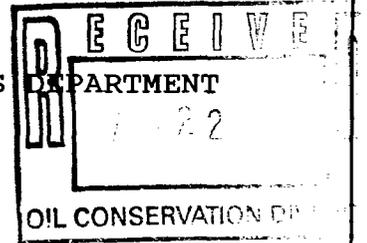


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
)
APPLICATION OF INTERCOAST OIL AND GAS)
COMPANY FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 11,588

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 8th, 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, August 8th, 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

August 8th, 1996
 Examiner Hearing
 CASE NO. 11,588

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* * *

A P P E A R A N C E S

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

FOR OXY USA, INC.:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:35 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,588, which is the Application of InterCoast Oil
5 and Gas Company for compulsory pooling, Lea County, New
6 Mexico.

7 At this time I'll call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent InterCoast Oil and Gas
11 Company, and I have two witnesses.

12 EXAMINER STOGNER: Are there any other
13 appearances in this matter?

14 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
15 the Santa Fe law firm of Kellahin and Kellahin, appearing
16 today on behalf of OXY USA, Inc.

17 EXAMINER STOGNER: Do you have any witnesses, Mr.
18 Kellahin?

19 MR. KELLAHIN: No, Mr. Stogner.

20 EXAMINER STOGNER: Are there any other
21 appearances?

22 I'll ask the two witnesses to please stand at
23 this time.

24 (Thereupon, the witnesses were sworn.)

25 EXAMINER STOGNER: Mr. Carr?

1 MR. CARR: Mr. Stogner, as you are aware, OXY
2 filed motion seeking their dismissal from this case, from
3 the pooling provisions in our Application.

4 I can advise the Examiner that a farmout
5 agreement has been reached and signed between InterCoast
6 and OXY and that it is appropriate for OXY to be dismissed
7 from the pooling order that we're seeking in this matter.

8 EXAMINER STOGNER: Okay. I'm assuming you're
9 referring to the July 31st letter from Mr. Kellahin?

10 MR. CARR: Yes, sir, I am.

11 EXAMINER STOGNER: Mr. Kellahin, do you have
12 anything to add?

13 MR. KELLAHIN: No, sir, we're happy to be
14 dismissed.

15 EXAMINER STOGNER: So an agreement has been
16 reached between both parties?

17 MR. KELLAHIN: Yes, sir, that's my understanding.

18 EXAMINER STOGNER: Since voluntary agreement has
19 been reached and both parties are satisfied, then if a
20 compulsory pooling order is issued in this matter, then
21 since there's a voluntary agreement between both parties,
22 OXY will not be a part of the force-pooling provision.

23 I'm assuming there's other parties, though?

24 MR. CARR: Yes, sir, there are.

25 EXAMINER STOGNER: Okay.

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DAVID R. DEFFENBAUGH,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Yes, my name is David R. Deffenbaugh,
D-e-f-f-e-n-b-a-u-g-h.

Q. Mr. Deffenbaugh, where do you reside?

A. Tulsa, Oklahoma.

Q. By whom are you employed?

A. InterCoast Oil and Gas Company.

Q. And what is your current position with InterCoast Oil and Gas Company?

A. I'm a senior landman.

Q. InterCoast is a new name to some of us. What was the previous name of this company?

A. Medallion Production Company.

Q. Mr. Deffenbaugh, have you previously testified before this Division?

A. I have.

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

A. Yes, they were.

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

3 A. I am.

4 Q. And are you familiar with the status of the lands
5 which are the subject of this Application?

6 A. I am.

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

9 EXAMINER STOGNER: They are.

10 Q. (By Mr. Carr) Could you briefly state what
11 InterCoast seeks with this Application?

12 A. Yes, InterCoast seeks an order from the Division
13 pooling all interests from the base of the unitized Abo
14 formation at a depth of approximately 9030 feet to the base
15 of the Morrow, underlying the following lands: Section 2,
16 Township 17 South, Range 34 East.

17 This is inclusive of Lots 1 and 2 in the south
18 half, northeast, and the southeast quarter, being the east-
19 half equivalent to form a 321.55-acre gas spacing unit for
20 all formations developed on a 320-acre spacing, including
21 the Undesignated North Vacuum-Atoka Morrow Gas Pool.

22 We would also ask that Lots 1 and 2 in the south
23 half, northeast, being the northeast equivalent, be
24 utilized to form a 161.55-acre spacing unit for all
25 formations developed on 160-acre spacing; that the south

1 half, northeast quarter, be utilized to form an 80-acre
2 spacing unit for all formations developed on an 80-acre
3 spacing, including the North Vacuum-Lower Wolfcamp Pool;
4 and the southeast-northeast, to form a 40-acre spacing unit
5 for all formations developed on a 40-acre spacing.

6 These would all be set up for dedication to a
7 well to be drilled at a standard location at 1650 feet from
8 the north line and 660 feet from the east line of the
9 southeast-northeast of the said Section 2.

10 Q. Now, Mr. Deffenbaugh, what InterCoast is seeking
11 is an order pooling an interval from the base of the Abo to
12 the base of the Morrow; is that right?

13 A. That's correct.

14 Q. And the Abo is going to be unitized?

15 A. That's correct.

16 Q. What is the name of that unit?

17 A. That is the North Abo Vacuum Unit.

18 Q. Now, in these various spacing units you have
19 identified the two pools that we have been able to locate,
20 one based on 320 spacing, one to be developed on 80; is
21 that right?

22 A. That's correct.

23 Q. As to 160-acre spacing and 40-acre spacing, those
24 have only been included just to be sure the Application is
25 complete in case you encounter something that's developed

1 on one of those spacing packages?

2 A. That is correct.

3 Q. Have you prepared exhibits for presentation here
4 today in this case?

5 A. I have.

6 Q. Let's go to what has been marked as Intercoast
7 Exhibit Number 1. Can you just identify that for the
8 Examiner?

9 A. Yes, this is a proximity map, basically showing
10 the proration unit for the 320-acre spacing unit, being
11 outlined in yellow.

12 The red dot represents the approximate location,
13 being the 1650 from the north line and 660 feet from the
14 east line, of the southeast -- or excuse me, of the
15 northeast quarter, or actually of this 320-acre unit.

16 Also shows some of the surrounding ownership of
17 various parties in the proximity.

18 Q. What is the primary objective in this well?

19 A. The primary objective is Atoka Morrow.

20 Q. Let's go to Exhibit Number 2. Will you identify
21 and review that for Mr. Stogner, please?

22 A. Yes, Exhibit 2 is a breakdown of the ownership,
23 showing essentially that the ownership does change between
24 the various units requested, the brown outline designating
25 the 320-acre unit and the ownership being shown in the

1 first summary on the left-hand column, the red outline
2 showing the northeast or 160-acre unit with its ownership
3 outlined, also the second table in the left-hand column.
4 The green outline sets forth the ownership if a unit would
5 be prepared as to the south half, northeast. And the blue
6 outline sets forth the ownership as to the 40-acre or
7 southeast-northeast quarter.

8 Q. What percentage of the working interest has been
9 voluntarily committed to this well if it is in fact
10 developed on a -- the acreage is developed on a 320-acre
11 spacing unit basis?

12 A. With the OXY farmout, InterCoast has a 50.815-
13 percent working interest in the east half. Mallon supports
14 our proposal with 18.258 percent. Bright Hawk, with 3.1133
15 percent, has granted us verbal support for operations, and
16 Ayco Energy, with 2.5472, has granted the same verbal
17 support for operations.

18 Q. Now, you're still negotiating with Bright Hawk
19 and Ayco; is that right?

20 A. Yes, that's correct.

21 Q. You anticipate that they will be participating in
22 the well?

23 A. That's correct.

24 Q. But the paperwork has not been finalized?

25 A. That's correct.

1 Q. Mallon is supporting the Application. Do you
2 anticipate that Mr. Mallon will, in fact, commit his
3 interest to this well prior to spud date?

4 A. Yes, we do.

5 Q. So the interests that at this point in time
6 remain out are the Gallagher interests; is that right?

7 A. That's correct.

8 Q. That's a large group of people?

9 A. That's correct.

10 Q. In your negotiations with Gallagher, have you
11 been dealing with one individual who has been representing
12 himself as, in fact, the spokesperson for the Gallagher
13 group?

14 A. Yes, C.R. Gallagher, Jr.

15 Q. In fact, when we notified the other Gallagher
16 interests of this hearing here today, he objected and
17 protested that to us on the basis that he spoke for the
18 entire group; is that right?

19 A. That's correct.

20 Q. Let's go to what has been marked as InterCoast
21 Exhibit Number 3. Can you identify that and review it for
22 Mr. Stogner?

23 A. This is an authorization for expenditures
24 prepared by InterCoast Oil and Gas Company for the drilling
25 of this proposed well -- it's set up for a 12,700-foot

1 Morrow-Atoka test -- outlining all costs necessary on an
2 estimate basis. This shows a dryhole cost of \$499,150 and
3 a completed well cost of \$860,550.

4 Q. Now, has InterCoast or Medallion drilled other
5 Morrow wells in the immediate area?

6 A. Yes, we drilled three other similar oil and gas
7 wells within two miles of this proposed location.

8 Q. And are the costs set forth on this AFE
9 consistent with the actual costs incurred in the drilling
10 of these other wells?

11 A. Yes, they are.

12 Q. Would you briefly summarize the efforts made by
13 Medallion/InterCoast to obtain the voluntary joinder of all
14 interest owners in this well?

15 A. Yes, we have been in contact with the various
16 owners in this particular east half since actually July of
17 1995. We originally proposed farmouts to all the parties
18 involved, and due to a -- We ended up with a slight delay
19 with negotiations, due to Mallon actually making another
20 trade with another party. That trade has since lapsed.

21 We re-initiated our efforts to acquire and pursue
22 the drilling of a well in this particular unit in July of
23 this year and continue to negotiate with certain of the
24 interest owners.

25 We in fact speak with Mr. Gallagher almost on a

1 daily basis. We have provided him with a -- He asked and
2 received a proposed operating agreement for participation,
3 and again still represents that he speaks for the entire
4 group.

5 Q. In your opinion, have you made a good-faith
6 effort to not only locate but obtain the voluntary joinder
7 of all working interest owners in this proposed well?

8 A. Yes, we have.

9 Q. Is Exhibit Number 4 a copy of correspondence from
10 Medallion and InterCoast to the interest owners who are
11 affected by this Application?

12 A. Yes, it is.

13 Q. Now, Mr. Deffenbaugh, you have enclosed just a
14 sample letter for each; is that not correct?

15 A. That's correct. There actually was a pretty
16 large group -- Well, there's about 15 or 20 people involved
17 with the Gallagher group, and each of these letters is
18 representative of the letter that was sent to the entire
19 group.

20 Q. And when you have letters in this exhibit that
21 are addressed to Gregory J. Gallagher, in fact, you sent
22 the same letter to each of the Gallagher interests; is that
23 right?

24 A. That's correct.

25 Q. Is Exhibit Number 5 an affidavit with attached

1 letters confirming that notice of today's hearing has been
2 provided to all the interest owners affected by the
3 Application?

4 A. Yes, it is.

5 Q. And attached to that as Exhibit A is a list of
6 the parties to whom notice was provided?

7 A. That is correct.

8 Q. We have OXY, Bright Hawk and Ayco at the top, and
9 then we have two pages of other individuals. Is that the
10 Gallagher group you have been referring to?

11 A. Yes, it is.

12 Q. And although Mr. Gallagher says he represents
13 them all, when you have written or contacted them either
14 trying to negotiate participation or advise them of this
15 hearing, you have notified each of those individuals?

16 A. Yes, we have.

17 Q. Have you made an estimate of the overhead and
18 administrative costs to be incurred while drilling this
19 well and also while producing it, if it's successful?

20 A. Yes, we have come up with figures of \$5828 a
21 month for a drilling rate and \$546 a month for a producing
22 rate. This is based on *Ernst & Young's* 1995 mean numbers.

23 Q. Do you recommend that these figures be
24 incorporated into the order which results from today's
25 hearing?

1 A. I do.

2 Q. Does InterCoast seek to be designated operator of
3 the proposed well?

4 A. Yes.

5 Q. Were InterCoast Exhibits 1 through 5 prepared by
6 you or compiled under your direction?

7 A. Yes, they were.

8 MR. CARR: Mr. Stogner, at this time we would
9 move the admission into evidence of InterCoast Exhibits 1
10 through 5.

11 EXAMINER STOGNER: Exhibits 1 through 5 will be
12 admitted into evidence.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Deffenbaugh.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Would you please repeat those overhead charges?

18 A. \$5828 for the drilling rate and \$546 for the
19 producing rate.

20 Q. \$5828?

21 A. Yes, sir, five-eight-two-eight and five-four-six.

22 Q. That's an interesting number.

23 Okay, the Gallagher interests --

24 A. Yes, sir.

25 Q. -- I'm now looking at your affidavit. I believe

1 that's Exhibit 5?

2 A. Five.

3 Q. Five. Okay, all of the notifications behind the
4 C.R. Gallagher Trust, that is the C.R. Gallagher Trust?

5 A. Yes, sir, as represented to us, it is.

6 Q. Okay.

7 A. Excuse me, the trust, no, sir. The trust is a
8 small portion, is about 18 percent. I'm sorry, I'm
9 confusing that. Mr. Gallagher speaks for that 18 percent
10 as trustee.

11 He also indicates to us that he is the
12 representative of the remainder of the Gallagher, et al.,
13 interest as we've represented here in our ownership
14 breakdown.

15 Now, also just to further clarify that, the
16 Gallagher interest actually is only inclusive of the north
17 half of the northeast quarter, or Lots 1 and Lot 2. So
18 when I speak of 18 percent that he owns, it's of that north
19 half, northeast. That would have to be proportionally
20 reduced, and his interest would be the 18 percent times the
21 80, divided by the 321.55 for an actual unit interest.

22 Q. Okay. Now, the Gallagher interest, is that a
23 divided or an undivided interest in that northeast quarter?

24 A. It is only inclusive of acreage -- This is
25 another exhibit I've kind of prepared for myself. Mr.

1 Gallagher owns in the pink acreage.

2 Q. Okay, you're referring to the north --

3 A. -- north half --

4 Q. -- half of the northeast quarter?

5 A. Yes, sir, that's correct, also known as Lots 1
6 and 2, which actually is 81.55 acres.

7 Q. So that is an undivided in Lots 1 and 2 only?

8 A. Yes, sir.

9 Q. Okay. Now, when you were negotiating or first
10 contacted Mr. Gallagher, was the same notification letter
11 that you supplied me in the packet of Exhibit -- Which
12 exhibit is --

13 A. Five.

14 MR. CARR: Exhibit 4.

15 THE WITNESS: On, I'm sorry, 4, that's correct.

16 Q. (By Examiner Stogner) Okay, Exhibit Number 4,
17 and that's by letter of June 20th, 1995. That's several
18 pages back from the beginning?

19 A. Yes, sir, that actually was the original letter
20 requesting a farmout back in 1995.

21 Q. Now, was this -- Was the same letter also sent to
22 all the parties that Gallagher represented?

23 A. That we were able to locate.

24 We have been -- have made numerous efforts
25 through checking county records, through trying to get Mr.

1 Gallagher to provide us with addresses, et cetera, et
2 cetera.

3 We've made numerous efforts through searching CD-
4 ROM telephone directories, we've made very diligent efforts
5 in trying to locate addresses for all these other parties
6 and located some and were able to send to these parties
7 that we were able to locate. Others were sent care of Mr.
8 Gallagher.

9 Q. Now, also behind the June 20th letter in this
10 packet of exhibits in Exhibit Number 4, there's a couple of
11 other letters, both dated July 13th, one to a Christopher
12 K-n-i-e-r-i-e-m in --

13 A. Kneiriem.

14 Q. -- Rocklin, California.

15 A. Yes, sir.

16 Q. And then to a C.R. Gallagher, Jr.

17 I take it that's not -- maybe kin to Mr. Gregory
18 Gallagher, but not Greg Gallagher -- of Pass Christian,
19 Massachusetts, or Mississippi? I forget what MS stands
20 for.

21 A. It is Mississippi.

22 Q. Mississippi, okay.

23 A. Yes, sir. And I'm sorry, what was the question?

24 Q. Are these just sample letters --

25 A. Yes.

1 Q. -- of the --

2 A. Yes.

3 Q. -- notification that you sent those parties in
4 the Gallagher --

5 A. Yes, sir.

6 Q. -- interest?

7 Were they also sent a June 20th letter, or did
8 you just first try to contact them in July of 1995?

9 A. Of 1995, the letters that were sent were to the
10 entire Gallagher group, Mallon, Bright Hawk, OXY. All
11 parties received letters requesting a farmout, in 1995.

12 Now, there is further letters and further
13 correspondence in June and July -- or actually July, early
14 July of 1996 where --

15 Q. That's what I'm asking --

16 A. Oh.

17 Q. -- did all the parties to the Gallagher interest
18 get notification on June 20th?

19 A. Of 1995?

20 Q. Yes.

21 A. Yes, sir, I believe so.

22 MR. CARR: Mr. Stogner --

23 THE WITNESS: All the parties that we had --

24 MR. CARR: Mr. Stogner, let me clarify that.

25 Notice was given to C.R. Gallagher and all of the

1 Gallagher interests for whom we had addresses. Since that
2 time we have found several others.

3 Mr. Gallagher does not provide us with addresses
4 for the others; he declined to do so and says he represents
5 the others.

6 And then, we have subsequent to that time
7 notified the entire group. We've gotten calls from him
8 protesting the fact that we notified the others and holding
9 himself out as a representative.

10 But we have, in fact, gone to every one of the
11 Gallagher interests for whom we can, independent of the
12 Gallagher providing us addresses of their own membership,
13 of their own group -- we've continued to try and identify
14 them and advise everyone for whom we can find an address.

15 EXAMINER STOGNER: I was trying to find the first
16 notification to those parties.

17 MR. CARR: And that first notification to the
18 Gallagher group was in June of 1995.

19 And then the follow-up letters that you have
20 basically are letters that although -- we could supply you
21 with copies of the entire file of correspondence, but we
22 have just taken -- Yesterday we just took the top letter
23 off of these files after the June 9, 1995, letter, so that
24 you would have a complete set of the correspondence, with
25 not 25 copies of each letter.

1 EXAMINER STOGNER: I won't request that at this
2 time --

3 MR. CARR: Yes, sir.

4 EXAMINER STOGNER: -- but at least that statement
5 is in the record.

6 And if it goes any further, then you may have to
7 supply --

8 MR. CARR: That would be fine.

9 EXAMINER STOGNER: -- some appeal. But I'm
10 satisfied with that at this point.

11 Q. (By Examiner Stogner) When you say that Mallon
12 Oil Company supports the drilling of this well, have they
13 actually signed the documents?

14 A. Yes, we have made an agreement with Mallon.

15 Q. So the voluntary agreement is in place with
16 Mallon?

17 A. Yes, sir.

18 Q. And they have interest in all of the proration
19 units -- or all of the production units possible in this
20 area?

21 A. Yes, sir, they do.

22 EXAMINER STOGNER: I have no other questions of
23 this witness, Mr. Carr.

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

25 At this time we would call Mr. Siruta.

1 WILLIAM A. SIRUTA,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. CARR:

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

7 A. William A. Siruta.

8 Q. Where do you reside?

9 A. Midland, Texas.

10 Q. By whom are you employed?

11 A. InterCoast.

12 Q. And what is your current position with

13 InterCoast?

14 A. I'm a geologist with InterCoast.

15 Q. Mr. Siruta, have you previously testified before

16 this Division?

17 A. Yes, I have.

18 Q. At the time of that testimony, were your

19 credentials as a petroleum geologist accepted and made a

20 matter of record?

21 A. Yes.

22 Q. Are you familiar with the Application filed in

23 this case on behalf of InterCoast?

24 A. Yes.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER STOGNER: They are.

3 Q. (By Mr. Carr) Have you prepared exhibits for
4 presentation here today?

5 A. Yes, I have.

6 Q. Let's go first to the production map, which has
7 been marked InterCoast Exhibit Number 6. Can you identify
8 and review that for Mr. Stogner?

9 A. This is a production map showing commercial
10 producers in this immediate area.

11 The color code here is, the pink-colored circles
12 are strictly Atoka producers, the green-colored circles are
13 Morrow producers.

14 Dryholes -- All other wells on this plat are
15 dryholes, even though some of them indicate that they're
16 plugged-out oil wells. These are wells that were drilled
17 and tested the Atoka-Morrow but were dry in the Atoka-
18 Morrow, but were later completed in shallower horizons.

19 And there's also a line of cross-section, A to B.

20 Q. Let's move to Exhibit Number 7, the structure
21 map. Will you review this?

22 A. It's a structure based on the top of the Atoka
23 sand. The main thing that it shows is that the large
24 Vacuum structure is located to the south and southeast of
25 us. Dip is down to the north and to the northwest.

1 Q. Let's go to the isopach, Exhibit 8.

2 A. This is an isopach of the Atoka sand that
3 produces in the key wells in this area.

4 The pink-colored circles, again, are the Atoka
5 producers. The red dot with the yellow outline is the --
6 indicating our proration unit with the proposed location.

7 This map shows the nature of the channel sands
8 that make up the Atoka sand here. It shows the limited
9 control that we have, both to the north and to the
10 southwest.

11 And each -- The numbers by each well reflect the
12 net Atoka pay greater than eight percent.

13 Q. All right, Mr. Siruta, let's go to Exhibit Number
14 9, your cross-section, and I'd ask you to review for the
15 Examiner what this exhibit shows.

16 A. This is a cross-section that's illustrated on the
17 other exhibits, A to B. It has three key wells in the area
18 on it.

19 It shows the yellow-colored sand on this cross-
20 section, is the main Atoka pay. The green sand that's
21 colored on the one log is a separate sand that does not
22 make up the main pay.

23 Q. Basically, what does this cross-section show?

24 A. It shows the discontinuous nature and sand
25 thicknesses of the sand.

1 Q. Are you prepared to make a recommendation to the
2 Examiner as to the risk penalty that should be assessed
3 against any nonconsenting working interest owner in this
4 well?

5 A. Yes.

6 Q. And what do you recommend?

7 A. Two hundred percent.

8 Q. And could you summarize the basis for that
9 recommendation?

10 A. I believe that there is a fair degree of risk in
11 this prospect. There's discontinuous nature of the sand.
12 Also, the structure out here, we've drilled three other
13 wells and have been surprised on every well where we've
14 landed structurally.

15 There is a water leg, if you get too far downdip.
16 There's very little control to the southwest, so this has
17 got a fair degree of risk.

18 Q. And there have been a number of dryholes in the
19 area, have there not?

20 A. That's correct.

21 Q. Is it fair to say that a well at the proposed
22 location could, in fact, not be a commercial success?

23 A. Yes, that's correct.

24 Q. In your opinion, will the granting of this
25 Application and the drilling of the proposed well be in the

1 best interest of conservation, the prevention of waste and
2 the protection of correlative rights?

3 A. Yes.

4 Q. Were Exhibits 6 through 9 prepared by you?

5 A. Yes.

6 MR. CARR: At this time, Mr. Stogner, we would
7 move the admission into evidence of InterCoast Exhibits 6
8 through 9.

9 EXAMINER STOGNER: Exhibits 6 through 9 will be
10 admitted into evidence.

11 MR. CARR: And that concludes my direct
12 examination of Mr. Siruta.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Siruta, in looking at both your cross-section
16 and Exhibit Number 6 -- that's essentially your production
17 plat -- it's my understanding that the Vacuum -- I believe
18 that's called the North Vacuum-Atoka-Morrow?

19 A. Yes.

20 Q. That's essentially a combined pool that has both
21 Atoka and Morrow production, but you have shown -- you have
22 broken it out to Atoka and then Morrow.

23 Are they both completed in the same pool, but one
24 is definitely Morrow-producing, but the other is Atoka? Is
25 that what you're showing?

1 A. Yes, I believe in the past that there was -- when
2 the pool was set up, there was some confusion over where
3 the separation between those two zones really were.

4 Q. So on your cross-section, down in the south in B,
5 you show Atoka sand pay in that well to the south. Is that
6 well producing from the Atoka, or is it producing from the
7 Morrow?

8 A. It really produces from the Morrow. The sand
9 that I show is just a little snippet of Atoka sand. It has
10 no net, and the Morrow production is really down, probably
11 below the base of this log about another 150 feet.

12 The top of the Morrow is that first line that you
13 see there at about 11,745 on that well. That's what we
14 call Atoka -- or Morrow lime, I mean. So it produces below
15 that.

16 Q. Okay, because your log says no tests. Was
17 there --

18 A. What I'm really referring to is the Atoka, no
19 tests in the pay sand that we're drilling for.

20 Q. Okay.

21 A. That is a little confusing.

22 Q. Yeah, that's why I was asking.

23 A. That is --

24 Q. Okay, so that well is still presently producing,
25 but the Morrow perforation --

1 A. That's correct.

2 Q. -- below this -- the log that you represent here?

3 A. That's correct.

4 Q. Okay. Now, the well up in Section 35 --

5 A. Yes.

6 Q. -- I believe, now -- It shows Medallion on the
7 log head, but I'm assuming that's now InterCoast?

8 A. That's correct.

9 Q. Okay, and that well is presently producing from
10 the Atoka?

11 A. Yes.

12 Q. How did the Morrow sand -- or is there any Morrow
13 perforations or tests in this well?

14 A. We did not either perforate or drill stem test
15 the Morrow, but we do have two zones that look like
16 possible zones that we may perforate later. They do not
17 look real good, but it will be something we'll perforate
18 before we leave the well.

19 Q. Now, in your Exhibit Number 6, does this
20 represent all wells on all formations, again, like I -- I
21 think you did state that, but I want to double-check.

22 A. The production plat?

23 Q. Yeah, and you show --

24 A. No --

25 Q. -- some oil wells and then it looks like some --

1 A. -- this plat only represents the wells that were
2 drilled deep enough to test the Atoka-Morrow. There are a
3 kazillion other wells in here.

4 Q. Okay.

5 A. There's probably in Sections 1, 2, 10, 11 and 12,
6 a well in every 40 acres, probably. As a matter of fact,
7 in some cases, there's three and four wells in a 40-acre.

8 Q. So Section 2 is -- for the shallower intervals,
9 has wells that do not show up on this map?

10 A. That's correct.

11 Q. And what are they usually producing from?

12 A. It's a variety out there. I think the majority
13 are probably from the Abo. There are some Wolfcamp wells.
14 I believe there are some San Andres wells. There are some
15 Drinkard wells. It's a real mix.

16 Q. Of the Abo wells, are they gas or oil?

17 A. Primarily oil.

18 Q. Do you know what the spacing is on the Abo?

19 A. I've never really looked, but from the map it
20 appears to be 40s.

21 Q. Okay.

22 A. But I'm not sure about that. Just looking at the
23 map, it looks like 40s.

24 Q. Does InterCoast have any of those wells in the
25 upper intervals above the Abo?

1 A. No, we do not. We have two producing wells in
2 this area, and they're both Atoka-Morrow gas wells.

3 Q. Okay, but the Abo is not part of this; is that
4 correct?

5 A. That's correct, it's not.

6 Q. You all just have the interests below that?

7 A. That's correct.

8 Q. Now, I believe there was some 80-acre Wolfcamp
9 production somewhere nearby. Do you have any information
10 on that?

11 A. I believe those wells are located in Section 3
12 and 10, and I think there is one in 11, and those wells are
13 primarily oil wells.

14 I can't really point to them directly. I just
15 know they're in those sections.

16 Q. Did you check for any possible Wolfcamp trend in
17 the logs in your area?

18 A. I attempted to do that, but what occurs out here
19 is, you're coming off the Vacuum structure, you have the
20 Wolfcamp trying to layer up on that structure, and it's
21 very, very difficult to chase like one pay zone, for
22 example.

23 We did have some shows in our 35 well, in the
24 Wolfcamp, at around 10,700 that we will probably evaluate
25 before we leave the well.

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.

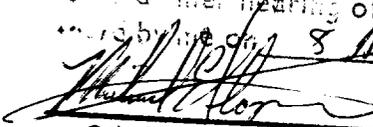
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 9th, 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 a public hearing of Case No. 11588, held by me on 8 August 1996.

Michael A. [unclear], Examiner
Oil Conservation Division

