

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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Oil Conservation Division
CASE NO. 13,112

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

APPLICATION OF PURE RESOURCES, L.P., FOR)
A BLANKET EXCEPTION IN THE RINCON UNIT)
AREA TO THE WELL LOCATION REQUIREMENTS)
FOR THE BLANCO-MESAVERDE GAS POOL, RIO)
ARRIBA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

September 18th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, September 18th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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Examiner Hearing
CASE NO. 13,112

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:26 a.m.:

3 EXAMINER JONES: Call Case 13,112, Application of
4 Pure Resources, L.P., for a blanket exception in the Rincon
5 Unit area to the well location requirements for the Blanco-
6 Mesaverde Gas Pool, Rio Arriba County, New Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. We represent Pure Resources, L.P., in this
11 matter, and I have two witnesses.

12 EXAMINER JONES: Any other appearances?

13 If not, will the witnesses please stand to be
14 sworn.

15 (Thereupon, the witnesses were sworn.)

16 MR. CARR: May it please the Examiner, I have a
17 brief opening statement. This is a somewhat unique case,
18 and I think it might be helpful to explain why we're here
19 and --

20 EXAMINER JONES: Please.

21 MR. CARR: -- what we're up to.

22 Pure Resources today seeks an order conforming
23 the well-location requirements between the Mesaverde and
24 Dakota formations within the Rincon Unit, located in Rio
25 Arriba County, New Mexico.

1 This is an unusual case, and it really is the
2 result of -- the unexpected result of an order that was
3 entered last December changing the spacing in the Mesaverde
4 Pool.

5 This is an old unit. It was approved in 1951.
6 And today the most efficient way to produce the Mesaverde
7 and the Dakota is to commingle production between the two
8 zones. And back in 1993, the Division issued Order Number
9 R-5893 -- it's in the exhibit material -- authorizing
10 blanket commingling of the Mesaverde, Dakota and the Gallup
11 formations within the unit area.

12 As you may be aware, last December on the
13 Application of Burlington Resources, the Division issued
14 Order R-10,987-A(1), and what that order did was, it
15 conformed the Mesaverde Pool rules to the Dakota rules that
16 had been adopted several years before.

17 The problem with this as it relates to the Rincon
18 Unit is that the spacing within the unit is dependent upon
19 whether or not the subject GPUs in each formation are
20 within a participating area.

21 Now, and the problem as it relates to the Rincon
22 Unit is that the participating area in the Dakota covers
23 virtually the entire unit area, whereas the participating
24 area in the Mesaverde only covers really the northeast
25 portion.

1 So what's the result?

2 Well, the result is, we can still commingle
3 wells. The locations are the same in the portions of the
4 unit where you have participating areas in both formations.

5 But if you get into the southwest portion of the
6 Unit area, where we're intending to continue to develop,
7 you can still commingle, but the approved location in the
8 Dakota is 10 feet off the boundary of the GPU, but you've
9 got to be 660 feet off the boundary in the Mesaverde.

10 What the effect is is that it denies to you the
11 ability to locate the wells where you can most effectively
12 develop the reservoir, because the only thing you can do
13 now would be to go back to the old Mesaverde location.
14 It's sort of a chicken-versus-the-egg thing. If you go
15 back and you drill a well at the Mesaverde location and you
16 have to be 660 from the GPU boundary, you make a commercial
17 well, at that point in time the PA would expand and you
18 could have been 10 feet from the line, which is the better
19 location because it gives you a better spread of wells
20 across the unit area.

21 So that's the problem we're trying to deal with.
22 And the order is asking that within the boundaries of the
23 Rincon Unit the spacing rules be the same, they'd be the
24 Dakota rules so we can go forward and locate wells at the
25 best location.

1 Now, we could have come back to you well by well
2 by well and each time sought approval from the Division of
3 an individual unorthodox location in the Mesaverde as we
4 went forward with each of these applications. And to do
5 that, under Division Rules we'd be required to provide
6 notice to the offsetting operator if it was different.
7 Here, that's not the case. We would have been giving
8 notice to the working interest owners that are committed to
9 the unit. The only people we would have been notifying are
10 certain royalty interest owners as we move forward well by
11 well, and only in certain circumstances.

12 What we've done today is, after conferring with
13 the Division we have filed an Application to do a blanket
14 change of the spacing, and we have notified any royalty
15 interest owner who would be affected. So anyone who would
16 have been noticed well by well by well has notice of this
17 Application. And we're seeking an adjustment of the pool
18 rules within the Rincon Unit.

19 So as we proceed with development plans, we can
20 go forward under common rules that give us the flexibility
21 we need and avoid having to come back to you again and
22 again and again with individual applications for unorthodox
23 well locations. I hope that makes some sense. We're going
24 to go through that again as we present the evidence.

25 My first witness is Robert Ready.

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ROBERT READY,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. Robert Ready.

Q. Spell your last name.

A. Just like "ready", R-e-a-d-y.

Q. Mr. Ready, where do you reside?

A. Midland, Texas.

Q. By whom are you employed?

A. Pure Resources.

Q. And what is your position with Pure Resources?

A. I'm the landman for New Mexico and Colorado.

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

A. No, I have not.

Q. Could you review for the Examiners your educational background?

A. Bachelor of science, geology, from Texas Tech in 1984. Since that time I've been continuously employed in the oil and gas business as a landman working for numerous different companies, most recently ARCO Oil and Gas, from the late 1980s to the mid-1990s, and from 1996 to present

1 with Pure Resources or their predecessor company.

2 Q. Are you familiar with the Application filed in
3 this case?

4 A. Yes, sir.

5 Q. Are you familiar with the proposal of Pure
6 Resources for an exception to the well-location
7 requirements of the Blanco-Mesaverde Gas Pool within the
8 Rincon Unit area?

9 A. Yes, I am.

10 MR. CARR: Are Mr. Ready's qualifications
11 acceptable?

12 EXAMINER JONES: Mr. Ready, was the predecessor
13 Hallwood?

14 THE WITNESS: No, the predecessor company was
15 actually Titan Resources.

16 EXAMINER JONES: Oh, okay.

17 THE WITNESS: If you want to know more of the
18 history, I'll be happy to tell you.

19 EXAMINER JONES: That's okay, but before this
20 era. Okay.

21 THE WITNESS: Yeah.

22 EXAMINER JONES: Yeah, Mr. Ready --

23 THE WITNESS: Yeah, this was a Unocal property.

24 EXAMINER JONES: Okay, Unocal.

25 THE WITNESS: And we merged with Unocal to form

1 Pure, with a portion of their assets.

2 EXAMINER JONES: And right now you're Pure?

3 THE WITNESS: We are -- Unocal bought the
4 remaining outstanding shares last year, so we are now a
5 Unocal wholly owned subsidiary.

6 EXAMINER JONES: Okay. Okay, thank you.

7 Yes, Mr. Ready's qualifications are accepted.

8 Q. (By Mr. Carr) Could you summarize for the
9 Examiner what it is we seek here today?

10 A. We're looking to obtain a blanket exception to
11 the Mesaverde rules, to approve unorthodox locations such
12 that we can downhole commingle, do a complete downhole
13 commingle, the Mesaverde and Dakota, at the current Dakota
14 field rules, the problem being that the Dakota
15 participating area is critical to the location of the wells
16 and the Mesaverde participating area is only a portion of
17 the Dakota participating area. So we want to be able to
18 locate wells as provided in the Dakota rules.

19 Q. Mr. Ready, would you refer to what has been
20 marked as Pure Exhibit 1, identify and review this?

21 A. Yes, the Exhibit is a plat of Rincon. The red
22 outline is the unit boundary. The acreage in white, or
23 uncolored, is federal acreage. The acreage in blue is
24 State of New Mexico lands, and the small tract in pink
25 cross-hach on the right side is fee acreage. In the

1 approximately north center of the unit you'll see a gray
2 tract. That is the only noncommitted tract in the unit,
3 and that has been outstanding since its formation.

4 Q. And if the rules are conformed -- the Mesaverde
5 rules are conformed to match the Dakota, the provisions in
6 those Dakota rules for setbacks from the outer boundary of
7 the unit from this window would be applicable, would they
8 not?

9 A. That's correct.

10 Q. What is Exhibit Number 2?

11 A. Exhibit 2 is the Order approving the Rincon Unit,
12 which was accomplished back in 1951.

13 MR. CARR: Mr. Examiner, you'll note on the
14 second page it's a little hard to read. I would point out
15 that's from the Division files, and when it was scanned in,
16 it looks like we scanned a very short page 3 over part of
17 page 2. But in any event, this is the order that created
18 the unit or approved it back in 1951.

19 Q. (By Mr. Carr) Mr. Ready, what is Exhibit Number
20 3?

21 A. Exhibit Number 3 is the Commission Order granting
22 blanket approval for downhole commingling of the Mesaverde,
23 Dakota and Gallup formations in Rincon.

24 Q. And what rules currently govern the Mesaverde
25 formation within the Rincon Unit area?

1 A. The rules that are currently in effect, after the
2 December hearing, are that 320-acre gas proration units
3 providing that -- I'll focus on the federal exploratory
4 unit, which is the case -- providing that within a
5 participating area you may drill up to -- well, anywhere in
6 the unit you may drill up to four wells per gas proration
7 unit, but within the participating area you can locate that
8 well within 10 feet of any section, quarter section or
9 quarter-quarter line, or the boundary of a GPU.

10 Q. Mr. Ready, is Exhibit Number 4 a copy of the
11 Division Order that was entered last December that
12 established these rules for the Mesaverde formation?

13 A. Yes.

14 Q. And what rules govern the Dakota formation?

15 A. The rules governing Dakota formation are the same
16 as the Mesaverde.

17 Q. And Exhibit Number 5 is a copy of Division Order
18 Number 10,987-B(2) which adopted the rules for the Dakota;
19 is that right?

20 A. That's correct. It's important to point out that
21 prior to 10,987-A(1), the order in December that conformed
22 the Mesaverde and Dakota at Burlington's application, prior
23 to that time the Mesaverde rules allowed that anywhere
24 within the federal exploratory unit, you could locate a
25 well 10 feet from any proration unit boundary, section

1 boundary or quarter-quarter line.

2 Q. Let's go back to Exhibit Number 4. Let's look at
3 Finding (2), Finding (2) in Division Order 10,987-A(1). It
4 states the purpose of the rule change being proposed by
5 Burlington last December, and what was that?

6 A. The purpose was stated to be to conform the
7 setbacks and spacing for the Dakota and Mesaverde wells.

8 Q. And Finding (4) states the rules as they existed
9 at that time, prior to the change; is that correct?

10 A. That's correct. Prior to the change, again, the
11 Mesaverde Rules were somewhat more liberal. They provided
12 that within a federal exploratory unit wells located within
13 a half mile of the unit boundary would be no closer than
14 660 feet to a boundary, but anywhere else within the
15 federal exploratory unit, regardless of participating area
16 or not, you could locate within 10 feet of any section,
17 quarter section, or quarter-quarter.

18 Q. So prior to the December order, if Pure wanted to
19 commingle Mesaverde and Dakota formation production in a
20 new well in the area outside the current Mesaverde PA, that
21 well could be located 10 feet from the boundary of the GPU?

22 A. We could locate them as if they -- Yes, we could
23 conform the Dakota and Mesaverde well locations anywhere
24 within the unit, irrespective of the participating area in
25 the Mesaverde.

1 Q. And after the rules were changed, you discovered
2 all of a sudden that if you wanted to commingle your wells
3 in the two formations, had to be located 650 feet apart?

4 A. That's correct.

5 Q. And that wasn't going to work?

6 A. Right. It appears to be a -- Well, it created a
7 conflict that did not previously exist.

8 Q. All right, let's look at Pure Resources Exhibits
9 6 and 7.

10 A. I'll let you thumb through the orders.

11 Exhibit 6 is the unit with the depiction in the
12 shaded area of the Mesaverde participating area at present.

13 Exhibit 7 is again the unit with the Dakota
14 participating area indicated with the shaded acreage.

15 Q. As the rules stand today, in the areas that are
16 shaded on Exhibit 6, you can locate wells within 10 feet of
17 the boundary of the GPU unless you're on the outer boundary
18 of the unit, correct?

19 A. That's correct.

20 Q. And what you're asking is that you be able to
21 locate wells 10 feet from the boundary of the unit
22 throughout the area that is shaded gray on Exhibit Number
23 7?

24 A. That's correct.

25 Q. What interests in the unit area are not committed

1 to the unit agreement?

2 A. There are a small number of royalty and
3 overriding royalty interests that actually generate from
4 five persons.

5 Q. Are they identified on Exhibit 8?

6 A. Yes, they are.

7 Q. And if we take Exhibit 8 and compare it to
8 Exhibit 9, what does this show us?

9 A. Exhibit 8 is again a list of all of the
10 uncommitted interests within the unit. Exhibit 9 depicts
11 the Mesaverde participating area, again in gray. And then
12 the cross-hatched area are the tracts that have some
13 uncommitted interest within them. I think it's good to
14 note that only a portion of Tract 25 is outside of the
15 Mesaverde participating area, so those would be the only
16 uncommitted owners that would be impacted by this order.

17 Q. And have each of those interest owners received
18 notice of today's Application and today's hearing?

19 A. Yes, they have.

20 Q. And is Pure Exhibit Number 10 a notice affidavit
21 confirming that this notice has been provided?

22 A. Yes, it is.

23 Q. Will Pure call an engineering witness to explain
24 the technical portions of this Application?

25 A. Yes, we will.

1 Q. Were Exhibits 1 through 10 either prepared by you
2 or compiled at your direction?

3 A. Yes, they were.

4 MR. CARR: May it please the Examiners, at this
5 time we would move the admission into evidence of Pure
6 Resources Exhibits 1 through 10.

7 EXAMINER JONES: Exhibits 1 through 10 will be
8 admitted.

9 MR. CARR: And that concludes my direct
10 examination of Mr. Ready.

11 EXAMINATION

12 BY EXAMINER JONES:

13 Q. Mr. Ready, the feds and the state have no problem
14 with this? They were notified of this?

15 A. They're fully committed to the unit in every way,
16 so it's not applicable.

17 Q. And what about location -- or notification
18 requirements? You're proposing that we change the -- have
19 an exception to the location requirements in this
20 particular unit as stated in the latest Mesaverde order,
21 but what about the notification requirements?

22 A. I believe we've met all notification requirements
23 by noticing all people who are not committed to the unit.

24 MR. CARR: It was our intention to notify all of
25 these interest owners that we were going forward with this

1 Application so we wouldn't have to come back and do it over
2 and over again.

3 THE WITNESS: And just on a percentage basis, for
4 comparison, the uncommitted interests affected are, you
5 know, less than half of 1 percent, less than .4 of 1
6 percent.

7 MR. CARR: And though not formally committed, Mr.
8 Examiner, these royalty -- overriding royalty interest
9 owners are paid on a unit basis, because they did execute
10 earlier Division orders.

11 So what we're just trying to do is get around
12 having to come back repeatedly and ask for each individual
13 exception, we're trying to do it all at one time. And so
14 we notified in this case everyone to whom notice would be
15 provided on each of the individual applications, just to
16 try and get the blanket approval and sort of put it back
17 where it was last December as to interior wells or
18 locations in this unit.

19 Q. (By Examiner Jones) Okay, I think I understand
20 that. Like on Exhibit Number 6, if you were drilling in
21 Section 24 --

22 A. Yes.

23 Q. -- and they got a noncommitted tract there, and
24 you're -- you wouldn't notice those people, those
25 noncommitted-tract people?

1 A. No, the order we're asking for would require us
2 to be 660 feet from that line. It's basically an exterior
3 boundary.

4 Q. So basically that's an exterior boundary --

5 MR. CARR: Yeah.

6 Q. (By Examiner Jones) -- which still remains a
7 660?

8 A. Right.

9 Q. Okay, and those partially committed tracts, I
10 guess they're paid on a unit basis?

11 MR. CARR: They're the parties that we've
12 notified of today's hearing.

13 EXAMINER JONES: Of today's hearing.

14 MR. CARR: Yeah.

15 THE WITNESS: Uh-huh.

16 EXAMINER JONES: And I see no one showing up to
17 protest.

18 Q. (By Examiner Jones) And the language in the
19 downhole commingle order for the Rincon Unit, R-9893,
20 you're asking for no change in that language, are you?

21 A. No, actually we want to be able to take advantage
22 of the downhole commingling by changing the well spacing,
23 or providing the well spacing to be conformed, actually --

24 Q. Okay.

25 A. -- between the Mesaverde and Dakota.

1 Q. But it says in Finding Number -- or in the Order,
2 part 2 of the -- the last part of that order, in that
3 paragraph, the last part of the paragraph says that "...the
4 application shall contain evidence that all offset
5 operators and the...BLM has been notified of the proposed
6 commingling."

7 When we get commingle applications in, we're not
8 going to have --

9 MR. CARR: You can still do the commingling and
10 we're going to proceed under the order, but instead of also
11 having to come in and start trying to change the spacing
12 requirements --

13 EXAMINER JONES: Okay.

14 MR. CARR: -- we're just trying to get back to,
15 really, where we were a year ago, before we were really
16 surprised that this would impact interior operations with
17 the unit as it does.

18 EXAMINER JONES: So this will affect more units
19 than the Rincon Unit, probably?

20 MR. CARR: Well, the only one we want is just to
21 affect the interior to this. We don't know how it might
22 apply elsewhere because you have to have the unique
23 circumstance where you have one formation within a
24 participating area and the other formation not. And so
25 it's kind of hard to see where that might go.

1 EXAMINER JONES: But it's possible in other
2 places in the San Juan?

3 MR. CARR: Yes, sir, it is.

4 EXAMINER JONES: Gail, do you have any questions?

5 MS. MacQUESTEN: (Shakes head).

6 EXAMINER JONES: Okay, I have no further
7 questions. Thank you very much.

8 THE WITNESS: Thank you, sir.

9 MR. CARR: May it please the Examiner, at this
10 time we call Tom Morrow.

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

14 DIRECT EXAMINATION

15 BY MR. CARR:

16 Q. State your name for the record, please.

17 A. Thomas Morrow.

18 Q. And where do you reside?

19 A. In Midland, Texas.

20 Q. By whom are you employed?

21 A. Pure Resources.

22 Q. And what is your current position with Pure?

23 A. I'm currently operations superintendent.

24 Q. Mr. Morrow, you testified before this Division
25 many years ago, did you not?

1 A. Yes, I did.

2 Q. Have you ever testified before these Examiners?

3 A. No, I have not.

4 Q. Could you review your educational background?

5 A. I received a bachelor of science degree in
6 petroleum engineering from Texas Tech University in May of
7 1984. I've also received a master of science degree in
8 engineering from the University of Texas at Austin in
9 December of 1999.

10 Q. Would you summarize your work experience?

11 A. I have just over 19 years of petroleum operations
12 and reservoir engineering experience. My assignments have
13 included properties in the Permian Basin of west Texas, San
14 Juan Basin of Colorado and New Mexico and also properties
15 throughout southeast New Mexico.

16 Q. Are you familiar with the Application filed in
17 this case?

18 A. Yes, I am.

19 Q. Are you familiar with the proposal of Pure to
20 conform the Mesaverde spacing rules with those of the
21 Dakota in the Rincon Unit area?

22 A. Yes, I am.

23 MR. CARR: We tender Mr. Morrow as an expert in
24 petroleum engineering.

25 EXAMINER JONES: Mr. Morrow, what companies did

1 you work for before --

2 THE WITNESS: I originally started with Sohio
3 Petroleum Company, which turned into BP Exploration. I
4 left BP in 1991 and went to work for Unocal and then joined
5 with Pure Resources in 1998, which then Unocal came back in
6 and acquired our interest.

7 EXAMINER JONES: Okay, Mr. Morrow's
8 qualifications are accepted. Thank you.

9 Q. (By Mr. Carr) Mr. Morrow, if this Application is
10 not granted and you are not able to conform the rules in
11 these two formations, how will Pure develop the Mesaverde
12 and Dakota formations?

13 A. Our current interpretation indicates that we
14 cannot economically drill stand-alone Mesaverde and Dakota
15 wells, so our plans for future development will involve
16 drilling a single wellbore and downhole commingling the
17 Dakota and Mesaverde. For wells located outside the
18 Mesaverde PA, those wells must be drilled according to the
19 Mesaverde spacing rules, which require the 660-foot setback
20 from the GPU.

21 Q. Let's go to what has been marked Exhibit Number
22 11. Would you refer to this exhibit and explain to the
23 Examiner what we're attempting to achieve?

24 A. As has been mentioned, what we're really trying
25 to achieve is greater flexibility in the location of our

1 future wells. Well locations, on average, with the
2 proposed rules, will be located 1850 feet from existing
3 producers, as compared to an average of 1460 feet from
4 existing producers under the current rules. This
5 difference is illustrated on Exhibit Number 11, which we've
6 provided to you in a real simple cartoon.

7 The result of the greater distance between
8 producing wells will obviously be more effective drainage
9 patterns, which will increase the ultimate recovery from
10 all the wells drilled. Our current estimate is that we
11 will realize an increase of 25 to 30 percent of recoveries
12 under the proposed rules.

13 Q. In your opinion, will approval of the Application
14 and conforming the Mesaverde rules with those of the Dakota
15 formation for interior locations in the Rincon unit be in
16 the best interest of conservation, the prevention of waste
17 and the protection of correlative rights?

18 A. Yes. As mentioned, of course, the flexibility in
19 well spacing will allow a greater distance between the
20 wells, resulting in more efficient drainage and overall
21 higher recovery for all royalty and working interest owners
22 within the Rincon Unit.

23 Q. How many wells does Pure anticipate drilling
24 outside the Mesaverde PA in the Rincon Unit area? How many
25 applications would we have to come back with if this isn't

1 granted?

2 A. Depending on performance of our existing drilling
3 program, and of course pricing, we could drill between 25
4 and 30 wells outside of the current Mesaverde PA.

5 Q. So what we're trying to do today is to get it
6 approved at one time so you can go forward with a
7 development and so, at least as to locations, you're not
8 having to return every time you propose a well?

9 A. That's correct.

10 Q. Was Exhibit 11 prepared by you?

11 A. Yes, it was.

12 MR. CARR: May it please the Examiner, at this
13 time we move the admission into evidence of Pure Exhibit
14 11.

15 EXAMINER JONES: Exhibit 11 is admitted to
16 evidence.

17 MR. CARR: And that concludes my examination of
18 Mr. Morrow.

19 EXAMINATION

20 BY EXAMINER JONES:

21 Q. Mr. Morrow, so it shortens the life of the well,
22 increases the present worth of the production?

23 A. What it does is, obviously, the closer we get to
24 existing producers, we start getting into the drainage area
25 of that producer and just -- the initial rates, all the way

1 from the initial rate to the life of the well is affected.

2 Q. And the surface disturbance required, is this
3 going to be less under this proposed order or more under
4 this proposed order?

5 A. There should be no change. It would require two
6 separate locations in either case.

7 Q. But you want to drill the wells and commingle
8 them?

9 A. Oh, that's correct, versus a stand-alone case,
10 which we've determine under current conditions we just
11 can't drill economically stand-alone Dakota and Mesaverde
12 wells.

13 Q. Okay, and your commingling, you're sure that's
14 not reducing your overall reserves from the -- Have you
15 done any tests to see if production is cycling back down --

16 A. Cross-flowing? Not that I'm aware of. We do
17 produce the wells at maximum drawdown within the well, so
18 that should alone minimize or eliminate any crossflow that
19 we would see, because we're producing the wells as much as
20 they'll produce.

21 Q. Are they making liquids?

22 A. Very liquid, it's mostly gas, yes, sir.

23 Q. And what kind of line pressure do you have out
24 there? Just an estimate.

25 A. It's low pressure.

1 Q. Okay --

2 A. I can't tell you exactly --

3 Q. -- okay.

4 A. -- but it is a low-pressure line. We do have
5 compression installed.

6 Q. So you're pulling them pretty hard?

7 A. Yes, sir.

8 EXAMINER JONES: Okay. Well, that's -- Gail, do
9 you have any questions?

10 MS. MacQUESTEN: (Shakes head)

11 EXAMINER JONES: If not, thank you very much.

12 THE WITNESS: Thank you.

13 MR. CARR: Mr. Examiner, that concludes our
14 presentation in this case.

15 EXAMINER JONES: Thank you, Mr. Carr. With that,
16 Case 13,112 will be taken under advisement.

17 (Thereupon, these proceedings were concluded at
18 9:45 a.m.)

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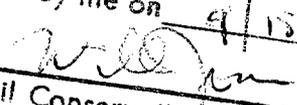
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* * * I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13112
heard by me on 9/15/63

Oil Conservation Division, Examiner

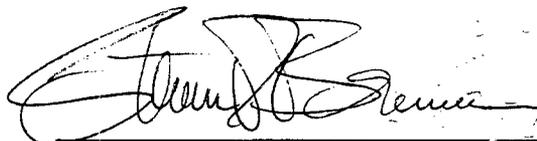
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 19th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006