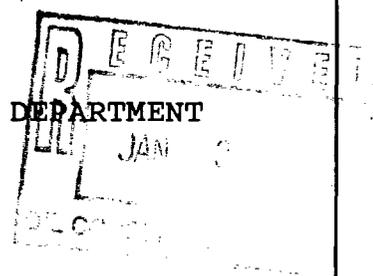


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF LOUIS DREYFUS NATURAL)
GAS CORPORATION FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 11,687

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 1997, 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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 Examiner Hearing
 CASE NO. 11,687

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* * *

A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:46 a.m.:

3 EXAMINER STOGNER: Referring to the supplemental
4 docket in this matter, I will now call Case Number 11,687.

5 MR. CARROLL: Application of Louis Dreyfus
6 Natural Gas Corporation for compulsory pooling, Eddy
7 County, New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 on behalf of the Applicant. I have two witnesses to be
12 sworn.

13 EXAMINER STOGNER: Any other appearances?
14 Be sworn.

15 (Thereupon, the witnesses were sworn.)

16 MR. KELLAHIN: Mr. Examiner, I'm going to hand
17 you an additional locator exhibit to show you the
18 relationship of the section. We're in Section 29. It is
19 west of the Carlsbad airport.

20 We're dealing on the western edge of the -- what
21 is currently the Happy Valley-Delaware Pool. We're seeking
22 to force-pool some unleased mineral owners in the 40-acre
23 tract that, despite Mr. Hess's best efforts, he's not been
24 able to obtain leases from, and those are the parties
25 remaining to be pooled. I think it constitutes about four

1 percent of the spacing unit.

2 And with your permission, I'll present Mr. Hess
3 at this time.

4 EXAMINER STOGNER: Please continue.

5 BLAINE HESS,

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

8 DIRECT EXAMINATION

9 BY MR. KELLAHIN:

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

12 A. My name is Blaine Hess. My occupation, I'm an
13 independent landman.

14 Q. Where do you reside, sir?

15 A. Roswell, New Mexico.

16 Q. As a consulting landman for Louis Dreyfus Natural
17 Gas Corporation, have you made an investigation to
18 determine the ownership within the 40-acre spacing unit?

19 A. Yes, I have.

20 Q. Did you have the information examined by you or
21 others to determine the ownership?

22 A. No, I did all the examinations by virtue of a
23 check of the county records.

24 Q. Based upon that check, did you determine and
25 identify the ownership in that spacing unit?

1 A. Yes, I did.

2 Q. Is this something that you normally do in the
3 course of your business?

4 A. Yes, it is.

5 Q. Summarize your education and employment
6 experience for us, Mr. Hess.

7 A. I've been in the oil business for 17 years. The
8 boom got me in the business. During the first roughly six,
9 seven years, I learned extensive knowledge in checking
10 records and dealing with exploration agreements and joint
11 operating agreements.

12 I was then employed by Hondo Oil and Gas Company,
13 a title of manager of acquisitions and divestitures. Then
14 I've handled the west coast activities for Hondo Oil and
15 Gas Company, including refinery and real estate and oil and
16 gas.

17 And since that time I've become a consultant
18 again for various companies, and my work experience ranges
19 from title check to putting together 3-D shoots to
20 formulation of exploration prospects.

21 Q. Part of your duties, then, would include not only
22 being able to skillfully determine the ownership in a
23 spacing unit by title check, but to then discuss with those
24 interest owners committing their interests to the well in
25 terms of a farmout lease or some other contractual

1 agreement?

2 A. Yes.

3 Q. As part of your duties, have you become
4 knowledgeable about the contractual arrangements for
5 Delaware oil wells in southeastern New Mexico?

6 A. Yes.

7 Q. And you, for yourself and for others, have been
8 involved in looking at overhead costs, AFE costs, and all
9 the terms and conditions for doing this type of activity?

10 A. Yes.

11 MR. KELLAHIN: We tender Mr. Hess as an expert
12 witness.

13 EXAMINER STOGNER: Mr. Hess, you're no kin to the
14 Amerada empire, are you?

15 THE WITNESS: Unfortunately, I'm not.

16 MR. KELLAHIN: Too bad.

17 EXAMINER STOGNER: Mr. Hess is so qualified.

18 Q. (By Mr. Kellahin) Let's turn to Exhibit 1. This
19 is simply an enlargement of Section 29. For purposes of
20 our discussion this morning, let's look at the southwest
21 quarter of the southeast quarter. Have you found that
22 spacing unit?

23 A. Yes.

24 Q. Does this tract consist of one ownership
25 arrangement, by what I mean, is that an undivided tract?

1 A. Yes, it is.

2 Q. And is it state, fee or federal?

3 A. It's fee lands.

4 Q. Let's turn to Exhibit 2. When we look at Exhibit
5 2, Mr. Hess, these names, addresses and percentages
6 represent what, sir?

7 A. 11.51 percent.

8 Q. And is this taken from your work?

9 A. Yes, it is.

10 Q. And who are these people and what interests do
11 they have?

12 A. Well, the people, as you can see, are -- they're
13 undivided mineral owners, undivided mineral interests
14 within the 40 acres, and I've stated their percentage of
15 mineral ownership within the 40 acres, and it's Andrews
16 Royalty, John Matthews, Julia Matthews, Dodge Jones, MATT-
17 TEX, and Republic Royalty.

18 Q. Since filing the pooling application, you have
19 obtained a lease from Mary Ralph Lowe as trustee for these
20 various Yosts?

21 A. Yes, I have. Yes, I have. There's two other
22 parties also: the Fasken foundation, which we've obtained a
23 lease from, and a gentleman by the name of Randy Geiselman.

24 Q. So at this point Exhibit 2 represents those
25 parties that you have not yet been able to obtain leases

1 from?

2 A. That's correct.

3 Q. Have you asked all these companies or individuals
4 to participate in the well?

5 A. Yes, I have.

6 Q. They were sent a formal letter and an AFE by you
7 and provided that opportunity?

8 A. That's correct.

9 Q. Were you able to get them to join you?

10 A. No, I have not been able to.

11 Q. Did you also propose to them that your client was
12 willing to accept leases from them?

13 A. Yes, I have.

14 Q. And did you propose a lease form to them?

15 A. Yes, I've proposed a lease form to them.

16 Q. And have you been successful in your efforts to
17 get them to sign a lease?

18 A. No, I have not.

19 Q. Let's look at the chronology you've prepared. If
20 you'll turn to Exhibit 3, let's run through the chronology
21 of your efforts with regard to these parties and
22 individuals.

23 A. Okay. As you can see, we started -- I did the
24 title searches, and -- with respect to this 40-acre tract
25 in December of 1995. And then I contacted all the

1 parties -- Let me mention something.

2 There's 22 mineral owners within this 40-acre
3 tract. The ownership is common within 200 acres of fee
4 lands within the section. We were -- We started making our
5 initial contacts in December of 1995. We expanded the area
6 where we wanted to acquire leases due to common ownership
7 by virtue of where I did the takeoff report, which is
8 reflected as the north half of Section 29, in April of
9 1996.

10 The initial offers, as I mentioned, were, in
11 December of 1995 we expanded the area, in April of 1996 we
12 received responses and started acquiring leases, April
13 through August of 1996. We were able to lease all the
14 unleased mineral owners. Everything was open at that time,
15 and we made deals on everybody with the exception of the
16 six remaining unleased mineral owners by July of 1996.

17 As a matter of fact, the terms that we acquired
18 the leases from ranged from \$50 an acre to \$125 an acre,
19 3/16 royalty for three-year leases on all of the people
20 that we've leased within the section.

21 The Republic Royalty Group, et al. -- which I'll
22 refer to in that manner, is because Republic Royalty is
23 more or less the spokesman of all the unleased mineral
24 owners -- they submitted their lease form to us in May of
25 1996 and wanted \$150 an acre, one-quarter royalty for two

1 years, which was over our tops.

2 When we consummated the leasing of all the
3 mineral interests, with the exception of these people right
4 here, we said, We want to drill a well, let's do everything
5 we can to get an acceptable lease form. So we made a very
6 good offer of \$250 an acre, a quarter royalty for a two-
7 year lease, subject to an agreeable lease form.

8 They would not amend the lease form whatsoever,
9 so we had no choice but to send out the letter, the AFE
10 letter, dated November 18th of 1996.

11 Q. Were the differences between you and the Republic
12 Royalty Group over the lease form issues of substantial
13 difference?

14 A. Very substantial.

15 Q. For example, can you give us an example of the
16 kind of thing for which you could not get an agreement?

17 A. Well, for one example, the lease agreement has no
18 pooling provisions.

19 Q. You couldn't even get that from them?

20 A. No.

21 Q. All right.

22 A. It had -- Another major problem in the lease form
23 was the 90-day continuous development between wells, and
24 the fact that we only owned the producing formation.

25 Q. If you'll turn to the next exhibit. You can pass

1 Exhibit 4. I think it's out of sequence. It's for the
2 next witness.

3 Let's look at what I have marked as Exhibit 5,
4 and I have that as the package of letters starting with a
5 cover letter over your signature dated December 20th to
6 Linda Buckner; is that what you have?

7 A. Yes.

8 Q. All right. Without going through the details of
9 this package, describe for us what is contained within this
10 exhibit.

11 A. The exhibit contains the correspondence which was
12 mailed to this particular party starting in December of
13 1995 and ending in December of 1996.

14 Q. And this package will include the well proposal,
15 the AFE --

16 A. Yes.

17 Q. -- and all those --

18 A. The package will include offertory letter, well
19 proposal, AFE, a copy of the return receipt.

20 Q. Let me have you turn now to Exhibit 6 and
21 identify and describe that package of documents.

22 A. That package is much like the last package. It
23 shows my initial offertory letter, it shows the response of
24 Republic Royalty and a copy of their lease form, and then
25 it shows the AFE -- or excuse me, the letter that we sent

1 out in October at the \$250-an-acre price. And then it
2 shows the AFE letter.

3 Q. All right. Finally, let's turn to the package of
4 documents that are marked as Exhibit 7 and have you
5 identify and describe what's contained in that Exhibit 7.

6 A. This packet shows a fax from Andrews Royalty
7 wherein they sent their lease form, which is very similar
8 to Republic Royalty's, and it shows a letter where they
9 wanted \$250 an acre, a quarter royalty and use of their
10 lease form -- or actually they wanted \$50 bonus
11 consideration, which comes out to \$300 an acre.

12 And it shows the offertory -- or the AFE letter
13 that was dated November 18th.

14 Q. These last three exhibits when taken together,
15 Mr. Hess, will they provide documentation for the Examiner
16 as to correspondence and efforts with regards to all six of
17 these individuals or entities that are yet uncommitted?

18 A. Yes.

19 Q. To the best of your knowledge and belief, would
20 additional time be useful prior to compulsory pooling in
21 order to get these people to participate in some fashion?

22 A. We've been doing this for a year, so I don't
23 think additional time is the answer.

24 Q. You now need a force-pooling application --

25 A. Yes.

1 Q. -- granted?

2 One of the items that is covered by pooling
3 applications, Mr. Hess, is, the Division authorizes the
4 applicant to charge some overhead rates. The overhead rate
5 benchmark is normally the Ernst and Young tabulation of
6 overhead rates. Are you familiar with that schedule?

7 A. Yes, I am.

8 Q. Based upon your extensive experience in the
9 Delaware area of southeastern New Mexico, what is the
10 current commonly used overhead rates for wells at this
11 depth in this area?

12 A. What you're seeing is \$4000 for producing, \$400
13 -- \$4000/\$400, let me just state it that way.

14 Q. All right, \$4000 a month drilling rate and \$400 a
15 month --

16 A. -- producing --

17 Q. -- producing rate?

18 A. That's correct.

19 Q. Is that your recommendation --

20 A. Yes, that's --

21 Q. -- to the Examiner for this case?

22 A. Yes, yes, sir, that's my recommendation.

23 Q. And that's a little higher than the Ernst and
24 Young rate schedule; are you not aware of that?

25 A. It's a little bit higher, but I can -- It's very

1 common in the area.

2 Q. Common to use the \$4000/\$400?

3 A. Yes.

4 MR. KELLAHIN: Mr. Examiner, that concludes my
5 examination of Mr. Hess.

6 With the exception of Exhibit Number 4, we move
7 the introduction of Exhibits 1 through 7.

8 EXAMINER STOGNER: Exhibits 1 through 7, with the
9 exception of 4 -- is that correct? --

10 MR. KELLAHIN: Yes, sir.

11 EXAMINER STOGNER: -- will be admitted at this
12 time into evidence.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Hess, when you were describing the overhead
16 charges being more than what the Ernst and Young survey
17 shows, you said it was common in this area. What do you
18 base that on?

19 A. Review of various operating agreements. To the
20 south I'm in several Delaware wells where those \$4000/\$400
21 rates are used.

22 Q. When you say you're involved in some of those
23 wells, you're referring to Louis Dreyfus?

24 A. No, personally.

25 Q. Okay. How about Louis Dreyfus as operator in

1 this area? Are there any Louis Dreyfus-operated wells
2 within this area?

3 A. Yes, there is.

4 Q. Okay, and the overhead charges?

5 A. Quite frankly, I don't know.

6 Q. What is the proposed depth for this well?

7 A. 4500.

8 Q. Now, in the correspondence of the six -- Well,
9 let me go back. Let's refer to Exhibit Number 2. You show
10 that the total unleased is 11.512189 percent, and that is
11 represented of these people in -- on Exhibit Number 2, with
12 the exception of the Mary Lowe interest?

13 A. Right, that's correct.

14 Q. It's my understanding that you had mentioned that
15 there were 27 different mineral owners under -- that have
16 common ownership, and about 200 acres in this section?

17 A. That's correct, 22 different mineral owners,
18 which have common ownership under 200 acres of this
19 section.

20 Q. Okay. So in December when you contacted all
21 these parties, you were trying to lease that 200 percent?

22 A. That 200 acres.

23 Q. I'm sorry, 200 acres, yes, sir.

24 A. No, I wasn't leasing all of the 200 acres at that
25 time. We were leasing 120 acres at that time. Louis

1 Dreyfus then said, Let's expand the area. And we also
2 realized that it was common ownership under the 200 acres.
3 So we made offers again in April of 1996 for the entire 200
4 acres, where the ownership is common.

5 Q. And then when did -- At what point did you try to
6 get them to join, or these different owners to join in just
7 this well in this 40-acre unit?

8 A. Well, I tried to lease them all the way until
9 November of this year -- or, excuse me, of 1996 -- where at
10 that time I sent out a letter dated November 18th of 1996,
11 asking them to participate due to the fact that we were
12 unable to come to an agreement on leasing their interest.

13 Q. Your Exhibit Number 1 shows that there was an old
14 plugged and abandoned well. Was there any land issues
15 involved in that? Was that well producing? Did it have a
16 compulsory pooling or --

17 A. I'm not a -- To the best of my knowledge, I don't
18 know if there was anything involved. In fact, I'm not even
19 sure when that well was drilled.

20 Q. Okay, so you're -- That's what I was asking, or
21 going to ask, was any land matters associated with that
22 well that you are aware of?

23 A. Not that I'm aware of.

24 Q. Like I said, it may not even be a well.

25 A. It's a dry hole, I do know that.

1 EXAMINER STOGNER: Mr. Kellahin, I have no other
2 questions of Mr. Hess.

3 Are there any other questions of this witness?

4 MR. KELLAHIN: No, sir.

5 EXAMINER STOGNER: You may be excused. Thank
6 you, Mr. Hess.

7 Mr. Kellahin?

8 JAY GABBARD,

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

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Sir, for the record would you please state your
14 name and occupation?

15 A. Jay Gabbard. I'm a petroleum engineer, employed
16 by Louis Dreyfus Natural Gas.

17 Q. Mr. Gabbard spells his last name G-a-b-b-a-r-d.

18 Mr. Gabbard, where do you reside, sir?

19 A. Oklahoma City.

20 MR. KELLAHIN: All right. You'll have to speak
21 up. This won't amplify your voice. It's just for the
22 court reporter.

23 THE WITNESS: Okay.

24 EXAMINER STOGNER: And I've got a cold in my ear,
25 so this one's ringing.

1 MR. KELLAHIN: All right, so you're going to have
2 to shout.

3 THE WITNESS: Oklahoma City.

4 Q. (By Mr. Kellahin) On prior occasions, have you
5 testified before the Division as a petroleum engineer?

6 A. I have not.

7 Q. Summarize for us your education.

8 A. I graduated from the University of Oklahoma with
9 a bachelor of science in petroleum engineering.

10 Q. What year did you do that?

11 A. 1970. I have worked in the industry about 16
12 years. I worked for a consulting firm in Oklahoma City for
13 about five years, worked for Woods Petroleum in Oklahoma
14 City for six years as a reservoir engineer, and also worked
15 for Woods Petroleum, which was a subsidiary of Sunshine
16 Mining, as part of an exploration group in Dallas, Texas,
17 for five years. I was operations manager for a -- Woods
18 Petroleum Canada Properties for a year and a half at the
19 end of my stay in Dallas, which was in 1992. I spent a
20 year consulting in 1993 and started with Louis Dreyfus in
21 late 1993 and have worked with him since.

22 I am a registered professional in Oklahoma and
23 Texas.

24 Q. Do your duties currently include examining the
25 geology with the assistance of your geologic experts, and

1 to look at the reservoir engineering aspects of your
2 Delaware prospects in this area of what we've called the
3 Happy Valley-Delaware Pool in Eddy County, New Mexico?

4 A. Yes.

5 Q. And Louis Dreyfus has operations of Delaware
6 wells in this area, do you not?

7 A. Yes, we do.

8 MR. KELLAHIN: We tender Mr. Gabbard as an expert
9 petroleum engineer.

10 EXAMINER STOGNER: Mr. Gabbard is so qualified.

11 Q. (By Examiner Stogner) Let's turn to the
12 production map that's Exhibit 4. First of all, the
13 proposed well location in Section 29, in the southwest of
14 the southeast is the open red circle with the arrow?

15 A. Yes, sir.

16 Q. Mr. Stogner asked a question with regards to the
17 other well in that spacing unit. What is that well, and
18 what is its status?

19 A. It's a plugged and abandoned well that was
20 drilled by Yates Petroleum and completed as a dryhole at
21 this date that's shown just under the name of the well on
22 the map, and that's in September 21st of 1989. It was TD'd
23 at 11,650 feet and was plugged as dry and abandoned.

24 Q. When we look at the Louis Dreyfus-operated
25 Delaware wells in this area, particularly over in Section

1 33, did Louis Dreyfus drill all those Delaware wells, or
2 did someone else?

3 A. We initially entered this section through an
4 acquisition of properties from Collins and Ware, and have
5 drilled a number of wells since that acquisition, so some
6 of these were drilled prior to our ownership and
7 operations.

8 Q. For the wells that you acquired from Collins and
9 Ware, were those wells subject to any operating agreement?

10 A. They were.

11 Q. And can you describe for the Examiner what is
12 typically used in this area for overhead rates for those
13 operations?

14 A. The operating agreement that was in place, that
15 we were subject to, used \$450 for a producing rate and
16 \$4500 for a drilling rate.

17 Q. So your requested rates today are slightly lower
18 than some of the operating rates of wells that you now
19 operate?

20 A. That's right.

21 Q. Let's turn to the geologic context within which
22 you are looking at your analysis, and let me ask you some
23 engineering questions, but let's start with some geologic
24 perspective.

25 If you'll turn to Exhibit 8, identify and

1 describe for me what we're seeing when we look at Exhibit
2 8.

3 A. Exhibit 8 is a structure map that we -- a
4 geologic feature we refer to as the Three Amigos, which is
5 generally the base of what has been our main pay interval,
6 which is the Cherry Canyon interval in the Delaware, and it
7 is generally showing -- These depths are above sea level,
8 based on elevations, so actually structure is rising to the
9 west, and it's generally showing that -- you know, our pick
10 on the dry hole where we have control in the drilling and
11 spacing unit is a plus 566.

12 Q. Let's leave that exhibit for a moment and turn to
13 Exhibit 9 and have you identify this display.

14 A. This is an isopach that goes from the Three
15 Amigos marker that we displayed on the Exhibit 8, up to
16 another geological marker that's fairly consistent in this
17 area, that we refer to as the Manzanito marker, that is
18 very near the top of our pay section, our principal pay
19 section here.

20 And what it's showing is that there is, as we
21 come to our proposed location from the main body of the
22 field, that we are seeing considerable thinning in this
23 interval, and from -- at the dry hole where we have control
24 in the drilling spacing unit, we have 194 feet of gross
25 interval thickness between these markers.

1 Q. When you as a reservoir engineer are assessing
2 this project with regards to a risk factor penalty to be
3 applied in this case, do you have a recommendation to the
4 Examiner as to what that penalty, in your opinion, should
5 be?

6 A. Yes, I do.

7 Q. And what is your opinion?

8 A. I believe that the 200-percent penalty would be
9 justified.

10 Q. Let's talk about the reasons that have caused you
11 to believe the 200-percent penalty is appropriate. When we
12 look at this northwestern stepout, what are the risks
13 involved that support your conclusion?

14 A. Well, the risks are twofold. As this isopach
15 shows, we are losing a potential sand interval that would
16 be our pay interval, and although I've not displayed it
17 here, I can point that there is some rollover at the top of
18 -- if you were working with the Manzanito marker, that the
19 structure is beginning to roll over. So we are facing both
20 a reservoir risk and potentially a structural risk at this
21 location.

22 Q. Well, when you characterize the structure as
23 being in a rollover condition, what does that mean to you
24 as a reservoir engineer with regards to the fluids
25 contained in the reservoir?

1 A. It means that we may have higher water
2 saturations, and so our relative perm to oil may be less
3 than we've experienced elsewhere, at higher structural
4 locations.

5 Q. As you've attempted to extend the limits of the
6 Happy Valley-Delaware Pool, are you finding instances where
7 these edge wells are either dry holes or not as productive
8 or as commercial as wells in the interior portion of the
9 pool?

10 A. Yes, we have. The first stepout that did not
11 establish production for us was -- for Louis Dreyfus's
12 drilling, was the Barbados State Number 1, which is shown
13 in the southeast of Section 32, where we were trying to
14 extend the field to the west.

15 We also, on the east side of the field and the
16 northeast of the southeast of Section 33, the -- It's
17 displayed here as the RE Fed 5. That would be the Ram Ewe
18 Federal 5, was a dry hole.

19 And we have experienced -- Several of the wells
20 that have stepped out have perhaps developed alternate
21 pays, but in our main pay we have -- in the EV State Number
22 4, which is in the northwest of the northeast of Section
23 32, had very limited pay in this isopached interval that we
24 are wanting to drill at the proposed location.

25 Q. So there's still a significant component of risk

1 as you attempt to extend the limits of the pool,
2 particularly to the west and to the north?

3 A. Very significant.

4 Q. Let's turn to the topic of the AFE. If you'll
5 turn to Exhibit 10, this is a copy of the Dreyfus AFE that
6 Mr. Hess circulated to the unleased mineral owners. It has
7 certain proposed costs.

8 Do you as an engineer have an opinion as to
9 whether these costs are fair and reasonable in terms of an
10 AFE estimate?

11 A. Yes.

12 Q. And how do you reach that opinion, and what is
13 it?

14 A. I believe that these are fair and reasonable, and
15 I base that on our past experience drilling and completing
16 these wells in this field.

17 Q. Give us an example.

18 A. The Happy Valley 2944, which is the only well
19 that we have drilled and completed in Section 29 -- it's
20 there in the southeast southeast of the section -- we
21 originally AFE'd that at around \$380,000. Our completed
22 well costs, actual, were \$305,000.

23 Q. And the AFE cost for this well is \$347,000?

24 A. \$347,000.

25 Q. So in your opinion, it is still reasonable and

1 accurate to expect a well in that cost range?

2 A. Right.

3 MR. KELLAHIN: All right. Mr. Examiner, that
4 concludes my examination of Mr. Gabbard.

5 We'd move the introduction of his Exhibit 4 and
6 his Exhibits 8 and 9 -- and 10, I'm sorry; 8, 9 and 10 and
7 4.

8 EXAMINER STOGNER: Exhibits 4, 8, 9 and 10 will
9 be admitted into evidence at this time.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. In referring to Exhibit Number 4, Mr. Gabbard,
13 that Yates well that you mentioned that's also in this
14 quarter quarter section was dry, but does that show some
15 cumulative oil production on that exhibit?

16 A. No, sir, on the wells that are dry holes, I guess
17 my legend is specifically -- that's down in the title
18 block, specifically mentions a producing well. What is
19 shown there is the date of completion, just under the name,
20 and then the total depth of the well on a dry hole on this
21 map.

22 Q. Oh, okay, so that was 11,650 feet deep?

23 A. Right.

24 Q. Not 11,650 barrels?

25 A. Correct.

1 Q. Okay.

2 A. Correct. I apologize for not having that set out
3 on the exhibit.

4 Q. Are there any shallower potentials in this area
5 above the Delaware?

6 A. As we define the Delaware, no, in my opinion.

7 Q. Okay, no San Andres, no --

8 A. No.

9 Q. Okay. Now, you have used some terminologies like
10 the Manzanito, the Three Amigos. You're referring to the
11 Delaware interval as the Three Amigos; is that correct?

12 A. These are just markers within the overall
13 Delaware section. The Delaware here ranges from the top of
14 about 1600 feet to around 5000 feet, and our principal pay
15 intervals have been in the Cherry Canyon interval, which is
16 generally in the 2300- to 2600-, 2900-, 3000-foot range.
17 It kind of varies across the field.

18 There have been a few Brushy Canyon producers.
19 Some were completed by Collins and Ware, some were
20 commingled with Cherry Canyon, and I'm not sure that I can
21 give you any definitive numbers.

22 Our experience with most of the Brushy Canyon pay
23 here has been that it's not extremely commercial, very high
24 water cuts. And so it's not been a principal target for
25 our stepout drilling.

1 EXAMINER STOGNER: I have no further questions of
2 this witness. He may be excused.

3 Does anybody else have anything further in this
4 matter?

5 MR. KELLAHIN: Mr. Examiner, Exhibit 11, which we
6 would ask you to introduce at this time, is my certificate
7 of notice to all the individuals and companies shown on
8 Exhibit 2.

9 I have received no communications or
10 correspondence from any of those parties.

11 We would move the introduction of Exhibit 11.

12 EXAMINER STOGNER: One of these notices was to
13 the Mary Lowe interest. I assume that whenever the notice
14 was made, the Lowe interest had not been leased?

15 MR. KELLAHIN: That's correct, and since then
16 she's executed a lease.

17 EXAMINER STOGNER: Okay, Exhibit Number 11 will
18 be admitted into evidence at this time.

19 Does anybody else have anything further in this
20 matter?

21 Case Number 11,687 will be taken under
22 advisement.

23 Mr. Kellahin, does that finish you up for today?

24 MR. KELLAHIN: Yes, sir, it does. Thank you.

25 EXAMINER STOGNER: I'd like to offer our

1 condolences to the loss of Jason, who, by the way, was the
2 Commission's general counsel in 1951. And he served the
3 State well.

4 (Thereupon, these proceedings were concluded at
5 9:20 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11687
heard by me on 19 January 1997.
Steven T. Brenner, 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 January 14th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998