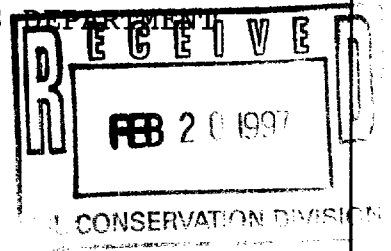


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



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

APPLICATIONS OF AMERIND OIL COMPANY,)
LTD., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NOS. 11,716
and 11,717
(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 6th, 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, February 6th, 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.

* * *

I N D E X

February 6th, 1997
 Examiner Hearing
 CASE NOS. 11,716 and 11,717 (Consolidated)

PAGE

REPORTER'S CERTIFICATE

17

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	4	-
Exhibit 2	7	-

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

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

FOR YATES PETROLEUM CORPORATION:

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 9:20 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,716, which is the Application of Amerind Oil
5 Company, Ltd., for compulsory pooling, Lea County, New
6 Mexico.

7 At this time I'll call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant.

11 EXAMINER STOGNER: Any other appearances?

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe law firm Campbell, Carr,
14 Berge and Sheridan, and I'm entering my appearance on
15 behalf of Yates Petroleum Corporation.

16 EXAMINER STOGNER: Any other appearances?

17 Mr. Kellahin, do you have any witnesses?

18 MR. KELLAHIN: No, sir.

19 EXAMINER STOGNER: Mr. Carr?

20 MR. CARR: No, sir.

21 EXAMINER STOGNER: Okay. Mr. Kellahin?

22 MR. KELLAHIN: Mr. Examiner, by letter decision
23 issued by you yesterday, you have resolved Case 11,716.
24 Because of your decision in that matter, it affects the
25 subsequent case, 11,717, and so for purposes of

1 presentation this morning, we would ask your permission to
2 consolidate Case 11,717 with the case that you've just
3 called. It will allow us to dispose of both matters.

4 EXAMINER STOGNER: At this time I will call case
5 Number 11,717. Mr. Kellahin has entered his appearance.
6 Are there, for the record, appearances in 11,717?

7 MR. CARR: I would ask that the record also
8 reflect my appearance for Yates Petroleum Corporation.

9 EXAMINER STOGNER: Any other appearances in
10 11,717?

11 Mr. Kellahin?

12 MR. KELLAHIN: Thank you, Mr. Examiner.

13 I would appreciate your permission to introduce
14 your letter decision of yesterday as Amerind Exhibit 1 in
15 this matter, to then show you in a large copy of the land
16 configuration of Section 2 and to provide you, then, with
17 Division's direction, so that the OCD District Office of
18 the Division and the operators that hold interest in
19 irregular Section 2 can have the benefit of understanding
20 what the Division decision is, concerning how to identify
21 standard and nonstandard proration units in this section.

22 My purpose, Mr. Examiner, is not to argue with
23 your decision but to simply clarify and detail that
24 decision for benefit of the District Office and for benefit
25 of the operators.

1 As you are aware, there are a number of
2 inconsistent spacing units in this irregular section that
3 have currently been approved by the District Office that
4 are, in fact, based upon your decision, nonstandard
5 proration units.

6 To help me and my client and the other operators
7 understand your decision, I would like to take a few
8 minutes and describe for you what I think is the basis for
9 your decision, outline for you how I think you've required
10 us to grid Section 2 so that we can go about the task of
11 rectifying the problems with the fact that there are
12 spacing units that are being proposed that are, in fact,
13 not consistent with the rules for the West Lovington-Strawn
14 Oil Pool.

15 And with your permission, then, I'd like to do
16 so. I have a copy --

17 EXAMINER STOGNER: Mr. Kellahin, are you going to
18 be offering testimony today?

19 MR. KELLAHIN: No, sir, I'm just going to show a
20 display and invite you to look at the letter that was
21 issued yesterday, and so I can follow through with the
22 letter and chart on my map how to subdivide Section 2.

23 EXAMINER STOGNER: Okay. And you're referring to
24 my letter of yesterday, of February 5th, 1997.

25 I think it would be advisable at this point, too,

1 to also take administrative notice in this decision, or in
2 this case today, for these consolidated cases today, of the
3 special rules and regulations for the West Lovington-Strawn
4 Pool. And I believe those were promulgated by Division
5 Order Number R-9722, which in itself have been amended
6 several times.

7 I believe this one was called the Big Dog-Strawn
8 at one time?

9 MR. KELLAHIN: Yes, sir.

10 EXAMINER STOGNER: And I believe whoever was the
11 operators at that time took exception to that name.

12 But anyway, I'm not to -- That's not the subject;
13 it's the 80-acre oil spacing and proration portion of that
14 rules and regulations that I'm referring to.

15 But I'll take administrative notice of those
16 special rules and regulations and any subsequent cases that
17 were offered at that time, or were heard at that time, I
18 should say.

19 Mr. Carr, you're being very quiet. Do you have
20 anything to say before Mr. Kellahin gets started?

21 MR. CARR: I'm going to entrust this to Mr.
22 Kellahin, at the moment, anyway.

23 EXAMINER STOGNER: Would you like to sit in front
24 of the easel that Mr. Kellahin is preparing at this time,
25 as we speak, directed toward me, so that you can share in

1 this also?

2 MR. CARR: I would like the record to note that
3 Mr. Kellahin has placed the easel directly between me and
4 you.

5 EXAMINER STOGNER: Please make a note that that
6 was my hint for you to come over here so you can see it
7 also, and that you have done so.

8 MR. KELLAHIN: Mr. Examiner, Amerind Exhibit 2,
9 which is the land plat before you, for purposes of this
10 hearing has been enlarged, and I have a copy on the foam
11 board.

12 You'll note that irregular Section 2 is divided
13 into numbered tracts. The first numbered tract is up in
14 the northeast corner; it's Tract Number 1. And they're
15 numbered in chronological order, until you get down to
16 Tract 20.

17 For purposes of identifying the remaining tracts,
18 I'm going to use the conventional nomenclature on the
19 southern row of 40-acre tracts. It would be M, N, O and P.

20 The subject matter of the two cases before you
21 now, one case involved an effort by Amerind to consolidate
22 Tracts 8 and 9. Tract 9 is operated and controlled by
23 Amerind. The proposal was to consolidate those two tracts
24 as an 80-acre spacing unit.

25 In addition, its companion case was Tracts 7 and

1 10, and Amerind was seeking compulsory pooling of those two
2 tracts. Amerind controls Tract 7, Yates Controls Tract 10.

3 There are a series of existing spacing units
4 already in Section 2, one of which is the Amerind Gallagher
5 State 2 well, which consists of Tracts 5 and 6, dedicated
6 to that well.

7 The West State well up in Tract Number 1 was
8 drilled to this pool but was abandoned as not productive,
9 and so therefore Tracts 1 and 2 are open.

10 Tracts 3 and 4 are dedicated to the Amerind well.
11 It's this Mobil State Number 1 well up in Tract 3, and that
12 is the current dedication.

13 What you have decided yesterday by letter is that
14 the formation by Amerind of 7 and 10 as a tract constitutes
15 a nonstandard proration unit in the pool. Mr. Carr has
16 argued that Yates, the owner of 10, with UMC, the owner of
17 15, have already by voluntary agreement consolidated Tracts
18 10 and 15 together.

19 What you have explained and what I understand to
20 be your decision is that the grid system for understanding
21 standard and nonstandard spacing units in the pool is
22 derived by the following reasoning: that you start in the
23 southeast quarter of the section, and then you commence to
24 subdivide the section in a north direction, taking the
25 first two rows of tracts and drawing the first grid as I've

1 done, in green, east and west, being the dividing line
2 between Tracts 13 and 20, and continuing horizontally
3 through the balance of the tracts on that grid.

4 The next grid line you draw is the one that
5 separates Tracts 12 and 15, and they're adjacent tracts in
6 a horizontal fashion going east to west, and that becomes
7 the second grid line.

8 It is my understanding that your decision, then,
9 is also based upon dividing the section east and west along
10 the centerline, which is established as the point between
11 the western boundary of Tract 2 and the eastern boundary of
12 Tract 3.

13 Back in September of last year, you decided that
14 Yates would need the approval of a nonstandard proration
15 unit to consolidate at that time their efforts to
16 consolidate Tract 10 and 11, and you required a hearing,
17 and they did not pursue that.

18 The difficulty, Mr. Examiner, is that the
19 District Office of the Division has current approved APDs
20 that are in conflict with the grid system.

21 My understanding of your decision is, the grid
22 system is such that the operators can establish a standard
23 spacing unit in the pool by consolidating, for example,
24 combinations of Tracts 17 and 18 with Tracts O and P. That
25 would constitute a block. They also would have the choice

1 of either standup or laydown spacing units in a grid that
2 contains Tracts 19, 20, M and N, and correspondingly as you
3 move up the section.

4 What, in fact, has now occurred, Mr. Examiner, is
5 that UMC is drilling and right now completing their
6 Townsend State Number 1 well in Tract 6, and they're doing
7 so based upon a permit approved by the District Office of
8 the Division, which consolidates Tracts 16 and 17. And
9 under your decision that would be a nonstandard proration
10 unit, and they have not achieved yet Division approval to
11 do so.

12 What we are understanding is that you are
13 dismissing Amerind's case to consolidate Tracts 7 and 10,
14 because they are -- they cross the grid system, constitutes
15 a nonstandard proration unit for which they did not seek
16 approval, and you've ordered that case dismissed.

17 As a consequence, Yates already has in place the
18 voluntary agreement of Tracts 10 and 15, and that would
19 take priority in terms of establishing a spacing unit.

20 It is also my understanding that the Division
21 practice and policy is to encourage operators and interest
22 owners to form spacing units on a standard basis.

23 And now if you tell me I have correctly
24 understood the grid system, I now have a way to go back to
25 my client and the other interest owners in this section in

1 order to attempt to consolidate on a standard basis, if you
2 will, the tracts under this grid system, so that we do not
3 create nonstandard proration units.

4 There is a question about what UMC is doing here
5 when they cross the grid. It appears under your decision
6 that that's a nonstandard proration unit. And therefore,
7 based upon your decision for 7 and 10, we are acquiescing
8 and will have you dismiss our pooling Application that
9 sought to consolidate tracts 8 and 9.

10 And that concludes my explanation, Mr. Examiner.

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

13 MR. CARR: Mr. Stogner, all I would add is that
14 when this problem first came to me, I didn't know how you
15 would take an irregular section and determine what was
16 standard and what was not.

17 It was only after that, that I tried to find some
18 guidance, and I found an old treatise that basically said
19 when there are irregular sections, the error is attributed
20 to the northernmost and I believe westernmost portion of
21 the section. And based on that, it was our position that
22 Yates had a standard unit.

23 When we looked at this -- I mean, what Mr.
24 Kellahin has depicted here is correct, and that there do
25 appear to be other nonstandard units in the section which

1 have been approved, which creates a difficult problem.

2 And with that, that's all I can add to what Mr.
3 Kellahin has stated.

4 EXAMINER STOGNER: Just for clarification of the
5 record, there has been lot-letter designations by Mr.
6 Kellahin, and he has marked them in the lower tier, the
7 lowestmost portion of irregular Section 2, as being M, N, O
8 and P.

9 Let the record show if this is the correct
10 designation of how this irregular section and lot numbers
11 have been assigned, then his designation of M would be the
12 southwest quarter of the southwest quarter; his designation
13 of N, as in "never", would be southeast of the southwest; O
14 would be the southwest of the southeast; and P being the
15 southeast-southeast.

16 I would either take exception to those letter
17 designations which you show here. From the beginning of
18 the unit letter designation, that was an Oil Conservation
19 Division nomenclature or designation; it is not a legal
20 representation of designation.

21 And with the invent of ONGARD and people's not
22 either wanting to go with what had been set up by years and
23 years, these lot designations that you have indicated -- I
24 wouldn't have designated those lots as you did. And I
25 don't know how or even if anybody with ONGARD knows how the

1 unit letter designations. But I know how they were from
2 1935 until ONGARD came into being in the late Eighties.

3 So I just wanted to make that clarification,
4 because I feel an order or something, a response other than
5 just a regular dismissal in this instance, will be
6 necessary. I wanted to go through that, because I will be
7 using the legal and survey terms in this instance, and not
8 the OCD unit letter designations which would even further
9 complicate this matter.

10 MR. KELLAHIN: Mr. Examiner, I was not suggesting
11 my letters were the right way. I was just trying to
12 identify those for you, the tracts.

13 EXAMINER STOGNER: And that is confusing, and I
14 wanted to make that clear on the record. So I will be
15 using, like I said, designation in terms.

16 MR. KELLAHIN: Mr. Examiner, did I correctly
17 state what the Division decision is with regards to how to
18 grid Tract 2, so that I can block out what would be
19 standard versus nonstandard proration units?

20 EXAMINER STOGNER: Yes, you're correct, Mr.
21 Kellahin, the letter that you referred to, the February
22 5th, 1997, letter on these nonstandard sections such as
23 this, quarter sections, can be designated and must be
24 designated.

25 So when a nonstandard proration unit is formed,

1 not only are we talking about the number of acreage, but
2 also it's clear in there, as I refer to Rule Number 2, an
3 80-acre shall apply to the north half, south half, east
4 half, and west half of a quarter section. In these long-
5 type sections, a quarter section is what is in question in
6 this particular portion.

7 Fortunately, we don't have any of that northwest
8 stuff that we're contending with right now, but even then
9 there is a norm that has to be applied through the surveys
10 and into these areas. If -- I believe somebody had said
11 there are current proration units that appear to be
12 nonstandard at this point, somebody said approved, I don't
13 know -- approved in your instance would have to be an
14 exception to this. And you said approved. Was it allowed
15 by the District, or was there a hearing order? Because
16 even so, these designations would have to go to hearing.

17 MR. KELLAHIN: Mr. Examiner, the example I was
18 citing is the consolidation on its application for a permit
19 to drill by UMC of Tracts 16 and 17, and my point was, the
20 District Office approved the APD but, to the best of my
21 knowledge, there is no decision by the Division approving
22 that as a nonstandard proration unit.

23 EXAMINER STOGNER: So noted, Mr. Kellahin.

24 Mr. Carr, anything else?

25 MR. CARR: Nothing further.

1 EXAMINER STOGNER: Does anybody else have
2 anything further in Case 11,716 or 11,717?

3 Mr. Kellahin, at this point, what do you suggest
4 we do with 11,716? Do you wish to continue it or
5 readvertise it? Do you wish to dismiss it, or do you want
6 me to take it under advisement at this time?

7 MR. KELLAHIN: Based upon your decision, Mr.
8 Examiner, I believe it's the intent and purpose of the
9 Division to encourage operators to attempt to form standard
10 spacing units prior to asking for a special exception to
11 create nonstandard proration units.

12 We ask that you dismiss both these cases, based
13 upon your decision, and we will pursue efforts to form
14 standard proration units in Section 2.

15 EXAMINER STOGNER: Then with that, both of these
16 cases -- Tell you what, this time there will be a dismissal
17 order issued. But I feel that a normal dismissal is not
18 warranted in this instance; it should go into a little bit
19 more detail of discussions that have led up to today's
20 hearing and also my letter of yesterday, February 5th.

21 MR. KELLAHIN: That would be very helpful, Mr.
22 Examiner.

23 The letter by itself does not explain the grid
24 system, and so that was my purpose this morning, to make
25 sure that someone could read an order issued in this case

1 and understand how to grid Section 2 so that you could
2 develop standard spacing units and not get into this
3 problem.

4 EXAMINER STOGNER: Does anybody else have
5 anything further?

6 Then Cases 11,716 and 11,717 will be dismissed.

7 (Thereupon, these proceedings were concluded at
8 9:41 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 Nos. 11716 and 11717
heard by me on 6 February 1997.

[Signature], Examiner
[Signature] Air Conservation Division

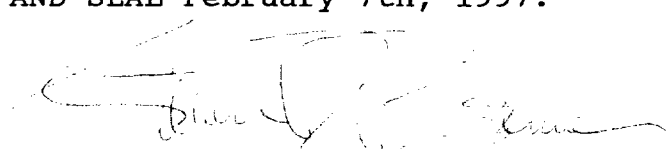
CERTIFICATE OF REPORTER

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 February 7th, 1997.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998