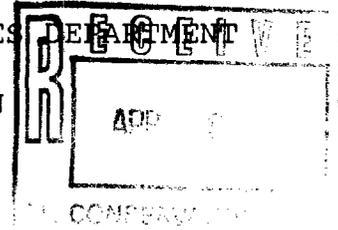


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF PENWELL ENERGY, INC., FOR)
AN EXCEPTION TO THE SALT PROTECTION)
CASING STRING REQUIREMENTS OF DIVISION)
ORDER NUMBER R-111-P, LEA COUNTY, NEW)
MEXICO)

CASE NO. 11,505

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 4th, 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, April 4th, 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.

* * *

I N D E X

April 4th, 1996
Examiner Hearing
CASE NO. 11,505

| | PAGE |
|---------------------------------|------|
| EXHIBITS | 3 |
| APPEARANCES | 3 |
| APPLICANT'S WITNESSES: | |
| <u>MARK WHEELER</u> (Landman) | |
| Direct Examination by Mr. Carr | 4 |
| Examination by Examiner Stogner | 13 |
| <u>BILL PIERCE</u> (Engineer) | |
| Direct Examination by Mr. Carr | 16 |
| Examination by Examiner Stogner | 27 |
| REPORTER'S CERTIFICATE | 32 |

* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 6 | 13 |
| Exhibit 2 | 8 | 13 |
| Exhibit 3 | 9 | 13 |
| Exhibit 4 | 9, 18 | 13 |
| Exhibit 5 | 11 | 13 |
| Exhibit 6 | 12 | 13 |
| Exhibit 7 | 18 | 26 |
| Exhibit 8 | 20 | 26 |
| Exhibit 9 | 22 | 26 |

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:40 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order again. At this time I'll call Case Number 11,505.

5 MR. CARROLL: Application of Penwell Energy,
6 Inc., for an exception to the salt protection casing string
7 requirements of Division Order Number R-111-P, Lea County,
8 New Mexico.

9 EXAMINER STOGNER: Call for appearances.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan.

13 We represent Penwell Energy, Inc., in this
14 matter, and I have two witnesses.

15 EXAMINER STOGNER: Any other appearances?

16 There being none, will the witnesses please stand
17 and be sworn?

18 (Thereupon, the witnesses were sworn.)

19 EXAMINER STOGNER: Mr. Carr?

20 MARK WHEELER,

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

23 DIRECT EXAMINATION

24 BY MR. CARR:

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

1 A. Mark Wheeler.

2 Q. By whom are you employed?

3 A. Penwell Energy, Inc.

4 Q. Where do you reside?

5 A. Midland, Texas.

6 Q. What is your position with Penwell Energy, Inc.?

7 A. Land manager of the Permian Basin.

8 Q. Mr. Wheeler, have you previously testified before
9 this Division?

10 A. Yes, I have.

11 Q. At the time of that testimony, were your
12 credentials as a professional petroleum landman accepted
13 and made a matter of record?

14 A. Yes, they were.

15 Q. Are you familiar with the Application filed in
16 this case on behalf of Penwell?

17 A. Yes.

18 Q. Are you familiar with Penwell's proposed J.D.
19 Federal 33 Well Number 1?

20 A. Yes.

21 Q. In preparation for this case, have you become
22 familiar with the status of the ownership of the oil and
23 gas interests in the north half of Section 33, as well as
24 the offsetting sections?

25 A. Yes, sir.

1 Q. And are you also familiar with the ownership of
2 the potash interests in this area?

3 A. Yes, I am.

4 Q. Have you familiarized yourself with the notice
5 requirements of Oil Conservation Division Order Number
6 R-111-P?

7 A. Yes, I have.

8 MR. CARR: Are the witness's qualifications
9 acceptable?

10 EXAMINER STOGNER: They are.

11 Q. (By Mr. Carr) Mr. Wheeler, initially, briefly
12 summarize what Penwell seeks with the Application.

13 A. Penwell seeks authority to delete the salt
14 protection casing string requirements of Division Order
15 Number R-111-P in the Oil Potash Area from our proposed
16 J.D. Federal Well Number 1, to be drilled as a wildcat well
17 660 feet from the north line, 2080 feet from the east line,
18 in Unit B, Section 33, Township 21 South, Range 33 East,
19 Lea County, New Mexico, to test the Morrow formation.

20 Q. Let's go to what has been marked as Penwell
21 Exhibit Number 1. Would you identify this and review it
22 for Mr. Stogner?

23 A. Yes, sir, this is a land plat that I have
24 prepared for the area. It outlines in yellow Penwell's
25 current acreage position. It also shows the proposed well

1 location for the J.D. Federal 33 Number 1 well in the north
2 half of Section 33.

3 It shows the offset development which at this
4 point consists of Santa Fe Energy's Abe State Unit Number 1
5 well in the south half of Section 28, and it also shows the
6 established boundary of the potash area.

7 Q. So the spacing unit adjoins the outer boundary of
8 the potash area as designated by R-111-P; is that right?

9 A. Yes, sir.

10 Q. The Santa Fe Energy well north of your proposed
11 location is located equidistant from the boundary between
12 these two spacing units from the proposed location?

13 A. Yes, sir.

14 Q. Is our proposed location a standard location for
15 the Morrow formation?

16 A. Yes, it is, for a north-half spacing unit.

17 Q. What formation is the Santa Fe Energy well
18 producing from?

19 A. Also from the Morrow.

20 Q. What is the character of the lands in the area?
21 And I mean, are they state, federal or fee, Mr. Wheeler?

22 A. Some of both. Most of the sections around ours
23 are state acreage, as shown on the Exhibit 1. Section 34,
24 the west half, and Section 33, all of 33, are federal
25 lands.

1 Q. So the Santa Fe well is on a state tract, your
2 proposed well will be on a federal tract?

3 A. Yes, that is correct.

4 Q. Let's go to Exhibit Number 2. Would you identify
5 that?

6 A. This was the application for permit to drill that
7 we filed for the J.D. Federal 33 Number 1 well.

8 Q. And when was it filed?

9 A. February 2nd, 1996.

10 Q. When it was filed, did you request an exemption
11 from the salt protection casing string as -- for this
12 particular well?

13 A. No, sir, we did not. We assumed that we would
14 receive administrative approval, since the Santa Fe well
15 had already been drilled north of us, and they did receive
16 administrative approval. However, the BLM required a
17 hearing on this Application.

18 Q. So the Santa Fe well -- you've got administrative
19 approval from the OCD that they did for -- to exempt them
20 from the casing-string requirement?

21 A. Yes, sir, they did.

22 Q. And on the federal tract the BLM required the
23 hearing?

24 A. Yes, sir.

25 Q. Who gave the Santa Fe well this exemption?

1 A. The OCD.

2 Q. Let's go to --

3 A. I believe it was the Hobbs District office that
4 did that.

5 Q. Let's go to what has been marked as our Exhibit
6 Number 3. Can you identify that, please?

7 A. This is a small-scale plat of the potash
8 distribution map that was presented in Stevens and Tull
9 Cases 11,323 and 11,338. This is only offered to show the
10 boundaries of the potash.

11 Q. Where is our proposed well located on this map?

12 A. Our well is in the very southeastern edge of the
13 potash distribution. It's shown with a small red dot in
14 the north half of Section 33, 21 South, 33 East.

15 Q. Is Exhibit Number 4 an enlargement of that
16 portion of this potash map prepared by the BLM?

17 A. Yes, sir, it is.

18 Q. Let's go to that, and I'd ask you to review it
19 for Mr. Stogner.

20 A. This is just a blown-up section of the far
21 southeastern corner of the potash distribution map. It
22 shows the potash reserves from the Carlsbad Mining District
23 for Lea County, and maybe -- I think this is just in Lea
24 County. And it identifies our proposed location in the
25 north half of Section 33. It also contains the colored

1 legend for the overall map.

2 Q. If the Santa Fe well was spotted on this map, the
3 well spot would virtually touch the spot you've placed for
4 the proposed well; is that not right?

5 A. Yes, sir, the size of the dot we have would
6 basically touch their location also.

7 Q. And that well is actually between your proposed
8 location and any potash mining?

9 A. Yes, it is.

10 Q. How does the BLM characterize the land on which
11 you propose to drill this well?

12 A. They have it as Indicated Potash Reserves.

13 Q. And how do they define that?

14 A. It says, "Resources from which tonnage is
15 computed partly from specific measurements, samples, or
16 production data, and partly from projection for a
17 reasonable distance on geologic evidence. The sites
18 available for inspection, measurement and sampling are too
19 widely, or otherwise inappropriately, spaced to permit the
20 mineral bodies to be outlined completely or the grade
21 established throughout."

22 Q. And most of the spacing unit is Indicated Potash
23 Reserves; is that right?

24 A. Yes, sir.

25 Q. A portion of it, however, is shown to be barren?

1 A. It is shown to be barren, yes, sir.

2 Q. The Santa Fe well north of us was also drilled in
3 an area with Indicated Potash Reserves by BLM definition;
4 is that right?

5 A. Yes, sir, it was.

6 Q. How close is the nearest actual potash mine to
7 this location?

8 A. Approximately 11 miles to the northwest.

9 Q. Are there any life-of-mine reserve designations
10 in the north half of Section 33?

11 A. No, sir.

12 Q. Are there any LMRs within a half mile of this
13 proposed well?

14 A. No, sir.

15 Q. And how did you determine that?

16 A. Well, that data is confidential and proprietary,
17 but we contacted the BLM and were advised over the phone
18 that there were no life-of-mine reserve designations within
19 one half mile of the well, proposed well.

20 Q. Can you just identify what has been marked as
21 Penwell Exhibit Number 5?

22 A. This is the Potash Order R-111-P.

23 Q. And does this order provide for copies of APDs to
24 be provided to each offsetting potash operator, to provide
25 them with a notice of the proposed Application?

1 A. Yes, it does.

2 Q. Are there any offsetting potash operators within
3 a one-mile radius of the proposed well?

4 A. Yes, sir, Eddy Potash, Incorporated, owns leases
5 in Sections 27, 28, 29 and 32 on state lands. However,
6 they do not have the federal lands in Sections 33, the west
7 half of 34, and Section 4 to the south in 22 South, 33
8 East. They do not have those leased.

9 Q. So is Eddy Potash the only affected potash
10 operator?

11 A. Yes, sir, according to our check they are the
12 only potash company with leases within the area.

13 Q. Can you identify Penwell Exhibit Number 6,
14 please?

15 A. This is a waiver letter that we obtained from
16 Eddy Potash, Inc., waiving any objection to our proposed
17 location in the north half of Section 33.

18 Q. You identified the tracts that were under lease
19 to Eddy Potash?

20 A. Yes, sir.

21 Q. Is the north half of Section 33 under any potash
22 lease?

23 A. No, sir, it's not.

24 Q. Will Penwell call an engineering witness to cover
25 the technical portions of this Application?

1 A. Yes, sir, Bill Pierce.

2 Q. Were Exhibits 1 through 6 either prepared by you
3 or compiled under your direction?

4 A. Yes, they were.

5 MR. CARR: Mr. Stogner, at this time we would
6 move the admission into evidence of Penwell Exhibits 1
7 through 6.

8 EXAMINER STOGNER: Exhibits 1 through 6 will be
9 admitted into evidence at this time.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. Wheeler, who in the BLM required this matter
13 go to hearing?

14 A. I believe that was Shannon Shaw, in the Carlsbad
15 District office.

16 Q. Did he provide you a written request on that?

17 A. I believe we obtained that over the telephone.

18 Q. Did he specifically say hearing, after hearing,
19 or -- ?

20 A. They requested a hearing be held on this matter.
21 We were surprised after the Santa Fe well, but there is a
22 difference in ownership of the lands, so...

23 Q. When you say the difference, and that's because
24 one is state versus federal?

25 A. State versus federal, yes, sir.

1 Q. Did you ask him for a written confirmation?

2 A. Yes, we asked -- No, we did not ask for a written
3 confirmation of the hearing. We did ask for an exception,
4 and they said it had to go to hearing.

5 Q. Okay, let's see, your Exhibit Number 2, and this
6 is your proposed casing string, as you're -- that you will
7 be running in the well?

8 A. This is what was filed with the APD. I'm not an
9 engineer, so I'm not --

10 Q. Okay, so the engineering witness will --

11 A. Yes, sir.

12 MR. CARR: He will -- He can review the proposed
13 casing and completion program in detail.

14 Q. (By Examiner Stogner) Okay. And again, who is
15 the potash lessee of the area in which you're in?

16 A. Eddy Potash, Incorporated.

17 Q. Well, who owns the potash in the north half of
18 33?

19 A. There is no current lease.

20 Q. There is no current lease, okay. I was a little
21 confused there. Okay, because I asked in the area, and
22 Eddy has the leases around --

23 A. -- around this area, yes.

24 Q. So this is presently unleased federal. Do you
25 know when the last time it was leased, perchance, just --

1 A. No, sir, I don't. My check just asked for
2 current leases, and I did not check for --

3 Q. I didn't know if you know that by memory or
4 anything. Okay.

5 A. No, sir, I didn't check that.

6 EXAMINER STOGNER: No other questions of this
7 witness. He may be excused.

8 MR. CARR: Thank you, Mr. Stogner.

9 At this time I would call Bill Pierce.

10 And I would note that we were surprised, Mr.
11 Stogner. We felt that this was sort of a reversal of what
12 had been the traditional way these were handled by BLM, but
13 they did, in fact, ask us to come here.

14 EXAMINER STOGNER: I guess that's what I was
15 trying to get at. Did they ask you to come to hearing or
16 get an exemption from the Director or from the Division?

17 MR. CARR: In our conversation we understood them
18 to insist there be a hearing before they would grant the
19 exemption in the casing.

20 EXAMINER STOGNER: Okay. Is this is the first
21 one that you know of, Mr. Carr?

22 MR. CARR: This is the first one of this
23 character.

24 We also have plans to drill some additional wells
25 in the area, and we are hopeful that following this hearing

1 we will be able to use this record to persuade them to go
2 ahead and just approve them in this particular portion of
3 the enclave by administrative procedure, without requiring
4 a hearing.

5 In an area where there's no lease, no LMR, no
6 mining, and wells without the casing string between this
7 location and the potash mine, we were surprised we were
8 asked to come.

9 EXAMINER STOGNER: Okay, continue then.

10 BILL PIERCE,

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

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

16 A. My name is Bill Pierce.

17 Q. Where do you reside?

18 A. Midland, Texas.

19 Q. By whom are you employed?

20 A. Penwell Energy, Incorporated.

21 Q. Mr. Pierce, have you previously testified before
22 this Division?

23 A. I have.

24 Q. At the time of that testimony, were your
25 credentials as a petroleum engineer accepted and made a

1 matter of record?

2 A. They were.

3 Q. Are you familiar with the Application filed in
4 this case on behalf of Penwell?

5 A. Yes, sir, I am.

6 Q. And are you familiar with the proposed J.D.
7 Federal Well Number 33?

8 A. Yes, sir, I am.

9 Q. Have you made yourself familiar with the casing
10 requirements of Division Order Number R-111-P?

11 A. Yes, sir, I have reviewed them.

12 Q. And are you familiar with how not only you
13 propose to complete this well, but how other wells in the
14 area have been completed?

15 A. Yes, sir, I am familiar.

16 Q. And have you reviewed, made yourself familiar
17 with information available on the potash industry in New
18 Mexico and related this information to Penwell's proposed
19 development of the north half of Section 33?

20 A. Yes, sir, I have.

21 MR. CARR: Are the witness's qualifications
22 acceptable?

23 EXAMINER STOGNER: They are.

24 Q. (By Mr. Carr) Initially, what is the primary
25 objective in the well, Mr. Pierce?

1 A. Our primary objective will be the Morrow sands.

2 Q. Let's go to what has been marked Exhibit Number
3 4. I'd ask you to identify this for the Examiner and
4 review it.

5 A. Exhibit Number 4 is the one that Mr. Wheeler
6 first brought to our attention, and it shows our well to be
7 located in what the BLM refers to as Indicated Potash
8 Reserves. And under their legend on this map, if you'll
9 note, it says "Resources from which tonnage is computed
10 partly from specific measurements, samples, or production
11 data, and partly from projection for a reasonable distance
12 on geologic evidence. The sites available for inspection,
13 measurement and sampling are too widely, or otherwise
14 inappropriately, spaced to permit the mineral bodies to be
15 outlined completely or the grade established throughout."

16 Q. Let's go to what has been marked for
17 identification as Penwell Exhibit Number 7. Would you
18 identify that, please?

19 A. Yes, sir, this is a copy of the porosity log from
20 the Santa Fe Energy well that offsets our proposed J.D.
21 well.

22 Q. And this was an open-hole log?

23 A. That is correct, this is an open-hole porosity
24 log.

25 Q. Can you identify on this log the interval in

1 which potash mining is occurring elsewhere in the enclave?

2 A. Yes, sir, and if you'll refer to the potential
3 potash section of the log, the interval from 1600 feet to
4 approximately 2000 feet is the interval that has been mined
5 to the west of this particular well.

6 Q. Can you see any potash stringers by looking at
7 this log?

8 A. No, sir, I was unable to determine any. And also
9 our geologist was unable to determine any potash stringers,
10 indicated potash stringers, from this particular log.

11 Q. Is the Morrow section shown on this log?

12 A. Yes, sir.

13 Q. And what depth is it found at?

14 A. The last page of this one shows that the Morrow
15 sands are located between 14,200 feet and 14,700 feet.

16 Q. Are there any secondary objectives in the well?

17 A. Yes, sir.

18 Q. And what are they?

19 A. The second page shows our Delaware secondary
20 objectives. They occur in an interval between 7300 feet
21 and 7900 feet.

22 Q. Now, both your proposed well and the Santa Fe
23 Energy well to the north are wells that are projected as
24 deep gas wells within the Potash enclave; is that right?

25 A. That is correct.

1 Q. And when was the Santa Fe well drilled?

2 A. It was drilled in 1995.

3 Q. And it's a direct offset to your proposed well;
4 is that right?

5 A. That is correct, it's a direct offset.

6 Q. Was the Santa Fe well a successful well in the
7 Morrow formation?

8 A. Yes, sir, it was a very good Morrow-producing
9 well.

10 Q. Are you familiar with how this well was drilled
11 and completed?

12 A. Yes, sir, I have reviewed the records in the
13 state file and federal file of how they drilled and
14 completed this well.

15 Q. And is Penwell proposing to utilize similar
16 procedures in completing its J.D. Federal 33 Well Number 1?

17 A. Yes, sir, we are.

18 Q. Let's go to what has been marked Penwell Exhibit
19 Number 8, and I would ask you to refer to this diagrammatic
20 sketch and review for Mr. Stogner exactly how Penwell
21 proposes to drill and complete this well.

22 A. This proposed wellbore diagram, Mr. Stogner,
23 reflects exactly how Santa Fe Energy drilled their well.
24 The casing program will be identical to it.

25 We start, of course, with our water-protection

1 string of 13 3/8 at 600 feet. It will, of course, be
2 circulated to the surface.

3 Then we have the 9 5/8 salt-protection string at
4 approximately 5300 feet, which will also be circulated back
5 to the surface with cement.

6 We will also, then, run a 7-inch deep
7 intermediate string to set at approximately 12,200 feet.
8 We will also run in this string a combination external
9 casing packer/multiple-stage cementer to allow us to bring
10 cement and tie back into the 9 5/8 casing at 5300 feet.

11 We will then send a drill down to the Morrow
12 sands. If they prove productive, we will run and cement a
13 4-1/2-inch liner on the bottom.

14 And this is exactly the same manner in which
15 Santa Fe Energy drilled and completed their well.

16 Q. How does this proposal differ from the R-111-P
17 requirement?

18 A. The R-111-P requirement would require a string to
19 be set to a depth of approximately 2200 feet to protect the
20 potential potash producing zones.

21 Q. In your opinion, will use of the proposed
22 completion adequately protect potash in the area to, the
23 extent it might be there?

24 A. Yes, sir, because basically the R-111-P, their
25 main concern is to cover those zones up, not only with a

1 string of protective casing, but also with cement. We
2 address both of those in this type of drilling and
3 completion manner.

4 Q. In your opinion, is there any potential for
5 migration of hydrocarbons into the potash salts during
6 drilling?

7 A. No, sir, because simply the way we're going to
8 drill our wells, it will be cased off and cement will be
9 circulated to surface, so there will be no risk of any
10 hydrocarbon migration.

11 Q. How much of a cost savings are going to result if
12 you're permitted or granted this exemption from that
13 casing-string requirement? You might want to refer to
14 Exhibit Number 9 at this time, Mr. Pierce.

15 A. Yes, sir, that's correct. It shows the cost
16 savings that will be realized to Penwell Energy if we are
17 granted the exception to do away with the potash
18 exception -- protection string, excuse me. This will show
19 the difference down to the casing point of 5300 feet, with
20 potash-protection string and without potash-protection
21 string. It will result in a net savings of approximately
22 \$130,000 in the cost of drilling this well, if this potash-
23 protection string is not required.

24 Q. What are the prospects for potash mining in the
25 area of this well?

1 A. According to the testimony I reviewed from the
2 Stevens and Tull case, none.

3 Q. Why is that? Are the reserves -- Is it reserve
4 quality?

5 A. No, sir, according to Mr. Hutchinson's testimony,
6 the quality, if any exists, would be of such poor quality
7 no one would want to mine it.

8 I think the fact that there are no existing mines
9 anywhere close to us points out the fact that he's probably
10 correct in his assumptions.

11 As Mr. Wheeler has indicated, according to the
12 BLM there are no life-of-mine reserves anywhere in our
13 area, and I think we all know the general condition of our
14 potash industry that since the 1960s has basically been on
15 the decline, and according to Mr. Hutchinson's testimony it
16 doesn't look like it will get any better.

17 Q. When you talk about Mr. Hutchinson, are you
18 talking about Gary Hutchinson, who testified in the Stevens
19 and Tull case?

20 A. That is correct.

21 Q. And he is an expert potash economist?

22 A. That is correct also.

23 Q. In Cases 11,323 and 11,338, he provided testimony
24 about the condition of the potash industry and compared New
25 Mexico potash potential with worldwide demand?

1 A. That is correct.

2 MR. CARR: Mr. Stogner, we would ask that that
3 testimony of Mr. Hutchinson from Case 11,323 and 11,338 be
4 incorporated by reference into the record in this case. It
5 was --

6 EXAMINER STOGNER: That was 11- -- I'm sorry.

7 MR. CARR: It was just general testimony about
8 the condition of the New Mexico potash industry, and I
9 think in terms of what we're seeking here it sets an
10 important backdrop against which the Application is
11 presented.

12 EXAMINER STOGNER: You said 11,323 --

13 MR. CARR: Yes, sir.

14 EXAMINER STOGNER: -- and 11,338?

15 MR. CARR: Yes, sir. They were heard on July
16 27th, 1995.

17 EXAMINER STOGNER: I wasn't a party to that
18 particular hearing. Do you know what Mr. Hutchinson's
19 qualifications were?

20 MR. CARR: He is an expert potash economist. I
21 believe he's from Golden, Colorado. He testified as an
22 expert not only in this case but previously before that for
23 Mitchell Energy in a potash case. He also was involved for
24 Yates and other parties in negotiations recently with
25 representatives of the potash industry concerning the

1 general dispute that exists between Yates, others and that
2 industry.

3 His credentials have been accepted by this
4 Commission on at least two occasions.

5 EXAMINER STOGNER: You're referring to Yates --

6 MR. CARR: -- Petroleum Corporation.

7 EXAMINER STOGNER: Okay. I will take
8 administrative notice of Mr. Hutchinson's testimony on the
9 record in cases Number 11,323 and 11,338 at this time.

10 Q. (By Mr. Carr) Mr. Pierce, based on your review
11 of available data, in your opinion is there any prospect
12 that there would be new potash mining in the area of the
13 proposed well?

14 A. No, sir, based on the information available to
15 us, I do not believe that would be possible.

16 Q. Accordingly, is it safe to presume there would be
17 no anticipated potash mining that would result in
18 subsidence that could jeopardize the condition of the
19 subject well?

20 A. That is correct. If there are no mines close to
21 us, subsidence couldn't occur. So that will not be a
22 problem.

23 Q. In your opinion, would the approval of this
24 Application be in the best interest of conservation, the
25 prevention of waste and the protection of correlative

1 rights?

2 A. Yes, sir, it would.

3 Q. Will approval of this Application result in a
4 more economic or efficient production of the natural gas
5 located beneath the north half of Section 33?

6 A. Yes, sir, it will.

7 Q. Does your testimony and the conclusions you have
8 reached apply not only to the north half of 33 but also to
9 offsetting Sections 34 and Sections 3 and 4 of Township 22
10 South, Range 33 East?

11 A. Yes, sir, I believe they do.

12 Q. In fact, these are other tracts that would be
13 further away from potash development than either the
14 Santa Fe well or your proposed well; is that right?

15 A. That's correct. In fact, these sections you just
16 mentioned, portions of them are outside the boundary of the
17 potash enclave anyways.

18 Q. Were Exhibits 7 through 9 prepared by you?

19 A. Yes, sir, they were.

20 MR. CARR: At this time, Mr. Stogner, we would
21 move the admission into evidence of Penwell Exhibits 7
22 through 9.

23 EXAMINER STOGNER: Exhibits 7 through 9 will be
24 admitted into evidence at this time.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Pierce.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. Mr. Pierce, in looking at the casing program
5 presented in Exhibit Number 2 and your diagram of Exhibit
6 Number 8, you originally proposed a 5-1/2-inch production
7 string all the way down, but then you've changed it now to
8 a 7-inch string down to 12,200, and then a 4-1/2-inch
9 liner, or am I missing something?

10 A. No, sir, that is correct. Based upon bottomhole
11 information obtained from the Santa Fe Energy well, the
12 most reasonable and prudent manner in which to approach
13 drilling of this well requires the 7-inch to be set to
14 handle the increased mud weight necessary to control the
15 Morrow formation.

16 Q. Do you know what those pressures were in that
17 Morrow zone?

18 A. Yes, sir, the bottomhole pressure was
19 approximately 8000 pounds.

20 Q. 8000 pounds?

21 A. Yes, sir.

22 Q. And the casing string that you have designed,
23 depicted in Exhibit Number 8, is that adequate, that
24 7-inch, adequate to be able to withstand that much
25 pressure?

1 A. Yes, sir, that will be -- The string will be
2 7-inch, 29-pound N-80 and P-110-grade casing.

3 Q. If a worst-case scenario occurs and that pressure
4 got back in behind that 7-inch, would the 9 5/8 be adequate
5 to hold that much pressure?

6 A. No, sir, it would not.

7 Q. What is the maximum pressure on that 9 5/8, that
8 it's able to hold?

9 A. Approximately 4300 pounds.

10 Q. Let's see, what would be the approximate top of
11 cement on that 7-inch?

12 A. It would be approximately 5000 feet.

13 Q. So it wouldn't actually tie back into the 9 5/8;
14 it would just be below it?

15 A. No, sir, the 9 5/8 is to be set at approximately
16 5300 feet.

17 Q. Oh, okay, so you -- That's right.

18 A. Yes, sir, we would definitely tie it back into
19 the 9 5/8.

20 Q. Okay. And the 9 5/8 is going to be cemented all
21 the way back to the surface?

22 A. That is correct, yes, sir.

23 Q. The Santa Fe well, does it have the 7-inch
24 stringer with the liner in it, or did it have a production
25 string?

1 A. No, sir, the schematic here is exactly the way
2 Santa Fe Energy drilled and completed their well.

3 Q. Have you submitted an amended federal APD, or
4 application to drill, depicting your proposed change?

5 A. Yes, we have.

6 EXAMINER STOGNER: Could you subsequent to
7 today's hearing just --

8 THE WITNESS: Yes, sir.

9 EXAMINER STOGNER: -- supplement Exhibit Number 2
10 with that information, Mr. Carr?

11 MR. CARR: Yes, sir, we will.

12 Q. (By Examiner Stogner) Has Penwell Energy drilled
13 any other wells within this potash enclave area?

14 A. No, sir, not that I am familiar with.

15 Q. This is the first one that you know of -- or that
16 you're aware of, that Penwell Energy has ventured into this
17 area?

18 A. That is correct, yes, sir.

19 Q. Does Penwell propose to drill any more in this
20 area?

21 A. Yes, sir, if this Morrow well proves productive,
22 we will be doing some more drilling in this well.

23 Q. Okay. Did you talk to Mr. Shannon Shaw?

24 A. Yes, sir, I did.

25 Q. And were you the one that he told to take this

1 matter to hearing?

2 A. Yes, sir.

3 Q. Do you recollect why he said that?

4 A. He just said that since this was in the potash
5 enclave, that we would have to have a hearing before the
6 OCD in Santa Fe to grant an exception to the R-111-P rule.
7 But as to why he requested that, Mr. Stogner, I have no
8 idea.

9 Q. Did you ask him?

10 A. He just said, Well, you have to have this to get
11 around the R-111-P rule.

12 Q. Okay.

13 A. And he didn't have the authority to grant that.
14 Only the state does, according to Mr. Shaw.

15 We assumed, as Mr. Wheeler has pointed out
16 before, because Santa Fe had got administrative approval to
17 drill their well in this manner, we could do the same
18 thing. So we were taken by surprise also in them
19 requesting us to come up here to a hearing.

20 EXAMINER STOGNER: I have no further questions of
21 this witness. You may be excused.

22 MR. CARR: And that concludes our presentation in
23 this case.

24 EXAMINER STOGNER: Does anybody else have
25 anything further in Case Number 11,505?

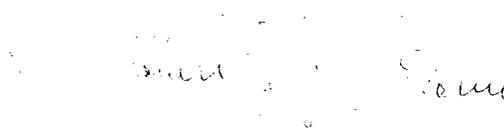
CERTIFICATE OF REPORTER

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 April 13th, 1996.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11505, heard by me on 4 April 1996.


 Michael L. Lopez, Examiner
 Oil Conservation Division