, has no apparent commercial oil or gas
20 reserves in the proposed injection interval. Potential
21 intervals of interest were tested and/or produced by Dominion
22 prior to abandonment.

23 The proposed well does not interfere with any current
24 correlative rights issues. The well has the same injection
25 intervals as other saltwater disposal wells in the area. The

1 well will provide a desired service to local oil and gas
2 operators and service companies. The proposed well will
3 provide state income from the estimated 4,000 to 8,000 barrels
4 of water a day that it will produce. The saltwater disposal
5 well does not impede Marbob from development of its mineral
6 rights or impede income to the State of New Mexico.

7 Q. Mr. Welch, in preparing for this hearing, did you
8 review the data in the form C-108, the injection application?

9 A. Yes, sir.

10 Q. And the data was included in that application,
11 correct?

12 A. To the best of my knowledge. I notice one
13 observation that there's some differences in tops on some of
14 the formations between the well diagram and the -- but that was
15 it. But it didn't really have any concern relative to the
16 injection interval.

17 Q. And again, the wells are properly -- the
18 saltwater disposal well will be completed properly so it won't
19 affect any other zone?

20 A. That is correct.

21 Q. And of the wells in the area of review which
22 penetrate the injection zone, they are properly drilled and
23 completed or plugged and abandoned so that there will be no
24 movement of fluid between zones from those wells?

25 A. Yes, sir.

1 Q. And is the injection water compatible with the
2 saltwater in the injection zone?

3 A. Yes, sir.

4 Q. In your opinion, is the granting of Judah Oil's
5 application in the interest of conservation and the prevention
6 of waste?

7 A. Yes, sir. I believe it is.

8 Q. And was Exhibit 7 prepared by you?

9 A. Yes, sir, it was.

10 MR. BRUCE: Mr. Examiner, I move the admission of
11 Judah Oil Exhibits 2 and 7.

12 MS. MUNDS-DRY: No objection.

13 MR. EZEANYIM: Exhibits 2 and 7 will be admitted.

14 [Applicant's Exhibits 2 and 7 admitted into
15 evidence.]

16 MR. EZEANYIM: Ms. Munds?

17 MS. MUNDS-DRY: Thank you, Mr. Examiner.

18 CROSS-EXAMINATION

19 BY MS. MUNDS-DRY:

20 Q. Mr. Welch, just a few questions. I believe on
21 Page 8 of your presentation you noted there were three
22 saltwater disposal wells in the area.

23 A. Yes.

24 Q. I assume those are all private saltwater
25 disposals, they're not commercial?

1 A. Yes.

2 Q. And then you were present for Mr. Campanella's
3 testimony?

4 A. Yes.

5 Q. He mentioned, I believe, that there was another
6 saltwater disposal well three miles away.

7 A. Yes.

8 Q. And do you know if that's commercial?

9 A. I don't know for myself, no.

10 Q. Okay.

11 A. Sorry.

12 Q. That's okay. Let's see. I believe it's Page 14
13 and 15 of your presentation. They are the logs from Dominion.

14 A. Yes. My log and the lateral log.

15 Q. Do these logs come from OCD records?

16 A. Yes.

17 Q. And did you request any other logs from Dominion
18 to determine if there were any productive zones?

19 A. I also have Denson Newtong logs.

20 Q. And did that show any productive zones?

21 A. No different than what -- to me, the best log was
22 the dual laterlog. But more specifically, the mud log is the
23 one I would look at the very most because it did have the gas
24 show.

25 Q. Okay. Mr. Welsh, I'd like to turn, then, to your

1 Page 16 and some of the pages after that. I just want to make
2 sure I understand some of your bullet points. And Mr. Ezeanyim
3 asked some of the questions. I would just like to make sure I
4 understand all of what you were saying.

5 If I understand you correctly, you're saying that
6 this well is not positioned to protect against any drainage of
7 the other offset wells.

8 A. Yes.

9 Q. Are you familiar with the definition of
10 correlative rights in the Division rules?

11 A. I have not read them for the State of New Mexico.

12 Q. Okay. Would you believe me if I said it was an
13 opportunity to develop and produce your fair share of oil and
14 gas?

15 A. I would probably say you're probably correct, but
16 I don't know. Correlative rights --

17 Q. It's a legal term; is that fair to say?

18 A. And -- and if I misused it here, I do apologize.
19 But no, I did not check that.

20 Q. Okay. If this well was converted into a
21 saltwater disposal well, it wouldn't have the opportunity to
22 develop any of the oil and gas that may be in there.

23 A. Well, it would after we completed it as a
24 saltwater disposal well. All of the zones above would still
25 exist and be protected and available from that well bore.

1 Q. How long do you expect the well to be used as a
2 saltwater disposal?

3 A. Well, like we used in our calculation, we would
4 hope that it would be valid for 10 years. But we don't know
5 that it's going to be one year to 20 years.

6 Q. Sure. Okay. You are looking at your maps. And
7 I guess we could turn to them. I guess we could start with
8 Page 18 or 19. Either of them is probably fine.

9 Did you look and see how any of Marbob wells -- the
10 areas that they have drained?

11 A. They are not very big wells. They are completed
12 over large sections. I have the production graphs, if you want
13 to look at them.

14 Q. But you looked at their production history?

15 A. Yes. I have them as backup slides if you want to
16 look at them.

17 Q. Did you perform any drainage area calculations?

18 A. No, I didn't. But the limited volume of
19 production, which is quite low --

20 Q. Okay.

21 A. -- probably less than -- on average, less than
22 10,000 barrels.

23 Q. For each well?

24 A. Yeah.

25 Q. And you are approximating that?

1 A. I am approximating that.

2 MS. MUNDS-DRY: Okay. I think that's all the
3 questions I have. Thank you.

4 MR. EZEANYIM: Any others, Mr. Brooks?

5 MR. BROOKS: I don't believe so, no.

6 EXAMINATION

7 BY MR. WARNELL:

8 Q. A couple of questions, I guess. I'm curious. Do
9 we know when this well was originally drilled?

10 A. When the wells were originally drilled?

11 Q. The 27?

12 A. The 27 was drilled in 2001.

13 Q. So it's a new well?

14 A. It's a new well, yes.

15 Q. And according to records, I believe, there's no
16 known production on this well?

17 A. No. It produced the Penn. It produced gas for
18 quite a number of years.

19 MR. BRUCE: Mr. Examiner, I think Mr. Campanella is
20 more familiar. And I do have a sheet, but I only have one copy
21 that I can submit to everybody later. Mr. Campanella does know
22 the history of that well in more detail.

23 MR. EZEANYIM: So your testimony, Mr. Campanella, is
24 that there has been no production from that No. 27?

25 MR. CAMPANELLA: There has been no production. They

1 tested the zones. They didn't produce any of those zones.

2 MR. EZEANYIM: Okay. And so it shows it then. Go
3 ahead.

4 MR. WARNELL: That's what I was thinking. In
5 preparation for this hearing, I looked the other day at the OCD
6 files and I couldn't find any production, any reported
7 production.

8 MR. CAMPANELLA: They actually show it as the last
9 that they -- the last zone they came to, they showed it as
10 evaluating. That's the last record they have. Then they
11 plugged it.

12 MR. EZEANYIM: So essentially, the well is a dry hole
13 in all zones?

14 MR. CAMPANELLA: That is correct.

15 MR. BROOKS: I believe I do have one question,
16 Mr. Examiner.

17 MR. EZEANYIM: Go ahead.

18 EXAMINATION

19 BY MR. BROOKS:

20 Q. On this Glorieta-Yeso map, all of these other
21 wells that are shown in Unit M are to -- are producing, it
22 looks like, from shale or horizons, other than the
23 Glorieta-Yeso.

24 A. Yes, sir.

25 Q. Do you know if any of those wells were drilled

1 down to the Glorieta-Yeso or through the Glorieta-Yeso?

2 A. Yes, sir, I do. They were not -- the deepest
3 well was the TJ State No. 2, which is this well right here. It
4 was drilled to 2000 feet with 5 1/2 inch casing set.

5 Q. So --

6 A. And the Glorieta-Yeso is approximately 3500 to
7 4,000 feet.

8 Q. So there's no other wells that penetrate the
9 Glorieta-Yeso in Unit M other than the --

10 A. Not to my knowledge.

11 Q. -- No. 27?

12 A. Yes, sir.

13 Q. Okay. Thank you.

14 EXAMINATION

15 BY MR. EZEANYIM:

16 Q. Mr. Welch, how many wells do you have in the area
17 of review in your C-108?

18 A. How many wells in this area?

19 Q. In the area of review of this injection well. Do
20 you know how many wells are in the area of review?

21 A. Well, the number of -- there's approximately four
22 or five every 10 acres. There's about 60 or 70 wells total in
23 the area.

24 Q. 60 or 70? I'm talking about within the half-mile
25 area of review.

1 A. Yes.

2 Q. How many?

3 A. This is the half mile radius right here.

4 Q. Yeah. How many wells are in there?

5 A. There's probably four times -- about 50 or 60
6 wells.

7 Q. Okay. Did you look at them before you submitted
8 your C-108?

9 A. I pulled up their production data to see which
10 zones which wells produced out of. I didn't look at all the
11 well data itself.

12 Q. Okay. You didn't look at all the wells?

13 A. I didn't look at all the wells. I looked at
14 where they produced.

15 Q. Are there any wells that are plugged and
16 abandoned in that half mile area of review? Are there any
17 wells plugged and abandoned?

18 A. I think most of the black dots on here are wells
19 that are -- they either aren't producing -- they may be
20 abandoned or they may be temporarily abandoned. But I didn't
21 look at each well bore.

22 Q. Okay. You know, before we can approve that
23 injection to the well, you need to look at those areas of
24 review. If a well is plugged and abandoned, you have to make
25 sure it's properly plugged and abandoned so that you can inject

1 into the injection well so that it doesn't provide a conduit,
2 you know, to contaminate fresh water.

3 A. Right. Well, I'm very comfortable that No. 27
4 wouldn't be a conduit to the fresh water.

5 Q. Yeah. That's the injection well. I'm talking
6 about the area of review wells.

7 A. I don't have any control over these wells.

8 MR. BRUCE: Mr. Examiner, there's only two wells.
9 There are no plugged and abandoned which penetrate the
10 injection zone.

11 MR. EZEANYIM: There are none?

12 MR. BRUCE: There are none. The only two wells that
13 penetrate the injection zone, other than the proposed saltwater
14 disposal well, are the Edge Petroleum saltwater disposal well
15 and then the Geronimo -- what is that called?

16 THE WITNESS: Geronimo 33.

17 MR. BRUCE: -- 33 which is a producing deep gas
18 well.

19 Q. (By Mr. Ezeanyim): So actually, the 50 wells
20 mentioned, only two wells penetrate the injection zone?

21 A. That's all the -- those are all the shallow
22 wells.

23 Q. Okay. The other ones are shallow wells, yeah.
24 See, I'm trying to get some information.

25 MR. BRUCE: They're probably above 1500 feet,

1 basically.

2 MR. EZEANYIM: For injection wells? I mean for the
3 injection interval?

4 MR. BRUCE: The plugged and abandoned wells were
5 probably drilled less than 1500 feet deep.

6 Q. (By Mr. Ezeanyim): Okay. Good. And then do you
7 do any water analysis of --

8 A. No, sir.

9 Q. And the reason being?

10 A. It was in the application.

11 Q. Yeah.

12 A. And I personally didn't do any water analysis.

13 Q. Who did the application?

14 A. The saltwater disposal application has a water
15 analysis in it.

16 MR. BRUCE: It's attachment D, D as in dog, to the
17 application.

18 MR. EZEANYIM: All the information I need on water
19 analysis is in that D, right?

20 MR. BRUCE: Yes, sir. But if there is something you
21 need, please let us know and we can supplement.

22 MR. EZEANYIM: Okay. I understand. Ms. Munds, do
23 you have anymore questions?

24 MS. MUNDS-DRY: I do have one more question,
25 Mr. Welch. Do you happen to know when this application was

1 submitted?

2 THE WITNESS: I'd have to check my notes.

3 MS. MUNDS-DRY: That's all right. I think

4 Mr. Campanella gave us an estimate. That's close enough.

5 Thank you. That's all I have, Mr. Ezeanyim.

6 FURTHER EXAMINATION

7 BY MR. BROOKS:

8 Q. One more question occurred to me. I'm sorry.

9 I'm not thinking very quickly this morning.

10 Looking at your maps, Pages 18, 19, and 20, you have
11 on here "Judah Oil, Geronimo 33 proposed saltwater disposal."
12 Now, is that wrong? Is that actually the 27?

13 A. Right.

14 Q. Okay. Where is the Geronimo 33 Well, the
15 producing gas well that you referred to?

16 A. It's right here.

17 Q. Here being?

18 A. In Section 33.

19 Q. Section 33. Well, where you've got the pointer
20 is Section 32; is it not?

21 A. No. This is Section 34, this is Section 33,
22 that's the Geronimo 33 Well.

23 Q. I'm confused here. Okay. I don't have a map.
24 What's got me confused is the No. 33 appears on the map on
25 Page 18.

1 A. Yeah, it does. And that's Section 34.

2 Q. Okay. So that should be 34. There are several
3 errors on these maps?

4 A. Yes, there are. I apologize.

5 Q. So the Geronimo 33 is in Unit A of Section 33,
6 which is off of the southwest corner of Unit M of 27?

7 A. Yes, sir.

8 Q. Okay. Thank you.

9 A. I apologize. I must be getting old.

10 MR. BROOKS: That's all I have.

11 MR. EZEANYIM: Okay. You may be excused.

12 MR. BRUCE: I have nothing further in this matter.

13 MR. EZEANYIM: Ms. Munds, call your witness.

14 MS. MUNDS-DRY: I'd like to call Ray Miller.

15 RAY PAUL MILLER

16 after having been first duly sworn under oath,

17 was questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. MUNDS-DRY:

20 Q. Will you please state your name for the record?

21 A. My name is Ray Paul Miller.

22 Q. Where do you reside?

23 A. Artesia, New Mexico.

24 Q. And by whom are you employed?

25 A. Marbob Energy Corporation.

1 Q. And how are you employed with Marbob?

2 A. They pay me a salary.

3 Q. What do you do for Marbob?

4 A. I guess my official title is secretary-treasurer.

5 I'm attorney in fact for the corporation. I'm a board of
6 director, and I also stock the Diet Cokes in the refrigerator.

7 Q. Most important. Have you previously testified
8 before the Division?

9 A. Yes, I have.

10 Q. And were your credentials as a practical oil man
11 accepted and made a matter of record?

12 A. Yes.

13 Q. And are you familiar with the application filed
14 by Judah in this case?

15 A. Yes.

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

18 A. Yes.

19 MS. MUNDS-DRY: We would tender Mr. Miller as an
20 expert witness in practical oil matters.

21 MR. BRUCE: No objection.

22 MR. EZEANYIM: Mr. Miller is so qualified.

23 Q. (By Ms. Munds-Dry): Mr. Miller, would you
24 summarize why Marbob is objecting to this application?

25 A. Basically, we believe that there could be undue

1 waste from productive formations under and around this tract.
2 And truly, what we're after is the loss of Marbob's rights to
3 its property and to develop its oil and gas lease.

4 It winds up being a thing where probably the easiest
5 way to start off in this deal -- I'm beginning to show my
6 age -- but it would probably be best if I gave you a little bit
7 of history as to where part of our objection arose from.

8 In 1980, Marbob owned the west Artesia Grayburg Unit.
9 It's a shallow unit in Section 8 of 1828, just south of --
10 southwest of this property a few miles. And Marbob had
11 acquired the old unit from Mountain States Petroleum called
12 Slayton. One of the first projects that we actually did on
13 that unit was we re-entered a deep dry hole that had been
14 drilled by Aminoil Oil Company and we completed the well inside
15 the intermediate casing string and the rights that we owned.
16 We owned rights from surface, I believe, from 2500 feet. And
17 the unit interval was in those rights. We re-completed this
18 well or re-entered the well and completed the well in the unit
19 rights and the depths that we owned.

20 The well was frac'ed, put on production, and was a
21 producer. A few months later, we were contacted -- or I was
22 contacted -- by an Aminoil Oil Company landman, and he
23 basically explained to me that we had re-entered their well and
24 that we needed to either compensate them for use of the well
25 bore or we needed to plug the well back to original condition,

1 you know, as the other option.

2 I told him that I would check into it. I didn't
3 believe that was correct, and I would get back to him. I
4 immediately went down to our attorney's office, Losie & Carson
5 at the time and visited with A.J. Losie, Jerry Losie, who was
6 our oil and gas attorney. Mr. Losie, I believe, practiced oil
7 and gas law there in Artesia from the middle '50s. About the
8 time I was born, he was practicing oil and gas law.

9 I explained to him the Aminoil phone call. I asked
10 him about the fact that I wanted to tell them to stick it, that
11 I felt that we were well within our rights. He asked me some
12 questions. He asked me who had drilled the well. I explained
13 to him that Aminoil had drilled the well. He asked me if
14 Aminoil still owned any rights in the deeper horizons.

15 I explained to him that, yes, we only had shallow
16 rights. I did believe that they owned the deeper rights. And
17 he explained to me that it was a thing where the fact that they
18 had drilled the well, even though it had been plugged, if they
19 retained rights, then it was the law at that point that had
20 been done in New Mexico, and it indicated that I probably
21 either did need to plug the well or purchase the well bore for
22 our use.

23 That wasn't what I wanted to hear. I went back and
24 basically begged the Aminoil landman to make a reasonable deal
25 for the purchase of the well bore, and we bought the well bore

1 from Aminoil. Because at that time, our well was still highly
2 economic and it would have cost us a considerable amount of
3 money to go and drill a new well versus actually utilizing that
4 existing well.

5 It winds up being a thing where that's truly the
6 basis of why we objected to this. There has been a previous
7 application in this area for a saltwater disposal well in
8 Section 22 by SDX. It was for the Oxy Malt-o-Meal State. You
9 can review the records on that. We objected to that disposal
10 well application. It was a similar Wolfcamp-Cisco type of
11 disposal well type application for SDX. And again, our logic
12 was that Oxy had drilled the well. We had participated in the
13 drilling with Oxy. There were intervals that still remained
14 untested and were potentially productive, and that's why we
15 objected. When we explained it to SDX, they withdraw their
16 application.

17 But anyway, that probably was a long way to start off
18 on entering all these exhibits and talking about the
19 application.

20 MR. EZEANYIM: It probably was, but the well you
21 talked about, was this the 27 or another well?

22 THE WITNESS: The Aminoil well was actually a well
23 down in Section 8 of 1828.

24 MR. EZEANYIM: The well you talked about, what well
25 is that?

1 THE WITNESS: It's the west Artesia Grayburg No. 20.
2 It was originally drilled as the Aminoil State -- Aminoil 8
3 State Com No. 1. It has an API number of 30015, 23113. It was
4 originally drilled in 1979.

5 MR. EZEANYIM: Okay. What are you trying to indicate
6 with that well?

7 THE WITNESS: What I'm trying to indicate is that
8 basically, even though the fact the well was plugged, that I
9 could not re-enter that well even though I owned rights and
10 actually completed the well in our rights. I mean, there's
11 been testimony given that Mr. Alvers says that a plugged well
12 reverts to the State. Unfortunately -- I have great respect
13 for Mr. Alvers, but I don't think he's an attorney, and I don't
14 believe that he's correct.

15 I believe when an oil and gas lease expires and there
16 are plugged wells on the property, then those do revert to the
17 State. But the fact is -- as you will see in the remainder of
18 my testimony -- basically, we paid for our interest in the
19 drilling of this well. We still own an active oil and gas
20 lease. We believe there are productive horizons that can be
21 re-completed in this well, and that was the basis of our
22 objection.

23 MR. EZEANYIM: Okay. Let me understand what you have
24 said here: You said that when a well is plugged and abandoned
25 and the State still has ownership, is that -- who owns the well

1 when the well is plugged and abandoned? Regardless of who
2 owned it when it was in production?

3 MR. BROOKS: I was going to ask Ms. Munds-Dry and
4 Mr. Bruce if they had briefed that issue, if they were prepared
5 to give us --

6 MR. BRUCE: I assumed we were going to be asked to do
7 that.

8 MS. MUNDS-DRY: I was thinking the same thing.

9 MR. BROOKS: I have read cases on the ownership of
10 downhole equipment. I don't know that I've read a case on the
11 ownership of a well bore. So I would certainly love to be
12 educated.

13 MS. MUNDS-DRY: And we would be happy to brief the
14 issue for you, Mr. Ezeanyim.

15 MR. BROOKS: Of course, the ownership is not an issue
16 the OCD has jurisdiction to decide. I would be interested to
17 know it because I think it would help us guide our -- how we
18 address the issues in a case, if we knew what the law was on
19 that subject.

20 But, of course, I assume what you're going to be
21 showing through your witnesses is presumably by putting this
22 well to use, the saltwater disposal well, it will in some way
23 prevent production which would have waste and correlative
24 rights issues as opposed to the ownership. I assume you're not
25 asking the OCD to make a conclusion about ownership.

1 MS. MUNDS-DRY: Correct. Mr. Bruce and I agreed.
2 Obviously, that's not within your jurisdiction to determine
3 ownership. However, we do think that your jurisdiction is
4 invoked by looking at the correlative rights and waste issues.

5 MR. BROOKS: I agree with that.

6 MS. MUNDS-DRY: And if it would help to inform your
7 Division about that, we would certainly be happy to brief it.

8 MR. EZEANYIM: What I would like to hear in this case
9 is the legal issues that relate to this case. I don't want to
10 go into detail. If you go into detail about ownership, I am
11 not interested. Because we're not required to decide anything
12 on ownership. But if you have any legal ramifications, that
13 will help us make a decision in this case. Well, we certainly
14 want to discuss that. But I don't want to get myself entangled
15 in who owns what or what, because I can't make a decision on
16 that. I'm not going to try to make a decision on who owns
17 what, you know.

18 MR. BROOKS: With all due respect to Mr. Miller and
19 Mr. Campanella and Mr. Alvers, I would be more interested in
20 what the courts have said about this issue, than what any of
21 them have said about it.

22 MS. MUNDS-DRY: And Mr. Ezeanyim, the only thing I
23 would say -- and I understand your position -- the only thing I
24 would say is that we will only talk about it in the context of
25 why it gives us standing to be here objecting on the issue

1 today.

2 MR. BROOKS: Okay.

3 MR. EZEANYIM: And I would like --

4 MS. MUNDS-DRY: Would that be fair enough?

5 MR. EZEANYIM: And I would like us to be brief
6 because we have a long day, and if you start telling me about
7 ownership issues, I will cut somebody off at that point. I
8 want you to give us legal on what you are objecting. That is
9 really to the point. Get right to the point: Why are you
10 objecting to the use of this well for a SWD? That's why you're
11 objecting. That's what we want to hear.

12 MS. MUNDS-DRY: Understood. And we'll be efficient
13 in our question and answer period.

14 MR. EZEANYIM: Good. Go ahead.

15 Q. (By Ms. Munds-Dry): Mr. Miller, were you present
16 for Mr. Campanella's testimony?

17 A. Yes.

18 Q. And you heard him discuss the history of the
19 C-108 application. I believe he said they submitted the first
20 application in January of 2008. Did Marbob object to that
21 application?

22 A. I believe, and OCD can verify it to Mr. Bruce and
23 them, I believe Marbob has objected each time the application
24 has been filed. We didn't send you a copy of the objection,
25 but I believe they can actually advise you that it was not only

1 RKI or others, but we objected each time the application was
2 submitted.

3 MR. EZEANYIM: Yeah. We did receive the objection.

4 Q. (By Ms. Munds-Dry): Okay. Mr. Miller, let's
5 turn to what's been marked as Marbob Exhibit No. 1. Will you
6 again review this for the Examiner?

7 A. It just basically is a State Land Office lease
8 assignment which basically shows that Marbob was lessee of
9 record on this particular tract covered in the
10 southwest/southwest of Section 27.

11 Q. Okay. And does Marbob operate wells under this
12 lease?

13 A. Yes. There was previous testimony, I think, that
14 says that the deepest well drilled was the TJ State No. 1. I
15 believe, actually, the Elk State No. 1 in the same 40-acre
16 tract was drilled to a deeper depth, but it again does not
17 penetrate the Yeso formation. It is a San Andres producer.

18 Q. All right. Mr. Miller, would you turn to what's
19 been marked as Exhibit No. 2 and explain to the Examiner what
20 this is?

21 A. Exhibit No. 2 is basically just a copy of Louis
22 Dreyfus Natural Gas which later became Dominion, the joint
23 operating agreement. It basically shows that Marbob and Pitch
24 were both parties to this model operating agreement, and we did
25 join in the drilling of the Geronimo 27 number -- or this well,

1 and we actually paid our share of the costs.

2 Q. And what are you trying to show with this
3 agreement?

4 A. Basically, just that we had ownership in the
5 well.

6 Q. Okay. Would you please turn to Exhibit No. C, or
7 No. 3?

8 A. This is basically a smaller map than what he
9 showed previously, and I also have highlighted it here.
10 Basically, the red-shaded area is leases that we operate here
11 in Section 27, 28, 33, and 34. And again, I've actually
12 identified it with the blue squares. You can tell my
13 PowerPoint is not quite as professionally done. There are the
14 Yeso wells that exist in this area, and the open circle is the
15 Geronimo well in question.

16 Q. Okay. What is Exhibit D, or 4?

17 A. Exhibit No. 4 actually is basically a C-115
18 information. Thankfully, Mr. Welch has given you some
19 reservoir engineering type of figures. But you can remember he
20 mentioned the fact that the Hanover State No. 3 was completed
21 in like the middle of '07, I think he said. You're looking
22 here at a February, '08, C-115, which shows the production from
23 that No. 3 well at 118 barrels for the month of February.

24 So if you divided that by 28, you could see that it's
25 probably about a four-barrel a day producer. If you look back,

1 we've tried to provide information on the other Yeso producers
2 that were accompanied on the previous map. You can see, if you
3 get to the last page, that the most significant producer at the
4 time of this particular C-115 was the A State No. 2. And it's
5 production at that time was 766 barrels of oil for the month,
6 as a new drill.

7 And if you take 766 and divide it by 28, you would
8 get 27 barrels a day. I don't remember. Did we have 29 days
9 this year? Yeah. We had 29 days, so I need to divide it by
10 29. So actually your production would 26.4 barrels a day of
11 oil average. And it was a relatively new well at that time.

12 MR. EZEANYIM: And what information is this
13 indicating for us?

14 THE WITNESS: The highlighted shades are Yeso
15 production that correspond with the Yeso boxes on the previous
16 exhibit.

17 MR. EZEANYIM: Okay.

18 Q. (By Ms. Munds-Dry): Mr. Miller, what's
19 Exhibit No. 5?

20 A. Exhibit No. 5 is basically a mud log of the
21 Geronimo well bore. It winds up the portion of the mud log
22 that I've actually -- I've copied here for you, is the interval
23 that is the Yeso Formation. You can see that there are
24 actually shows of oil in the Yeso as it was drilled by
25 Dominion. And you can see that there were also gas shows that

1 correspond with it, basically from a depth of 3500 feet to a
2 depth of a little bit above 4300 feet.

3 Q. Okay. And what is Exhibit No. 6?

4 A. Exhibit No. 6 is basically a density neutron log
5 that corresponds to the same interval as the mud log. And
6 basically it would give an indication to someone that was a
7 little more technically competent than I that there was
8 porosity to believe that the well could be perforated, treated
9 and actually completed as a producing well.

10 Q. In your opinion, will the granting of Judah's
11 application be in the best interest of conservation and
12 prevention of waste and the protection of correlative rights?

13 A. No. And probably, you know, what I failed to
14 mention in just the discussion that I've given you on those
15 arguments before, as the previous witness testified, the
16 reserves for those wells are fairly marginal in this area. And
17 as a result, obviously, our ability to re-enter this well bore,
18 which is on our tracts of land, and to be able to re-complete
19 that as a producing oil and gas well, just as their re-entry is
20 much less expensive than a new drill, our re-entry for this
21 well bore for the completion of the Yeso Formation would
22 probably make it an economic project today.

23 Q. For Exhibits 1 through 6, were they either
24 prepared by you or compiled under your direct supervision?

25 A. Yes, they were.

1 MS. MUNDS-DRY: We move the admission of Exhibits 1
2 through 6 into evidence.

3 MR. EZEANYIM: Any objection?

4 MR. BRUCE: No objection.

5 MR. EZEANYIM: Exhibits 1 through 6 will be admitted
6 into evidence. Mr. Bruce?

7 [Respondent's Exhibits 1 through 6 admitted into
8 evidence.]

9 MR. BRUCE: Yeah. Just a few questions of
10 Mr. Miller.

11 CROSS-EXAMINATION

12 BY MR. BRUCE:

13 Q. Mr. Miller, under a JOA, doesn't it require
14 approval of -- when a well is drilled, who has to approve the P
15 and A of the well?

16 A. When a well is plugged and abandoned, the owners
17 are notified of the proposed plugged and abandonment.

18 Q. Do they have the right to take over the well bore
19 if they so desire?

20 A. They do. They usually get into an argument as to
21 how much the equipment and all is worth. And it becomes --
22 it's usually a debate that you can work out.

23 Q. Did -- and obviously, in this well, Marbob or
24 Pitch Energy did not decide to take over the well bore?

25 A. Reference was made to the fact that this well

1 stayed in a TA status for a considerable length of time.
2 Marbob had numerous discussions with Dominion regarding the
3 ownership of various intervals of rights up and down this well
4 bore and potential re-completions of those rights. And there
5 was a dispute between the geologist of our company and their
6 company and the OCD geologist -- who now works for, I believe,
7 Chesapeake -- as to what particular intervals and log tops were
8 correctly or incorrectly identified, what intervals -- who
9 owned what.

10 There were a lot of discussions on this well bore as
11 to re-completion ideas. And as a result, when they came
12 forward, we believed that since it was on our lease, that we
13 would have opportunity at any time in the future that we so
14 choose -- because of the fact that we owned an interest in the
15 well bore, and it was our oil and gas lease to re-enter it --
16 that it was just cleaner to let them plug it out and to then
17 proceed at a later time to the re-entry.

18 Q. What would be easier at a later time if you
19 couldn't come to terms right then?

20 A. Because later times, the JOA had expired and it
21 would be our rights. The JOA did not cover the shallow
22 horizons.

23 Q. The operator was Louis Dreyfus Natural Gas
24 Corporation. Do you know who the successor to Louis Dreyfus
25 is?

1 A. Louis Dreyfus became Dominion. Dominion put all
2 of their assets up for bid some time ago in southeast
3 New Mexico. Their successor is Los Lobos.

4 Q. Lobos Energy Partners?

5 A. Lobos Energy, yeah. Very good. I'm glad you
6 knew the answer to that question. Lobos Energy Partners.

7 Q. The reason I asked, Mr. Miller, is I don't know
8 if you saw Judah's Exhibit 1, the stipulation which was signed
9 in part, on behalf of Lobos Energy Partners. I'm just
10 reflecting that to show that, obviously, Lobos doesn't have any
11 objection to the use of this well bore.

12 A. Right. Lobos doesn't own the rights that would
13 be contemplated. They had no rights under the JOA to those
14 rights that are being looked at.

15 Q. Just two more questions: The assignment, your
16 Exhibit 1, was to Marbob and Bulldog. By merger and/or name
17 change, Bulldog is now Pitch Energy, is it not?

18 A. It wound up being a thing where
19 Mr. Shufflebarger, who was actually a person in Albuquerque, he
20 died. His wife died. They left their money to charity. The
21 charity objected to the cost by the trust department at the
22 bank. They asked -- the charity asked that it be up for
23 auction. The properties were sold in a competitive auction.
24 We were the successful high bidder.

25 At that time, Marbob had a sister non-operated

1 corporation called Bulldog Energy Corporation. In 1992, when
2 Mr. Chase and Mr. Gray, who were partners in Marbob and
3 Bulldog, basically split their partnership, they did a
4 corporation reorganization. They wound up -- Marbob made
5 assignments of properties to an entity called Chase Oil
6 Corporation. Bulldog Energy Corporation made assignments of
7 interest that Bulldog held to a corporation called Pitch Energy
8 Corporation. At that time, Chase Oil Corporation and Pitch
9 Energy Corporation were wholly owned subsidiary corporations of
10 those companies.

11 When the interests were assigned, there was a
12 tax-free exchange of stock between the Chase Family and the
13 Gray Family, with the result being that the resulting Bulldog
14 Energy and Chase Oil Corporation had the Chase assets in them.
15 Resulting Marbob Energy and Pitch Energy Corporation had the
16 Gray Family assets in them. This property was one of the
17 assets that Bulldog assigned to Pitch Energy Corporation.

18 Q. So it was a splitting of assets, so basically you
19 wouldn't own each others' properties?

20 A. That's correct. There were only two issues that
21 were not split at the time in '92. There was a disposal well
22 that was common to multiple leases, and there was an oversight
23 by the land department, myself -- at that time -- of a lease
24 that we had acquired, some fee minerals and surface called the
25 Ten Dead Lease down near Lakewood. And we basically left that

1 one lease as common ownership of surface and minerals with both
2 companies.

3 Q. Just one final question, Mr. Miller. If this
4 subject well is used as a saltwater disposal well and it's
5 properly completed as a saltwater disposal well, the reserves
6 in the Yeso will not be lost, will they?

7 A. They will not be lost. It winds up being a thing
8 where we have the State MO well that was drilled by Amoco years
9 ago which we converted, which has been testified to previously,
10 to saltwater disposal, and that well is still a saltwater
11 disposal well. We also have a well in Section 23 of 1728 that
12 fell about a mile further to the east which was converted years
13 ago to saltwater disposal. And it's a thing where none of the
14 reserves will be lost, but the ability to capture them may be
15 well past my lifetime.

16 MR. BRUCE: That's all I have, Mr. Examiner.

17 MR. EZEANYIM: Ms. Munds?

18 MS. MUNDS-DRY: No further questions, Mr. Examiner.

19 MR. BROOKS: How much you figure it would cost to
20 drill a new well to the Glorieta?

21 THE WITNESS: About a million dollars at today's
22 cost, unfortunately. And I will affirm that he's not
23 over-estimating the cost of drilling a new deep well in this
24 area. In fact, our 12,500 Morrow wells are now AFE'd at \$3.3
25 million. Of course, that's drilled and completed.

1 But drilling this well, if he could do it for a
2 million and a half to two million dollars, we probably ought to
3 be using them.

4 MR. BROOKS: Thank you. That's all I have.

5 EXAMINATION

6 BY MR. WARNELL:

7 Q. A couple of questions, Mr. Miller, on the mud log
8 versus the wireline electric log, the mud log is indicating
9 some gas shows. Do the electric logs always back up those gas
10 shows?

11 A. The electric logs -- and it's a thing where now
12 you're asking questions probably better asked of Mr. Welch
13 instead of myself, since I'm technically not an engineer. But
14 the electric logs can basically give an indication of water
15 saturation in a particular zone, whether or not that zone might
16 be, you know, productive of hydrocarbons or highly saturated in
17 saltwater. The indication that the engineers looking at this
18 log on our behalf, or our company engineers, is that they don't
19 believe that there's any excessive saltwater saturation.

20 We do usually produce some water which is identified
21 on the C-115s with all of our Yeso production, but there was
22 nothing identified in these particular logs that indicated that
23 the water saturations were any higher than we anticipated out
24 of our productive wells.

25 Q. On the wireline logs, I noticed there -- I think

1 it's Exhibit 6 down around 3660 to 3770, there's a yellow
2 marker over there on the right-hand tract?

3 A. Yeah.

4 Q. Do you know what they're trying to identify there
5 or what --

6 A. Actually --

7 Q. Why did they want to draw our attention to that?

8 A. That was on the log by our engineer -- who now
9 doesn't work for us, the scoundrel. He went to work for Nadel
10 and Gussman. But that was just where he had tagged so that --
11 what we does, is when he works up a log for us and looks at it
12 for potentially productive zones, he tags every interval with a
13 yellow marker, and it sticks out on the outside of the log
14 so -- you know, that way it's just an easy reference point for
15 them to know that, you know, before you ignore something, you
16 should at least look at all the spots that have been identified
17 as -- tagged as potentially productive. That's the only
18 reason -- the yellow was just on the log when I made a copy of
19 it. It's tagged.

20 Q. For the record, to my eye, it looks like a very
21 rugose hole in there. The porosity -- I would be very
22 suspicious of the porosity in there, particularly the density.
23 When you look at the correction curve on the density, it's all
24 over the page. Very good. Thank you.

25 Another question. It seems as though Dominion

1 plugged this well back in '04?

2 A. Yes, sir.

3 Q. And so it sat there P & A'd. Nobody showed an
4 interest in it until four years later when Judah wants to go
5 ahead and make it into a disposal well. Why didn't Marbob show
6 an interest in that well for those four years?

7 A. Basically, Marbob's a small company. We have 20
8 people in the office. We operate 960 oil and gas wells. We
9 have five drilling rigs currently contracted to us. We have
10 seven pulling units currently contracted to us. We have a
11 large lease position, much of which is subject to term
12 assignments, continuous development agreements, and farmout
13 agreements. And it was our belief that we owned this well
14 bore, that we owned the lease, that, you know, this type of
15 application, even if OCD approved it, that we could go to court
16 and basically ask the court to protect our rights in the well
17 bore and our property. And as a result, we didn't see any
18 need.

19 We also were looking at the Hanover Well. You're
20 going to get more history now than you probably want, but you
21 asked the question. The Hanover No. 2 Well over there is a
22 well that was subject to one of your previous OCD orders.
23 Because BP operates what's called the Washington 33, and BP
24 wanted to actually convert in Section 33 for waterflood
25 injection wells, our well there, the Hanover Well No. 2 wound

1 up being a well that did not have casing -- or cement behind
2 the casing -- across the production interval, or the injection
3 interval.

4 As a result, BP approached us because they needed to
5 actually get cement across their production interval. It
6 brought our attention -- when they approached us, it brought
7 our attention to start looking at the Hanover 2 and 3 wells.
8 The Hanover 3 was previously identified in the OCD records as
9 the State No. 1. It was completed as a shallow Grayburg
10 producer. And so we wound up re-entering that well that was
11 previously shallow, plugged it off, and went down and opened up
12 the Yeso horizon.

13 And so, you know, basically, I guess the short answer
14 to your question is, when issues arise, we tend to react to
15 them. But basically, when we believe our rights are HVP, I
16 would agree with Mr. Welch that given the ultimate recoveries
17 out of those wells, there is not Yeso oil being sucked out of
18 Unit M across the line.

19 But we tend to react to projects, you know, if
20 they're HVP and nothing -- there's no issue with them. If it's
21 not a TA well that we're fixing to be in trouble with OCD or
22 whatever, then it was not on our radar screen for an immediate
23 move. And also at the time, we had had so much controversy
24 with Dominion that we didn't want to do anything initially
25 thereafter because it would look like we were basically

1 slapping them since we had not made an agreement with them on
2 any of the shallow horizons -- to then go out and
3 re-complete -- re-enter and re-complete the well initially.

4 MR. WARNELL: That's all I have, thank you.

5 EXAMINATION

6 BY MR. EZEANYIM:

7 Q. Okay. Terry asked some of the questions I had
8 for you, Mr. Miller. I know the well was plugged by Dominion.
9 Is that what the name is? And then when they plugged the well,
10 and you want to re-enter it, why did you allow them to plug
11 that well?

12 A. We allowed them to plug it, as I've stated
13 earlier, because of the fact that they had asked us about
14 participating and acquiring rights to re-complete in those
15 depths. And basically, we elected not to allow them to join.
16 Those rights were not part of the JOA. Shallow rights in the
17 rest of the west half of Section 27 had not been committed to
18 the JOA.

19 So we didn't see a reason for us to actually allow
20 Dominion the opportunity to pick up an interest in our shallow
21 rights, since that was not part of their original proposal.
22 But as I stated earlier, we didn't want to offend Dominion by
23 initially trying to do the re-completion, and appearing to be a
24 bad partner.

25 Q. Okay. What depth is the Yeso Formation, do you

1 know? What depth is the Yeso?

2 A. Glorieta Sand is right there, I believe, at 3520.
3 It's just right below the Glorieta Sand. And it extends down,
4 I believe, to what they call -- some folks refer to it as the
5 Tubb or the Blinebry. And then below that is the Abo, and I
6 believe the Abo in this area is about 6400 feet subsurface.

7 Q. Let me get to the crux of the matter here, from
8 what I've heard from Ms. Munds. So what you want to do with
9 this is re-enter the well, go to the Yeso and produce some
10 hydrocarbons. Is that what you want to do? Because you think
11 you were interested in it from the beginning?

12 A. Well, we believe that the Yeso would be
13 productive. I mean, that's why I've given you the mud logs and
14 the electric logs.

15 Q. Okay.

16 A. We believe that the reserves are marginal; in
17 other words, it is not a prolific producer. And that's why I
18 provided you with the C-115. And as the engineer stated,
19 you're looking at less than 10,000 barrels ultimate recovery --
20 was the numbers that he actually used. And I'm not sure that I
21 disagree with those. And as a result, you know, to actually
22 drill a new well would probably not be economic, unless the
23 price of oil does go to \$200 or \$300 a barrel, but I can't
24 predict the price of oil at all. And as a result, this well
25 bore affords us the opportunity to capture reserves that might

1 not otherwise be captured.

2 Q. So I think the purpose of the objection is that
3 the well can be used beneficially instead of using it for an
4 SWD. Is that what you are implying?

5 A. Yes.

6 Q. Okay.

7 A. And I'll be quite honest with you. Yesterday,
8 our attorney asked me if there were other well bores in the
9 area. They indicated that Judah had had problems finding other
10 well bores in the area. Actually, you know -- I came up early
11 yesterday, so I went fishing and sat on a lake up in northeast
12 New Mexico. The fishing sucked.

13 And reviewing the area, that I'm aware of, I think
14 there are probably some additional well bores that should be
15 looked at. But Judah and I can discuss those after this
16 matter, if we reach some better solution for them. Because I
17 believe there's actually a possibility that there's a well bore
18 that would even cost them less to utilize. We'll certainly
19 advise you if we figure out something better.

20 Q. Very good.

21 MR. EZEANYIM: Any more statements?

22 MR. BRUCE: No, sir.

23 MR. EZEANYIM: At this point, Case No. 14123 will be
24 taken under advisement.


25 [Hearing concluded.]

REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.

Signed this 26th day of June, 2008.



JOYCE D. CALVERT
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1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

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4 I, JOYCE D. CALVERT, a New Mexico Provisional
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