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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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

APPLICATION OF YATES PETROLEUM)
CORPORATION AND HANLEY PETROLEUM, INC.,)
FOR ALLOWABLE REDUCTION AND THE ESCROW)
OF PRODUCTION PROCEEDS, LEA COUNTY,)
NEW MEXICO)

CASE NO. 12,086

APPLICATION OF ENERGEN RESOURCES)
CORPORATION FOR ALLOWABLE REDUCTION)
AND THE ESCROW OF PRODUCTION PROCEEDS,)
LEA COUNTY, NEW MEXICO)

CASE NO. 12,086

(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 7th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 7th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

October 7th, 1999
 Examiner Hearing
 CASE NO. 12,086

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<u>MARK MLADENKA</u> (Engineer)	
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* * *

1 WHEREUPON, the following proceedings were had at
2 1:35 p.m.:

3 EXAMINER STOGNER: At this time I'll call
4 Case Number 12,086.

5 MR. CARROLL: Which are the Applications of Yates
6 Petroleum Corporation and Hanley Petroleum, Inc., for
7 allowable reduction and the escrow of production proceeds,
8 and the Application of Energen Resources Corporation for
9 allowable reduction and the escrow of production proceeds,
10 Lea County, New Mexico.

11 EXAMINER STOGNER: Call for appearances.

12 MR. HALL: Mr. Examiner, Scott Hall of the Miller
13 Stratvert Torgerson law firm, Santa Fe, on behalf of
14 Energen Resources Corporation.

15 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
16 on behalf of Gillespie Oil, Inc., and Charles B. Gillespie,
17 Jr.

18 MR. CARR: May it please the Examiner, my name is
19 William F. Carr with the Santa Fe law firm Campbell, Carr,
20 Berge and Sheridan. We'd like to enter our appearance on
21 behalf of Yates Petroleum Corporation and Hanley Petroleum,
22 Inc. We have no witnesses.

23 EXAMINER STOGNER: Other appearances?

24 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
25 the Santa Fe law firm of Kellahin and Kellahin, appearing

1 on behalf of Snyder Ranches, Inc., and Mr. Larry Squires.

2 EXAMINER STOGNER: For the record, Mr. Hall,
3 would it be appropriate for you to kind of bring us up to
4 date where we're at at this point?

5 MR. HALL: Yes, Mr. Examiner, I'd be glad to do
6 that.

7 At the last hearing, we presented evidence with
8 respect to the relief Energen seeks by way of its
9 application, and also, in conformance with the Examiner's
10 earlier request, we presented evidence on notice. I
11 indicated to you that certain of the notices went out one
12 day late, which necessitated holding the record open for an
13 additional hearing period, and that's why we're here today.

14 We have no new direct testimony to put on.

15 Mr. Bruce requested an opportunity to present
16 some response testimony, and I understand he may present
17 witnesses today. The issues, I would think, would be very
18 limited today, in view of what we put on last time.

19 EXAMINER STOGNER: Mr. Bruce, anything to add?

20 MR. BRUCE: Mr. Exam- -- yeah -- Nothing, Mr.
21 Examiner.

22 I do have -- I think I can get it done with one
23 witness, and really I have less than five minutes of
24 testimony. I just want a witness to address a couple of
25 the things that were presented at the last hearing and talk

1 about what's occurred since, since August.

2 EXAMINER STOGNER: Okay, Mr. Carr, Mr. Kellahin,
3 anything to add at this time?

4 MR. CARR: No, sir.

5 MR. KELLAHIN: No, sir.

6 EXAMINER STOGNER: Okay, which -- Mr. Bruce, Mr.
7 Hall, which would you --

8 MR. HALL: He'd be on first.

9 EXAMINER STOGNER: Okay.

10 MR. BRUCE: I'm going to swear in two witnesses
11 just in case, Mr. Examiner, but I think I'll only present
12 one.

13 EXAMINER STOGNER: Mr. Hall, do you have any
14 witnesses?

15 MR. HALL: We may have some rebuttal testimony,
16 depending on what's brought forward today.

17 EXAMINER STOGNER: Okay, do we need to swear them
18 in, or should the record --

19 MR. BRUCE: I think they've already been --

20 MR. HALL: They've been sworn.

21 MR. BRUCE: They have been sworn in this matter
22 and have qualified as experts.

23 EXAMINER STOGNER: Okay. I'll just remind
24 anybody who is testifying today as a witness that you've
25 previously been sworn in on this matter, and that still

1 stands.

2 Mr. Bruce?

3 MARK MLADENKA,

4 the witness herein, having been previously duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

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

9 A. My name is Mark Mladenka.

10 Q. And you have previously testified in this case,
11 Mr. Mladenka?

12 A. Yes, I have.

13 Q. As a petroleum engineer?

14 A. Yes, I have.

15 Q. Mr. Mladenka, I've handed you what's been marked
16 Exhibit A, and we need not get into it in detail, but it is
17 a map of the West Lovington Strawn Unit and the surrounding
18 area, is it not?

19 A. That is correct.

20 Q. We'll get into what it is in a minute.

21 Mr. Mladenka, what is the position of Charles
22 Gillespie with respect to Energen's allowable reduction
23 request?

24 A. He believes that it is premature and improper at
25 this time. The parties are negotiating a resolution of

1 their differences, which is a process that should be
2 followed.

3 Q. Now, in the prior hearings there have been some
4 assertions made by Energen which I'd like you to address
5 briefly. I think first, Energen has indicated that the F 3
6 well may not be necessary. What do you have to state with
7 respect to that?

8 MR. BRUCE: And Mr. Examiner, I should get into a
9 couple of things here. If you're looking on the east side
10 of the unit in what is marked Tract 21 C in Section 35 is
11 Energen's Beadle Well Number 1.

12 And just to the south of that is the Gillespie
13 Snyder F 3 well in Tract 22.

14 And then over to the west of the F 3 well is the
15 Snyder C 4 well, and then the Snyder EC Com well to the
16 southwest of that.

17 Those are most of the wells that may be addressed
18 in testimony today.

19 MR. HALL: Mr. Examiner, at this point let me
20 state an objection on the record to the form of the
21 question. I believe it mischaracterizes prior testimony.
22 The testimony was not that the F 3 well was unnecessary in
23 Energen's view, but the testimony was that Energen had
24 requested Gillespie to defer drilling of the well until
25 expansion was effected.

1 EXAMINER STOGNER: Okay, do you want to restate
2 your question, Mr. --

3 MR. BRUCE: I'll accept Mr. Hall's statement of
4 the issue, and I'll just rearrange my next questions.

5 Q. (By Mr. Bruce) Mr. Mladenka, with respect to the
6 unit, are both of these wells valuable?

7 A. I'm sorry -- ?

8 Q. With respect to an expanded West Lovington Strawn
9 Unit, are both of these wells -- do both of these wells
10 have value to the unit, the Beadle well and the F 3 well?

11 A. Yes, they do.

12 Q. And why is that?

13 A. They're both downdip wells, and what we've seen
14 in the later life of the unit, that a downdip well under
15 gas pressure maintenance project are going to have
16 substantial value to the unit.

17 These two wells, the Beadle and the Snyder F 3,
18 also were very instrumental in delineating the reservoir,
19 especially on the southeast portion of the pool.

20 Q. Now, ever since this unit was formed, hasn't one
21 of the biggest issues been the pool's boundaries?

22 A. That's correct.

23 Q. Okay. Now, Energen has also made an assertion
24 that they drilled the Beadle well because they had an
25 expiring lease.

1 A. That is correct.

2 Q. And they said that the F 3 lease was not
3 expiring, and therefore there's no need to drill the well?
4 That was their assertion?

5 A. Right.

6 Q. What do you have to say about that?

7 A. The Beadle well is 330 feet off Gillespie's lease
8 line, and in order to protect Mr. Gillespie's rights, a
9 well was needed to offset that particular well and also to
10 avoid any royalty or lease problems.

11 Q. Mr. Gillespie owns that well individually, does
12 he not?

13 A. That is correct, the Snyder F 3.

14 Q. And he not only has to look out for his own
15 interests but for those of his royalty owner?

16 A. That is correct.

17 Q. And that royalty owner is Snyder Ranches, Inc.,
18 isn't it?

19 A. Yes.

20 Q. Now, in the prior hearings Energen has also
21 talked about production from the Snyder EC Com, which is in
22 Tract 16, and the Snyder C 4, which is in Tract 17, which
23 are currently outside the unit. Now, do you have any
24 comments on that issue?

25 A. It's been Mr. Gillespie's contention to be

1 treated just like all the other interest owners in the
2 Hanley well and the State S well.

3 Q. And the State S is the one in Tract 12?

4 A. Yes.

5 Q. And the Hanley well is in Tract 14 --

6 A. Fourteen.

7 Q. -- on the north side of the unit?

8 A. Correct, the State S being in the southwest
9 quarter of the southeast quarter of Section 34. It had
10 reached a payout of 550 percent prior to the well being
11 brought in -- The first expansion was effected bringing
12 that well in.

13 The Chandler well in the southwest of the
14 southeast of Section 28, it had reached 250 percent payout.
15 And it also, looking at it from an oil-in-place standpoint,
16 produced over 195 percent of the oil in place prior to its
17 entrance into the unit.

18 And we just believe that -- Mr. Gillespie
19 believes that any new well should be treated in some
20 equivalent manner.

21 Q. Whether it's his well or Energen's well?

22 A. That is correct.

23 Q. Now, what is the producing rate of the EC Com
24 well?

25 A. The EC Com has produced or is producing 38

1 barrels a day, 1800 GOR. We don't feel like that's an
2 issue.

3 Q. Even under Energen's proposal, it wouldn't be
4 restricted in production because it is producing less than
5 50 barrels a day; is that correct?

6 A. That is correct.

7 Q. Now, have steps been taken, at least in part, to
8 alleviate Energen's complaints about production outside the
9 unit?

10 A. Correct. The process of expanding the unit has
11 always historically taken some time in this case, and in
12 order to protect the interest owners in the unit, existing
13 unit, we proposed -- Gillespie Oil proposed a border
14 agreement providing for injection of some of the residue
15 gas produced from nonunit wells to lessen the burden,
16 operating costs, of the unit.

17 Q. Has Mr. Gillespie signed that agreement?

18 A. Yes, he has signed the agreement, and Energen
19 signed it after -- only after Mr. Gillespie signed it.

20 Q. Now, what other recent events have occurred with
21 respect to the unit and this pool?

22 A. The data from the two new wells was incorporated
23 in that new HPV map just last Friday, which all parties now
24 seem to agree to. We believe matters are moving toward a
25 voluntary resolution of the unit expansion.

1 Q. Is Exhibit A a copy of the map that was developed
2 at the working interest owners or technical committee
3 meeting last Friday?

4 A. Yes, it is.

5 Q. And Mr. Gillespie approves of this map?

6 A. Yes, it's incorporated the most recent data
7 available, therefore delineating the reservoir.

8 Q. Now, there are three blocks of land that have
9 been outlined or highlighted in yellow on this map. What
10 are those three blocks of land?

11 A. Those three plots of land were originally
12 included in the technical committee's first application to
13 expand the unit. You can see we have not included -- The
14 technical committee agreed not to include those particular
15 tracts in the expansion to be proposed in the near
16 future --

17 Q. In your --

18 A. -- adjustment to the existing order.

19 Q. In your opinion, should the allowable reduction
20 Application be denied?

21 A. Yes.

22 Q. And Exhibit A was developed at the technical
23 committee?

24 A. Yes, it was.

25 MR. BRUCE: Mr. Examiner, at this time I'd move

1 the admission of Exhibit A. It's really more for
2 informatory or information purposes than anything else.

3 And I would pass the witness.

4 EXAMINER STOGNER: Any objection?

5 MR. HALL: No objection.

6 EXAMINER STOGNER: Exhibit A that's been
7 presented here today by Gillespie Oil, Inc., will be
8 admitted into evidence at this time.

9 Mr. Hall, your witness.

10 EXAMINATION

11 BY MR. HALL:

12 Q. Mr. Mladenka, what is the payout status of the
13 C 4 well? The well has reached payout, has it not?

14 A. Yes, it has. It was within \$30,000 at the end of
15 August, with the run checks, which came due -- we saw
16 that --

17 MR. BRUCE: The C 4 or the EC Com?

18 Q. (By Mr. Hall) The C 4.

19 A. Yeah, it's within. It should pay out this month,
20 if we get our checks, or September.

21 Q. And that's at a 100-percent payout?

22 A. I'm sorry, 200 percent.

23 Q. It will reach 200 percent at the end of this
24 month?

25 A. Correct.

1 Q. Are we in agreement -- Well, you have stated that
2 both the C 4 and the Beadle well have value to the unit and
3 should be included; is that your position?

4 A. That is correct.

5 Q. And at the same time, isn't it in Charles B.
6 Gillespie, Jr.'s, interest to keep the C 4 out of the unit
7 as long as possible?

8 A. We just feel like, let the process go on, and it
9 will be brought into the unit. It needs to be brought into
10 the unit, and whatever time frame it does take, it will --
11 you know, we need it in the unit.

12 Q. But as the --

13 A. Any delay from this date forward will, of course,
14 be more to his benefit than getting the 200-percent
15 penalty.

16 Q. That's because he will recover in excess of the
17 200-percent payout?

18 Q. Are you authorized to speak here today on behalf
19 of Charles B. Gillespie, Jr., as the interest owner in the
20 C 4 well?

21 A. I can answer as best I know of what has
22 transpired between myself and Mr. Gillespie.

23 Q. Well, let me ask you this: Do you know if Mr.
24 Gillespie will ratify unitization under the Division's
25 Order 10,864-A, which was recently issued?

1 A. If we can eliminate these tracts -- The order
2 needs to be corrected anyway, that -- as such that was
3 presented to us a week ago. If we can get these tracts
4 out, the 200 percent and just some minor details on, I
5 think the State -- I mean, there's just some minor details
6 inside that, yes, that would be ratified.

7 Q. Now, you mentioned --

8 A. But we need to change it based on the new
9 percentages. Exhibit D would -- The ownership in each
10 tract would reflect these new wells.

11 If we can make those changes in that order, yes,
12 we would ratify that agreement.

13 Q. And you mentioned something about the 200-percent
14 issue, you say that needs to be addressed?

15 A. No.

16 Q. Do you agree that the C 4 well and the Beadle
17 well are both benefiting from the unit's pressure-
18 maintenance operations?

19 A. Oh, yes.

20 Q. And do you also agree that until those wells are
21 brought into the unit, they are draining reserves across
22 the unit boundary?

23 A. They are definitely benefiting from the unit
24 operations, and at a certain -- yes, you know, it --
25 Reserves probably are moving across those lease lines.

1 Q. So the answer to my question is yes?

2 A. Yes.

3 Q. And do you also agree that by having those wells
4 outside of the unit it makes it more difficult for unit
5 wells to utilize their fair share of the reservoir energy?

6 A. Without the drilling of the F 3, I realize now
7 that -- you know, it shows that -- we thought the reservoir
8 was moving further to the southeast. I'd have to say that,
9 you know, the thinness of the pay on that side, at some
10 point unit reserves definitely are moving across the lease
11 line. Until that well was drilled and logged and the pay
12 section was known, I could not make that statement.

13 Q. All right, my question was specifically directed
14 towards reservoir energy. Don't the nonunit wells make it
15 more difficult for the unit wells to utilize their fair
16 share of reservoir energy?

17 A. If the nonunit wells were in the unit, everyone
18 would benefit, correct.

19 Q. And the border agreement you talked about does
20 not remedy that factor?

21 A. All it does is lessen the effect. It allows the
22 operating costs to go down. It does not prevent, you know,
23 production decreases.

24 Q. What's your estimate of when the expansion
25 process can be ratified and completed?

1 A. I feel like we -- It was our understanding
2 everyone agreed to this new map that's being presented
3 here. I think we just have -- And we essentially
4 determined how to adjust well compensation. I think we're
5 very close to having -- We may or may not need another
6 technical committee meeting. As soon as we get the -- It
7 was left, as soon as we got the hydrocarbon pore volume
8 allocated to each tract in that exhibit we'd be -- with the
9 tract percentages being divvied up and with that in place,
10 we would go to -- we would call a hearing, probably, in
11 November.

12 Q. You mentioned the well-compensation issue. What
13 are you referring to?

14 A. The well factors were to determine -- these wells
15 will be brought into the unit prior to reaching -- The
16 Beadle and the F 3 will be brought into the unit prior to
17 reaching 200 percent, and the original tech committee had
18 used a six-month continuous producing period to determine
19 the 200 percent. And there's some question on -- You know,
20 if you wait six months, it will take that much longer for
21 us to get a well factor assigned to those tracts, and the
22 tech committee is trying to determine the best remedy of
23 that, bring the wells in. It's real complicated, but it's
24 something we can adjust. It is something we can work out.

25 Q. I want to make sure I understand what you're

1 speaking about.

2 Let me show you a copy of Order R-10,864-A, and
3 attached to that is attachment D, which is the revision to
4 the operating agreement, Article 10.4. Is that what you
5 are talking about?

6 A. That's correct.

7 Q. What is the problem with the six-month period?

8 Do you need to see this? I'm sorry.

9 A. If the order is given to reduce the allowable on
10 these wells 50 barrels a day, the formula for well factor
11 is based on 250 barrels a day. Therefore, if the order is
12 approved and in effect prior to these wells producing for
13 six months and they're capable of 250 a day, they will not
14 get what is due to those wells at 200 percent.

15 Q. Let me make sure I understand. This is an issue
16 separate and apart from the well factor for purposes of
17 participation, is it not?

18 A. It's the payout of the well.

19 Q. Right, this is the payout, the cost-recovery
20 issue that you're --

21 A. Correct.

22 Q. -- addressing?

23 Isn't it -- Correct me if I'm wrong. It's my
24 understanding that all the parties are in agreement that
25 the F 3 well, the Beadle and the C 4 will have a zero

1 wellbore factor attributed to them for purposes of
2 participation?

3 A. Correct.

4 Q. We're all in agreement on that?

5 A. Correct.

6 Q. And so the issue remains as it was before --

7 A. I mean, we can agree to whatever -- We're in
8 agreement.

9 Q. The remains now, as it was before, a dispute over
10 payout recovery?

11 A. And the previous tech map was too big, and this
12 one really is very similar to the one Mr. Gillespie
13 presented as an alternative to the technical committee map.

14 Q. And this issue about cost recovery relates to
15 your earlier comments with respect to Mr. Gillespie wanting
16 to be treated fairly, as were the operators of the Chandler
17 well and the State S wells. Is that the basis for the
18 concern?

19 A. Yes.

20 Q. So Mr. Gillespie is not content to recover only
21 200 percent for the C 4, for example?

22 A. If the process -- if -- the well is producing,
23 and he's got every right to those revenues from that well
24 until the unit is expanded to include that well, whether at
25 50 barrels a day or at 250 a day.

1 Q. So if a new -- or an amended order providing for
2 unit expansion continues to have a 200-percent payout
3 factor, Mr. Gillespie will be opposed to that; is that
4 accurate?

5 A. The proposed -- The new order, if it has 200
6 percent, he'll ratify it, with this map.

7 Q. Well, I'm confused. Do we or do we not have an
8 issue over the 200 percent?

9 A. No, we do not. That was proposed -- Energen
10 management in February of this year.

11 MR. HALL: Nothing further, Mr. Examiner.

12 EXAMINER STOGNER: Mr. Kellahin, your witness.

13 EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. Mladenka, please lead me through this again
16 so I can understand it.

17 Mr. Stogner has an order issued approving the
18 expansion of the unit. It's the September 28th, 1999,
19 order. You're aware of that order, obviously?

20 A. Yes.

21 Q. All right. When we look at the terms and
22 conditions of that expansion order, there were some
23 provisions that Mr. Hall has described for you in
24 attachment B?

25 A. That is correct.

1 Q. Explain to me your understanding of what happens
2 pursuant to that expansion order when we address, first of
3 all, the Snyder EC Com well. What's supposed to happen?

4 A. It should come into the unit on an 80-percent
5 well factor -- oil in place, and a well factor percentage
6 of 20 percent. That -- Anyway, that's the tract
7 participation for a payout adjustment. Since the well was
8 only approximately 40 barrels a day continuous production
9 for six months, it's essentially 16 percent of the
10 allowable with 250.

11 Therefore, the EC Com will be paid -- will be
12 allowed to either reach 116 percent of the payout or the
13 difference between the existing payout and 116 percent of
14 well costs. Those differences then will be apportioned
15 between the working interest owners and the royalty owners
16 and overriding --

17 Q. Do you see a problem with that?

18 A. It was -- We tried to equate each well's
19 performance, each well's value to performance. The
20 Chandler well was 200 barrels of oil a day and a lot of
21 water. The EC Com has produced 40 barrels a day and won't
22 ever produce more than 40 barrels a day unless we stimulate
23 it, and we've tried that once before with 15,000 gallons of
24 acid under tremendous pressure --

25 Q. I guess what I'm looking for is the simple answer

1 concerning the investment adjustment.

2 A. No, we --

3 Q. This payout multiple of 116 percent, is that the
4 number I need to look at when I compare that number to the
5 other numbers for payout of other wells?

6 A. Yes.

7 Q. Okay.

8 A. Yes.

9 Q. So I guess my question is, is there anything
10 wrong with the 116 payout multiple for that well?

11 A. No, we believe that's fair.

12 Q. Okay. When we get down to the Snyder C 4 well,
13 it's got a payout multiple of 200 percent.

14 A. That's correct.

15 A. Is that an appropriate valuation for that payout
16 adjustment for that well?

17 A. It was an agreed-to amount.

18 Q. What happens when we -- the order -- The
19 expansion order doesn't address, does it, what to
20 specifically do with the Beadle well, except it's going to
21 have a period of production, and a payout multiple will be
22 determined for that well?

23 A. That's correct.

24 Q. Are we at a point in time when you know what the
25 payout multiple should be for that well?

1 A. No, not based on our six months. We haven't
2 produced six months, or it has not produced for six months.

3 Q. Okay. Are there any additions, modifications or
4 corrections to Mr. Stogner's expansion order that you
5 believe are necessary before Mr. Gillespie would ratify the
6 expansion?

7 A. That's correct, we need to remove the highlighted
8 tracts on this Exhibit A that we presented as testimony.

9 Q. All right. The removal of these tracts is based
10 upon new data from the Beadle and the Snyder F 3 well that
11 you didn't have the last time Mr. Stogner heard this case?

12 A. That's correct.

13 Q. And it's the agreement, do I understand, of the
14 technical committee represented by Energen and the others,
15 that it's appropriate to delete these tracts?

16 A. That is correct.

17 Q. Okay, there's no problem about that?

18 A. No.

19 Q. All right. What happens to the Snyder F 3 well?
20 It's yet another well that I don't see either advertised
21 within the context of the hearing of the case today or
22 addressed within the context of the expansion order. Have
23 I missed something?

24 A. No, you haven't. It was just drilled less than
25 three weeks ago and completed, and we haven't even

1 potentialized that well yet.

2 Q. All right. Is the -- Tract 22, is that currently
3 in the expansion under Mr. Stogner's last order?

4 A. Yes, but it wasn't labeled Tract 22 *per se*. It
5 was 22 and 23, 22 A and 23 A --

6 Q. All right, that --

7 A. -- that's -- but yes, that acreage, yes, yes.

8 Q. All right, so the acreage is in --

9 A. Yes.

10 Q. -- if the expansion order is approved that he
11 just issued, right?

12 A. That is correct.

13 Q. What is the proposal with how to handle the
14 investment adjustment, I guess it is, for the Snyder F 3
15 well? How will we handle that well?

16 A. If it is assigned a well factor of 100 percent,
17 it will get 200 percent of payout.

18 Q. It will be in a comparable equity position with
19 the Beadle well, then?

20 A. Yes.

21 Q. Is there any disagreement among the technical
22 committee about how to handle that investment adjustment
23 for the Snyder F 3 well?

24 A. Not the 200 percent, no. And there's no -- I
25 don't think there will be any disagreement on how a well

1 factor is assigned.

2 Q. What happens to the daily producing rate on the
3 F 3 well within the context of the current hearing?
4 Because as I read the docket, no relief is being asked as
5 to that well. What's the point?

6 A. That's correct. If the -- if it is not allowed
7 to produce what it can produce -- Indications are that it
8 will definitely make more than 50 barrels a day.
9 Therefore, a well factor would be somewhat less. So that
10 is a problem with the technical committee trying to be
11 equitable to the Beadle.

12 And the Beadle and the F 3 are going to be
13 affected identically with whatever is -- transpired.
14 Because we're only, perhaps, two weeks' difference in
15 initial production dates. So whatever happens to the F 3
16 is going to happen to the Beadle well.

17 Q. Well, I guess that's my question. Is there a
18 mechanism to maintain the equity based upon those two wells
19 and their relation to each other? And if so, what is it?

20 A. It has been addressed, but I don't think we've
21 finalized it.

22 Q. Within the context of Energen's current
23 application to have the production rates reduced, how do we
24 factor in, if at all, the F 3 well?

25 A. We need to include the F 3.

1 Q. And would it be treated as Energen wants to treat
2 the Beadle well?

3 A. Yes. As long as all the wells are treated the
4 same, we have no problem.

5 Q. What are, then, the current impediments to
6 getting this unitization ratified and letting my life move
7 on?

8 A. I see none at this time.

9 Q. All right, with the deletion of the acreage that
10 everyone has agreed to take out, with providing an
11 investment-adjustment component and the same methodology
12 for the F 3 well, it is your belief that we can ratify
13 this?

14 A. I believe so.

15 Q. What is the time frame to accomplish that?

16 A. If we have the hearing in November and if the
17 existing order is changed -- Whether or not the hearing is
18 required, I don't know. But if we can get the changes
19 required in the existing order, that we can go out and get
20 ratification, I believe we would immediately have over 75
21 percent of the working interest owners' approval, and
22 pending how long it takes to get the royalty owner
23 approval, and then the next month of that date would be the
24 effective day.

25 Q. Has the technical committee discussed any other

1 thing in the foreseeable future that would disrupt the
2 status quo to keep this thing from being completed?

3 A. It has. We're currently drilling the West
4 Lovington Strawn Unit Well Number 14 in the southwest
5 quarter of the northwest quarter of Section 33. Initial
6 discussions said if it falls within zero and five on a
7 hydrocarbon pore volume, it should not adversely affect our
8 map.

9 But I see no real reason why that should -- we
10 can go forward with this map. That well will be down
11 within two weeks, anyway. But whatever we want to do,
12 we'll do it.

13 Q. Has the technical committee addressed whether or
14 not you should postpone action on the Yates and the Energen
15 Applications today in order to let the expansion process
16 and its approval take place?

17 A. That was not the scope of the technical
18 committee. It was strictly to determine the hydrocarbon
19 pore volume, determine the acreage to include, and to --
20 the latest thing was just to reaffirm our 200-percent
21 payout adjustment.

22 Q. If Mr. Stogner grants Energen's relief in this
23 case, would that be anything to disrupt the status quo
24 among the parties?

25 A. I think we can assign a well factor to those

1 wells. We said if it goes in effect before the well has
2 produced six months, that whatever time frame, six months
3 or less, to -- at top allowable, would determine the well
4 factor, which could possibly -- no, anyway, that --

5 Q. I guess what I'm trying to ask you, is it
6 necessary to have this kind of relief granted?

7 A. It would have minimal effect on the process as I
8 see it now.

9 Q. Is there an advantage that Energen achieves if
10 this Application is granted?

11 A. I see the timing where it would be very little
12 advantage if the process -- if we cannot ratify the new
13 proposal, it could adversely affect any interest owner
14 within the unit.

15 Q. Well, it appears to me, Mr. Mladenka, that the
16 parties now have come back to a position of reaching a
17 consensus and having the forecast of an ultimate solution,
18 which is an environment that's different than what I heard
19 several months ago at one of these hearings. Am I
20 misunderstanding?

21 A. No, that's absolutely correct.

22 Q. It concerns me as a participant in the process
23 that Examiner Stogner is being asked to do something that
24 might disrupt the current environment of reaching a
25 compromise and a consensus, and is this one of those things

1 that might cause that disruption?

2 MR. HALL: Mr. Examiner, I'm going to object.
3 That question has been asked and answered. He already said
4 it had minimal effect on that process.

5 EXAMINER STOGNER: Would you care to restate your
6 question, Mr. Kellahin?

7 Q. (By Mr. Kellahin) Well, I guess that is my
8 question.

9 A. The only thing I can see it, it would -- just the
10 cooperation feeling between the owners could be improved if
11 this would not go forward.

12 Q. All right. Is there a time frame that would
13 allow the expansion and ratification to take place in which
14 we could have that complete the process and not have the
15 Division address either the Yates or the Energen
16 Application?

17 A. Whatever that time frame may be, the process -- I
18 think the maximum that the -- to get the thing ratified
19 after the order is issued is six months. That would be the
20 longest period, I think, that we'd be looking at.

21 It could actually occur very quickly, if we have
22 the working interest owners' approval, which it appears to
23 be -- hinges on the royalty owner.

24 Q. Other than what we've described here, are there
25 any other glitches, alterations or modifications that you

1 either want to correct or propose to Mr. Stogner about the
2 current order?

3 A. No, the HPV map is, in our opinion, very close to
4 being absolutely correct. It defined the eastern portion
5 of it. The HPV volume has always been an issue in this
6 unit. We feel like this is the most correct map, and it
7 should reflect the most accurate representation of any
8 tract ownership at this time.

9 MR. KELLAHIN: Thank you, Mr. Stogner.

10 EXAMINER STOGNER: Do you have any questions, Mr.
11 Hall?

12 MR. HALL: Yes, sir.

13 FURTHER EXAMINATION

14 BY MR. HALL:

15 Q. Briefly, Mr. Mladenka, understand your time
16 frame. You say we're looking at a six-month outside period
17 for ratification, but that's post-hearing in November.
18 That's also post-issuance of order, looking at conceivably
19 June of the year 2000 or beyond. Is that fair to say?

20 A. If we can go with the existing order with the
21 changes to reflect this, I don't know if that's possible.
22 I'm not savvy on what is required and not required. But if
23 we have to go to hearing, that's possible.

24 Q. And wouldn't prolonging the expansion and
25 ratification process be detrimental to the unit?

1 A. It will affect it.

2 Q. Adversely?

3 A. It won't damage the reservoir, but the recovery
4 from the unit will be lessened.

5 Q. Are you authorized to commit both Gillespie Oil,
6 Inc., and Charles B. Gillespie, Jr., to a ratification
7 reasonably soon after the issuance of an amended order,
8 rather than waiting for the six-month period?

9 A. It is my understanding, if we are able to delete
10 these tracts, use this map, have the 200 percent and change
11 some of the little wording in the thing, yes, I honestly
12 believe that it will happen the day the order is issued.

13 MR. BRUCE: Mr. Examiner, if I can state one
14 thing, Gillespie Oil, Inc., owns no interest in the unit,
15 and any ratification comes solely from Charles B.
16 Gillespie, Jr., individually.

17 EXAMINER STOGNER: Any other questions?

18 MR. HALL: Nothing further.

19 EXAMINER STOGNER: Mr. Carr?

20 MR. CARR: I have no questions.

21 EXAMINER STOGNER: Any redirect?

22 MR. BRUCE: No, Mr. Examiner.

23 I did have one thing, Mr. Examiner, and maybe Mr.
24 Carr could help me. There have been some statements about
25 things in the order that do need to be changed slightly,

1 and they're really administrative-type deals that can be
2 handled easily, and I think it might be due to what I put
3 in my draft technical committee order. But when it talks
4 about the wells that are qualified for a positive
5 production response, it refers not to the Snyder EC Com and
6 the C 4 wells; it refers back to the State S and the
7 Chandler wells, which were the subject of the first
8 expansion.

9 And there's a couple other typos that -- I think
10 Mr. Carr mentioned one, and I would let him address that.

11 And a couple other -- they're very minor things
12 that we do need to dress up before the order becomes final.

13 MR. CARR: Mr. Stogner --

14 MR. BRUCE: And I don't think anybody here has a
15 problem with anything that the people are talking about.

16 MR. CARR: Mr. Stogner, the interest that was
17 originally assigned to Tract 14 in the unit, under the
18 expanded unit, was to be allocated for the period November
19 of 1997 through April of 1999 to Tracts 14 and 15.
20 Findings reflect that, order paragraphs reflect it, but it
21 didn't show up in the Exhibit B, so there's just a change
22 there.

23 Other than that and those two wells -- and
24 they're simply, I think, almost in the nature of *nunc pro*
25 *tunc* sort of --

1 MR. BRUCE: Correct.

2 MR. CARR: -- sort of matters, that was all there
3 was in this. And if there was going to be a change in the
4 boundaries, we determined that at that point in time we
5 would approach the Examiner and point those things out, and
6 that it didn't require an independent action.

7 MR. BRUCE: But it could be done on an expedited
8 basis.

9 MR. CARR: Yes.

10 (Off the record)

11 EXAMINER STOGNER: Mr. Bruce, are you going to
12 call your second witness or --

13 MR. BRUCE: I have no need.

14 EXAMINER STOGNER: I have no questions of this
15 witness, do you?

16 MR. CARROLL: No.

17 EXAMINER STOGNER: Mr. Hall, anything further
18 from you?

19 MR. HALL: Might make a brief closing statement.

20 EXAMINER STOGNER: I think we're at a point here
21 where obviously something needs to be done to that
22 particular order, whether it goes to the Commission -- Have
23 you filed for *de novo*?

24 MR. BRUCE: I have not filed for *de novo*, Mr.
25 Examiner. My thought was to apply to reopen the case and

1 to seek to amend this order and let it go at that. I think
2 that would be easier and more prompt than going to the
3 Commission.

4 MR. CARROLL: Well, Mr. Bruce, do we need to hear
5 testimony, or have we --

6 MR. BRUCE: I think at that point when we bring
7 it, I would probably present the geologic testimony, and we
8 would have to renotify all the parties. I think -- I'm not
9 sure, but Energen has been the party responsible for
10 calculating -- if this map holds, and in ten days we ought
11 to know for sure, but Energen has been in charge of
12 calculating the percentages to be allocated to each tract
13 within the unit.

14 Once we have those percentages, within a few days
15 I can have the landman who handles this prepare the
16 spreadsheet and mail out notice to all of the working
17 interests and overriding royalty interest and royalty
18 interest owners.

19 And at the same time we would, at that point, set
20 the matter for hearing and ask for the amendment to the
21 order.

22 THE WITNESS: It's a joint thing when we
23 calculate it.

24 EXAMINER STOGNER: Would everybody be ready to
25 come in on November 4th, as opposed to November the 18th,

1 to expedite --

2 MR. BRUCE: I would -- I can go ahead and set it
3 for hearing -- There may be the chance that we would need a
4 two-week continuance. I mean, I'm just looking at the
5 practicalities of getting the spreadsheets with the
6 interest ownership prepared.

7 EXAMINER STOGNER: Well, let's make it the 18th,
8 because I don't know what my schedule is, and if you're not
9 sure, then there's no need of me making myself available.

10 Now, should this matter at this time be taken
11 under advisement, or do you wish to continue this one?

12 MR. BRUCE: That's up to Mr. Carr and Mr. Hall.

13 MR. HALL: Mr. Examiner, I can do this almost in
14 the form of a closing statement.

15 I think this matter is ready to be taken under
16 advisement. We presented testimony that correlative rights
17 have been violated, are being violated, and that the unit
18 is being prevented from taking advantage of its fair share
19 of the reservoir energy, by virtue of the pressure-
20 maintenance operations that are affected by the offset
21 production.

22 All of that testimony has been unrefuted, it's
23 established as a matter of record.

24 We've heard encouraging testimony here today with
25 respect to the expansion process. But let me state at the

1 same time, the testimony has been less than unequivocal.
2 And I don't mean to suggest that anyone has misrepresented
3 anything to you, the Hearing Examiner. But there still
4 seems to be room for negotiation and argument before this
5 matter is finalized. We've been in this position before in
6 this unit-expansion process. This is not the time to let
7 up.

8 We are serious about the Application, I think as
9 you've seen. And we believe that it is still necessary,
10 not only for the protection of correlative rights but to
11 provide the necessary incentive to get the parties to the
12 table and get this matter finalized once and for all.

13 EXAMINER STOGNER: Mr. Kellahin?

14 MR. CARR: May it please the Examiner --

15 EXAMINER STOGNER: Oh, I'm sorry, Mr. Carr?

16 MR. CARR: Yes, sir. I mean, Mr. Bruce indicated
17 this was something for Mr. Hall and Mr. Carr, and I would
18 like to state that when our application seeking allowable
19 reduction was filed, we filed it because of concern that
20 things were not moving, that the parties were not moving
21 this toward a final resolution. That is the position we
22 stand in today.

23 Whether it is taken under advisement today or
24 continued is really not an issue at this point for us. We
25 believe that at this point in time as it moves hopefully

1 toward resolution the objective we were seeking to attain.

2 EXAMINER STOGNER: Mr. Kellahin?

3 MR. KELLAHIN: Mr. Stogner, if you take them
4 under advisement today, then you have the obligation to
5 start preparing and writing a complicated order coming to
6 some resolution about this issue, which may be an
7 unnecessary effort on your part.

8 It appears to me that if you continue these
9 cases, they're all consolidated on November 18th, then we
10 can see if these parties are true in what they told us
11 today about getting this matter finished, completed and
12 done. Thirty days' continuance doesn't seem to me to be a
13 problem. If I were you, I would continue these matters,
14 we'll come back on the 18th and see if we can't finish this
15 thing, finish this case up.

16 EXAMINER STOGNER: Mr. Bruce?

17 MR. BRUCE: Mr. Examiner, this issue arose before
18 with respect to the first expansion of the unit, the State
19 S well and the Chandler Number 1 well. Those wells are
20 paying out two and a half, five and a half times.

21 There was not -- At that time there was an
22 application to restrict the allowable, but what that
23 application did was equalize the allowable inside and
24 outside the unit. The unit wells have never produced more
25 than about 225 barrels a day, not because they couldn't,

1 but because it was necessary in order to limit withdrawals
2 from the reservoir.

3 Back then, the unit operator did come in and
4 sought to reduce the pool allowable, which was 445 barrels
5 of oil a day, down to 250 barrels of oil a day, which was
6 the maximum unit wells could produce.

7 So this is no different. Those wells, as has
8 been pointed out several times, the State S and the
9 Chandler well, paid out a multiple. And these wells, these
10 current wells outside the unit are in the process of doing
11 the same. It's no different from before, and I see no
12 adverse effect upon the unit.

13 Energen said it wants to restrict production to
14 force interest owners to ratify unit expansion. I think
15 that rationale is not only legally improper, it's also
16 unnecessary. The proper procedure for unit expansion is to
17 negotiate and then seek ratification.

18 The testimony shows that the interest owners are
19 moving forward in uniform agreement as to unit boundaries
20 and well payout multiples. And as we said, due to a few
21 changes which need to be made in the current order, those
22 materials, those factors, can be taken care of promptly.

23 I would also point out that Energen is asking for
24 an escrow of production proceeds under the Proceeds Payment
25 Act. I see nowhere in that act or in the Oil and Gas Act

1 or in the Statutory Unitization Act where the Division is
2 authorized to escrow -- to order escrow funds.

3 I believe that the Application is improper, given
4 the status of unitization negotiations and would ask either
5 that the Application be denied or, as Mr. Kellahin
6 requested, move it forward to the November docket and
7 consolidate it with the next hearing on this matter.

8 MR. HALL: Mr. Examiner, let me offer one thing
9 at this point.

10 We would agree to have this matter consolidated
11 with the unit-expansion case and continued to November
12 18th. And at that time I'll be prepared to present you
13 with a draft order in this case, in the event that
14 negotiations get off track.

15 EXAMINER STOGNER: Okay, I'm going to take Hall's
16 suggestion and continue this matter to the November 18th
17 hearing.

18 As far as the case to reopen, is that going to be
19 a consolidated effort, the application of all parties
20 concerned?

21 MR. HALL: Yes, I believe it will be.

22 MR. BRUCE: I will work with Mr. Hall and anybody
23 else who wants to join in with it, Mr. Examiner.

24 EXAMINER STOGNER: In the spirit of cooperation,
25 I think that would be a good idea.

1 Okay, is there anything that needs further today?

2 Then Case 12,086 will be continued to November
3 18th. And I believe -- what? Next Tuesday we'll -- We
4 have several weeks to get the request for reopening.

5 Anything further today?

6 You may be excused.

7 Thank you, gentlemen. Hearing adjourned.

8 (Thereupon, these proceedings were concluded at
9 2:30 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the above captioned case of Case No. _____
heard by me on _____ 19____

_____, Examiner
Oil Conservation Division

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 October 29th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002