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 SDX RESOURCES, INC., FOR APPROVAL OF A LEASEHOLD PILOT WATERFLOOD PROJECT AND TO QUALIFY SAID PROJECT FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO

CASE NO. 11,482

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 7th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 7th, 1996, 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.

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I N D E X

March 7th, 1996
Examiner Hearing
CASE NO. 11,482

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	25
Exhibit 2	10	25
Exhibit 3	16	25
Certificate of Notice	25	-

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
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FOR THE APPLICANT:

KELLAHIN & KELLAHIN
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By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 9:00 a.m.:

EXAMINER STOGNER: At this time I'll call Case Number 11,482.

MR. CARROLL: Application of SDX Resources, Inc., for approval of a leasehold pilot waterflood project and to qualify said project for the recovered oil tax rate pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.

EXAMINER STOGNER: Call for appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the Applicant, and I have one witness to be sworn.

EXAMINER STOGNER: Any other appearances?

(Thereupon, the witness was sworn.)

MR. KELLAHIN: Mr. Examiner, Mr. Morgan is a petroleum engineer with SDX. He and I are seeking your approval of a waterflood project area to qualify the project for the EOR tax credit. Mr. Morgan has appeared before you in the past to obtain waterflood approval.

This particular project is located on Exhibit 1 in the center of the nine-section plat, and we're looking to qualify all of Section 7.

You'll see that the section is subdivided into

other tracts. Those should be ignored, because the entire section has been reconsolidated under the same leasehold basis, and so this would be a leasehold waterflood.

Mr. Morgan's plan is to take what is marked as Well Number 5 and use that as his pilot test well, to see if he can obtain satisfactory injectivity results in the Queen-Grayburg-San Andres. And if he's successful, then he proposes to expand the project.

Ultimately he's looking to infill drill this project with a new drill in the center among each existing producer, and then to convert each producer to an injector.

As part of his plan, we have initially filed a request to have producer number 3, 5, 6 and 7 approved for injection, and then if you approve this project, we are then going to file administrative applications to begin processing the other producers to injectors.

We're going to show you a book of C-108 material. It's going to be the white book that I submitted to you. So as not to confuse you, I need to let you know that everything contained in the white book would presume that all wells in Section 7 would be converted for injection. And so at least initially Mr. Morgan is examining an area that is wider in scope than we need to focus on this morning, and he and I will help to try not to confuse you about what you're looking at.

In addition, he and I are preparing -- and we apologize for not having it this morning -- we're preparing a better quality nine-section plat so that you can more easily identify the wells within the project and those offsetting the project. We apologize for not having that today, and we hope to use what is marked as Exhibit 1. And then we'll substitute for you a better copy by which you can see in better detail each of the wells.

With that introduction, then, I'd like to call and begin discussing this matter with Mr. Morgan.

EXAMINER STOGNER: Let me make sure I get this right, Mr. Kellahin.

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: We're seeking at this time the 3, 5, 6 and 7 wells for injection, however the Exhibit Number 3 is going to contain additional information concerning injection in some of the other existing wells.

Now, is that the complete 108s for each of those wells? Are they contained in this Exhibit Number 3? Or is it just partial information?

MR. KELLAHIN: It would be complete information, which has been consolidated as one submittal. You're not going to look at separate C-108s for each of these other wells.

What I'm proposing is, while that information is

in this book, we might ignore some of it, and we'll focus only on those matters that are relevant for your approval of the four wells that are appropriately before you this morning.

I simply wanted you to recognize that the amount of information is wider in scope than would be necessary for your approval of those four wells.

EXAMINER STOGNER: So it's not your intention that subsequent wells, if an order is issued just for those four wells -- that this document satisfy the 108 requirements for any request for waterflood expansions?

MR. KELLAHIN: At your pleasure, Mr. Examiner. Our plan would be to simply file additional C-108s and ask for administrative approval for those additional wells.

EXAMINER STOGNER: Okay, that's what I was getting at.

MR. KELLAHIN: Yeah.

EXAMINER STOGNER: This will not serve as the 108s for any expansion of the area. Those will have to stand on their own subsequent to the hearing, but if you want to include them, we can go over readvertisement and such.

MR. KELLAHIN: We would prefer to file them subsequent to your action in this matter.

EXAMINER STOGNER: Okay. You may continue, Mr.

Kellahin.

CHUCK MORGAN,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. My name is Chuck Morgan. I'm a production engineer for SDX Resources.

Q. On prior occasions, Mr. Morgan, have you testified before the Division and qualified as a production engineer?

A. Yes, I have.

Q. On prior occasions have you testified with regards to your expertise concerning waterflood operations?

A. Yes, I have.

Q. And you're familiar with how to file and prepare the necessary information to comply with the Division rules concerning the form C-108?

A. Yes.

Q. In addition, have you made yourself familiar with Mr. Sirgo's petroleum engineering study of the potential benefit of waterflooding Section 7 in this project?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Morgan as an expert engineer.

EXAMINER STOGNER: Mr. Morgan is so qualified.

Q. (By Mr. Kellahin) Mr. Morgan, let's take a moment and have you look at Exhibit 1 for us and give the Examiner a general summary of your concept and what you're ultimately seeking to do with this project.

A. All right. That would be the map here?

Q. Yes, sir.

A. Okay, basically what we're proposing to do is take this entire section -- there's currently 11 producing wells in it -- and we're going to infill drill it with 12 additional infill wells and convert the existing producers to injectors.

Part of the process of doing that -- Basically the way we would do it, would be to pick one well, preferably the Number 5 well, convert it to injection, and at the same time we'll drill a couple of -- or shortly thereafter, drill some infill wells around it.

This accomplishes several purposes, the first of which is to put a pilot in, the second of which is to get some good logs, good data, current completion practices done, and see what kind of wells we're making on our infill project.

Q. This particular project involves what vertical

interval or intervals within Section 7?

A. Basically Queen and Grayburg.

Q. Are those the current producing intervals within Section 7?

A. Yes, it is. There is one or two that have a little bit of San Andres open in them, but primarily Queen and Grayburg.

Q. When we look at Section 7, is it currently consolidated under one leasehold operation?

A. Yes, it is.

Q. Helps us understand what's offsetting you in terms of similar operations or production within these intervals.

A. We currently have an active waterflood to the west of us, S&J Operating, which is currently under waterflood. To the east, very little production at all. And north and south would be very little production, actually.

Q. In Section 12 to the west, is that an operation that is similar to the operation you intend for Section 7?

A. Yes, it is.

Q. It's a waterflood, and then you're proposing to infill drill and attempt to see if you can get additional oil recovery out of the Queen, Grayburg and San Andres formations?

A. Yes, sir.

Q. As part of your preparation for hearing today, Mr. Morgan, have you caused notification to be sent to all parties within the notification areas of each of these four proposed injection wells?

A. Yes, we have.

Q. And we're talking about wells 5, 3, 6 and 7, as shown on the map?

A. Yes, we have.

And also, in addition, back to an earlier statement here, we did go back and readvertise an area that would cover all of the producers in the section.

Q. You're beginning to tell the offsets, then, of your larger plan to potentially flood all of these wells within Section 7?

A. Yes.

Q. At this point, have you received any objection from any of the offset interest owners that received notification?

A. No, we have not.

Q. Let me turn with you, sir, to what is marked as Exhibit 2, and before we look at those pages that are of importance, generally describe what it is that we're seeing when we look at Exhibit Number 2.

A. Exhibit Number 2 is a reserve study covering the

subject property that was done by Victor Sirgo in Midland, Texas, basically outlining estimated ultimate recovery from the existing wells, estimated ultimate recovery from our 12 proposed infill wells, and also potential recovery from -- secondary recovery from our waterflood. And I believe it also goes into some probable uphole reserves also.

Q. Have you informed yourself about the content of Mr. Sirgo's report?

A. Yes, I have.

Q. Are you in agreement with the conclusions that he has reached in that report?

A. I felt like Mr. Sirgo was very conservative on his secondary reserves. He basically used .6 to 1, based on some offset leases. I feel like it should be closer to 1 to 1.

Q. Other than that observation about the conservative nature in which he's estimated additional recoveries, are you in general agreement with his conclusions?

A. Yes, I am.

Q. Do you find any flaws in his methodology or his calculations?

A. No, I don't.

Q. Are you satisfied that he has used reasonably accurate information upon which to base his conclusions?

A. Yes, sir.

Q. Let me have you turn to page 8 of Exhibit 2, and let's give a general sense to the Examiner of the geology that he's seeing when he examines Section 7.

First of all, on Exhibit 8 we're looking at a Grayburg structure map -- I'm sorry, Exhibit 2, page 8. Are you with me?

A. Yes.

Q. All right. In your opinion, is this a logical area within Section 7 to constitute an appropriate geologic and geographic area for waterflooding?

A. Yes, I do.

Q. Are you seeing the opportunity for an injection well in Section 7 to have a positive injection response from an offsetting well?

A. Yes, I do.

Q. How do you see that?

A. Basically by the way the geology is laid in there. The nature of these sands, there are numerous members of the Grayburg formation and the Queen formation that are throughout the entire section that would definitely benefit from a sweep in a waterflood operation.

Q. Is it unusual to see Queen-Grayburg-San Andres waterfloods?

A. No, very common in this area.

Q. Let's turn to page 9 of Exhibit 2 and have you show us what we're looking at in that exhibit.

A. Okay, these are -- This is a cum map, basically detailing the cumulative production from the existing producers in Section 7.

Q. Can you estimate for us what has been the current ultimate primary recovery from Section 7 from the wells that are now producing or have produced?

A. You want that by well or the total --

Q. No, sir, just give us the project area total.

A. Let's see --

Q. I believe it was contained in the Application that we filed, Mr. Morgan.

A. Yes, it is. Let me look at that. You may have to help me locate that.

Q. Let's give the Examiner a status report within Section 7. Currently, how many producing wells do you have?

A. We currently have 11 active producers.

Q. And what has been the cumulative production from Section 7 as to a certain point in time?

A. 301,000 barrels.

Q. As of what date? Do you know?

A. This was done approximately, I would say, three or four months ago.

Q. Okay. Do you have an estimate based upon Mr. Sirgo's engineering work of what the additional incremental oil to be attributed to a positive waterflood response would be?

A. Yes, sir.

Q. And what number do you project?

A. It was 410,000 barrels, I believe.

Q. And that is oil in addition to oil that might be recovered from an infill drilling program?

A. Yes, it is.

Q. And do you have a value for the total cost of that project?

A. $540,000.

Q. And do you have an estimate of what the value of that additional incremental oil might be?

A. Approximately four, four-and-a-half, four-and-a-quarter million dollars.

Q. Describe for the Examiner the basis upon which that calculation is made. What are the assumptions?

A. It was made with $17 oil and using Victor's reserve projections.

Q. And it's the assumption that the entire Section 7 is converted waterflood?

A. Yes.

Q. All right. When we look at Exhibit 2, page 10,

what are we seeing here?

A. That's a cumulative water production map.

Q. Do you currently produce water out of these producing wells?

A. Yes, we do.

Q. What is to be the anticipated source of the water for use in the waterflood project?

A. We will use the -- obviously, the water that we are producing. We would like to supplement from other areas. We have leases to the north and east that have produced water we would probably bring in for makeup water. We also operate a waterflood unit, the East Millman Unit, which is nearby, that we could possibly transfer additional water to the unit to use, and we have also considered supplementing with fresh water from Double Eagle.

Q. All right, sir. Let's look at page 11 of Exhibit 2 and have you describe for us what we're seeing when we examine this isopach.

A. This is a cumulative water injection map, basically detailing offset waterflood operations and detailing where and how much water has been injected in offset leases, also showing that no water has been injected into Section 7.

Q. All right. Let's now turn to page 18 of Exhibit 2, and let's look at the analysis of the potential

waterflood secondary oil recovery. Starting on page 18, summarize for us what the conclusion has been and how it was reached.

A. The conclusion outlined on page 18 of the reserve study basically details the additional infill locations, basically details the amount of reserves that would be obtained due to waterflooding operations or secondary recovery operations, projected to be 34,000 barrels of oil per location.

Q. And in order to get to the 410,000 barrels of incremental oil, you simply multiply the 34,000 per well times the number of potential producers within Section 7 that you would have when the project is at its full development?

A. Yes, sir, which was 12.

Q. All right.

A. Twelve additional wells.

Q. Okay. Is this a level of productivity you can reach with the current plan of operations?

A. No, it is not.

Q. In your opinion, is this section appropriate for a waterflood project area?

A. Yes, it is.

Q. Let's turn to the topic in Exhibit 3, which is the white binder and has the C-108 materials in it. Mr.

Morgan, did you compile this booklet?

A. Yes, I did.

Q. All right. Let's go through the major issues of concern to the Division with regards to these four injection wells, and then as necessary I'll ask you to help us find it in Exhibit Number 3.

A. Okay.

Q. Let's address the first issue of whether or not within the half-mile radius of any of these four injection wells, if you found any problem wells. Did you find any problem wells within the area of effect of any of these four injection wells?

A. Around the four injection wells, no, I did not.

Q. All right. Let's describe what we mean by "problem well", that you satisfied yourself that all producing wells had adequate cement across the injection interval and that if you did not have measured cement tops you had calculated tops, and those calculated tops were used under the assumption that you had cement yield of 1.32?

A. Yes.

Q. And that you were using a safety factor of 50 percent?

A. Yes.

Q. All right. Using that criteria, then, you found

in all instances the producing wells were adequately cemented?

A. Yes, I did.

Q. All right. Are there any wells within the area of review that are plugged and abandoned wells?

A. Yes, there is.

Q. Where would we find them in Exhibit Number 3?

A. They would be -- Let's see, in Exhibit C.

Q. It says P and A Schematics, Exhibit C.

A. Yes, sir.

Q. When we turn to those schematics, you have included in this book P-and-A'd wells that would be beyond the scope of these four injection wells, would they not?

A. Yes, they basically include all P-and-A'd wells within a half mile of any producer in the section.

Q. All right. When you look at the wider area of review, I believe you've located one potential problem area in section 6?

A. Yes, I have.

Q. And where is this problem well located in Section 6?

A. That problem well is in the southeast quarter.

Q. And what is the nature of the problem with the well in the southeast of the southeast of 6?

A. This well was plugged -- Basically, it's been

plugged inadequately.

Q. All right, but it's outside the half-mile radius of the Number 6 well and therefore not a subject of concern in this case?

A. Yes, sir.

Q. All right. Did you find that there were any plugged and abandoned wells within the half-mile radius of any of these four injection wells?

A. Within the half-mile radius --

Q. Yes, sir.

A. -- of the four injectors?

Q. Yeah.

A. Yes, there is.

Q. And are they all adequately plugged and abandoned, in your opinion?

A. Yes, sir.

Q. When we look at the geology, do you see any opportunity that injection water would migrate out of the injection interval?

A. No.

Q. We don't have any open faulting or hydrologic connections to take the injected water to some other source?

A. No, sir.

Q. All right. Do you see any opportunity for

contamination of fresh water in the area?

A. No, I do not.

Q. What is the deepest known producing fresh water that's currently utilized within this area?

A. About 250 feet. Between 150 and 250 feet.

Q. Have all these producing wells had surface casing set below the known fresh water?

A. Yes, sir.

Q. All right. there's no opportunity, then, for contamination of fresh water?

A. To my knowledge, no.

Q. Your reinjected water is largely produced water out of these formations?

A. Yes, it is.

Q. Let's talk about pressure limitations. The Division has a surface pressure limitation of .2 p.s.i. per foot of depth. You're aware of that?

A. Yes, sir.

Q. What are you going to do for an initial injectivity on your Number 5 well?

A. Basically, once we get in a position to inject, we will run a step rate test and come back before the Commission and ask for an increase in the pressure limitation.

Q. In the C-108 booklet, Exhibit 3, you have

provided data on all the wells within the area of review --

A. Yes, we have.

Q. -- in tabular form, and that's shown as review area, Exhibit C?

A. Yes.

Q. Okay.

A. Well --

Q. Am I looking at the right place?

A. Exhibit -- Yes, under Review Area, Exhibit C.

Q. Okay. When we look at the first page of the Review Area wells --

A. Yes.

Q. -- you've indicated in the far right column the top of cement?

A. Yes, sir, I have.

Q. All right, and you've showed whether it's measured or calculated?

A. Yes.

Q. What's the significance to you of the indication of top of cement calculated of the 0.75? What's that mean?

A. 0.75, I was using an efficiency of 75 percent. I basically did that on newer wells, with current drilling practices, when I knew that to be a very good number to use in the area, due to experience.

Q. Are any of the wells that indicate that method of

calculation within the half-mile radius of any of these four injection wells?

A. I'd have to look at that. I'm sure there is.

Q. Okay. So your method is one where the newer wells, then, were subject to a calculation that was different than the 50-percent guideline?

A. Yes, sir.

Q. All right. Describe again your basis for using 75 percent.

A. We drilled approximately 20 to 30 wells in the immediate area with modern drilling practices, and when we calculated our cement volumes we used a 20-percent excess, which would be 80-percent efficiency, and that was sufficient to circulate these wells.

Therefore, I used 75-percent efficiency to be conservative. And if you'll notice, several of these were in fact circulated, and that number works real well, just through experience.

Q. All right. As a production engineer, do you have any reservations that any of those wells, in fact, have inadequate cement --

A. No, I --

Q. -- across the injection interval?

A. No, sir.

Q. Okay. Have you been able to estimate or

approximate the initial injection volumes that you anticipate for the Number 5 well?

A. We anticipate basically that that -- You mean what that well will take?

Q. Yes, sir.

A. We anticipate probably between 300 and 600 barrels a day.

Q. And that's the reason to pick that well as a pilot well, then? It's your best well for an opportunity to see the potential injectivity within the formation?

A. Yes, sir. And basically its location. It's located near the center of the area.

Q. If that well is successful, then, tell me how you propose to further expand the project for full development of Section 7?

A. Okay, as mentioned earlier, we plan to, after its implementation, drill some infill wells immediately around it, probably on four sides of it, and probably will convert either the six or seven wells to injection at that time, and see what kind of response we get and where, use that data to continue our development.

Q. Mr. Sirgo's report identifies for the Division how he has calculated and what he has concluded for the incremental oil attributed to the infill drilling, has he not?

A. Yes, he has.

Q. So it's there on Exhibit 2 if the Division would like to look at that?

A. Yes, it is.

Q. All right. In your opinion, Mr. Morgan, will approval of this Application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it will.

Q. Are you aware of where the nearest source of fresh water is that's being taken from this area, whether it's active windmills or domestic stock tanks that are sourced from water wells?

A. Yes, I am.

Q. And where would we find those?

A. Okay, there is a water well located on the subject acreage. We'll find it in this white book. If you'll let me locate it there, I'll tell you where it's at.

Well, I can't seem to locate it. It was included in one of the original -- in the original C-108s.

MR. KELLAHIN: All right, sir. With your permission, Mr. Examiner, we'll mark it subsequent to the hearing. It's in the exhibit book.

Q. (By Mr. Kellahin) Do you know the approximate location of that water well?

A. Yes, I do. It's located in the north -- Let's see, it would be the northwest quarter of the southeast quarter.

Q. Okay.

A. Near our Well Number 13, if my memory serves me correct.

MR. KELLAHIN: Mr. Examiner, our last exhibit is confirmation of notification to the offset operators that are entitled to notification within the area of review.

That concludes my examination of Mr. Morgan. We move the introduction of Exhibits 1, 2 and 3, and then the certificate of notice.

EXAMINER STOGNER: Exhibits 1, 2 and 3 will be admitted into evidence at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. The Number 10 well, which is essentially in the middle of Section Number 7, that deep gas well that's shown on the maps --

A. Yes, sir.

Q. -- is that an SDX well?

A. No, it's Mitchell Energy.

Q. Mitchell Energy. Is that -- Well, no, there's another one down in the southern portion?

A. Yes, sir, also Mitchell Energy.

Q. That's the Number 1?

A. Yes, sir, that one in the very south is Number 1, and the one in the middle is Number 10.

Q. Okay. Now...

A. They have 8 5/8 intermediate set through the zone.

Q. I guess I'm looking at the wrong reference to that one in the southern portion, that deep gas well, on your --

A. Number 1?

Q. -- area of review, Exhibit C.

A. Conoco 7 State Number 1. I believe it's the fourth one from the bottom.

Q. I've got a Bass Number 2, fourth one from the bottom.

MR. KELLAHIN: He's on the first page of that exhibit.

Q. (By Examiner Stogner) On the first page.

A. Yes, sir.

Q. Okay, here it is. And the 8 5/8 was determined to be at 450, pursuant to a temperature log?

A. Yes, sir.

Q. Isn't that right?

A. No, that's the 7 -- the 13 3/8 surface -- Let's see. Yes, sir, you're reading that right.

Q. Okay.

A. 8 5/8 was set at 2690 and cemented, and TOC by temperature survey was 450 feet, yes, sir.

Q. And there again, in that area of review well, the listing of those, of the injection wells, the four injection wells today, the 5, 7, 3 and 6 --

A. Yes, sir.

Q. -- is the perforation shown on this list going to also be the injection zone?

A. Yes, it is, at this time.

Q. What would necessitate the change on that, when you said "at this time"?

A. After we drill our four infill wells, basically completing our pilot, we may choose to concentrate on one particular zone or a series of two or three key zones. We may be changing that perforation interval.

Q. Would it necessarily change just within that 100-foot, or 170- or whatever that is, interval? Or would you go above it or below it?

A. The possibility exists to go either direction.

Q. Just anywhere within that Queen-Grayburg area, or would it just stay in the Grayburg formation?

A. The Queen-Grayburg.

Q. How about the San Andres?

A. We don't have any plans at this time to flood the

San Andres. The San Andres has been tried in a few zones out here and has proved to be too costly to produce. It is productive, but it's extremely corrosive, and large amounts of water.

EXAMINER STOGNER: Okay, I have no other questions of Mr. Morgan.

Mr. Kellahin, what were you going to submit to me subsequent to today? Another Exhibit Number 1?

MR. KELLAHIN: If you desire, Mr. Examiner, Mr. Morgan and I are preparing a better-quality Exhibit Number 1 where you can easier identify the wells. If you're satisfied with this one, then --

EXAMINER STOGNER: And you mentioned something else that you were going to --

THE WITNESS: The location of the freshwater well.

MR. KELLAHIN: We need to find the part of the exhibit book for the location of the freshwater well data.

EXAMINER STOGNER: Was that in here?

MR. KELLAHIN: It's in there, we just can't put our hands on it right at the moment, Mr. Examiner.

EXAMINER STOGNER: It wasn't in my copy. It should be.

MR. KELLAHIN: We either submitted it in the C-108s that were filed with the Application -- I thought it

was in the exhibit book. If not, we will provide that to you.

EXAMINER STOGNER: What I may do, Mr. Kellahin, is go through this Exhibit Number 3 --

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: -- and get rid of all the excess stuff.

MR. KELLAHIN: In fact, we'll be happy to do that for you.

EXAMINER STOGNER: Okay, consider it done. So therefore there won't be any misconception that a C-108 needs to be applied for each well after this Application is approved, and not before, because that's the whole idea of a waterflood expansion, is to expand on an existing waterflood. Now, I know Mr. Kellahin knows this. And since we elected to go with the four wells instead of all of them, I will not expect to see those waterflood expansion applications come in until after the initial order is issued.

With that, I'm going to leave the record open on the new map and the water-well information, and --

MR. KELLAHIN: With your permission, then, I'd like to temporarily withdraw Exhibit Number 3, and I'll have Mr. Morgan reorganize it for us so that when it's returned to you, you're going to have information only

that's appropriate for these four wells.

EXAMINER STOGNER: That would sure help. It would sure also knock down the time that I would spend writing an order and reviewing this information, and so that all orders from me are issued in a timely manner without me having to go through a bunch of additional stuff and take up time, and it might necessitate the tardiness of an order issued by me in this instance by having to review a bunch of information that doesn't apply in this instance, on any other application, for that matter.

With that, let's take a 20-minute recess.

MR. KELLAHIN: All right, sir. Thank you.

(Thereupon, these proceedings were concluded at 9:38 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11482, heard by me on 7 March 1996.

Michael E. Stogner, 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 March 8th, 1996.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998