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. 14179

APPLICATION OF SAN JUAN RESOURCES, INC. FOR AN UNORTHODOX WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
WILLIAM V. JONES, Technical Examiner
TERRY WARNELL, Technical Examiner

October 2, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, WILLIAM V. JONES, Technical Examiner, and TERRY WARNELL, Technical Examiner, on Thursday, October 2, 2008, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

INDEX

Examiner Hearing
CASE NO. 14179

A P P E A R A N C E S

FOR THE APPLICANT:

W. Thomas Kellahin, Esq.
KELLAHIN AND KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501

MR. JONES: Let's go ahead and call Case 14179, Application of San Juan Resources, Incorporated, for an Unorthodox Well Location, San Juan County, New Mexico.

Call for appearances.

MR. KELLAHIN: Mr. Examiner, Tom Kellahin with the Santa Fe law firm of Kellahin and Kellahin. I'm appearing on behalf of the applicant this morning, and I have two witnesses to be sworn.

MR. JONES: Any other appearances? Will the witnesses please stand and be sworn?

[Witnesses sworn.]

MR. KELLAHIN: Thank you, Mr. Jones. This case was originally filed back in August -- I'm sorry -- in July on the 17th as an administrative, non-standard well location. After that filing, the Division advised me that there had been a protest filed by a gentleman who had a mineral interest in a well off to the east. His name is Mammel.

Mr. Mammel was the objecting party. As a result of that objection, then, we have asked the Division to place this administrative application on the docket this morning for hearing focusing on the concerns that Mr. Mammel has raised in his objection letter.

Mr. McHugh is my first witness. Mr. McHugh is president and owner of San Juan Resources. My second witness is a petroleum engineer who can talk about the engineering

aspects of their efforts to address Mr. Mammel's concerns. What I have done is, after receiving Mr. Mammel's objection letter, I notified Mr. McHugh. He's had telephone conversations with Mr. Mammel.

I sent Mr. Mammel an additional notice of this hearing. I sent him the rules with regards to filing a pre-hearing statement. He's chosen not to respond to me directly for any of those items. And to the best of my knowledge, the only thing in the record referring to his complaint is a letter that he has submitted. We have included his objection letter among the documents we're about to show you so that we can specifically talk about his points of concern.

At the end of our presentation, it is our belief and hopefully we can persuade you that his concerns are unfounded and that it is appropriate to allow this well to be drilled at an unorthodox surface location.

We're dealing with the E/2 of Section 24. Mr. Mammel's interest is confined to the Dakota. Mr. McHugh intends to drill the conventional vertical well bore to access Mesaverde and Dakota. It's made necessary because of surface conditions, but Blancett Ranch is the surface owner in this area, and the ranch has insisted that this is the only available location for Mr. McHugh to use, and he's acceded to their request, and that's why we're here.

MR. BROOKS: Is that Tweety Blancett?

THE WITNESS: No, no, no. It's not.

MR. BROOKS: It's not?

THE WITNESS: It's Richard Blancett and Linda Blancett.

MR. KELLAHIN: There is a relationship, is there not?

THE WITNESS: Yeah. If I can go ahead and speak? Tweety is married to Mr. Blancett's son, Lynn, I believe. And they're not involved in this at all.

MR. BROOKS: Okay. Go ahead.

MR. KELLAHIN: We call at this time Mr. Jerry McHugh.

JERRY McHUGH

after having been first duly sworn under oath,

was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. McHugh, for the record, sir, would you please state your name and occupation.

A. Jerry McHugh Junior, owner and president of San Juan Resources, Inc.

Q. On prior occasions have you testified as the owner of your company?

A. Yes, sir, I have.

Q. As part of your responsibilities to your company, do you do substantially your own land work and talk to the

parties involved in siting and consolidating the interest owners for the wells?

A. Primarily I do, but I use outside consultants when needed.

Q. As a result of this effort, what are you trying to accomplish?

A. We're trying to get approved a non-standard location so we can drill a vertical Dakota well on the Blancett lease, Section 24, 30 North, 11 West.

Q. Let me start with Locator Map No. 1. In this area, are you going to be able to find and locate for us the well that is the subject of your application?

A. This is an overview map of the San Juan Basin. It was site number 28 that Conoco and Burlington used in their down spacing hearing. It's near impossible to find the exact location on this map. I have a red arrow on there which shows the general location of Section -- of this particular tract.

Q. Give us a general understanding of where this is in this San Juan Basin.

A. It is approximately three-and-a-half miles southwest of Aztec, New Mexico. We're just south of the Animas River. Most of the ground along the river is fee land, so we have to work closely with the landowners and people out there. We've done this with a number of wells in the area already.

Q. When you -- are you familiar with the production

maps in the Dakota and Mesaverde that generate a pictorial of how those producing wells are dispersed among the areas of the San Juan Basin?

A. Yes, sir.

Q. Can you give us an indication of where this well is located in relation to those generalized pool maps for both formations?

A. Well, I think it's probably right in the middle of the Dakota Basin Dakota Pool and the Blanco Mesaverde pool. I wouldn't say in the middle, but we're probably on the western third of where those pools are identified in the San Juan Basin.

Q. Let's turn now to Exhibit No. 2. Is this an exhibit that you have prepared?

A. Yes, sir.

Q. What's the source of the information shown on the display?

A. This is a USGS topographic map. It's of the four vista quad sheet.

Q. Have you found this information to be accurate, what you've utilized in relation to what you can see on the ground?

A. Yes, sir. It's very accurate.

Q. What is the information that you have overlaid on the topographic map?

A. I've shown this subject location on the Blancett Ranch 24 No. 1, which we're applying for a non-standard location.

Q. That would be in the E/2 of 24?

A. The E/2 of 24. I've shown the proration unit that we're dedicating to the this well, which is the E/2 of Section 24. I've also shown a proration unit to the east, the southeast, which is the Kaempf -- I would call it the Kaempf drill block proration unit. And it's in the S/2 of 19. And then I show the US grant proration unit, which is the N/2 of Section 19.

Q. In Section 19, are you also the operator of those two spacing units?

A. Yes, sir. That's correct.

Q. Identify in Section 19 the spacing unit and the well bore for which Mr. Mammel shares an interest.

A. Mr. Mammel's in the S/2 of Section 19, and his interest is in the Kaempf No. 1 well bore.

Q. And in what formation does he share an interest?

A. He's only in the Dakota formation.

Q. Do you have an estimate of his approximate percentage interest in that well bore?

A. Yes. He's 8.7 percent working interest with an 8.7 revenue interest.

Q. Let's set aside the locator for a moment, and

we'll come back to that.

A. Okay.

Q. The next exhibit is marked Exhibit No. 3. This is a copy of your filing of an administrative application for this well bore, is it not, Mr. McHugh?

A. Yes, sir.

Q. If you'll turn past the various cover sheets, what I'm trying to do is to take you over to what's attached as Exhibit D to this package. And it is a similar topographic map. The information is somehow a little different, but we'll talk about that. Did you find that?

A. Yes, sir.

Q. In utilizing these maps, I'm interested in Section 24. If I'm looking at the E/2 of 24, is this subject well bore the first Mesaverde Dakota well bore for this spacing unit?

A. That's correct.

Q. Are there well bores in other formations in the E/2?

A. There's the Fruitland well which is highlighted on the map. I think you wrote on there Fruitland well, which looks like it's in the southwest of the northeast of said Section 24.

Q. Let's look at both maps together, and in looking at the E/2 of 24, summarize for us, using this as an

illustration, of why you have chosen this particular unorthodox location for the well bore?

A. Well, if you look north of the county road, which bisects the northwest -- well, not bisects -- but goes through the lower portion of the NE/4 of Section 24, you see a road going down to some houses. And on either side of that road, north of the road and then west, practically the entire NE/4 of Section 24, are fields and pastures that Richard Blancett and his family have cultivated for years.

When we talked to Mr. Blancett, he didn't want those lands compromised with a gas well location.

Q. When you look at the administrative filing, if you turn past that exhibit you're looking at, there's a reproduced photograph marked as Exhibit F. Do you see that?

A. E or F?

Q. I was starting with E.

A. Okay.

Q. Does E -- what does E represent?

A. E represents fields from the approximate location -- actually, I think this is from the highway from the county road which goes through the area, so this is Mr. Blancett's ranch, and the photograph is taken to the north. In the background you can see the Plata Mountains with some snow on them.

Q. This is the area that Mr. Blancett did not want

you to locate your well in?

A. That's correct, yes.

Q. When you turn over to Exhibit F to this exhibit, there's a compressor station shown on this exhibit.

A. Right.

Q. What is this?

A. Maralex Resources operates this compressor site. They pull gas from a well to the east of here. The well is on the road to Mr. Blancett's house, so it pulls the gas and puts it into the Enterprise -- I'm assuming this. I don't know exactly for sure -- but they compress the gas and put it into the Enterprise Field Services line.

Q. And when we turn to Exhibit G, which is the last of the photographs attached to the administrative application, what are we seeing here?

A. Well, you can see the county road going by the bottom portion of the photograph. There's an old barn out in the field, and then the pastures which run up towards the Animas River. A lot of those trees that you see out there are there because of the river, and there's water drainages and a place for wildlife and for -- I mean, the trees are too big to cut down for pasture. There's just a lot of nice area out there. So that would be -- to give the Examiners a reference, that would be southeast of the northeast, approximately, of said Section 24.

Q. Have you visited with Mr. Blancett about where he desires you to place this well within the spacing unit?

A. Yes, sir.

Q. In your opinion, based upon the advice of your technical experts, does the unorthodox location compromise your ability to recover gas from the Mesaverde and the Dakota in the spacing unit?

A. No, sir, it does not.

Q. Let's turn to Exhibit No. 4. What is this, sir?

A. That's a letter that I just had received from Mr. Blancett.

Q. Without reading it specifically, summarize what Mr. Blancett was telling you, Mr. McHugh.

A. Well, he just says he -- whereas he waived objection to the non-standard location in the standard mailing, he wanted to also go on record that he supports us in our non-standard application. He's worked -- we have worked together in finding a suitable location, and he'd like to preserve the fields and pastures for livestock and agricultural purposes.

Q. Let's turn now to the subject of Mr. Mammel's objection letter. That has been marked as Exhibit No. 5. Are you familiar with this letter?

A. Yes, sir.

Q. What are Mr. Mammel's two principal concerns?

A. Well, he wonders about the -- whether this subject non-standard location and subsequent well will affect the drainage pattern of the Kaempf No. 1 well in which he has an interest.

And the other reason he brings that up is he thinks that 25 percent of the production from that well will go to the newly drilled well.

Q. Have you had a technical expert review those arguments for you?

A. Yes, sir.

Q. Who did you hire to study that issue?

A. I utilized the services of Jack Wanner.

Q. Is Mr. Wanner here in the hearing room today?

A. Yes, sir.

Q. And has he completed his engineering study for you?

A. Yes, sir, he has.

Q. Let's talk about another aspect of this. Have you examined the feasibility of deviating this well bore and placing it at a standard bottom hole location just so that you could be standard regardless of what the issues were?

A. Yes, sir. Our field engineers who prepare our AFEs and work with us out of Farmington, Protocom Consulting, assembled some costs. And we found the difference of forming an S-curve above the surface casing and then going straight

through the Mesaverde is approximately $165,000 additional incremental cost to the well.

Q. Start back without those additional costs. What is your estimated AFE at this point?

A. Our estimated AFE for the Blancett Ranch 24 No. 1 is $1,631,000.

Q. And with the incremental costs, where does that put you if you have to deviate the well bore?

A. It would put us at -- let me add it up here -- approximately $1.79 million.

Q. Have you compared those cost numbers to what your expectation is on estimate ultimate recovery from the well bore?

A. Yes, sir, I have.

Q. And what is your range of expectation for this well?

A. Well, in the Dakota formation, we're hoping to cumulate 4- to 500,000 MCF of gas. I mean, that would be a very optimistic number. More realistically, it's probably on the order of 3- to 400,000, and that's not including the Mesaverde. I'm just talking Dakota only in this instance.

Q. Are these numbers of the magnitude that would cause you to reconsider whether you would drill this well or not?

A. Yes, sir. They're up very high. We have done

our economics on the $1,631,000 well, and assuming a little more aggressive pricing than is in place right now, you know, we're just barely going to make it just at a $1.6 million well.

So if we had to deviate it, I would think that we would abandon the project and either try to work with Mr. Blancett on an orthodox location or just scrap it altogether.

Q. Let's talk about your exploration of discussions with Mr. Mammel. In response to his letter, did you attempt to call him?

A. Yes, sir. I contacted him the week of August 25th, 2008, or thereabouts, and I had met him a time or two before. He has some relatives in Denver, so we visited personally probably ten years ago -- eight years ago, maybe.

And anyway, I just tried to address his concerns. And I really didn't get into the details of what his letter addressed in our telephone conversation.

Q. Did you ask him to further explain to you what his specific concerns were?

A. Yes, I did. And he just responded back that, "Well, I just think that as an offset owner, I could be drained," or "There could be draw down" -- pretty much what he says in paragraph 2 of the letter.

And so through this 10-minute, 15-minute conversation that I had with him, I said, "Well, this unorthodox location is

approximately 3,000 feet from this current well bore. Did you know that?"

And, you know, I got the idea from talking to him he thought this was like -- he thought we were right next door to him. And I'm not sure that he knows where the location is or logistically -- what I said I would do is I said I would fax him a map, the topographic map, which I had shown you. And then I sent him a drill block map of the area, where I highlighted other wells in the area, and it was kind of the general spacing patterns.

Q. After doing that, did you have further conversations with Mr. Mammel?

A. Let me state, first of all, I faxed it. And I know how some of these faxes may not really go very well, so what I did is I also sent a copy of everything in the postal mail. And then, yes, sir, I did call him back on three occasions.

And as in the first time I talked to him, on these next three occasions, I left a message on his answering machine and just asked to follow up to see if he had any questions or if he would like to discuss anything further. And I never heard back from him except for my original conversation August 25th, 2008. So I never heard from him back on the follow-up.

MR. KELLAHIN: Mr. Examiner, that concludes my

examination of Mr. McHugh. We move the introduction of his Exhibits 1 through 5.

MR. JONES: Exhibits 1 through 5 will be admitted.

[Applicant's Exhibits 1 through 5 admitted into evidence.]

MR. JONES: Are you going to have an engineering witness?

MR. KELLAHIN: Yes, sir.

MR. JONES: I'll pass questions to my fellow Examiners here.

MR. BROOKS: Well, I don't believe I have any. That was a thorough presentation.

EXAMINATION

BY MR. JONES:

Q. I do have one question: Your NIR ratio, what is your -- is this Mammel, does he also own an interest in this E/2?

A. No, sir, he does not.

Q. But you guys operate the Section 19 also, but he's one of your interest owners, right?

A. Yes, sir, that's correct.

Q. And what is -- you have working interest owners that also -- you don't own 100 percent do you, of this?

A. Of the Kaempf? I own approximately 65 percent of the well.

Q. Okay.

A. Another interest owner out of Kansas owns 15 percent. Mr. Mammel owns almost 9 percent.

Q. Okay. And what about the new --

A. In the new proration unit, my company, we own at this point, 27, 28 percent of the proration unit.

Q. Okay.

A. Conoco Burlington owns a big chunk. And then there's some small, non-operated interest owners that own the rest.

Q. Okay. What would be your NIR ratio of that E/2?

A. Our lease, San Juan Resources, our NRI is about 81 percent.

Q. So it's different for different owners, then?

A. That's right.

Q. So they all have different economics.

A. That's right.

Q. But you have 81 percent of the revenue, right?

A. No, no, no.

Q. Of your working interest?

A. I have 81 percent of the 27 percent which we have right now.

Q. Right. And what gas prices are you guys looking at?

A. In our economics, we ran some new numbers about

the time we were trying to buy some tubulars for, not only this well, but we're drilling another in this area and then two more up in the La Plata, New Mexico, area. And we found that the tubulars had increased in price by 95 percent from January of this year until this summer when we tried to buy some more.

We ended up buying some more, but that caused us to want to readjust our economic evaluation of the well. So we ran some numbers based on new tubular price, new environmental costs, thus we got the $1.63 million price tag -- or estimated price tag for the well.

Q. So you got a new AFE for the well, and it was 1.63?

A. Right. And I didn't mention the price we plugged in this summer was below $8, which is a San Juan Basin price.

Q. Are you a flat escalator?

A. We were --

Q. You don't have to tell me what it is.

A. We were flat -- I think we just plug in a 3 percent escalator usually. I think that's pretty flat.

Q. Okay.

A. Nothing outlandish. We weren't putting in -- I mean, today those numbers might be a little outlandish.

Q. Okay. You got some severance taxes, obviously, then you got your compressor usage because you got to have a compressor out here, right?

A. We will not have to have a compressor on this well. Most of the Dakota Mesaverde out in this area run on a plunger lift system.

Q. So they've got a little bit of liquids?

A. There's a little bit of water, a little bit of oil.

Q. Okay. So can you run a plunger lift on an S-curve well?

A. I think you can, but I've checked with my field people about that. Our foreman works with Walsh Engineering. We maybe peripherally discussed it, but not thoroughly, because we don't have any wells that are deviated.

Q. Paul Tompson, maybe.

A. Yes, sir.

Q. What about another well in this spacing unit? Wouldn't you want to drill another one?

A. We'd probably come down here in the SW/4 -- or excuse me -- SE/4 and do a 160 offset.

Q. Okay. Based on --

A. It's topographically a little rougher.

MR. WARNELL: You mentioned you would drill another well in the area. Is that the well that you are referring to?

THE WITNESS: No. The well we're referring to is in the NE/NE of Section 30. It's called the Lee No. 1F. You can see the location on there.

MR. WARNELL: I see it.

THE WITNESS: If you have your glasses.

Q. (By Mr. Jones): Okay. The topography looks pretty rough in the southeast of that section you're in, and then you've got the farmland in the N/2, so it seems like an ideal situation to make a pad and then drill two S-shaped wells off of it down to your target.

A. Like where would we put the pad?

Q. Well, you put the pad right where you agreed on to have the pad with this landowner, Blancett. Was there --

A. Well, we're -- that's a tight location for one well to begin with.

Q. Okay.

A. And I don't know if you noticed the topographic lines, but we're on a hill in the north slope, sloping down towards the north. I've been up there. I know the territory. It's really steep. So I'm not sure how much space we'll have.

Q. Okay.

A. In this instance, we're having to close-loop the well, close-loop the drilling because --

Q. Because it's close to the river?

A. -- it's close to a water well, yes, sir.

Q. Okay. You're close to that river. How deep is the Mesaverde out here?

A. Mesaverde, if you talk at the top of the point

lookout, is about 4400 feet --

Q. Okay.

A. -- depending on your ground level.

Q. So you have to set --

A. What we do is we set 9 1/2 -- or 9 5/8 surface and then we'll drill with mud 8 1/4-inch hole and set 7-inch intermediate --

Q. Okay.

A. -- through the top of the Cliff House. From there we drill with air down to the base of the Dakota.

Q. So you isolate the Chacra and everything above it through your intermediate?

A. Yes, sir.

Q. And then you -- okay. That 165,000 for the incremental costs on your S-shaped well, in order to come up with that number, you had to know where you would put your bottom hole location of your -- of that well, of that S-shaped well. Where would that be?

A. I instructed our engineer to get a location which is legal at 660 from the east line, and 1980 from the north line.

Q. Okay. Unit H or something?

A. Yes, sir. Well, it would probably end up 5- or 600 feet to the northeast -- excuse me -- northwest.

Q. Okay.

A. Probably right under the county road -- where the county road intersects the driveway that goes down to the Blancett's home.

Q. Okay. Are you working with a geologist? I know you got an engineer hired, but --

A. On our well sites out in Farmington, I work with John Burcher, and he sets our wells. He has not been involved in this. I've relied on Mr. Wanner's expertise because I consider him a geological engineer. He's very up-to-speed not only on the engineer aspects, but how that relates to the geology, so in my opinion, very qualified for this type of endeavor.

Q. Okay. So you would or would not drill another well in this spacing unit?

A. Well, I mean depending on how this one goes, I could -- I mean, this would be our first choice.

Q. Okay. So it would depend on this well, the results?

A. Right. But I could see coming up from the west and maybe building a road up on to one of these mesas. It would be a federal permit, I think.

Q. But it would be a southeast?

A. Yes, sir.

Q. Okay.

A. You're dealing with homes and farmland and golf

courses and all sorts of stuff out here. So it's quite a challenge.

Q. You're just trying to locate where you can get a spot to drill here?

A. Yes, sir.

EXAMINATION

BY MR. WARNELL:

Q. You're fairly close there to the Aztec ruins.

A. Well, the topographic called those Aztec ruins, but they aren't the Aztec ruins. There are apparently some old pits or dwellings that are covered under mud on private land.

It's on the Blancett's land, and I think the Blancett's might have the land that goes into 19 a little bit. So they're fully protected, and we're not getting near them at all, no. That's correct.

Q. And that's the Blancett's ranch or house at the end of that drive?

A. Yes, sir. You take that road off of County Road 3000 and go northwest, and they have a barn and a home and some other facilities for their ranching organization.

Q. On Exhibit 3, I think it was, the pictures that we looked at, E, F and G?

A. Yes, sir.

Q. Those are taken just slightly north of that county road; is that correct? Your location or proposed

location is not on any of these photographs.

A. That's correct. E is from the county road looking almost directly north.

Q. Okay.

A. You're looking -- it's going to be -- you can see that stock pond there where it says 859?

Q. Right.

A. It's right north of that, so you're looking directly north of that, maybe north, northwest. That's Exhibit E.

Q. Right.

A. Now, Exhibit F -- our location is just to the right of Exhibit F -- or not to the right, but -- I took these photographs. So if I'm standing here taking a picture of the field, this really gives a view of the fields down below and how companies have tried to work with the Blancett's to get this in here. Our location is directly to the right, so I'm probably 100 feet just to the left of that location.

Q. Just due west of your location is --

A. Is where I'm standing, correct.

Q. And --

A. And Mr. Blancett's house would be -- if you look at Exhibit F, it's just to the west of the truck, and it's down in the flats.

MR. WARNELL: I don't have any other questions.

EXAMINATION

BY MR. JONES:

Q. We're kind of drilling you here.

A. That's fine.

Q. Do you have any idea why he didn't show up for this hearing?

A. I really don't. I talked to him the one time, and I sent him what I thought were some locations of where we were. He's out of Dallas. So it may have been he never got back to me.

Q. Okay. It sounds like he's looking after his business here. At least he's paying attention.

A. Right, right.

Q. Which some people don't.

A. No, no. I mean, that's what he told me, "I'm just doing what I have to do," or, "What I think I should do."

But he's --

Q. Who did your AFE? Did you say Walsh Engineering?

A. No, Protocom Consulting. They're our well site supervisor.

Q. Okay.

A. The AFE or the APD?

Q. The AFE.

A. The AFE was done by Protocom Consulting. When we get cost adjustments, we essentially get on the telephone and

I -- just try to save. I try to save time, and I go through items which we think are going to change and double check to make sure that we're on the same page.

The gentleman who put this on here is named Dean Collins, and he's a consultant with Protocom Consulting --

Q. Okay.

A. -- out of Farmington.

Q. Obviously, it would depend on when you're going to -- what drilling company you're going to use and when you're going to get to it --

A. Yes, sir.

Q. -- but when do you think you want to get to it?

A. We have four wells that are on deck to drill, so we'd like to drill them all in a row. This would probably be the third well. We'll drill the La Plata, then the two down here in Aztec.

Q. So there's two in Colorado?

A. No. In La Plata, New Mexico.

Q. Okay. Did he -- obviously, you said you have to use some kind of closed-loop system on this?

A. Yes, sir.

Q. Did he give you an idea if you didn't use a closed-loop system, what would be the difference in cost?

A. With Protocom, I have -- and that item is number -- it's on the completion costs, and it's called

"disposal costs" --

Q. Okay.

A. -- on the well. What he did is he went to the State map and water well records and found that there's a water well on or near the Blancett's ranch and maybe something along the county road. So the process that he goes through -- and this is Mr. Collins -- is that he has to determine our ground level based on the ground level of where the water well is and then estimate where the aquifer is of the surrounding water well. And then if it's within 50 feet, then it's an automatic closed-loop, and I believe that was the case.

Q. Okay, okay.

A. I didn't like that.

Q. Okay.

MR. BROOKS: It's the pit rule.

THE WITNESS: Because the additional cost incurred for the project. So I went over this several times with him to make sure that in this instance we were below water with the 50-foot cutoff.

Q. (By Mr. Jones): Okay. Two years ago, what would your drilling system have looked like?

A. Well, we would have drilled the well the same way, 7 1/2-inch intermediate --

Q. What about surface facilities, I mean surface --

A. We would have used -- we were planning on using a

surface pit up in this area.

Q. Okay.

A. And, in fact, I have been working on this for two or three years --

Q. Okay.

A. -- and had some lease problems. We don't go into that, but if it had been done two-and-a-half, three years ago, the cost would have been under a million dollars.

Q. Of course, costs have changed a lot since then.

A. And I'm not bemoaning that, I'm just saying steel, environmental, and then just the inflation of everything else.

Q. One story I heard is that China shut down some of their steel mills to clear up the air for the Olympics. The Chevron people told me that.

A. I wouldn't be surprised.

MR. JONES: Okay. I don't think we have any other questions.

EXAMINATION

BY MR. BROOKS:

Q. I have a couple I thought of. Not really terribly relevant, but you were talking about the closed-loop system. How much do you figure that added to the AFE as compared to if you had used a surface pit?

A. On an AFE we have here, disposal costs -- and

it's under completion, and it's listed there as 120,000. We did a closed-loop up in La Plata, New Mexico, in January on a well we just drilled.

Q. Yes.

A. Ironically, the parent well was right next to the La Plata River. The A well is up the hill away from it, but because of the timing and the controversial rule, we were forced to -- and honestly, that was before the rule went out. The State arbitrarily said, "This is what you're going to do."

And we had no choice. So that was $125,000. So we added a little bit more in.

Q. So you estimate the closed-loop system disposal costs to be 120,000?

A. Yes, sir. Now, that's disposal costs; that's running the cuttings to a certified land farm; that's, you know, cleaning and moving the cuttings and the mud from a closed-loop pit.

Q. Yeah.

A. For the January well we drilled, we utilized a rental system from Aztec Drilling, one of the rental companies. In this instance, for three of the four wells we're drilling have to be closed, we are getting an old pit from our drilling contractor and retrofitting it with centrifuges and all that to make it work.

Q. Was that 120,000, would any of that have been --

is that all additional cost resulting from a closed-loop system or would any of that have been --

A. That's why I said because we're retrofitting a pit, that is not included in that 120. There's probably some rental and then some construction and some retrofitting charges which are not included in there.

Q. Well, my question really was were there any offsetting savings that you would have spent if you had used a surface pit that would reduce that 120,000 as being --

A. Well, you'd probably need a $10,000 liner, plastic liner, for the pit.

Q. So there might have been some, but there wouldn't have been very much?

A. That's right. You know, at least what the engineer in the field wants to do is drill the closed-loop first so we can move the water from one closed pit. We don't have to dispose it. We can put it in the next rig.

And so you're kind of shuttling water and supplies to the next location, which I think the large companies can do that quite well. Being small, we have to drill a number of wells to find those economies to scale.

Q. Now, you said -- did I hear you correctly that you planned your economics on an $8 gas price?

A. Below $8, yes, sir. And that was when we were getting 9, $10. I think the San Juan index from April to July

probably averaged $10.

Q. Does it still work at $3.80? That's what it was day before yesterday.

A. I don't think it's going to stay there, so I think there will be some upside. I mean, I wouldn't be in this business if I thought gas prices were going to stay at $3.80. But, then, I'm not -- I don't have all these tools at my disposal. I'm just going on hunch.

Q. They're always historically low this time of year, I know.

A. Low shoulder time.

MR. BROOKS: Nothing further.

MR. JONES: Can I ask Tom Kellahin a question?

MR. BROOKS: Yes.

MR. JONES: Mr. Kellahin, just for my own information, are you aware of a Division order where production has been proportioned between spacing units based on a proximity beyond the legal location closer to the lease line?

MR. KELLAHIN: It sometimes occurs. I did some for Oxy a number of years ago where we were shooting right in the corner, and it was apparent that each of the four 40s were going to contribute. There was just no technical reason to think otherwise. So as a consequence, that location was approved as an NSL.

But the predicate for approval was a contractual

underlying framework that reallocated the production among the 160. That was when Mr. Stogner was here, and he disliked creating non-standard proration units. But he would let us accomplish the same goal if we did it contractually. He would then approve the NSL.

But those were for very extreme locations, and I don't have an example where it was done something like this.

MR. JONES: Okay. Thank you. I don't think we have any other questions.

JOHN J. WANNER

after having been first duly sworn under oath,

was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Wanner, for the record, state your name and occupation.

A. My name is John J. Wanner, W-a-n-n-e-r, and I'm a petroleum engineer.

Q. Where do you reside, sir?

A. I live if Denver, Colorado.

Q. And have you testified before the New Mexico Division on prior occasions?

A. I have not.

Q. Summarize for us when and where you obtained your degree in engineering.

A. I graduated from Colorado School of Mines in the year 1948.

Q. Do you currently still practice your profession as a consultant?

A. Yes. I have an office in downtown Denver.

Q. Is Mr. McHugh one of your consulting clients?

A. He is.

Q. As part of your responsibilities, did Mr. McHugh ask you to engage in a review of Mr. Mammel's objection letter?

A. Yes, he did.

Q. Have you been asked to analyze the potential for adverse effect on these well bores in the Dakota formation?

A. I read Mr. Mammel's letter, and I'm not -- I wasn't really understanding some of the numbers he came up with, number one. And then looking at the location of his well in which he has this interest in and the proposed well, I felt that this was not a valid objection.

Q. As part of your analysis, did you draw on your expertise and your experience with the Dakota production?

A. Yes, I did.

Q. How long have you been involved in studying Dakota and Mesaverde production in the San Juan Basin?

A. Well, I've been in this business for a number of years in which I've -- particularly in the San Juan Basin, several years. Peripherally not any specific point as we're

doing today, but I'm well aware of the development of the Dakota Mesaverde in the San Juan Basin.

Q. And as part of your gathering of data, in order to reach an expert opinion, did you use available well log information?

A. Yes, I did.

Q. And did you study production information in the area?

A. I'm sorry. I didn't hear that.

Q. Did you use production information in the area?

A. I did.

Q. Did you apply conventional engineering calculations to your methods?

A. Yes, I did.

MR. KELLAHIN: I tender Mr. Wanner as an expert petroleum engineer.

MR. JONES: Mr. Wanner is qualified as an expert petroleum engineer.

Q. (By Mr. Kellahin): Mr. Wanner, did you cause to be prepared a cross-section map?

A. I did.

Q. Let's turn to what is marked as Exhibit No. 6. If you'll take a moment, let's unfold this.

A. I have it before me.

Q. All right. Mr. Wanner, because on Exhibit 6

there's not a locator plat, I'm going to ask you to now take Exhibit No. 7, which is the composite structure and isopach. Do you have that before you?

A. Here we are. Yes, I do. I have it here.

Q. Okay. Before we look at the cross section, let's go to the structure map and have you take us through the location of the wells that you then utilized for the construction of your cross section. Let's do that now.

A. Well, we have two -- or I have a cross section with two lines, the A line, which is an east/west line starting over at Section 24 with a Burlington well, and then ties into the proposed location down to the Kaempf well and further east to the Kaempf 1-E well. That is line AA. And then a second cross section from the Kaempf well south, which is to the -- in Section 30 -- to the Lee 1-E well.

Q. Okay. Let's go now back to Exhibit No. 6 which is a cross section, and let's look at the AA prime portion of it.

A. Yes.

Q. In the middle of that, we've got the San Juan Resources Kaempf #1 well. This is the well bore in which Mr. Mammel's got his interest. Describe for us what you see in the Dakota formation in that well bore.

A. In the Kaempf well, you see they have highlighted the zones in the Dakota, which have been perforated. They come

out of almost an orange color, and there are some 44 feet of zone perforated in the Kaempf well.

Q. Have you examined the data on the Kaempf well?

A. I have.

Q. Have you satisfied yourself that the operator of that well has opened up all the potential pay in the Dakota interval in that well bore?

A. It -- with the information we have, it appears that that is correct.

Q. As you go from that control well and you move to the west, you pick up a projection of where Mr. McHugh wants to put the new well in the E/2 of Section 24.

A. Yes.

Q. And then beyond that, you move farther west and you pick up your next control well, which is in the W/2 of 24.

A. Yes.

Q. Look at that well bore and tell us what you see in the Dakota.

A. Well, the highlighted upper zone is in the Dakota, which is the B zone which describes these various sand bodies within the Dakota. I'm using a standard practice of A, B, C, D. And so I have highlighted the B zone which appears to carry through this particular cross section.

And as you can see, coming from the Kaempf well to the west, there is a thinning of that B zone in itself. And

then if you would try to correlate any of these other zones in the Kaempf well further west to the well in 24, there's a vast difference of deposition, and those zones simply do not occur to the west. So we have a thinning going from the Kaempf to the east.

On the same cross section, you can go with the B zone, and it is pretty constant going to the east. But then in the Kaempf 1-E well, we have picked up additional sands which is simply the depositional pattern of the Dakota when it was laid down. So the Kaempf E picked up some additional sands that aren't present in the Kaempf well.

Coming from the Kaempf well to the south, we have a pretty consistent B zone again. And we're not coming very far, but that's more or less on strike again with the deposition. So the B zone is pretty well consistent there. But then again, if you look at the Kaempf well and try to correlate those back to the Lee 1-E, it's a matter of fingering.

Probably the overall sands might be there, but they don't match up. They're sort of like this (indicating). So you might have a consistent thickness of sand in the one well as to the other, but they aren't necessarily connected.

Q. Have you looked at the different zones in the Dakota? You've identified what you've called the Dakota B as the only likely zone in the Dakota that might be present in both Mr. McHugh's new location and the existing well bore

in 19.

A. Yes. The B would probably be one that you would be very surprised if it wasn't present -- I'll put it that way. But I would also anticipate perhaps in that cross section at the proposed location, the Lee might again pick some other depositional sand bars, off-shore bars, whatever it is that we don't know about.

But consistently we would expect the B zone to be thinning to the west.

Q. Characterize the Dakota for me.

A. It's a tight sandstone body, very impermeable. In some wells we would get sweet spots in which there is some permeability, but generally it needs to be hydraulically fractured to make it a successful well.

Q. Let's look now at Exhibit No. 7. Is this an exhibit that you also prepared or had assistance in the preparation?

A. Yes, I prepared this.

Q. This is your work? It shows two things. It shows structure and isopach.

A. Yes.

Q. Let's start with the structure portion of the display. Describe for us what you're seeing in terms of structure as we compare the Kaempf 1 well to Mr. McHugh's proposed unorthodox location.

A. On the exhibit you're looking at, the black lines labeled 800, 750 and 700, those are structure -- the map on the structure of this A zone. And it shows that in this portion of the basin and right in this where we're at the point of interest, we're almost flat. We don't have any substantial dip or -- so the structure is fairly flat there.

And with regard to the Kaempf well and to the proposed well, I would almost expect it to be almost identical depth-wise as to the Kaempf, from what my work shows here.

Q. Let's look at the isopach portion of the display and have you draw the same relationship between those two locations.

A. Now, the dotted lines you're looking at labeled 30 and 20, those are the B zone gross. I didn't try to get out net pay. The quality of the logs available just did not permit that, so in order to show the idea of this deposition of the Dakota -- at that time, I'm using the gross sand development. And that's what you're looking at on the dotted line 20 and 30.

And it would show that we would almost expect to find the B zone thinning at the Blancett well from the Kaempf well and further thinning to the west on the B zone. And then we may pick up some of these other things we don't even know about.

Q. Did you study the production of the Kaempf well in the SW/4?

A. Yes.

Q. You've studied that well?

A. I did.

Q. Let's turn to Exhibit No. 8. What are you showing us on Exhibit No. 8?

A. I just picked up a portion of the production history of the Kaempf well going back to 1/04. This well has actually been on production for over 30 years. And it has experienced a remarkably flat decline curve as you can see on Exhibit 8. It's currently -- it's just kind of flat with a low decline. I'm showing -- the decline I show there in the last few months, I showed a 12 percent decline which is probably not really representative.

If you would look at the whole history of this and the present time, the well right now is probably declining around 2 percent per year. But it also -- you have to -- this is a logarithmic scale that I'm looking at. It's probably making 50 MCF a day. And it has accumulated totally some 860,000 MCF, and that shows in that lower right box.

Q. Have you applied your engineering skills to try to determine the area effected by the existing Kaempf well?

A. I have.

Q. And have you reduced that information to an exhibit?

A. Yes, I have.

Q. Is that set forth on Exhibit No. 9?

A. Yes, Exhibit No. 9.

Q. Is this your work?

A. It is.

Q. Describe for us the assumptions you've made and the end result of your calculation of the area being affected in the Dakota by the Kaempf well.

A. I just took in order -- with the limited data available, I made a simple calculation of the original gas in place. And to do that, I had to make some assumptions as to porosity, water saturation, bottom hole pressures, and they are all listed -- the data -- on the upper left which I used to do this.

And I calculate the original, and I also had to estimate the thickness of pay we're talking about, which is also listed. In this case, it's 44 feet. I determined the original gas in place. Then I did a separate calculation at abandonment. And I used it -- in this reservoir I used an abandonment pressure of 500 pounds. So then you take the original gas in place and the abandonment gas in place and you come up with the recoverable -- estimated recoverable -- gas in place.

Q. And what number did you --

A. It has many assumptions in it, but we don't have the data to accurately do it. But it gets you in the ballpark.

Q. So what was your assumption, then, of the recoverable gas in place?

A. Well, in this case, we had 371 cubic feet per foot. And then if you'll multiply that by the number of feet which I used in this case -- on the exhibit -- I lost it here. Well, exhibit -- on your cross section showing where the operator perforated in the Dakota, that's 44 feet.

And I have to assume that he knew what he was doing because he probably have had a geologist, he had a gas logger and cuttings and drill times and so on. So if he picked these zones as productive -- and there's 44 feet -- that's what I plugged into the Exhibit No. 9.

Q. So how long has this well been producing?

A. This well was completed in 1977.

Q. Since 1977 to date?

A. I'm sorry?

MR. McHUGH: The lower zone was '73.

THE WITNESS: Well, you would also notice on the cross section on the log, this well was drilled, and it had a blowout. They got in the lower part of the Dakota, and they had a blowout. They had a considerable amount of difficulty getting under control, and they finally did and set casing at a depth of 6618. They set casing there, and then produced this well for a number of years open hole from that -- from 6618 to the total depth of 6650.

So there was a period of time in which this section of the Dakota was producing, but they were never able to log it. So we don't really know what they got into. And in searching the record, it was very difficult to -- and it's probably not in the record -- why they ultimately plugged it back. But I think it's probably maybe water and so on. At any rate, they said they plugged at -- showing you, again, on your cross section -- 6618, right in there, they set a plug and then completed the upper part of this.

So there were two pieces of the production, but the piece I used to determine the area of development, I used only the production from the upper Dakota.

Q. So after more than 30 years of production, based upon your calculation, you're seeing the Dakota portion of this well bore having affected only about 47 acres?

A. That's correct. Using the parameters I've described, it appears that they have affected about 40 acres.

Q. Well, you talked about some uncertainty of the assumptions you've made, but let me ask you about those. You've made assumptions that you thought were fair and reasonable for application to this formation in this area; did you not?

A. Yes, I have. We have some general information in the area. So it's by analogy and using a 15 percent porosity. That might be low, or we don't know. But I think it's in the

ballpark. And that was the assumption I was making here. And the same way with the water saturation. In these sandstones of this nature, 25 percent water is probably very acceptable in this type of formation.

These are not water drive developments. And so that was one of the other parameters. And then, of course, the big parameter when you determine area of involvement here is the number of feet that you perforate.

Q. My question is: You may not have the specific data points to take from information from the Kaempf well, but you've utilized parameters that you thought were reasonable based upon other available data in the area that's applicable?

A. That is correct.

Q. Coming back now to Mr. Mammel's letter, he expresses the concern that maybe 25 percent of the productivity of the Kaempf well is going to be drawn to the unorthodox location well Mr. McHugh wants to drill. Do you agree with Mr. Mammel?

A. No. On the face of it, I do not agree. I -- perhaps if he had something to support it, I could make a judgment. But from what I see, I don't think there's any way that the proposed well will have any affect whatsoever on the Kaempf.

Q. His other point was that he expected the Kaempf well to experience a drawdown. I assume he's -- describe for

me what you think he's saying when he says he'll experience a drawdown on the Kaempf well.

A. I have to -- I'll have to make an assumption that I know what Mr. Mammel is thinking. But I'm thinking he's thinking that by putting this new well on here, we're going to suck out all of the gas that's been going to the Kaempf well -- or at least affecting it.

And just on the experience I have on this and other areas in the San Juan Basin doing similar studies, I don't think there's any way that we are going to have any effect on it. The Kaempf well will have -- be affected at all by the new well. The radius of involvement is too limited. These tight gas -- tight reservoir rocks with an up -- get aside a little bit -- we go in and try to fracture one of these things, and if you can get a frac design from one of the companies and say, "Hey. We're going to get this. We go to 1300 feet."

And boy, you know, we'll prop that baby up, and we've got 1300 feet or whatever it is, and you say, "Oh. Okay. Let's go."

Well, at any rate, I do not think that we are going to be any more successful than our fracing if we were to where it would ever possibly affect the Kaempf well.

Q. Thank you, Mr. Wanner.

MR. KELLAHIN: That concludes my examination of Mr. Wanner, and we move the introduction of his Exhibits 6

through 9.

MR. JONES: Exhibits 6 through 9 will be admitted.

[Applicant's Exhibits 6 through 9 admitted into evidence.]

EXAMINATION

BY MR. JONES:

Q. Mr. Wanner, I've really enjoyed your testimony today. I have to tell you that.

A. Thank you.

Q. This Dakota, you're calling these the A and the B zones?

A. Yes.

Q. I noticed when Burlington came to do their down spacing, their big down spacing testimony, and they actually called, I think, these zones after some names of some little settlements around Grants and Laguna, New Mexico -- Paguate or something like that. So there was a different name for it. But, I guess, did you --

A. Well, I think I can explain that.

Q. Okay.

A. And this is a problem not only in the San Juan Basin, wherever you go, you come out the basin, you go out over the outcrop and come into another basin. The guys over here have been calling this the Mancos formation. You go over the hill, and the well is drilled in the same section. It's now a

Baxter's formation, same geological age and all.

I am a petroleum engineer. I have a world of background in geology, you know, and I've been facing this problem. When Jerry gave me this and said we needed to put something together that's understandable, I went to the AAPG. And there's a lot of literature in New Mexico on this nomenclature I'm using here; A, B, C, D. And I thought that would be simple to use because I don't know what some other company might be calling this B zone, and we would be talking about apples and oranges. So I tried to avoid that.

Q. Okay. Obviously, if you had mud log records out here, it would have aided you quite a bit, wouldn't it?

A. Oh, yes. Some of these wells we're talking about, some of these key wells were 1970s and the quality of the electric logs and the technical fracing of the wells. And then in some of these old -- or these even in the Kaempf, it's kind of a miracle that that well bore is still valid.

Q. The pressures are pretty low in the Dakota, so we no longer require operators to turn in bottom hole pressures.

A. Yes.

Q. So you're stuck with your old electric log.

A. That's correct. And I used -- in my evaluation, I used the hydraulics for the initial bottom hole pressure.

Q. Okay.

A. I had to use that.

Q. But your initial pressure is one of your most important pressures and your abandonment pressure.

A. Yes, obviously. But figuring the original gas in place, I can use the original hydrostatic.

Q. What kind of recovery factor did it turn out to be?

A. I don't do them that way, but it would be in the 88 percent range, yeah.

Q. Okay. So it looks like you've got some kind of sequence stratigraphy going on here. You're coursing upward looks like --

A. On the structure?

Q. Yes.

A. That's true. And if this map were a little larger, there is sort of a nose right out to the township to the east. Mapped on top of this A zone, there is a nose there.

Q. Okay.

A. But right in the area, we're talking about, it flattens out and then goes up to the north.

Q. Okay. But you do need to have both zones, the Dakota and the Mesaverde and down hole commingle them to be economic.

A. I'm sorry. I didn't understand that.

Q. I guess what I'm getting at is both zones, even though they might be there, they're going to be kind of

marginal, so you're going need to down hole commingle your Mesaverde and your Dakota.

A. Well, hopefully if we drill this and there is a decent Mesaverde section, I'm sure that San Juan will want to develop that, absolutely.

Q. Okay. Can I summarize what I heard from you? Basically, drilling the well at this location, it looks like you may encounter more Dakota pay than you would if you drill it east of here; is that correct?

A. If we went --

Q. I mean west.

A. West. Yeah. Just based on -- we're talking about some distances here. It's sort of a no-man's land. But just using the logs we have, there is a difference in the Dakota deposition going from east to west. And it may thin out over to the west and maybe some of these sandbars are better developed and a better reservoir. There may be not be as many of them. But that's why we're drilling the well.

Q. Okay. So drilling the well at this location, you would recover reserves which you may not otherwise recover even from those two wells in Section 19, in the W/2 of Section 19?

A. Oh, yes. I think that -- I think Section 24 is just a beautiful place to drill a well because it has not been developed. If you apply the same analogy that I've used on area of involvement on this well that Burlington drilled, they

had that on production for a period of time. But with the section that I'm even looking at here, the thin one, there is a significant amount of gas in place over there that has not ever been developed and wouldn't be developed until somebody goes over there and drills a well.

Q. Okay. Well, you may end you have proven up something for them.

A. Well, I think so.

MR. JONES: I don't have any other questions.

MR. BROOKS: I have no questions.

EXAMINATION

BY MR. WARNELL:

Q. I have an observation or two that I might make. Looking at your cross section, this first well, I certainly point out that you're definitely -- your Dakota is definitely thinning to the west. As a matter of fact, that lower Dakota that blew out on the Kaempf No. 1, I don't see that at all on that.

A. We've not seen it in any of the wells that have been drilled recently either. It might be called -- and I hesitate to get into this -- but I think it might be called the Burro Canyon. And it would be an argument whether it's part of the D zone or Burro Canyon, but that did not appear -- I think the Kaempf 1-E got into that zone, and it did not have the gas in it that the Kaempf did. But that's another part of the

deposition of this whole Dakota unit. These things appear. In the Kaempf well, that zone produced 270,000 MCF or something before they plugged it back. And it could appear -- who knows? It could be an offshore bar, a sand bar. They develop as you go from east to west.

Q. I suspect you'll see that lower Dakota in this new well if it's drilled. It looks to me like looking at the Lee 1-E going south that that sand is there also. But it's difficult to make that call because most of these logs are TDTs, through casing thermal neutrons. So it's a risk.

MR. JONES: Mr. Warnell worked for Schlumberger.

MR. WARNELL: Out of Farmington. I know these logs.

Q. (By Mr. Warnell): Mr. Wanner, I do have a question on Exhibit 8 where you have your cumulative numbers.

A. Eight. Let me --

Q. This one here, it's the cumulative numbers.

MR. JONES: It's the curve. It's the chart.

THE WITNESS: On the chart, I'm sorry.

Q. (By Mr. Warnell): On that one. If you look at your cumulative gas numbers, the 860,000 versus the production numbers that are on No. 7 here, there's a discrepancy there.

A. That has to do with the Oil and Gas Commission. You go back some date in time, you have to --

MR. JONES: '93.

THE WITNESS: They don't show it. But prior to 1943,

there was 700,000, and then in 1974 they pick it up.

MR. JONES: They were saving money on computer costs.

THE WITNESS: The cum that I'm showing here, I think I might have -- that is what the well has produced entirely. But when I calculated the area of influence, I subtracted the Burro Canyon production.

Q. (By Mr. Warnell): Okay. And then for the record, when I looked at the cross section, your cross section here, Exhibit 6, from the proposed well over to the Kaempf No. 1, the cross section shows 2658 feet in distance. Is that --

A. From Kaempf to the -- yes, yes.

Q. All right.

MR. WARNELL: That's all I have. Thank you.

MR. JONES: One more question.

THE WITNESS: Sure.

MR. JONES: Did you have any input into the depth this well is going to be drilled after you did these cross sections?

THE WITNESS: I just prepared these right away. But if I have any influence, I'm recommending we take her down to the Jurassic to make sure we get the whole section.

MR. WARNELL: I drill to 6700.

MR. JONES: Mr. Brooks?

MR. BROOKS: No questions.

MR. JONES: Okay, Mr. Wanner. Thanks very much.

THE WITNESS: Thank you.

MR. KELLAHIN: Mr. Jones, the last exhibit is Exhibit 10; it's the certificate of mailing. This is the mailing of the original administrative application. It was sent to 44 companies or individuals including all the working interest owners in Section 19 of which only Mr. Mammel was a party filing an objection.

So this relates back to the original filing. As I told you, we separately sent Mr. Mammel notice of this hearing, and the rules about filing a hearing statement to the numbers that he had supplied to you, and we got no response back.

With the admission of Exhibit No. 10, we'd like you to take this case under advisement.

MR. JONES: Okay. I guess one legal question here: As far as the notice, they sent notice to everybody for the hearing, but the notice had already been sent to everybody for the administrative application; is that correct?

MR. KELLAHIN: No. The original administrative application was sent to everybody.

MR. JONES: Okay.

MR. KELLAHIN: It was sent to hearing based upon Mr. Mammel's objection. And Mr. Mammel got notice of the hearing date.

MR. BROOKS: Only the protestant is required to be

noticed of the hearing.

MR. JONES: Okay. I thought I heard you say you noticed everybody for this hearing.

MR. KELLAHIN: No, no. For the original application.

MR. JONES: That was my question. Okay. We'll admit Exhibit No. 10.

[Applicant's Exhibits 10 admitted into evidence.]

MR. JONES: We'll take Case 14179 under advisement.

* * *

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

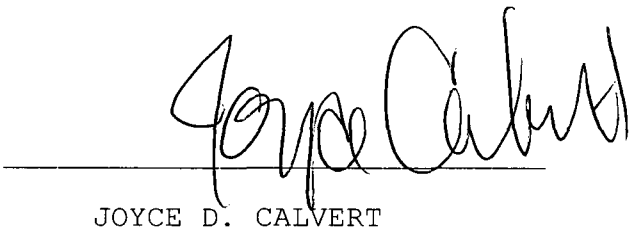
_____, Examiner
Oil Conservation Division

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.

DATED this 2nd of October, 2008.



JOYCE D. CALVERT
New Mexico P-03
License Expires: 7/31/09

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

I, JOYCE D. CALVERT, a New Mexico Provisional Reporter, working under the direction and direct supervision of Paul Baca, New Mexico CCR License Number 112, hereby certify that I reported the attached proceedings; that pages numbered 1-56 inclusive, are a true and correct transcript of my stenographic notes. On the date I reported these proceedings, I was the holder of Provisional License Number P-03.

Dated at Albuquerque, New Mexico, 2nd day of October, 2008.

Joyce D. Calvert
Provisional License #P-03
License Expires: 7/31/09

Paul Baca, RPR
Certified Court Reporter #112
License Expires: 12/31/08

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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

CASE NO. 14179

APPLICATION OF SAN JUAN RESOURCES, INC. FOR AN UNORTHODOX WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
WILLIAM V. JONES, Technical Examiner
TERRY WARNELL, Technical Examiner

October 2, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, WILLIAM V. JONES, Technical Examiner, and TERRY WARNELL, Technical Examiner, on Thursday, October 2, 2008, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102