

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 KERR-MCGEE OIL & GAS)
ONSHORE, LLC, TO EXPAND THE INDIAN)
BASIN-UPPER PENNSYLVANIAN ASSOCIATED)
POOL AND CONCOMITANTLY TO CONTRACT)
THE INDIAN BASIN-UPPER PENNSYLVANIAN)
GAS POOL, AND FOR APPROVAL OF FOUR)
NONSTANDARD GAS PRORATION UNITS,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 12,782

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 20th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 20th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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OIL CONSERVATION DIV

I N D E X

December 20th, 2001
 Examiner Hearing
 CASE NO. 12,782

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A P P E A R A N C E S

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* * *

ALSO PRESENT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:18 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 12,782, which is the Application of Kerr-McGee Oil
5 and Gas Onshore, LLC, to expand the Indian Basin-Upper
6 Pennsylvanian Associated Pool and concomitantly to contract
7 the Indian Basin-Upper Pennsylvanian Gas Pool, and for
8 approval of four nonstandard gas proration units in Eddy
9 County, New Mexico.

10 At this time I'll call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant.

13 I have two witnesses.

14 MR. FELDEWERT: Mr. Examiner, Michael Feldewert
15 with the Santa Fe office of Holland and Hart. I'm here
16 representing Yates Petroleum Company.

17 We do not have any witnesses, but Mr. David
18 Boneau is here today to offer a statement to the Examiner
19 on this Application.

20 EXAMINER STOGNER: Any other appearances?

21 So Mr. Feldewert, Dr. Boneau is not here as a
22 witness; is that my understanding?

23 MR. FELDEWERT: Correct, we're not going to offer
24 any evidence in the case.

25 EXAMINER STOGNER: In that case, will the two

1 witnesses please stand to be sworn at this time?

2 (Thereupon, the witnesses were sworn.)

3 EXAMINER STOGNER: Mr. Bruce, Mr. Feldewert, is
4 there any reason for opening statements at this time?

5 MR. BRUCE: I don't think so.

6 EXAMINER STOGNER: Mr. Bruce?

7 STEVE FOERSTER,

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Would you please state your name and city of
13 residence for the record?

14 A. My name is Steve Foerster, in Dallas, Texas.

15 Q. Who do you work for and in what capacity?

16 A. I'm a landman with Kerr-McGee Oil and Gas
17 Onshore, LLC.

18 Q. Have you previously testified before the Division
19 as a petroleum landman?

20 A. Yes, sir, I have.

21 Q. And were your credentials as an expert landman
22 accepted as a matter of record?

23 A. Yes, sir, they were.

24 Q. And are you familiar with the land matters
25 involved in this case?

1 A. Yes, sir, I am.

2 MR. BRUCE: Mr. Examiner, I tender Mr. Foerster
3 as an expert petroleum landman.

4 EXAMINER STOGNER: Any objection?

5 MR. FELDEWERT: No, Mr. Examiner.

6 EXAMINER STOGNER: Mr. Foerster is so qualified.

7 MR. BRUCE: Mr. Examiner, in this case Kerr-McGee
8 is seeking several items of relief, one to expand the
9 Associated Pool, second to contract the Gas Pool. They
10 will also be requesting certain nonstandard units and
11 approval of some unorthodox locations that will be created
12 due to the movement of the boundary of the pool, not
13 because there are new wells being drilled. These will be
14 discussed in a little more detail in Mr. Foerster's
15 testimony, and also in the testimony of Mr. Martin, our
16 engineer.

17 Q. (By Mr. Bruce) Mr. Foerster, could you identify
18 Exhibit 1 for the Examiner and describe what it shows?

19 A. Yes, sir, my first exhibit is a plat depicting in
20 gray the sections or portions of sections that we are
21 requesting the Division delete from the Indian Basin-Upper
22 Pennsylvanian Gas Pool by contraction and include in the
23 Indian Basin-Upper Pennsylvanian Associated Pool by
24 expansion. The lease names are shown, as well as the
25 operators in each of the sections or portions of the

1 sections. Attached to the plat is a legal description of
2 the extension area.

3 Q. In your opinion, will the correlative rights of
4 all interest owners in the extension area be protected by
5 this Application?

6 A. Yes, sir.

7 Q. Let's discuss that in a little more detail.
8 Could you refer to your Exhibit 2 and discuss the basis of
9 your opinion?

10 A. Yes, sir. Exhibit 2 lists the sections in the
11 expansion area. I would like to go through it and discuss
12 why the interest owners' correlative rights would be
13 protected. I categorize the sections into three different
14 categories. The first category are sections where they're
15 one federal lease, the second category are sections
16 containing state leases, and the third category are
17 sections involving federal communitization agreements.

18 Q. Okay, Mr. Foerster, let's identify -- there's
19 four wells -- or excuse me, four sections where there is
20 one federal lease covering the entire section; is that
21 correct?

22 A. Yes, sir, that is correct, one federal lease and
23 common ownership.

24 Q. Okay, go into that. Why don't you start with
25 Section 25?

1 A. All-righty. The sections -- I would like to
2 mention here, listed in front of each of the sections are
3 the section number, the township and range, and also the
4 portion of the section that is to be included in the
5 extension or expansion area.

6 The first section is Section 25, and all of it is
7 requested to be in the extension area. Devon SFS
8 Operating, Inc., is the operator, and it's their Indian
9 Basin F Lease. There's an operating agreement in place
10 covering the entire section, but that's really not an issue
11 here, because Devon is a 100-percent working interest
12 owner. There's one federal lease that covers the entire
13 section. There is no fed com agreement. There are no
14 state leases, and as a result no state com agreement.
15 There are overriding royalty interests in the section, but
16 they cover the entire section.

17 In speaking with Mr. Armando Lopez with the BLM,
18 he said that no fed com agreement was needed, to leave it
19 as it is, as there is only one lease.

20 Now, the other three sections listed below that
21 under this category are basically simple -- excuse me,
22 basically similar. There's one fed lease covering each of
23 the entire sections.

24 Q. Okay, let's move on to what you refer to the
25 sections covering -- containing state leases.

1 A. The next three sections are sections containing
2 state leases. The first section is Section 36 of Township
3 21 South, Range 23 East. The west half is included in the
4 expansion or extension area.

5 Kerr-McGee Oil and Gas Onshore, LLC, is the
6 operator, and it's our Lowe State Lease. There's an
7 operating agreement in place that covers the entire
8 section, so working interest owners share under the joint
9 operating agreement. There's no fed com agreement, there's
10 no fed leases. All the leases in the section are state
11 leases. There is a separate state com agreement that
12 covers both the west half and the east half of the section.
13 There are no overriding royalty interests in this
14 particular section.

15 In accordance with my discussion with Mr. Jeff
16 Albers with the State Land Office, the State will need to
17 do an amendment to the existing state com agreement in the
18 west half of Section 36 to change it from the Indian Basin-
19 Upper Penn Gas Pool formation to the Indian Basin-Upper
20 Penn Associated Pool formation.

21 The next section is Section 19 of 21 South, 24
22 East, and all of that section is included in the extension
23 area. Marathon Oil Company is the operator, and it's their
24 Indian Federal Lease. There's currently no production from
25 the upper Pennsylvanian formation in this section. There

1 are no com agreements in place as a result of no
2 production. No correlative rights will be affected, as
3 there is no production.

4 The third section under this category is Section
5 2 of Township 22 South, Range 23 East. The east half of
6 the section is included in the expansion area. Kerr-McGee
7 Oil and Gas Onshore, LLC, is the operator, and it's our
8 Conoco State lease. There's no operating agreement
9 covering this section, there's no federal leases, so no fed
10 com agreement. Kerr-McGee owns 100-percent working
11 interest in this section. All leases in the section are
12 state leases. There is a state com agreement covering the
13 entire section. There are no overriding royalty interests.

14 In accordance with my discussion with Mr. Jeff
15 Albers regarding this section, we will wish to establish
16 separate communitization agreements for the east half and
17 the west half of Section 2. The west half of Section 2
18 will cover the Indian Basin-Upper Penn Gas Pool, and the
19 east half will cover the Indian Basin-Upper Penn Associated
20 Pool.

21 Q. Okay, let's finally move on to the three sections
22 that are all federal. Would you discuss those, please?

23 A. Yes, sir, the following are the last three
24 sections, are all -- are sections involving federal
25 communitization agreements.

1 The first section is Section 12 of Township 22
2 South, Range 23 East. The west half of this section is
3 included in the expansion area. Yates Petroleum
4 Corporation is the operator, and it's the Smith Fed lease.
5 There's an operating agreement covering the entire section,
6 there's a federal com agreement that covers the entire
7 section. There are no state leases involved and no state
8 com agreement. There are overriding royalty interests.

9 In accordance with my discussion with Mr. Armando
10 Lopez, we will leave this at a 640-acre communitization
11 agreement, or leave it in place.

12 Q. So under this scenario for this particular
13 section, all interests will remain in place for the entire
14 section?

15 A. Correct, sir.

16 Q. Okay.

17 A. The remaining sections are basically similar
18 below, with federal com agreements in place for the entire
19 sections.

20 Q. Now, again, you have spoken with Jeff Albers at
21 the State Land Office and Armando Lopez with the BLM
22 regarding these matters?

23 A. Yes, sir, I went over and through every one of
24 these sections with them, insofar as they apply to their
25 offices.

1 Q. Okay, let's move on to your Exhibit 3. Could you
2 identify that for the Examiner?

3 A. Yes, sir, my third exhibit is a plat depicting in
4 light blue the sections or portions of sections that we are
5 requesting the Division delete from the Indian Basin-Upper
6 Pennsylvanian Gas Pool by contraction and include in the
7 Indian Basin-Upper Pennsylvanian Associated Pool by
8 expansion. The lease names are shown, as well as the
9 operators in each of the sections or portions of the
10 sections.

11 The wells shown in orange are those that will
12 become unorthodox locations in the Indian Basin-Upper Penn
13 Gas Pool. The wells shown in dark blue are those that will
14 become unorthodox in the Indian Basin-Upper Pennsylvanian
15 Associated Pool.

16 Also attached to this exhibit -- or to this plat,
17 are the specific listings and locations, as well as
18 operators of each of the wells that will become unorthodox.

19 Q. Does Kerr-McGee request that these unorthodox
20 locations be grandfathered in, be approved?

21 A. Yes, sir, we do.

22 Q. And does Kerr-McGee request that no penalty be
23 assessed against production from these wells?

24 A. Yes, sir.

25 Q. Mr. Foerster, will any nonstandard proration

1 units be created in the Gas Pool if this Application is
2 approved?

3 A. Yes, sir, there will be four nonstandard gas
4 proration -- Gas Pool proration units that will be formed
5 in the west half of Sections 35, Section 2, Section 11 and
6 Section 14.

7 Q. Does Kerr-McGee request that these nonstandard
8 proration units be approved?

9 A. Yes, sir.

10 Q. Now, will the nonstandard units receive the one-
11 half of the normal Gas Pool allowable?

12 A. Yes, sir.

13 Q. One final matter regarding the well units. Does
14 Kerr-McGee request a number of wells in the expansion area?

15 A. Yes, sir, we request that only one well be
16 allowed per quarter section.

17 Q. Now, referring back to your Exhibit 3 again, I
18 notice that in Section 12 of -- Is that 22 South, 23 East?
19 -- there are already two producing wells in the northwest
20 quarter of that section. Does Kerr-McGee request that
21 those two wells be grandfathered in with both of them being
22 allowed to produce?

23 A. Yes, sir.

24 MR. BRUCE: Mr. Examiner, if I can stop Mr.
25 Foerster's testimony for a minute, and I need some

1 clarification due to my own deficiencies here.

2 Let me hand you, Mr. Examiner, what -- the first
3 one is the copy of the Application that I filed on behalf
4 of Kerr-McGee in this matter. If you turn to paragraph 6
5 of that Application, when I filed the Application, through
6 an oversight I made a mistake, and if you look at paragraph
7 6 on page 3, I asked that only one well be allowed per
8 quarter section in what you would call the west half of the
9 expansion area, when actually the one well per quarter
10 section should apply to the entire expansion area. I just
11 wanted you to be aware of that, first and foremost.

12 And the notice that went out to everyone
13 contained the correct request, which is one well per
14 quarter section in the entire expansion area, and that's
15 that second Application I handed to you, which will also be
16 in the notice materials. If we have to re-notify people,
17 we can do so, although everyone received the proper
18 application. The one that was filed with the Division,
19 through my oversight, was incorrect.

20 Also, Mr. Examiner, I just realized at this time
21 that this Application did not ask for approval of the
22 unorthodox locations.

23 I just wanted you to be aware of that at this
24 time as we go through the testimony, and then we can
25 discuss that after the witnesses have testified.

1 Q. (By Mr. Bruce) Okay. Now, Mr. Foerster, Kerr-
2 McGee has requested four things, an expansion and
3 contraction of the pools, second item, the four nonstandard
4 proration units, they requested certain unorthodox
5 locations, and finally a restriction on the number of wells
6 per section. Are the other operators in both the Gas and
7 Associated Pools in agreement with these proposals?

8 A. Yes, they are, and there have been phone calls
9 and actual meetings among all of the operators, and all are
10 in agreement.

11 Q. What is Exhibit 4?

12 A. This is my listing of operators in both the
13 Indian Basin-Upper Penn Gas Pool and the Indian Basin-Upper
14 Penn Associated Pool, as well as all interest owners in the
15 expanded area.

16 Q. Was notice given to all royalty interests,
17 overriding royalty interests, production payment interests,
18 and working interest owners in the extension area?

19 A. Yes.

20 Q. Even though you've testified that their rights
21 shouldn't be affected, notice was given to everyone?

22 A. Yes.

23 Q. And that included all of the operators in both
24 pools too, did it not?

25 A. That is correct, sir.

1 Q. Okay. Where did this list of addresses come
2 from, and interest owners?

3 A. The list of addresses and interest owners came
4 from current pay sheets or division of interest provided by
5 each of the operators.

6 Q. Okay. And is Exhibit 5 my affidavit of notice?

7 A. Yes, sir.

8 Q. Now, there's a couple of things I want to go
9 through in the affidavit of notice, Mr. Examiner. First of
10 all, the Application that was enclosed with this notice
11 which is attached to this package was the proper
12 Application with respect to the one well per quarter
13 section in the extension area.

14 Secondly, Mr. Foerster, if you'd go back to, say,
15 the final ten pages or so of this exhibit, starting --
16 there are some returned envelopes -- starting with the
17 Minerals Management Service. Do you have that in front of
18 you?

19 Now, there are -- Mr. Foerster, there's six
20 returned envelopes to -- starting with the Minerals
21 Management Service and running through Timothy Edward
22 Hanagan. Did these six people or these six entities
23 receive notice regardless of these returned envelopes?

24 A. Yes, sir, they did. When you go through my list
25 you'll see that there were duplicate addresses and

1 sometimes triplicate addresses for folks, and all of them
2 received at least one notice.

3 Q. Okay. So for instance, the Minerals Management
4 Service, although the Roswell address was returned, it was
5 delivered up in Denver, was it not?

6 A. Correct, sir.

7 Q. Okay. And the same thing for the rest of these
8 people. At one alternate address or maybe two alternate
9 addresses they did receive notice, did they not?

10 A. Correct.

11 Q. Now, two of the last three pages, Mr. Foerster,
12 are just the white cards. Those are addresses for which
13 the green cards have not yet been returned; is that
14 correct?

15 A. That is correct.

16 Q. Now, on these, on these two pages, the first page
17 where there's a Russell Mann and several other names, did
18 all of these people receive notice, except for the Montana
19 Historical Society?

20 A. Yes, they did.

21 Q. There were duplicate addresses for the other four
22 names on this page, other than the Montana Historical
23 Society?

24 A. Correct, sir.

25 Q. And those are contained in this package. And

1 then the final page, where you do not have green cards
2 returned, those people -- the cards just have not come
3 back; is that correct?

4 A. Yes, sir, and also that should be included in
5 that group is the Montana Historical Society Foundation.

6 Q. So there's about five people whose cards have not
7 come back, but everyone else has received notice?

8 A. Yes, sir.

9 Q. Were Exhibits 1 through 5 prepared by you or
10 under your supervision or compiled from company business
11 records?

12 A. Yes, sir.

13 Q. And in your opinion, is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes, sir.

17 MR. BRUCE: Mr. Examiner, I move the admission of
18 Kerr-McGee Exhibits 1 through 5 at this time.

19 EXAMINER STOGNER: Exhibits 1 through 5 will be
20 admitted into evidence.

21 Thank you, Mr. Bruce.

22 Mr. Feldewert, your witness.

23 EXAMINATION

24 BY MR. FELDEWERT:

25 Q. Mr. Foerster, I just want to make sure I

1 understand how your Application impacts Yates here today.
2 I'm looking at your Exhibit Number 3.

3 A. Yes, sir.

4 Q. Now, the three wells that you show there in blue
5 in Sections 12 and 13, those are Yates-operated wells?

6 A. Yes, sir.

7 Q. Okay. And as I understand your Application here
8 today, you are including those wells within the expansion
9 area for your -- what you call the Associated Pool?

10 A. Yes, sir.

11 Q. Okay. And as I understand your Application here
12 today, you're asking the Division that these wells be
13 grandfathered in; is that correct?

14 A. Yes, sir.

15 Q. And that the two -- In other words, then, that
16 your request for one well per quarter section with respect
17 to the two Yates wells in Section 12, those would be
18 grandfathered in and would be allowed under your
19 Application; is that right?

20 A. That is correct, sir.

21 Q. As I understand your Application, you are also
22 asking here today that to the extent that any of these
23 three wells are unorthodox under the rules associated with
24 the pool, that they also be grandfathered in and those
25 unorthodox locations approved; is that right?

1 A. That is correct, sir.

2 Q. And that with respect to these three wells there
3 would be no production penalty imposed upon them as they
4 are added to this extension area?

5 A. That is correct.

6 MR. FELDEWERT: Okay. That's all I have, thank
7 you.

8 EXAMINER STOGNER: Mr. Feldewert.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Okay, Mr. Foerster --

12 A. Yes, sir.

13 Q. -- let's turn to Exhibit Number 3. I'm going to
14 ask you some general questions, so bear with me here
15 because there's some people that may be reading this
16 transcript that's a little unfamiliar.

17 When I look at Exhibit 3, the black line on the
18 east side of the blue areas, that is the current boundary
19 line between the Indian Basin Gas and the Indian Basin
20 Associated; is that correct?

21 A. I was looking at Exhibit 3, sir, and the black
22 line on the east side there --

23 Q. Yes.

24 A. -- yes, sir, that is the current boundary line
25 between the -- The eastern side is the Associated Pool, the

1 western side is the Upper Penn Gas Pool.

2 Q. Okay, currently what are the difference between
3 the pool rules in these two pools?

4 A. The pool rules in the Associated Pool require for
5 660 spacing, and I believe it's 1650 spacing in the Upper
6 Penn Pool.

7 Q. Run that by me again. Okay, what is the spacing
8 for the Associated Pool -- That's the east side, right?

9 A. Yes, sir.

10 Q. And what -- Is that 320- or 640-acre spacing?

11 A. Oh, I'm sorry, 640 acres, excuse me, sir. It's
12 640 acres for the Indian Basin-Upper Pennsylvanian Gas
13 Pool, and the offsets from the section lines are 1650.

14 Q. Okay. Now, that's for -- You just described to
15 me that 640-acre spacing --

16 A. Yes, sir.

17 Q. -- 660 offset from the outer boundary line for
18 the Indian Basin Gas Pool; is that correct?

19 A. No, sir, 1650.

20 Q. 1650.

21 A. Yes, sir.

22 Q. But that's for the Gas Pool?

23 A. The Gas Pool, yes, sir.

24 Q. And that's on the western side of this map?

25 A. Yes, sir.

1 Q. Okay. What is the current pool rules for the
2 Associated Pool on the eastern side?

3 A. It's 320 acres, sir, and it's 660.

4 Q. Okay. Now, the red line denotes the change; is
5 that correct?

6 A. The red line is the western boundary line of the
7 area that has been changed, yes, sir.

8 Q. Okay. So what you're essentially asking for is
9 that -- where the acreage in the blue would go from 640-
10 acre spacing to 320-acre spacing?

11 A. That is correct, sir.

12 Q. Okay. I am now referring to Exhibit Number 2,
13 and this is your last page, and it talks about sections
14 involving federal communitization agreements, in particular
15 the west half of 12 and 13?

16 A. Yes, sir.

17 Q. And down there on subparagraph 4 or section 4 in
18 both of these location descriptions, Leave 640-acre com
19 agreement in place; is that correct?

20 A. Yes, sir. Yes, sir.

21 Q. Now, a com agreement covers a proration unit or
22 spacing unit?

23 A. In this instance here, it covers the entire
24 section.

25 Q. Okay. Does that equate to communitization

1 agreement having a 640-acre proration unit, or does that
2 just cover the section?

3 A. It covers the section, sir, I think.

4 Q. But that's not necessarily the spacing in that
5 section currently?

6 A. No, sir.

7 Q. Okay. Because communitization agreement has
8 always -- have learned it -- denoted acreage within a
9 spacing or proration unit. But not in this instance?

10 A. No, sir.

11 Q. Okay. Since 99.99 percent of the time that
12 happens, why are these different? What happened to make
13 these split?

14 A. In the prior hearing to expand the Associated
15 Pool, there were half-sections that were brought in there.
16 And in order to protect the correlative rights of all the
17 interest owners within that section, the BLM required that
18 they just -- that we leave the 640-acre communitization
19 agreement in place.

20 Q. And you're referring to -- Well, I'll make a note
21 of that. You're referring to Order Number R-9922-B in Case
22 12,006 that did that; is that correct?

23 A. I have that with me in one of my files somewhere,
24 sir, but I don't --

25 Q. Well, that's okay, because I've got it out --

1 A. Okay.

2 Q. -- right here.

3 A. All right. Well, I'm going to sure take your
4 word for it, then. Thank you, sir.

5 Q. Okay. Referring back to Exhibit Number 3 --

6 A. Yes, sir.

7 Q. -- when I look back at Section 35, now, currently
8 under the rules, Well Number 1 and 3 in this Section 35,
9 640-acre spacing they share in a single 640-acre spacing
10 unit; is that correct?

11 A. At this point in time, yes, sir.

12 Q. So these would be split into a 320-acre standard
13 associated spacing for the Number 3 and a nonstandard 320
14 west-half dedication in the Gas Pool for the Number 1?

15 A. Correct, sir.

16 Q. Okay. Now, when I look at your Exhibit Number 2,
17 you talk about the east half of 35, no operating agreement,
18 no federal com, no state com, no state leases. Now, you
19 just denote the east half of 35. What about the west half
20 of 35?

21 A. The west half of Section 35 is the same. There's
22 no operating agreement covering that section. It's all one
23 federal lease covering the entire section. Marathon is a
24 100-percent working interest owner. There are no
25 overriding royalty interest owners.

1 Q. Okay. So whenever I look at the east half of 35,
2 21 South, 23 East, Marathon Oil Company Federal C-35, I can
3 assume, instead of the east half, that this essentially or
4 best describes what's going on in all of Section 35
5 currently?

6 A. Yes, sir.

7 Q. Okay. So no overriding royalty, that's fine.
8 Marathon is 100-percent working interest owner over the
9 whole section --

10 A. Yes, sir.

11 Q. -- and one lease covers that entire section?

12 A. Yes, sir.

13 Q. Okay.

14 A. In those instances where I have the portions of
15 the sections in parentheses, I placed that there just to
16 indicate what was going to be in the expansion area. But
17 the workup I did on this was on the whole section, sir.

18 Q. Okay. Now, does that hold true for Section 2?
19 Because on the last page of Exhibit Number 2, you denote
20 the east half of 2, Kerr-McGee Oil and Gas Onshore, no
21 operating agreement, no com agreement. Does this describe
22 -- Well, no, you have something here that's in the last
23 paragraph, 6. Let's take a look at the difference between
24 the west half and the east half of 2 at this time.

25 A. Yes, sir. At this point in time there's a state

1 com agreement covering the entire section.

2 Because there will be a difference in pools --
3 there will be the Associated Pool on the east half of the
4 section and the Indian Basin-Upper Penn Gas Pool on the
5 west half of the section -- the State Land Office
6 recommended that we do as did over on the Lowe State Unit
7 and have separate state communitization agreements there,
8 for each half.

9 Q. Okay. Am I to assume now that all of Section 2
10 is under one Com agreement?

11 A. Yes, sir.

12 Q. So that tells me that there's two state leases in
13 Section 2?

14 A. Yes, sir, there are.

15 Q. Okay, do you know how that's split up, how those
16 two state leases are split up?

17 A. I'm having to think just one moment. I had that
18 information -- I can read it better than I can looking at
19 that plat.

20 The two state leases are split as follows: The
21 first lease covers Lots -- and this is in Section 2 of
22 Township 22 South, Range 23 East -- the first lease covers
23 Lots 2, 3, 4, the south half of the north half, the west
24 half of the southwest quarter, the north half of the
25 southeast quarter, the southeast quarter of the southeast

1 quarter.

2 Q. While you have that description, what's the lease
3 number? Do you have that handy?

4 A. Yes, sir, it is New Mexico Lease Number
5 E-10171-1.

6 Q. That's E-10171- --

7 A. -1, yes, sir.

8 Q. -1, okay. And the remaining of that is under
9 another state lease. Do you have that lease number?

10 A. Yes, sir, it's Lease Number K-672-0.

11 Q. Okay.

12 A. I believe that's -0, sir, I'm -- That's what it
13 appears to me, yes.

14 Q. But those are the only two state leases in
15 Section 2?

16 A. Yes, sir, that's correct.

17 Q. I'm going to ask one more very difficult
18 question. If you don't know, that's okay. How about the
19 beneficiary of those two leases that you just described in
20 Section 2? Do you have any notation in there who that is?
21 Is that common?

22 A. Beneficiary -- I didn't quite catch what you mean
23 by beneficiary, sir, please, sir.

24 Q. Okay, there are about 14 state beneficiaries on
25 state lands in the State of New Mexico.

1 A. Oh --

2 Q. Normally, Sections 2, 16, 32 and 36 are common
3 schools.

4 A. Okay, all right, I'm learning something today.
5 That's good.

6 Q. Do you want me to tell you who the other 13 are?

7 (Laughter)

8 A. I had a communitization agreement, and let me
9 see, sir, if I can come through here and find --

10 Q. And it may not be in there.

11 MR. BRUCE: We can certainly determine that for
12 you, Mr. Examiner.

13 Q. (By Examiner Stogner) And that will be in our
14 public records also. I just wondered if it was -- Those
15 state leases that you're looking at doesn't necessarily
16 denote that at all times. But that will be a portion of
17 the public record.

18 And in the -- You have talked to Jeff Albers on
19 this so there's no problem, as you know, of splitting these
20 up, because you have talked to Mr. Albers?

21 A. Yes, sir, I spoke to him. Every section that had
22 a state lease in it, sir, I spoke to him about those.

23 Q. Okay, good. Let's see. So we'll just -- In the
24 interest of time, we'll look that information up, it will
25 be on the computer readout, on my handy-dandy ONGARD

1 screen.

2 A. Mr. Examiner, I'm sorry I didn't have that
3 information on beneficiaries, I --

4 Q. I would have been surprised if you did.

5 A. Well, I would have liked to have surprised you.

6 Q. Okay. Now, I want to turn my attention -- These
7 are federal leases, 11 and 14. Now, you had already had
8 mentioned the east half of 14. When I look at the final
9 entry on the Exhibit Number 2, it talks about the east half
10 of 14 being under Marathon Oil Company operating agreement
11 under the entire section, and there's a federal com
12 agreement that covers this section; is that correct?

13 A. Yes, sir.

14 Q. Okay. Now, and you have talked to Armando Lopez
15 about this being split up as far as spacing unit goes, but
16 he wishes to leave the com agreement in place; is that
17 correct?

18 A. That is correct, sir.

19 Q. Okay. Now, let's look at Section 11. Okay, that
20 would be on page 2 of Exhibit 2. Now, there's no federal
21 com agreement, and this is per -- It appears to me that
22 Marathon Oil Company is 100-percent working interest and
23 one federal lease.

24 A. Yes, sir, that's correct.

25 Q. When I look at these four sections that are being

1 split -- this is Section 35, 2, 11 and 14 -- now, I see
2 that Marathon is the operator, current operator, in three
3 of these sections. Kerr-McGee is the operator of one of
4 the sections, Section 2. Will that -- Will the operations
5 be the same, Marathon being Marathon, Kerr-McGee being
6 Kerr-McGee, on those eastern halves of this split where
7 there appear to be no operations, with the exception of
8 Marathon's Number 3, and that's the Federal C 35?

9 A. Okay, as to Section 35, Marathon is the 100-
10 percent working interest owner. There's no operating
11 agreement. There should be no change whatsoever as far as
12 the operators go there, sir.

13 Q. And I'm assuming that holds true in 2, 11 and 14,
14 unless you know of other --

15 A. Section 2, there will be no change in that
16 because we're 100-percent working interest owners in there.

17 Section 11, here again, there's no operating
18 agreement in place because Marathon is 100-percent working
19 owner, so that should be true too, sir.

20 Section 14, there's an operating agreement
21 covering the entire section. I see no reason why -- I'm
22 not sure what exactly -- I could dig it out for you as far
23 as Marathon, but I see no reason why they should change
24 operatorship, as being the operator now. They shouldn't
25 change operatorship by moving the eastern half into the

1 Associated Pool, sir.

2 A. Okay. Now, you talked earlier -- You were
3 familiar with the Order Number 9922-B. This was the order
4 that had -- the previous order that moved the locations
5 around -- I'm sorry, the boundary around.

6 In that particular order, because the gas spacing
7 rules required 650 offset from the outer boundaries of the
8 proration unit, it allowed for a paragraph in there that
9 any future well would be located up to 660 feet to the
10 eastern boundary of those four sections that had been
11 similarly cut. Does that also hold true at this time?

12 And Mr. Bruce, was that covered in the
13 Application?

14 MR. BRUCE: There was nothing in the Application
15 about that, Mr. Examiner. To clarify, in other words, in
16 Section 24 to the north, a well could be located 660 feet
17 off the line, eastern line, of that section.

18 EXAMINER STOGNER: No, what occurred in those
19 sections that had an east-half dedication, that should have
20 been 640 and it was split to 320 --

21 MR. BRUCE: Oh, okay.

22 EXAMINER STOGNER: -- we allowed wells to be no
23 closer than 660 feet --

24 MR. BRUCE: Okay.

25 EXAMINER STOGNER: -- to the eastern boundary of

1 that unit.

2 MR. BRUCE: Okay. It wasn't handled in my
3 Application, I know that for sure.

4 EXAMINER STOGNER: And this kind of goes back to
5 the unorthodox location request that you had, because these
6 wells that are on the western perimeter that are still in
7 the gas area --

8 MR. BRUCE: Because it would kind of be difficult
9 to place every well 1650 feet off of the outer boundary of
10 a Gas Pool nonstandard well location -- I mean well unit --
11 I think that would be a reasonable thing to do, Mr.
12 Examiner.

13 EXAMINER STOGNER: Okay, and this goes back to
14 what you had talked about as the unorthodox location.
15 Should there be a need for readvertisement, that perhaps
16 could be --

17 MR. BRUCE: I think that would be reasonable.

18 EXAMINER STOGNER: Because I'm assuming -- Well,
19 it's only prudent too. I don't even remember -- because I
20 heard that case, 12,006 -- I don't know if that was
21 mentioned in there or not. But at the same time, because
22 of the rule change, it would have made -- and perhaps Mr.
23 Feldewert's witness could remember what we did in that,
24 because I think he was involved in that too.

25 Okay, with that, I think it's addressed, or

1 adequately addressed at this time. We may need to come
2 back and review that, if we need to readvertise.

3 MR. BRUCE: Okay, and I would like to address a
4 couple of questions toward Mr. Foerster on these unorthodox
5 locations.

6 EXAMINER STOGNER: Please.

7 MR. BRUCE: Before I do that, Mr. Examiner, in
8 Exhibit 3 on which you were questioning Mr. Foerster about
9 operations, there are certain additional wells on some of
10 these well units, these -- Section 35, the split sections,
11 and we have some maps that the engineer will present that
12 will show those additional wells.

13 FURTHER EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Foerster, regarding some of these unorthodox
16 well locations, if you start with Section 35 --

17 A. Yes, sir.

18 Q. -- that is a section that is covered by one
19 single federal lease, is it not? If you'd look at your
20 Exhibit 2?

21 A. Yes, sir. That is one federal lease, yes, sir.

22 Q. Okay, so the fact that the location -- and with
23 common ownership throughout the section?

24 A. Correct, sir.

25 Q. So the unorthodox location there would not harm

1 anyone?

2 A. Correct, sir.

3 Q. Then if you move down to Section 2, that's 100-
4 percent Kerr-McGee working interest?

5 A. Yes, sir.

6 Q. 100-percent state land?

7 A. Correct, sir.

8 Q. And no overriding royalties?

9 A. Correct, sir.

10 Q. And providing the beneficiaries of the state
11 leases are the same, then no one is affected adversely by
12 the unorthodox locations, because ownership is common
13 throughout the section?

14 A. Correct, sir.

15 Q. Then if you move down to Section 11, again that
16 is one single federal lease with common ownership
17 throughout the section again; is that not correct?

18 A. Correct, sir.

19 Q. And so again, since the ownership is common no
20 one would be adversely affected by the unorthodox location?

21 A. That is correct.

22 Q. And then finally in Section 14, that is one where
23 there are federal leases involved, but the com agreement
24 will remain in place and the operating agreement will
25 remain in place, so everyone shares in production

1 throughout the section; is that correct?

2 A. Yes, sir.

3 Q. So no one will be adversely affected by that
4 unorthodox location?

5 A. Correct, sir.

6 MR. BRUCE: Okay. Thank you, Mr. Foerster.

7 That's all I have, Mr. Examiner.

8 FURTHER EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Mr. Foerster, in Exhibit Number 2 you refer to
11 Armando Lopez and Jeff Albers. Was this verbal
12 communications, or were there any written communications?

13 A. It was all verbal communications, and there was
14 nothing in writing, sir. There were phone calls made on
15 the days that I have stated there, and I went through
16 section by section with them that they had -- Where there
17 were state leases involved I went through Mr. Albers, where
18 there were state and federal lease involved I went through
19 Mr. Lopez and Mr. Albers both, and where there were federal
20 leases I went through Mr. Lopez only.

21 Q. And just for the record, who is Mr. Lopez?

22 A. As I -- To the best of my knowledge, he is an
23 engineer with the BLM, and his exact title I'm not aware
24 of, sir. But his duties --

25 Q. In the past when you've worked with Mr. Lopez,

1 he's --

2 A. I have not worked with him before. The way I
3 came upon Mr. Lopez is by reading the hearing notes from
4 the prior hearing on the expansion there. He was the
5 person that was contacted in that instance there.

6 I was given two other names with the BLM to
7 contact, Ms. Ormes --

8 MR. BRUCE: Ormeseth.

9 THE WITNESS: I called her, and she gave me
10 another person's name, and I described exactly what I
11 needed, and she directed me to Mr. Lopez.

12 Q. (By Examiner Stogner) And Mr. Jeff Albers, for
13 the record, who is he?

14 A. He's with the State Land Office, and I can't -- I
15 was directed to him by Mr. James Bruce, to contact him, and
16 I cannot recall, sir, whether or not that was in the
17 testimony in the last hearing or not, his name.

18 Q. And who's Mr. Bruce?

19 A. He's our attorney representing Kerr-McGee today.

20 EXAMINER STOGNER: Okay. Are there any other
21 questions of Mr. Foerster?

22 MR. BRUCE: No, sir.

23 EXAMINER STOGNER: Sir, you may be excused.

24 Thank you very much.

25 THE WITNESS: Thank you, sir, I appreciate you.

1 EXAMINER STOGNER: Let's take a five-minute
2 recess and get ready for our next witness.

3 (Thereupon, a recess was taken at 9:06 a.m.)

4 (The following proceedings had at 9:18 a.m.)

5 EXAMINER STOGNER: This hearing will come to
6 order.

7 Mr. Bruce?

8 MR. BRUCE: Mr. Examiner, before I start with Mr.
9 Martin, our engineer, I'd like to clarify an issue for the
10 Division. If you look at your Exhibit 3, or Kerr-McGee's
11 Exhibit 3, the proposal by the operators -- This exhibit in
12 light blue shows the extension area, the area that Kerr-
13 McGee proposes be added to the Associated Pool and deleted
14 from the Gas Pool. The proposal of the operators is that
15 in that entire sectionwide extension area one well be
16 allowed per quarter section. There would be no such
17 limitation to the west in the Gas Pool.

18 Furthermore, there are already two wells operated
19 by Yates in the northwest quarter of Section 12, and Kerr-
20 McGee requests that those two wells be grandfathered in and
21 both be allowed to produce. We have just been informed by
22 Yates that there are apparently two wells in the northwest
23 quarter of Section 13 at this time, and we would also
24 request that those wells be grandfathered in and both be
25 allowed to produce.

1 Other than that, one well would be allowed per
2 quarter section, and as Mr. Martin will testify the idea is
3 as a buffer zone transition area between the two pools.

4 EXAMINER STOGNER: Okay, Mr. Bruce, as I
5 understand it, this would take place in the Associated
6 Pool, this buffer zone?

7 MR. BRUCE: That's correct.

8 EXAMINER STOGNER: Where currently you're allowed
9 two wells in a quarter section, provided they're not in the
10 same quarter quarter section?

11 MR. BRUCE: Correct.

12 EXAMINER STOGNER: Okay. Now, over there in the
13 west half of 12, that's not in the buffer zone, so those
14 wells essentially would be grandfathered in anyway?

15 MR. BRUCE: Well, the entire sectionwide area is
16 considered the buffer zone, but those wells would be
17 grandfathered in, yes. In other words, only one well would
18 be allowed in the southwest quarter of Section 12 in the
19 future.

20 EXAMINER STOGNER: This would be a sectionwide
21 buffer zone, as opposed to a half a --

22 MR. BRUCE: That is correct. In the Application
23 filed with the Division, mistakenly filed with the Division
24 by me, I asked for a half-mile-wide buffer zone. The
25 actual buffer zone would be a mile wide.

1 EXAMINER STOGNER: I'll probably ask you to
2 clarify that in writing via a proposed rule.

3 Mr. Feldewert, do you have anything to add to
4 this proposal?

5 MR. FELDEWERT: Mr. Examiner, two things. I
6 think the Application that Mr. Bruce sent out did talk
7 about a mile-wide buffer zone, and that is what -- Yates is
8 appearing here at the hearing with that expectation. So I
9 think Exhibit 3 does accurately reflect what we understood
10 to be the Application in terms of the buffer zone.

11 Secondly, as I understand Kerr-McGee's
12 Application, they are proposing a -- one well per quarter
13 section for this buffer zone, with the further proposition
14 that the existing wells within this buffer zone, both their
15 location and their number, so to speak, would be
16 grandfathered in and be allowed to continue to produce. So
17 I think there's an issue here with respect to those wells
18 concerning their -- what now may be an unorthodox location
19 under the new rules. It's my understanding that those
20 would be grandfathered in.

21 Secondly, to the extent that there exist two
22 wells in each quarter section, both of those wells would be
23 grandfathered in and allowed to produce. It's my
24 understanding that Yates presently has two producing wells
25 in the northwest quarter of Section 12 and two producing

1 wells in the northwest quarter of Section 13 that we would
2 ask be grandfathered in as part of our non-opposition to
3 this Application.

4 EXAMINER STOGNER: Mr. Bruce, how would that one-
5 mile buffer zone affect that Section 24 up there in 21
6 South, 23 East? I mean, it's only quartering -- I'm sorry,
7 Section 30, I should say.

8 MR. BRUCE: Say that again, Mr. Examiner? How
9 would it affect Section 30 in --

10 EXAMINER STOGNER: Okay, Section 30 --

11 MR. BRUCE: -- in 21-24?

12 EXAMINER STOGNER: Right. Because in Section 30
13 you would be allowed, or Devon would be allowed under the
14 current rules, the current scenarios I see up here, two
15 wells in that northwest quarter section in Section 30,
16 while the southwest quarter of 19 and the northeast quarter
17 of 25 would be allowed only one well. How should that be
18 handled?

19 MR. BRUCE: Well, Mr. Examiner, I don't know that
20 the operators addressed that in their meetings. Currently
21 there are no wells in the west half of Section 30. I would
22 propose just to leave it as it is. If the necessity arose,
23 I would believe a party would have to ask on a case-by-case
24 basis to drill an additional well to protect their
25 correlative rights.

1 But at this point, since there are no producing
2 wells in the northwest quarter of Section 30 and indeed no
3 producing wells in Section 19 at all, nor in the east half
4 of Section 25, that does not appear to be a big issue among
5 the parties.

6 EXAMINER STOGNER: Mr. Feldewert?

7 MR. FELDEWERT: Mr. Examiner, I'm looking here.
8 My first reaction was that I think we had that problem all
9 the way along the buffer zone, although it looks like
10 Section 30 is the only one that has a different operator.
11 Yeah. I guess my response is, it doesn't involve Yates'
12 acreage, so...

13 EXAMINER STOGNER: Okay, let me put it this way.
14 Do you see any problem with Mr. Bruce's solution to that
15 scenario, is allow -- if that occurred, to allow people in
16 Section 19 and Section 5 an exception to the buffer area to
17 seek relief or such a cause?

18 MR. FELDEWERT: I don't know what our position
19 would be on that, Mr. Examiner.

20 EXAMINER STOGNER: But you don't oppose it,
21 right?

22 MR. FELDEWERT: At this point in time, no.

23 EXAMINER STOGNER: Thanks for clarifying that,
24 Mr. Bruce. I was a little confused about that myself.
25 With that, do we need anything further, or do we need to

1 continue here?

2 MR. BRUCE: I don't think I need anything further
3 on that.

4 Just for the Division's information, I've marked
5 as Kerr-McGee Exhibit 2A a communitization agreement on
6 Section 2 in 22 South, 23 East. That's the one that you
7 asked certain questions to Mr. Foerster about involving the
8 state acreage, and I would just submit that, just for your
9 information.

10 EXAMINER STOGNER: Thank you. That that you just
11 gave me, I will make that part of the record and accept
12 Exhibit Number 2A into evidence.

13 (Off the record)

14 EXAMINER STOGNER: Mr. Bruce?

15 JOSEPH M. MARTIN,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and city of
21 residence for the record?

22 A. Joseph Martin, Grapevine, Texas.

23 Q. Who do you work for?

24 A. I work for Kerr-McGee Oil and Gas Onshore, LLC.

25 Q. What's your job with Kerr-McGee?

1 A. My job is that of a senior reservoir engineer.

2 Q. Have you previously testified before the
3 Division?

4 A. Yes, sir, I have.

5 Q. And were your credentials as an expert reservoir
6 engineer accepted as a matter of record?

7 A. Yes, they were.

8 Q. And are you familiar with the engineering matters
9 involved in this Application?

10 A. Yes, I am.

11 MR. BRUCE: Mr. Examiner, I tender Mr. Martin as
12 an expert reservoir engineer.

13 EXAMINER STOGNER: Any objection?

14 MR. FELDEWERT: No.

15 EXAMINER STOGNER: Mr. Martin is so qualified.

16 Q. (By Mr. Bruce) Mr. Martin, could you identify
17 Exhibit 6 and discuss in general terms the Indian Basin
18 field?

19 A. Exhibit 6 shows the Indian Basin-Upper Penn field
20 with the field-defining fault to the west, as well as the
21 Upper Penn zero dolomite contour, within which nearly all
22 the field's oil and gas has been produced.

23 The legend, if you want to call it that, the
24 color-shading on this exhibit, is such that the yellow is
25 the Associated Pool as it now stands, and the blue is the

1 Associated Pool proposed extension that we are discussing
2 today.

3 The extension would move the Associated Pool line
4 one mile west of its present boundary.

5 Q. Mr. Martin, before we proceed to the next
6 exhibits, there was just some questions by the Examiner
7 regarding the one-well-per-quarter-section requirement,
8 especially up on the northern end of the proposed extension
9 area. Looking at this map, can you comment upon protection
10 of the rights of the parties in, say, Sections 19 and 25?

11 A. Well, particularly referring to Section 30,
12 there, as you can see, the zero dolomite line dips down
13 into a good part of the western half of Section 30, and I
14 believe -- I'm not 100-percent sure on this, but I believe
15 that Devon has already drilled a well in the western half
16 of that section, and it was nonproductive in the Penn. So
17 in my opinion I can't see where, at least in that half of
18 that section, they would infringe upon the rights of the
19 folks in Section 25 or Section 19.

20 Q. Okay, so the west half of Section 30 looks pretty
21 barren?

22 A. Yes, it does, sir.

23 Q. Okay. So if no wells are drilled over in that
24 half section, it shouldn't be any effect on this one-well-
25 per-quarter-section idea we're discussing?

1 A. That's correct.

2 Q. Okay. Let's move on to your Exhibit 7, and would
3 you discuss production in both pools? And maybe start off
4 with the legend on this map.

5 A. The legend on this map is such that the --
6 starting from right to left down there at the bottom, the
7 large green numbers in each section are the cumulative
8 production in billions of cubic feet. And this cumulative
9 production is through June of 2001.

10 The orange-shaded area is the Associated Pool
11 extension that was granted in late 1998. The yellow area
12 is the remainder of the Associated Pool, and then the blue
13 again is the Associated Pool proposed extension that we're
14 talking about today.

15 Note the recoveries of over 50 BCF in the Gas
16 Pool in the western half of the field, especially along the
17 21 South/22 South Township line; they're just north and
18 south of that township line. The cumulative production
19 figures are lower traveling back to the east and to the
20 Associated Pool, although the totals in that area of the
21 field have been growing rapidly within the last three to
22 seven years.

23 In Sections 4 through 7 of 22 South, 24 East, and
24 Sections 28, 32 and 33 in 21 South, 24 East, within the
25 Associated Pool, cumulative gas production per section has

1 doubled or nearly doubled due development during the latter
2 half of the 1990s. In some of these sections production
3 over the past few years is approaching 20 and 25 BCF.

4 While the sections within the proposed extension
5 area do have respectable cums, they do not equal those
6 further west in the Gas Pool and now are being exceeded by
7 several sections to the east in the Associated Pool. Along
8 with this, there are wells in the proposed extension area
9 capable of production rates similar to wells in the current
10 Associated Pool that are now curtailed by the Gas Pool
11 allowable, and we'll talk about that a little bit later in
12 my testimony.

13 Q. Is it fair to say that in much of this extension
14 area, the boundary change is necessary to allow the wells
15 in the proposed extension area to compete with wells from
16 both pools?

17 A. That's correct, yes, sir.

18 Q. Would you move on to your Exhibit 8 and discuss
19 the development phases in the Indian Basin field?

20 A. The Eighth Exhibit represents the age of the Penn
21 completions in the Indian Basin field from discovery
22 through June of 2001. Again, the legend on the bottom, the
23 orange is the Associated Pool extension granted in 1998,
24 yellow is the remainder of the Associated Pool, and then
25 the blue is the proposed extension area.

1 The color-coding on the left, the dots and the
2 triangle represent the color-codings of various ages of the
3 wells within the field. There are 54 green dots which
4 represent well completions in the 1960s. Forty of those
5 wells were drilled in what is now the Gas Pool.

6 During the 1970s, only three Penn wells were
7 drilled, all in the Gas Pool area.

8 The red triangles signify the completions in the
9 1980s, of which there were six, five in the Gas Pool and
10 one in the present-day Associated Pool.

11 The 1990s, shown by the orange dots, saw a big
12 increase in the number of wells drilled, with a total of
13 86, 53 in the current Associated Pool.

14 And finally, the blue dots stand for the 29 wells
15 which began producing over the last one and a half years.
16 Fifteen of these wells are in the Associated Pool.

17 Until the middle-1990s, many of the field
18 sections produced from just the one well completed back in
19 the 1960s. Of the 179 wells that have produced in the
20 field to the middle of this year, 115 have been completed
21 since 1990. The majority of these recent wells are in the
22 Associated Pool area. In fact, this can be seen on this
23 map. As many as five additional wells have been drilled
24 per section in the Associated Pool, resulting in the
25 dramatic production increases that we talked about

1 previously.

2 Of the 30 wells now producing in the area added
3 to the Associated Pool in 1998, or the orange-shaded area
4 on this map, 19 were drilled in that 10-section area since
5 the order was approved to extend the pool. This compares
6 to nine wells producing in the six-section area now
7 proposed to be added to the Associated Pool.

8 Q. Overall, looking at this map, is it fair to say
9 that the well density is greater in the Associated Pool
10 than in the Gas Pool?

11 A. Yes, that would be correct.

12 Q. Let's move on to your Exhibit 9 and discuss the
13 producing method of the wells in this pool.

14 A. Exhibit 9 indicates the producing status for all
15 the wells in the field as they were produced during the
16 first half of this year, 2001. The legend at the bottom,
17 the orange dots are flowing gas wells, the blue dots are
18 wells that are artificially lifted, the yellow again is the
19 Associated Pool and the blue is the proposed extension
20 area.

21 Of the 137 wells that produced in the field
22 during the first half of this year, only 25 are capable of
23 flowing. There's only one flowing well in the Associated
24 Pool, and likewise there's only one flowing well in the
25 proposed extension area out of the nine producers in the

1 area.

2 High volumes of water have been produced in wells
3 in the Associated Pool, and along with that have come large
4 volumes of gas and oil.

5 Q. Mr. Martin, this map shows the current producers
6 in the pools, right?

7 A. That is correct, yes, sir.

8 Q. Okay. So if the Examiner wanted to look and see
9 the current producing wells in the sections that are being
10 split up, this would show it other than, we've just been
11 informed, there's an additional Yates well in the northwest
12 quarter of Section 13 to the bottom of this map?

13 A. Yes, sir.

14 Q. Okay. Now, Mr. Martin, you're going to get into
15 a few exhibits where you're discussing average wells.
16 Before we get into them, could you define for the Examiner
17 what you mean by an average well, whether it's in the Gas
18 Pool or the Associated Pool?

19 A. My definition of average well production for a
20 specified area is the total production for that area,
21 divided by the number of producing wells in a given month.

22 Q. Okay, let's move first to your Exhibit 10 and
23 discuss average production in the Gas Pool.

24 A. Daily production rates for an average well in the
25 Gas Pool are shown on this exhibit. The axis on the right,

1 right vertical axis, is MCF of gas per day, and on the left
2 vertical axis is barrels per day for the oil and water
3 production.

4 Since reaching a peak production rate of just
5 over 4 1/2 million cubic feet per day per well in 1994, gas
6 production has declined 15 percent per year to a rate in
7 the range of 1 1/2 million cubic feet per day per well
8 during the last year. Production recently has stabilized
9 and even increased slightly due to the recent drilling in
10 the pool. Note also the steadily increasing water volume
11 rate as water influx is affecting this pool as well. 67
12 wells were producing from the Gas Pool in June of this
13 year.

14 Q. Okay, let's move on to your Exhibit 11 and
15 discuss average well production in the Associated Pool.

16 A. Average daily rates per well for the Associated
17 Pool are shown in this Exhibit Number 14. Again, the
18 vertical axes are the same, in that gas is along the right
19 axis and barrels per day along the left axis. Gas
20 production has steadily increased from just a few hundred
21 MCF per day up to an average of over 3 million cubic feet
22 per day per well earlier this year. Water production also
23 has increased to over 2000 barrels of water per day per
24 well. Please note the jump in water production in early
25 1994, as more wells began production through co-production.

1 The number of producing wells in the Associated
2 Pool area has increased from less than 5 in early 1993 to
3 64 in June of 2001.

4 Now Mr. Examiner, if you take the last two
5 exhibits, Number 10 and 11, and kind of look at them
6 together, I think you can easily see the difference between
7 these two pools, with the Gas Pool on decline and the
8 Associated Pool steadily increasing, which I believe
9 signifies the development of untapped reserves in the pool.

10 Q. Mr. Examiner -- or excuse me, Mr. Martin, really
11 if you look at those two exhibits, starting with January,
12 1995, a common datum point, one shows virtually a continual
13 decline in the Gas Pool, and the other shows an incline?

14 A. That's correct.

15 Q. Now, in 1998 or late 1998, the Associated Pool
16 was expanded, was it not?

17 A. That's correct.

18 Q. And that's what you're referring to when you talk
19 about the 1998 extension area?

20 A. Yes, sir.

21 Q. Let's move on to your Exhibit 12 and discuss
22 production in that particular area, the 1998 extension
23 area.

24 A. Shown in this exhibit is the average production
25 for a well in the Associated Pool extension area, the 1998

1 Associated Pool extension area. As outlined previously in
2 Exhibit Number 8, if you get that one back out, Exhibit 8
3 is the area that we're talking about right now. It's the
4 orange-shaded area. Again, the axes are the same, gas on
5 the right axis, barrels per day on the left axis.

6 At the time that the extension was approved in
7 late 1998, gas production per well was less than 3 million
8 cubic feet per day. Oil production averaged around 20
9 barrels a day per well right at the end of 1998, but for
10 the majority of the time prior to that, oil production per
11 well averaged less than five barrels of oil per day.

12 Earlier this year, the average had reached almost
13 5 million cubic feet per day per well and 90 barrels of oil
14 per day per well. Of course, along with the oil and gas
15 production increase came a produced water increase that now
16 averages about 2600 barrels of water per day per well.

17 As stated earlier, 30 wells are now producing in
18 this area, an increase of 19 wells since the extension was
19 approved in late 1998.

20 Q. Mr. Martin, would you now compare production from
21 the 1998 extension area with production from the proposed
22 extension area today? And I refer you to your Exhibit 13.

23 A. Yes, sir. Again, this compares the production
24 history of an average well in the 1998 Associated Pool
25 extension area, up to the time that the extension was

1 approved by the OCD, to the same relative time for an
2 average well in the extension area presently being
3 proposed.

4 Examining both curves, it appears that the two
5 areas have similar producing characteristics. The 1998
6 extension area, which is shown on top of this exhibit,
7 shows increasing gas rates up to the 2- to 3-million-per-
8 day-per-well range and oil production generally less than 5
9 barrels of oil per day per well in the two years prior to
10 the order approving the extension.

11 On the bottom half of the exhibit is the
12 production curve for the 2001 proposed extension area,
13 which shows an increase from several hundred MCF per day in
14 early 1999 to over 2 million cubic feet per day per well
15 earlier this year, along with oil production rates that
16 have averaged less than 5 barrels of oil per day per well.

17 Thus we see that the production from 1999 to 2001
18 in the proposed extension area is very similar to the two-
19 year period prior to the 1998 Associated Pool extension.

20 Water production rates during the same relative
21 period of time for both extension areas ran about a few
22 hundred barrels per day. However, as the curve shows,
23 water production in the 1998 extension area increased
24 dramatically in the second half of that year due to high
25 water rates from several wells brought on line by Kerr-

1 McGee, Marathon and Yates during that time.

2 In mid-2001, nine wells were producing in the
3 proposed Associated Pool extension area, which compares to
4 nine to eleven wells which produced in the 1998 extension
5 area during the latter half of that year and just before
6 the order was approved extending that.

7 Q. So from examining these two curves, is production
8 from the extension that you're proposing today equivalent
9 to what occurred in the 1998 extension area before the
10 prior order was issued?

11 A. Yes, sir.

12 Q. Now, over the last few exhibits you've discussed
13 average well performance. Can you describe data from
14 specific wells in the extension areas that would prove your
15 point also?

16 A. Yes, sir, I can. From an average well view --
17 now, let's move on to the next two exhibits, Numbers 14 and
18 15, that compare specific wells in the Associated Pool and
19 the 2001 proposed Associated Pool extension area. The
20 purpose of these comparisons is to demonstrate the
21 similarity in production between wells offsetting one
22 another across the existing Associated Pool/Gas Pool
23 boundary line.

24 Exhibit 14 shows field-reported daily gas and
25 water production since the first of this year for two wells

1 in Section 36, Township 21 South, Range 23 East.

2 Q. That is one of the sections that's going to be
3 split in half, or that was split in half, in the last
4 period?

5 A. Yes, sir, that's correct.

6 Q. Okay.

7 A. Now, to get your oriented again, if we go back to
8 Exhibit 8, which is the map with all the multi-colored dots
9 on it, I can point out these wells as we go through them.

10 The first well at the top of the page there is
11 the Lowe State Number 3, and if you find Section 36, 21
12 South, 23 East, the Lowe State 3 is the orange dot in the
13 southeast corner of that section.

14 This is located in the eastern side of the lease,
15 which is located in the Associated Pool and the 1998
16 Associated Pool extension area, and is capable of
17 production of around 8 million cubic feet per day.

18 Across the pool line in the west half of the
19 section, with a Gas Pool allowable of 3 1/4 million cubic
20 feet per day, is the Number 5 well. Now, the Number 5 well
21 right across the line there is the orange well in the west
22 half of Section 36.

23 As can be seen on the bottom half of this
24 exhibit, the Number 5 well is capable of making its
25 allowable, 3 1/4 million a day, and as tested most recently

1 is easily able to produce in the range of 6 1/2 to 7 1/2
2 million cubic feet per day, along with approximately 1000
3 barrels of water per day.

4 Q. Okay, why don't we move on to your Exhibit 15 and
5 discuss a couple more specific examples? And again, point
6 out where these wells are located for the Examiner.

7 A. Another comparison in Exhibit 15 is from Section
8 12, Township 22 South, Range 23 East. The first well we
9 talked about there, on the upper half of this exhibit, is
10 the Malone Federal Number 2, which is the blue well in the
11 eastern half of Section 12, 22 South, 23 East. This well
12 produces steadily in the range of 5 million cubic feet per
13 day and, along with the Number 1 well in that half section
14 which produces at similar rates, makes up the 9.8-million-
15 cubic-feet-per-day allowable for this 320-acre unit taken
16 into the Associated Pool in the 1998 extension.

17 At the bottom of this page is a daily production
18 curve for the Smith Federal Number 3 in the proposed
19 extension area which was completed in the Penn earlier this
20 year and lies to the west of the Malone lease.

21 Again, referring back to Exhibit 8, the Smith
22 Federal Number 3 is the blue dot in the western half of
23 Section 12.

24 The ups and downs on this curve, production
25 curve, represent the turning off and on of the submersible

1 pump in the hole. With the pump on, the well has produced
2 up to 5 million cubic feet per day, along with close to
3 2000 barrels of water per day. After pumping for a short
4 time, the pump is shut off and the well is then allowed to
5 flow.

6 This type of production technique is required, as
7 the pump is needed to establish production in the first
8 place. However, the Gas Pool allowable for the two-well
9 Smith Federal unit is only 3 1/4 million cubic feet per
10 day. Obviously, the capability to produce more gas is
11 shown in the two areas of the Gas Pool represented in
12 Exhibits 14 and 15, but the current Gas Pool allowable is
13 restricted to them at this time.

14 Q. Okay, so the Smith Federal Number 3 has its
15 production curtailed at this time?

16 A. Yes, sir.

17 Q. Okay. Now, looking at both Exhibits 14 and 15
18 together, the two examples located across the boundary line
19 currently, do they exhibit similar producing
20 characteristics?

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

22 Q. Let's next move on to your Exhibit 16, and will
23 you please discuss the production in the 1998 extension
24 area before and after the prior December, 1998, order was
25 issued?

1 A. This curve represents the total production of the
2 1998 Associated Pool extension area, and this graph
3 illustrates that at the time of the order extending the
4 Associated Pool westward this 10-section area was producing
5 just under 30 million cubic feet per day from 11 wells.
6 Now again, the gas axis is on the right. The barrels per
7 day for water and oil is on the left axis, as well as the
8 number of active producing wells.

9 Since late in 1998, when it was producing just
10 under 30 million cubic feet per day, 19 more wells have
11 been completed, resulting in production volumes growing to
12 140 million cubic feet per day and 2500 barrels of oil per
13 day during the middle of 2001.

14 Q. So in other words, substantial additional
15 production has been obtained from the 1998 extension area
16 just in the last couple of years?

17 A. Yes, sir, that's correct.

18 Q. One thing on this map -- and we'll get into this
19 on our next couple of exhibits -- there has also been quite
20 a substantial increase in the oil production, has there
21 not?

22 A. Oh, yes. Like I said, it went from -- oh, it
23 went from around 20 or 30 barrels a day up to -- or excuse
24 me, I'm sorry, it went from about 200 barrels a day there
25 at the end of 1998 up to 2500 barrels a day currently.

1 Q. Okay. Well, let's move on to your Exhibit 17 and
2 18, and could you discuss the specific wells involved, and
3 with maybe a little emphasis on the increased oil
4 production from these wells?

5 A. Yes, sir. Exhibit 17 shows the production curves
6 of two wells in the Associated Pool, and I'd like to focus
7 on the oil production curves. Marathon's Indian Hills Unit
8 Number 20, which is located in Section 28, 21 South, 24
9 East -- and again back on Exhibit 8 that well is the orange
10 dot in the southeast quarter of that Section 28 -- this
11 well shows increasing oil production throughout its
12 history, starting at 30 barrels of oil per day, and less
13 than two years later it exceeds 200 barrels of oil per day.

14 The bottom well, Kerr-McGee's Lowe State Number
15 3, which we've already discussed as far as location, but
16 again it's the well in the southeast quarter of Section 36,
17 21 South, 23 East, shows a couple interesting points when
18 considering oil production.

19 First, there was a time lag of over six months in
20 which oil production first appeared, versus when the well
21 began producing. The well began producing in April of
22 1998, and oil production did not show up until January of
23 1999. During that time the well produced as high as 10
24 million cubic feet per day and nearly 8000 barrels of water
25 per day.

1 And secondly, note the time period from July,
2 2000, into early 2001, as oil production dropped during the
3 time of lower fluid production rates.

4 Q. Okay, why don't you move on to your Exhibit 18.
5 Do those wells show similar characteristics?

6 A. Yes, sir, Exhibit 18 shows two wells, the Lowe
7 State Number 5 and the Conoco State Number 6. The Lowe
8 State Number 5, again we saw that one earlier, but it is
9 the orange dot in the west half of Section 36, 21 South, 23
10 East. It began oil production two months after the well
11 began producing gas. Then it began producing gas in August
12 of 1999, and oil production did not show up until October
13 of 1999.

14 As talked about earlier, this well is capable of
15 higher gas-production rates, and hopefully higher oil rates
16 will come with the greater fluid production.

17 Shown on the bottom of this exhibit is the Conoco
18 State Number 6, which lies further west in the extension
19 area in Section 2, 22 South, 23 East, and the Number 6 well
20 is the lone well, the blue dot in the eastern half of
21 Section 2. It began producing a moderate amount of oil in
22 December, 2000, or six months after the well began
23 production in April of 2000.

24 Just one point I'd like to make back on Exhibit
25 Number 17. I discussed the fact that -- lower oil rates

1 there in the latter half of the year 2000 in the Lowe State
2 Number 3, as a result of lower fluid production rates. If
3 you look up in the Indian Hills Number 20 well, there's
4 also a period of time there where gas and water production
5 fell off in the latter half of the year 2000. And if you
6 note, oil production rates dropped off at that same time.
7 To me this suggests that higher fluid withdrawals result in
8 higher oil production.

9 Q. Okay. What about the oil that's produced in
10 these wells? Is there a difference in the gravity of the
11 oil produced in the Associated Pool and in the proposed
12 extension area versus oil produced from wells further to
13 the west in the Gas Pool?

14 A. Yes, sir, there is. Similar to that produced in
15 the Associated Pool to the east, the oil that we're seeing
16 in this proposed extension area is yellowish-greenish
17 paraffin-based oil with an API gravity in the low 40-degree
18 range.

19 Further to the west in the Gas Pool, the
20 condensate there is clear in color, and its gravity is in
21 the range of 60 to 70 degrees.

22 Q. Would you move on to your final exhibit, Exhibit
23 19, and discuss unorthodox locations in the gas pool?

24 A. This exhibit presents 33 wells in the Gas Pool
25 that have been drilled or proposed to be drilled at

1 unorthodox locations. Now again, the legend on this is in
2 the left-hand corner down on the bottom there. The
3 Associated Pool extension area is the area in blue. A
4 portion of the Associated Pool, the current Associated
5 Pool, is shown in yellow, and the orange dots refer to the
6 unorthodox locations.

7 Note that 10 of these exception wells are located
8 in the proposed Associated Pool extension area. Note also
9 that many of the unorthodox locations within the gas pool
10 outside of the proposed extension area are near geologic
11 features which define the productive limits of the field.
12 You can see on this exhibit I also have highlighted here
13 the field-defining fault to the west, as well as the zero
14 dolomite lime to the north and south on the exhibit.

15 Q. So in other words, the unorthodox locations seem
16 to track either the fault line or the dolomite lines, or
17 they're in the proposed extension area?

18 A. Yes, sir, that's true.

19 Q. What is significant about this?

20 A. Well, I consider this significant number of
21 unorthodox locations within this six-section extension area
22 to be representative of the operator's belief that the area
23 still contains large volumes of recoverable hydrocarbons
24 and that the issue of well placement is vital in recovering
25 these reserves.

1 Q. Just a couple of final questions, Mr. Martin.
2 Mr. Foerster mentioned operator meetings regarding this
3 proposed boundary-line move. When were those meetings
4 held, in general?

5 A. There were both formal and informal discussions,
6 really, over the past couple of years, really since the
7 1998 extension was approved, and these discussions centered
8 on when and if and what would be the next extension.

9 We met more in earnest this past fall, and
10 meetings were held to discuss these options and what we
11 wanted to try to come to the Commission with. Everything
12 in the testimony as presented today has been discussed and
13 agreed upon by all the operators in the field, both through
14 these meetings as well as telephone conversations.

15 Q. Could you just briefly touch on the reason for
16 the one well per quarter section that we are proposing in
17 the extension area?

18 A. This again is something that was agreed upon by
19 all the operators, and this was to provide an additional
20 buffer zone between the current Associated Pool and the Gas
21 Pool, to reduce possible adverse effects on any party.

22 Q. Okay, because the Gas Pool does have a lower gas
23 allowable than the Associated Pool?

24 A. Yes, sir, it does.

25 Q. Okay. Would you summarize your opinions for the

1 Examiner?

2 A. In summary, I believe that the testimony and data
3 shown shows that the area proposed to be brought into the
4 Associated Pool at this time behaves more similarly to the
5 Associated Pool than it does to the Gas Pool. Production
6 behavior and the genuine expectation of higher production
7 volumes lead to the conclusion that the sections within the
8 proposed extension area should be brought into the Indian
9 Basin-Upper Penn Associated Pool and deleted from the
10 Indian Basin-Upper Penn Gas Pool.

11 Q. Were Exhibits 6 through 19 prepared by you or
12 under your supervision?

13 A. Yes, they were.

14 Q. And in your opinion is the granting of this
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes, it is.

18 MR. BRUCE: Mr. Examiner, I'd move the admission
19 of Kerr-McGee Exhibits 6 through 19.

20 EXAMINER STOGNER: Any objection?

21 MR. FELDEWERT: No.

22 EXAMINER STOGNER: Exhibits 6 through 19 will be
23 admitted into evidence at this time.

24 Thank you, Mr. Bruce.

25 Mr. Feldewert, our witness.

EXAMINATION

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BY MR. FELDEWERT:

Q. I just have one question. On Exhibit 19 --

A. Yes, sir.

Q. -- more out of curiosity than anything else, you show a well up there in Section 24, right on the zero dolomite line --

A. Uh-huh, yes, sir.

Q. -- which I didn't see in any other map. Is that because that was a dry hole, do you know?

A. I believe it was.

Q. Okay.

A. I just showed anything that was permitted as a Penn well but was at an unorthodox location, is what's shown on this map.

MR. FELDEWERT: All right, I have no other questions.

EXAMINATION

BY EXAMINER STOGNER:

Q. Do you have any drainage calculations of an average well between the two pools, what kind of influence the different drainages have and how far out?

A. No, sir, drainage calculations in the Indian Basin is a little difficult to get a handle on, just because of the rock properties. We have porosities varying

1 from very tight, 4 percent or less, up to vugs that you
2 could fit your fist into. So to come up with a drainage
3 calculation, it's rather difficult as far as what wells are
4 draining.

5 I can say this, when you look at P/Z data out
6 here, generally in-place reserves per section, what I've
7 seen are in the ranges of 60 to 70 BCF.

8 Q. How about reservoir pressure between the two? Is
9 there any significant difference?

10 A. The difference has come down since the testimony
11 in the 1998 extension time. At that time the pressures
12 were 1600 pounds in the Associated Pool versus around --
13 just a second -- versus 500 pounds in the Gas Pool.

14 Recent pressures that we have taken out here
15 indicated pressures in the Associated Pool to be above 800
16 pounds, down to below 400 pounds on the west side of the
17 field or in the Gas Pool. So the pressure difference
18 between the two areas has been reduced, and to me that's
19 reflective of the amount of fluid that's been taken out of
20 the Associated Pool area.

21 Q. Now, refer to Exhibit Number 8, and I want to go
22 over these numbers again. Do you have Exhibit Number 8?

23 A. Yes, sir.

24 Q. If I heard you right, there were 40 wells drilled
25 in the 1960s; is that correct?

1 A. There were 54 wells drilled in the 1960s, 40
2 wells in the Gas Pool, or what's now the Gas Pool area.

3 Q. Okay, and how about in the 1970s, what were those
4 figures again?

5 A. Three wells, all in the Gas Pool area.

6 Q. Okay, in the 1980s, the red ones?

7 A. The 1980s, six wells, five in the Gas Pool area
8 and one in what is now the Associated Pool area.

9 Q. Okay, the 1990s, the orange-colored ones?

10 A. Eighty-six wells, 53 in the current Associated
11 Pool.

12 Q. Okay, and the blue?

13 A. Twenty-nine wells for the period of 2000-2001.

14 Q. And how many of those were in the Gas Pool?

15 A. Fourteen of those in the Gas Pool.

16 Q. How many of these wells -- Okay, well, let me go
17 back. Kerr-McGee returned to this area recently in -- what
18 year? In the 1990s?

19 A. We have had production out of there, oh, since
20 early on. We got more involved in the late 1980s with some
21 acquisitions and then really involved here in the last few
22 years with additional drilling.

23 Q. Okay, so Kerr-McGee has had a presence out there
24 since the 1960s?

25 A. Well, put it this way. It's confusing when you

1 talk about Kerr-McGee, because Devon is now -- now owns
2 some of the acreage that the old Kerr-McGee had. Kerr-
3 McGee/Oryx has been out there since early on in the field,
4 and our presence -- Kerr-McGee/Oryx's presence has grown
5 larger since the late 1980s.

6 Q. Okay, during the big boom in the 1990s and 2000,
7 how many wells roughly did Kerr-McGee drill?

8 A. Give me a second here, please, and I can --

9 Q. Just roughly.

10 A. It would be roughly 15 wells.

11 Q. Fifteen?

12 A. Yes, sir. And we --

13 Q. Are those -- I'm sorry.

14 A. I was going to say, and we were involved in
15 others as a nonoperator.

16 Q. Of those 15 wells that Kerr-McGee has operated --
17 I'm assuming that a lot of these were new infills for the
18 most part, or new wells on an existing spacing unit.

19 A. Yes, sir.

20 Q. Okay, what kind of effect on the existing wells
21 did you see these new wells drilled in the 1990s and 2000
22 on the older wells?

23 A. Personally, I did not see effect on the older
24 wells.

25 Q. And that was both in the Gas Pool and the

1 Associated Pool, you have a presence in both --

2 A. In both pools, yes, sir, that's correct.

3 Q. Have you attended these producers' meetings?

4 A. Yes, sir.

5 Q. And who all comes to these meetings?

6 A. Operatorwise, sir?

7 Q. Yes.

8 A. All the operators in the field, Chevron, Devon,
9 Texaco, Yates, Kerr-McGee, Marathon. I believe that covers
10 all of them.

11 Q. Are you going to boot one of the Chevron-Texaco
12 people out now so --

13 (Laughter)

14 A. We might --

15 Q. You don't want to give them a double vote.

16 (Laughter)

17 Q. Okay, never mind.

18 How long have these meetings been going on? Is
19 this a new-formed group?

20 A. Well, the meetings were in conjunction with some
21 operator-issue meetings, some operations-issue meetings,
22 and this fall at least, they kind of tagged along at the
23 end of these meetings. Now, again like I said, there have
24 also been formal discussions over the past couple of years,
25 phone calls and such, about this topic, about the extension

1 as well.

2 Q. Now, will this group continue to meet after
3 today's -- assuming today's order goes out as planned? Is
4 this an ongoing group?

5 A. This is an ongoing group, to discuss -- again,
6 it's mainly to discuss operations issues in the field.

7 Q. Have you ever talked about locations or changing
8 the location requirements in the Gas Pool?

9 A. It's been brought up, yes, sir.

10 Q. Well, good. That's all I want to know.
11 Do you ever have guest speakers come to these --
12 (Laughter)

13 Q. -- to encourage such changes?

14 A. You have an open invitation, I believe --

15 Q. All right, I may take you up on that, once --

16 A. -- as of today.

17 Q. -- once there's no sign of *ex parte*.

18 Are there any other follow-up questions for Mr.
19 Martin?

20 MR. BRUCE: Just a couple for Mr. Martin.

21 FURTHER EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Martin, the Examiner asked you questions
24 about the effect of drilling the infill wells on the older,
25 existing wells. You've done that particularly in your

1 Conoco State Unit in Section 2, haven't you?

2 A. Oh, yes. Yes, sir, we have.

3 Q. And could you discuss a little bit what you've
4 seen as far as -- because there was an older well in there
5 that produced -- cum'd quite a bit of gas, did it not?

6 A. Yes, sir, if you look in Section 2, the green dot
7 there, which is in the northeast -- or excuse me, the
8 northwest quarter, the Number 1 well -- I'm going off of
9 memory here, but I believe it produced over 30 BCF and
10 close to 40 BCF. The blue dot right next to it there is
11 the Number 7 well that was drilled in the year 2000, and it
12 is currently producing over 2 million cubic feet per day.

13 Q. Now -- and in some of these older wells -- the
14 older wells had smaller casing than the newer wells, did
15 they not?

16 A. Yes, sir, most of the time.

17 Q. And so they produce less water, restricted
18 production, the net effect?

19 A. Well, they were unable to produce the water just
20 because of the smaller casing size, yes, sir.

21 MR. BRUCE: That's all I have, Mr. Examiner.

22 FURTHER EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. What are the different casing sizes you have out
25 there, and when did they change and what promoted that?

1 A. Different casing sizes, generally 5-1/2-inch on
2 the older wells, and when I'm saying older wells I guess
3 you'd say that up to maybe even early 1990s. And now
4 generally the wells are being drilled with 7-inch casing.
5 And what prompted that was the movement of fluid out here,
6 the fact that really up to the early 1990s there was no
7 infrastructure out here to be able to put the water away,
8 to dispose of the water. Electricity was not available in
9 order to run pumps, pumping units, much less submersible
10 pumps.

11 And so in order to be able to move the kind of
12 volumes of water that we're talking about here, I believe
13 my average for the Associated Pool was 2600 barrels of
14 water per day per well. You not only have that
15 infrastructure but also the larger casing in order to run
16 these submersible pumps and to efficiently pump this amount
17 of fluid out of the wells.

18 Q. And what size of tubing are you running in these
19 7-inch cased holes?

20 A. It varies. I believe 2-1/2-inch all the way to
21 3-1/2-inch has been run.

22 Q. And are you producing the gas up the annulus or
23 the tubing?

24 A. Mainly up the annulus.

25 Q. Okay. Of the wells that are not flowing, are

1 most of them submersible pump, or do you have beam pumps
2 out here?

3 A. Both, although I believe a submersible pump is
4 probably in the majority right now.

5 Q. And what's the average depth of these wells?

6 A. Oh, just below 7000 feet, probably 7200 feet,
7 7500 feet.

8 Q. When did submersible start being readily used out
9 in this area? Do you know?

10 A. I can't -- 1995, 1996, that time frame, I
11 imagine, is when they became more common. The first one,
12 though, I can't really think. I don't know if Yates used a
13 submersible pump on their Branagan, which would have been
14 in 1994.

15 Q. Is that one of the reasons we saw the big jump in
16 the number of wells in the 1990s?

17 A. Oh, yes, sir, whenever Yates got back in here and
18 saw that we could pump these wells and make the kind of
19 volumes again and bring these wells back to life, that
20 caused the big increase in well activity.

21 EXAMINER STOGNER: Any other questions?

22 MR. BRUCE: No, sir.

23 EXAMINER STOGNER: Thank you, Mr. Martin, you may
24 be excused.

25 Thank you, Mr. Bruce. Do you have anything else?

1 MR. BRUCE: I have no further testimony, Mr.
2 Examiner.

3 EXAMINER STOGNER: Okay, Mr. Feldewert, would you
4 like to call a witness or do you wish to have him make a
5 statement at this time?

6 MR. FELDEWERT: I think -- Dr. David Boneau is
7 here for Yates Petroleum. He's here just to make a
8 statement, Mr. Examiner.

9 EXAMINER STOGNER: Please identify yourself.

10 DR. BONEAU: I'm David Boneau, engineer with
11 Yates Petroleum Corporation.

12 You've heard our lawyer suggest that we're here
13 in non-opposition to this, was, I think, the words you
14 used. I want to be sure you understand that we're here in
15 what I would call active support of the expansion of the
16 Associated Pool.

17 As you know, Yates was involved in forming this
18 pool and making it successful, and Yates has attended these
19 meetings of the operators through the years. This
20 Associated Pool has been an amazing, to me at least,
21 technical, engineering and, I hope, financial success, and
22 I think the proposed expansion will likewise be a success,
23 and Yates definitely supports this Kerr-McGee Application.

24 Thank you.

25 EXAMINER STOGNER: Thank you, Dr. Boneau. So

1 we've changed Yates' status from non-opposition to active
2 support; is that right, Mr. Feldewert?

3 MR. FELDEWERT: I'm more conservative.

4 EXAMINER STOGNER: Okay, so noted.

5 Mr. Bruce?

6 MR. BRUCE: That closes my case, Mr. Examiner.

7 The only question concerns readvertising the case to cover
8 a couple of additional issues, which I don't see a problem
9 with doing.

10 EXAMINER STOGNER: Okay. The notification to
11 Devon, as I understand, because Devon also has some acreage
12 over there in the blue area -- They attended these
13 meetings, as I understand; is that correct?

14 MR. BRUCE: That is correct.

15 EXAMINER STOGNER: And they were an active
16 participant?

17 MR. BRUCE: They were an active participant, and
18 if they opposed it I wouldn't be here today representing
19 Kerr-McGee, because I would have a conflict.

20 EXAMINER STOGNER: So noted. Now, the way it was
21 handled -- and I looked at that earlier -- over in the gas
22 area, the 660-foot against the east half, that was more of
23 a cleanup issue in order to require readvertisement at that
24 time.

25 MR. BRUCE: Okay.

1 EXAMINER STOGNER: And --

2 (Off the record)

3 EXAMINER STOGNER: -- not seeing a reason for
4 readvertisement, I believe we're ready to take this case
5 under advisement. Should, however, some issue come up
6 between now and then, I'll be in contact with you and then
7 we can reopen it at that point in time. But I do not see
8 an issue at this particular point.

9 Now, I'd like for you to provide me a rough draft
10 order, and I see that it would be numbered sequentially
11 with 9922-D --

12 MR. BRUCE: Correct.

13 EXAMINER STOGNER: -- along those same areas.

14 MR. BRUCE: I will prepare one and pass it by Mr.
15 Feldewert, and if you could give me a couple of weeks, I'll
16 have a proposed order to you.

17 EXAMINER STOGNER: So noted.

18 MR. BRUCE: Thank you, Mr. Examiner.

19 EXAMINER STOGNER: Thank you. With that, then,
20 this hearing is adjourned.

21 (Thereupon, these proceedings were concluded at
22 10:17 a.m.)

23 * * *

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12782
29 December 2001
STEVEN T. BRENNER, CCR
(505) 985-9319

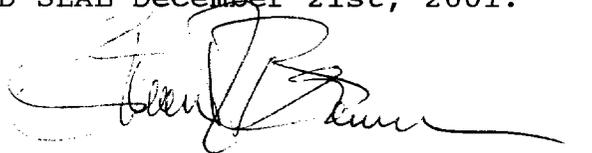
CERTIFICATE OF REPORTER

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 December 21st, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002