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:	)	CASE NO. 12,916
APPLICATION OF OCEAN ENERGY, INC., FOR POOL CREATION AND SPECIAL POOL RULES, EDDY COUNTY, NEW MEXICO	)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 24th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 24th, 2002, 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.

* * *

I N D E X

October 24th, 2002
Examiner Hearing
CASE NO. 12,916

* * *

E X H I B I T S

* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

ALSO PRESENT:

WILLIAM V. JONES, JR.
Petroleum Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

WHEREUPON, the following proceedings were had at 8:25 a.m.:

EXAMINER STOGNER: At this time I'll call Case Number 12,916, which is the Application of Ocean Energy, Inc., for pool creation and special pool rules, Eddy County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing the Applicant. I have three witnesses to be sworn.

EXAMINER STOGNER: Are there any other appearances?

Will the witnesses please stand to be sworn at this time?

(Thereupon, the witnesses were sworn.)

DEROLD MANEY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Derold Maney, Houston, Texas.

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

A. Ocean Energy, as a landman.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, they were.

Q. And are you familiar with the land matters involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Maney as an expert petroleum landman.

EXAMINER STOGNER: Mr. Maney is so qualified.

Q. (By Mr. Bruce) Mr. Maney, what does Ocean seek in this case?

A. We seek a new pool for the lower Bone Spring covering the northwest quarter of Section 10, 21 South, 27 East, to be called the Magruder-Lower Bone Spring Pool.

Q. What is Exhibit 1?

A. Exhibit 1 is a map showing the proposed pool, also shows other pools in the area, the Avalon-Lower Bone Springs Pool to the northwest and the East Avalon-Bone Springs Gas Pool to the southeast, and our proposed new pool.

Q. Okay. So there are a couple of Bone Spring gas pools in this area?

A. Yes, sir.

Q. And a subsequent witness will talk about these pools?

A. Yes, sir.

Q. Okay. Now, the East Avalon-Bone Spring Pool to the north, the boundary isn't highlighted on there, but what acreage is in that pool, or at least partially, the nearest acreage?

A. Section 1 and 2, 3 and part of 4.

Q. Okay. So there are a number of Bone Spring pools in this area already?

A. Yes, sir.

Q. And our other witnesses will testify that this pool is separate from those pools?

A. Yes, sir.

Q. What special pool rules does Ocean seek for this pool?

A. 160-acre spacing, the northwest quarter of Section 10.

Q. And do you also seek an increased gas-oil ratio?

A. Yes, sir.

Q. And what is that?

A. 4000 to 1.

Q. And do you request the normal setback requirements of 660 feet from a quarter section line and

330 feet from a quarter quarter section line?

A. Yes, sir.

Q. Were all the operators of wells within a mile of the northwest quarter of Section 10 notified of the Application?

A. Yes, they were.

Q. And what is Exhibit 2?

A. Exhibit 2 is the offset operator. It names all the operators and where they operate.

Q. Okay. Now, is this limited to the Bone Springs, or does it cover any Division-designated operator in this area?

A. It covers everybody --

Q. Okay.

A. -- who operates within that one-mile radius.

Q. And this report was prepared at your request?

A. Yes, sir.

Q. Okay. Looking back at Exhibit 1, is the northwest quarter one lease, or is there more than one lease?

A. There are two BLM leases. One covers the east half of the northwest and the northwest northwest.

Q. And what's that federal lease number?

A. 14768. And the other lease covers the southwest quarter of the northwest quarter.

Q. And what's the federal lease number there?

A. 17097.

Q. Okay. Is the royalty interest the same in both leases?

A. Yes, it is.

Q. Okay. Does Exhibit 3 list all interest owners in the well, assuming 160-acre spacing?

A. Yes, sir.

Q. Okay. And was notice -- One other thing, is working interest ownership common in the northwest quarter of Section 10?

A. Yes, sir.

Q. Is there a JOA under which the parties share?

A. Yes, sir.

Q. Okay. Was notice of this Application given to all of the interest owners in the northwest quarter of Section 10 and to all Division-designated operators within a mile of the proposed pool?

A. Yes, sir, it was.

Q. And is Exhibit 4 the affidavit of notice?

A. Yes, it is.

Q. Has any interest owner or offset objected to this Application?

A. Not to my knowledge.

Q. Were Exhibits 1 through 4 prepared by your or

under your supervision or compiled from company business records?

A. Yes, sir, they were.

Q. And in your opinion, is the granting of Ocean's Application in the interests of conservation and the prevention of waste?

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I'd move the admission of Ocean Exhibits 1 through 4.

EXAMINER STOGNER: Exhibits 1 through 4 will be admitted into evidence at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, you had mentioned a couple of lease numbers. What was the acreage again, for those two leases involved in the northwest quarter of Section 10?

A. Yes, sir, Lease Number 14768 covers the east half of the northwest quarter and the northwest quarter, northwest quarter. And Lease Number 17097 covers the southwest quarter, northwest quarter.

Q. And the subject well that's already drilled is in which lease? What is that location?

A. Let's see --

Q. Is that shown on Exhibit 1?

A. Yes, it is going to be in the northeast of the

northwest.

Q. So it's the --

A. The Cerf Federal --

Q. -- well designated Number 1?

A. It's the Cerf Federal Number 2 well.

MR. BRUCE: Southeast of the northeast.

THE WITNESS: Southeast of the northeast? South-- Yes, I see. Southeast.

Q. (By Examiner Stogner) What's the name of that well again? I'm sorry.

A. The Cerf Federal Number 2.

MR. BRUCE: C-e-r-f.

EXAMINER STOGNER: I guess that will be changed to the Cerf Federal Com Number 2 if the order is issued.

MR. BRUCE: It probably should have been before, but it's an older well, so the naming designation may have been incorrect way back when.

Q. (By Examiner Stogner) Okay. Exhibit Number 3 is the -- These are the working and overriding royalty interests?

A. Yes, sir.

Q. Just within the northwest quarter?

A. Yes, sir.

EXAMINER STOGNER: And Exhibit Number 4 shows that these parties have been notified, plus others; is that

correct, Mr. Bruce?

MR. BRUCE: That is correct. The Exhibit 4 contains notice to the offsets and to the northwest quarter of Section 10 interest owners.

EXAMINER STOGNER: I have no other questions of Mr. Maney at this time.

MR. BRUCE: Call Mr. Motycka to the stand.

FRANK MOTYCKA, JR.,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Frank Motycka, Jr.

Q. Would you spell your last name for the court reporter, please?

A. M-o-t-y-c-k-a.

Q. Where do you reside?

A. Houston, Texas.

Q. And what is your job?

A. I'm senior staff geologist for Ocean Energy in Houston.

Q. Have you previously testified before the Division?

A. No, I haven't.

Q. Would you please summarize your educational and employment for the Examiner?

A. Sure. I graduated from Bowling Green State University in Ohio in 1977 with a bachelor's degree in geology. After graduation I was employed by Texaco in Midland, Texas, from 1977 to 1979. I went to smaller company, NRM, for three years, then to Dorchester for two.

I was then with Kerr-McGee from 1984 until 1992 in Midland, Texas, again working Permian Basin, New Mexico and Texas. At that time in 1992 I was transferred to their corporate headquarters in Oklahoma City where basically my areas were expanded to cover all the onshore North American areas. In 1996 I was transferred to Houston working offshore Gulf of Mexico and continued with Kerr-McGee until 1999 when I joined Ocean Energy, working the Permian Basin asset team.

Q. And your area of responsibility at Ocean does include southeast New Mexico?

A. Yes, it does.

Q. And are you familiar with the geology involved in this case?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Motycka as an expert petroleum geologist.

EXAMINER STOGNER: Mr. Motycka is so qualified.

Q. (By Mr. Bruce) Mr. Motycka, could you identify your Exhibit 5 for the Examiner and describe what that shows?

A. Yes, Exhibit 5 is an isopach map of the two zones that comprise the interval that we're talking about at this hearing.

Q. Before you go one, even though, Mr. Motycka, we called this a lower Bone Spring Pool, what you're saying is, there are two separate zones in that lower Bone Spring?

A. Yes, that's true.

Q. Okay, go ahead.

A. And it will be made clear on a further exhibit. Essentially these two maps, though, are a -- I used a clean gamma-ray cutoff of about 30 API units to be able to bring out this zone, and so what I'm trying to show is really the very limited extent that we see within these intervals in the lower Bone Springs.

Q. Okay. Looking at this map, there are -- what, on the left side of your map, which is one of the zones, apparently there is some of this reservoir in the well to the north?

A. That's correct, there appears to be a two-foot zone. It does not appear to be productive, it's kind of below the resolution of the log. But in the immediate area that's the only well in addition to the Cerf Federal 2,

which has quite a thick interval, that appears to have that correlative zone.

Q. In the other side of your map, on the right side, then, it shows that there is some of this Bone Spring reservoir in the well to the south?

A. That's true, and that zone does appear to have about four feet of porosity that does appear by log calculations to be capable of production.

Q. Is it your understanding that this zone has been tested or attempted to be tested in that well?

A. Yes, mainly this is from, you know, conversations with operators, no official documentation that we know of, but we understand that zone was attempted to be completed.

Q. By Chi Energy?

A. That's correct.

Q. And is it your understanding that the well is not productive in that Yates State Well Number 1?

A. I believe so, yes.

Q. Okay. Let's move on to your next exhibit, 5A. What does that show?

A. 5A is a structure map on top of the first Bone Springs sand. Now, this structure map will be stratigraphically above this zone. This is a persistent structure from very shallow depths all the way down to Devonian. So while this is not specifically on top of this

interval, this is a good representation of the structure that we see out in this area and across this lease.

Q. Okay. Now, your first exhibit shows a line of cross-section. Could you move on to that --

A. Sure.

Q. -- your Exhibit 6, and discuss how this zone in the Cerf Federal Well differs from the offsetting Bone Spring Production?

A. Yes. What I attempted to do with this one was to tie the equivalent interval that pays in the East Avalon Unit to the northeast in Section 1, and that zone basically produces from intervals at about 5400 feet. This cross-section, the vertical scale is 1 inch to 100, just to give you a little background here. Because of the digital media that we use, you know, the dimensions of the log look a little different, but the vertical scale is common to both.

And I put the correlative intervals that we see out here in the area, so comparing our Cerf Federal Number 2, the top of the Bone Springs to the production at the East Avalon Unit to the northeast, we see that the production there occurs at the top of the massive Bone Springs carbonate interval.

When we come to our Cerf Federal well, you can see the area noted in orange are the two zones that we have produced. And basically I separate those up, because the

middle interval does not appear to be developed, it does appear to be two distinct zones at the base of the Bone Springs carbonate. And this interval is separated by about 3200 feet from the perfs over at the East Avalon Unit. So there's a significant stratigraphic separation between the two zones.

Q. Okay, so they're not producing from the same correlative intervals, obviously?

A. That's right.

Q. Okay. Does it appear that the Cerf Federal will be productive in that upper Bone Spring zone that's in that Exxon well that you have on the cross-section?

A. It appears -- There might be a little, a little bit of pay. I see a little bit of crossover. But it looks very marginal, and we've made no effort to identify that as potential zone. It looks to us to be nonproductive or definitely noncommercial at the best situation.

Q. Okay. With respect to these lower Bone Springs zones, is the Cerf Federal well the only well that you've seen in this area that has these two lower zones productive?

A. Yes, that's correct.

Q. Okay.

A. It's definitely a unique zone to that area.

Q. Were Exhibits 5, 5A and 6 prepared by you or

under your supervision?

A. Yes.

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

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Ocean Exhibits 5, 5A and 6.

EXAMINER STOGNER: Exhibits 5, 5A and 6 will be admitted into evidence at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, let me make sure that I've got everything corresponding here. When I look at Exhibit Number 5A --

A. Yes.

Q. -- this is the top of the first Bone Springs structure. Now, what do you call the first Bone Springs structure? I'm going to refer to this --

A. Yes, that will be, if you refer to Exhibit 6, the cross-section that structure map is on the top of what I call the first Bone Springs sand.

Q. Okay.

A. That's what that structure map is.

Q. Okay, and when I go to Exhibit Number 5, I'm looking -- this corresponds to the two red depictions on

Exhibit Number 6; is that correct?

A. Yes.

Q. Okay.

A. And the -- just -- the upper zone is the uppermost zone that you see on the cross-section, and consequently the panel on the right, the lower zone, is the one that's really below that.

Q. And what are these structures? Are these algal mounds, or what are we looking for?

A. Oh, I believe these are detrital carbonates, similar to what the nature of the Bone Spring carbonates out in this area are.

Q. Okay, is there any particular difference between these two little carbonate structures? I mean, other than deposition or age?

A. No, no, I believe they're similar deposits.

Q. And are they -- Okay, so I'm essentially looking at the same kind of grain structure or --

A. Yes.

Q. -- grain size --

A. Yes, that's what I would infer from the log work I've done.

Q. Now, have you had a chance to look at the other pools in the area -- and I'm referring back to Exhibit Number 1, which you kind of show too -- like the Avalon-

Lower Bone Spring Pool up in Section 4? Is that the same kind of a structure that you see there, these little carbonate structures?

A. If you're referring to the well in the southeast of the northeast, I do show -- Oh, okay, that's in the northwest of 4? In fact, sir, I don't have that noted on the map I see. I have looked at the logs through here, and though I can't speak to the specific perforations here, I do know that that does not correlate to the interval that I'm seeing over here, as I remember the data.

Q. Okay, you were beginning to talk about the well up in the northeastern portion --

A. Yes.

Q. -- of Section 4. Is that well producing? Why don't you go ahead and finish up what you were talking about that?

A. Yeah, I believe that well is not producing. That meets the gamma-ray cutoff, but it appears tight on the log. So while it does have what appears to be an equivalent interval, it's a nonproductive-looking interval.

Q. Now, when I look at the pools or production or producing intervals back to the south and west and east southeast -- this is the Magruder-Bone Spring Gas Pool and East Avalon-Bone Spring Gas Pool -- what zones are they producing from?

A. I can't really answer that question, sir.

Q. Okay.

A. It is not producing from this zone though.

EXAMINER STOGNER: Okay. Is your next witness going to speak specifically about the reservoir characteristics of this proposed pool and the other pools, Mr. Bruce?

MR. BRUCE: He will be -- He is an engineer, Mr. Examiner.

EXAMINER STOGNER: All right, I don't believe I have any other questions of Mr. Motycka at this time. He may be excused. I might have something...

Before we go any further, I've got a question on Exhibit Number 1, Mr. Bruce.

MR. BRUCE: Yes, sir.

EXAMINER STOGNER: If you'll maybe set your witness, your first witness, up at the chair next to you so he can maybe answer the question.

I'm referring now to Exhibit Number 1. Whenever I'm looking at the different pools that are shown here, your proposed pool, the Magruder-Bone Spring Gas Pool, the East Avalon-Bone Spring Gas Pool, I look up and I see an East Avalon-Bone Spring Pool. Now, where is that pool located?

MR. MANEY: It's not outlined, it covers Section

1, 2, 3 and portions of 4 and then goes, I think, to the north northeast.

EXAMINER STOGNER: Okay, so it's a relatively large pool. And that's in the oil pool, that you know of?

MR. MANEY: Yes.

MR. BRUCE: Mr. Examiner, I believe actually it also includes the west half of Section 11, and so in effect the southwest quarter of Section 11 is covered by the East Avalon-Bone Spring Pool and the East Avalon-Bone Spring Gas Pool.

EXAMINER STOGNER: Why does that not surprise me in this day and age? Okay, so it covers a relatively large area in Sections 2, 3, 4 and parts of 11 down there, so -- but that's a matter of record?

MR. BRUCE: Yes, sir.

EXAMINER STOGNER: Okay, thank you, I appreciate that. But now your other pools that you show, these are the actual pool boundaries?

MR. BRUCE: And I'm just double-checking. Mr. Examiner, the Avalon-Lower Bone Spring Pool, that's the boundary, the Magruder-Bone Spring Gas Pool, that's the boundary. The East Avalon-Bone Spring Gas Pool covers some additional acreage to the east and northeast, but it's further away. I was just showing the nearness of it to the proposed pool.

EXAMINER STOGNER: Your nearness is so noted. I'll take administrative notice of the nomenclature of the Bone Springs area in this particular area. Thank you.

You may continue, Mr. Bruce.

MR. BRUCE: Mr. Examiner, our next witness is Ray Payne, an engineer.

RAYMOND W. PAYNE,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Raymond Wesley Payne.

Q. Where do you reside?

A. Houston, Texas.

Q. Who do you work for?

A. Ocean Energy.

Q. And what's your job with Ocean?

A. I'm a senior staff reservoir engineer.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, they were.

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

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Payne as an expert engineer.

EXAMINER STOGNER: Mr. Payne is so qualified.

THE WITNESS: Thank you.

Q. (By Mr. Bruce) Now, Mr. Payne, maybe let's get up to the front, question of -- You've seen Mr. Motycka's geology, have you not?

A. Yes.

Q. And the reservoir is limited in extent?

A. Yes.

Q. This well that -- the discovery well, if you will, is an older well; is that correct?

A. Yes, this was a recompletion.

Q. Okay. At this time, because of the limited extent of the reservoir and the uncertain -- and we'll get into the production from the well -- will additional drilling in this reservoir also be limited in your opinion?

A. Yes, it will be.

Q. Okay. Now, the acreage -- the reservoir, based on Mr. Motycka's mapping, does show acreage under each of the quarter quarter sections in the 160 acres, the

northwest quarter of Section 10, does it not?

A. Yes.

Q. And approximately again, what is the productive interval of the well? What is the depth?

A. 8367 to 8494.

Q. Okay.

A. If we cover both those sands.

Q. All right, I see that you're looking at your Exhibit 9. Why don't we go to that first, even though it's a little bit out of order, and describe the well we're talking about, and maybe give a little bit of the history of the well while you're at it.

A. Okay, the top of the diagram on Exhibit 9 shows this is the Cerf Federal Com Number 2, and the well was drilled in 1976 and duly completed in the Strawn and the Morrow. And subsequently to that the Morrow and the Strawn were downhole commingled, and their production is reported separately, but -- through an allocation formula.

Here recently, this year, we went into the well and recompleted it to the third Bone Spring -- what we call the third Bone Springs carbonate, the subject of this hearing, and producing it currently as a dual completion with the Strawn and the Morrow commingled up the long string and the Bone Springs carbonate producing up the short string.

Q. Okay, referring to your Exhibit 7, can you describe the production from the well and perhaps some of the reservoir characteristics?

A. Yes, when the well came on initially it showed an original bottomhole pressure of 3800-and-some pounds and a GOR of 1600 to 1, but in just a matter of days that GOR started to show a limited reservoir. We shut it in, I think it was in May of -- May 9th, 2002, which is a pressure survey shown on Exhibit --

Q. So Exhibit 8 is the pressure survey?

A. Yes.

Q. Okay.

A. And the reservoir pressure has declined from the original pressure of 3815 to 2152. We continued to test the well over the next few months to confirm the limited nature of the reservoir in preparing for this hearing.

Q. Okay. Do you have in front of you the Exhibit 1, the land plat, Mr. Payne?

A. Yes.

Q. Before we get into some of these things, there are some other wells noted on here, these two Bone Spring gas pools. Your well at this point is producing quite a bit of gas, is it not?

A. Yes, sir.

Q. The GOR has been increasing?

A. Yes, it is.

Q. And now these other Bone Spring gas pools in this area, were they ever -- they were originally designated as gas pools by the Division without any special pool rules; is that correct?

A. That's my understanding.

Q. And so the wells were gas wells from the inception?

A. Yes, sir.

Q. But obviously there is some high GORs in the Bone Spring in this area?

A. In this particular reservoir, yes.

Q. In this reservoir and some of the offsetting reservoirs?

A. Yes, sir.

Q. Okay. And what is the current GOR in your well?

A. I think the -- currently, the well is producing at somewhere around 50,000 to 60,000 to 1.

Q. Okay, and you are requesting an increased GOR for this pool?

A. Yes, sir, I am.

Q. Do you see any damage to the reservoir by increasing the GOR in this reservoir?

A. No, sir, I do not.

Q. Have you -- And referring back to your Exhibit 7

where you have the production data and some of the reservoir characteristics, at this point, from an engineering standpoint, does the reservoir appear to be limited in extent?

A. Yes, sir, it does.

Q. It doesn't quite match up with Mr. Motycka's geology at this point, does it?

A. No, but I think further production and further testing, you know, I would expect there to be -- the final answer to come somewhere in between the 12 acres I'm showing on Exhibit 7 and the acreage that Mr. Motycka has mapped, inferred from the well log, subsurface control.

Q. Based on these differing values, do you request temporary pool rules?

A. Yes, I think that would be appropriate.

Q. Of about a year, should be sufficient to get some data --

A. Yes, sir.

Q. -- additional data?

Looking at the difference between your calculated drainage and Mr. Motycka's geology, is there any way you can reconcile that at this point?

A. Well, I think, you know, permeability barriers or restrictions within the reservoir may be giving us, you know, where we're not as communicated with the entire

reservoir as we'd like, so that's common.

Q. Do you have a good handle on what the Cerf Federal Well Number 2 may produce ultimately from the Bone Spring?

A. Based on the current production data and the pressure data and the decline curve analysis, I feel like the reserves in this well are 28,000 barrels of oil and 300 million cubic feet of gas. That would be my best estimate at this time.

Q. Okay. Those are fairly decent numbers for a recompletion or for an additional zone, are they not?

A. Yes, sir, they are.

Q. But would you drill a new well to test those reserves?

A. These reserves would not support drilling an additional well.

Q. Okay. And again, you request that the spacing be increased to adequately test the reservoir and make them temporary for a year?

A. Yes, sir.

Q. Were Exhibits 7, 8 and 9 prepared by you or under your supervision?

A. Yes, they were.

Q. And in your opinion, is the granting of this Application in the interests of conservation and the

prevention of waste?

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I'd move the admission of Ocean Exhibits 7, 8 and 9.

EXAMINER STOGNER: Exhibits 7, 8 and 9 will be admitted into evidence.

EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, let's see, you have testified about the other Bone Springs gas producers. Which corresponding zone are those gas wells producing from? Are they from an upper interval, or are they down here in this lower third Bone Spring carbonate?

A. They're in the upper interval. They're not producing from the section that we're completed in.

Q. Okay, what section are they producing from?

A. It would be the first Bone Springs -- Mr. Motycka may be more familiar with this, but it would be the first Bone Springs sand.

Q. Okay, and you're referring to Exhibit Number 6 now, and that's that small interval that's shown in essentially the middle of the exhibit?

A. Yeah. I may be mistaken. I probably need to consult with my geologist to refresh my memory.

Q. Do you remember the depth of those --

A. Yeah, I remember distinctly that it was several thousand feet above our zone and, you know, there was no reasonable expectations that they would be in stratigraphically equivalent intervals.

Q. Okay, so -- What I was getting at, you don't know that those gas wells are not perforated down in this lower area where you are producing from this lower area that you're seeking at this time?

A. I've looked through the publicly available data thoroughly and have found no perforations that could be construed as being equivalent to our completion.

Q. Other than economics, if the second well was put into this interval how would that affect this -- the small pool's production, or would you see any effect on the original well?

A. Could you ask the question again, sir?

Q. Yeah, I'm trying to -- Would there be any effect on the reservoir if a second well was drilled into there? What effects would we see, other than -- with a second well, just to the reservoir? I'm not talking about economics?

A. I don't think there would be any effect. The pressures, you know, right now are dropping so fast. Could we get additional oil recovery, I guess, is maybe what you're thinking?

Q. Yeah.

A. And I think, you know, with -- economics aside, I think you could drill another well and start injecting gas into it and maybe sweep some additional oil out of the reservoir. But it just wouldn't -- the economics would nowhere support that.

Q. Okay, so your economics is your point of contention on the 160 acres in this --

A. Yes, sir.

Q. -- region?

EXAMINER STOGNER: Mr. Bruce --

MR. BRUCE: Yes, sir.

EXAMINER STOGNER: -- what would be the top and the base of this pool? Obviously, the base would be down there at the Wolfcamp marker, I would assume, but can we take the whole third Bone Spring carbonate and consider that part of the lower pool when we're looking at pool boundaries in this -- I believe you gave him the Exhibit 6, right?

MR. BRUCE: Yeah. And I might have to confirm this with the geologist, but it appears that, you know, everything is below the top of the third Bone Spring carbonate, so it may be limited to that. And I would ask, perhaps, at this time Mr. Motycka if he sees any problem with making that the marker of the top of the pool.

MR. MOTYCKA: At this time I don't. I will say that these lower zones that we're producing from are distinctive to this area and that the -- what you would normally call the base of the third Bone Spring carbonate, which would be just immediately above these producing intervals, that has some correlation across the area.

So depending on how specific we wanted to be, I mean, we could narrow it to that close an interval, you know, or include up to a more -- even a more concrete pick, which would be the top of that third Bone Spring carbonate.

EXAMINER STOGNER: Have you discussed this with the geologist in the Artesia office?

MR. MOTYCKA: No, I haven't.

EXAMINER STOGNER: Okay. My concern here, Mr. Bruce, is, we obviously have a lot of Bone Springs pools in this area. Now, we've got a lower Bone Spring pool that we're putting in here, so later on somebody comes in and has some, say, gas production. That's why I'm trying to establish this cutoff. Obviously the bottom part I don't think is going to be any problem with the Wolfcamp marker, but wherever we want to -- I'll you what, let's do this. Why don't Mr. Motycka get with Bryan Arrant --

MR. MOTYCKA: Okay.

EXAMINER STOGNER: -- and determine what the top of this pool will be? And if you could get back with me on

that --

MR. BRUCE: We'll get back within the next few days.

EXAMINER STOGNER: -- and establish that.

Also, I believe you have requested -- Ocean has requested or suggested that the name be the Magruder-Lower Bone Spring Pool. Would you also double-check that with him and see if this meets with him? Because what we have here, we have a Magruder-Bone Spring Gas Pool and a Magruder-Lower Bone Springs -- Things start getting a little confusing. But if you double-check with Bryan on that, and I'll go with what you two decide --

MR. BRUCE: Okay.

EXAMINER STOGNER: -- on the top and the name.

MR. BRUCE: We were leery of creating another East Avalon-Bone Spring pool.

EXAMINER STOGNER: Yes, yes. And don't consider that as another East Avalon-Bone Spring pool. That's not going to be acceptable in this matter.

Okay, with that, and I'll wait for your e-mail or correspondence, Mr. Bruce --

MR. BRUCE: Okay.

EXAMINER STOGNER: -- in that matter, I don't have any other questions at this time.

MR. BRUCE: I have nothing further in the matter,

Mr. Examiner.

EXAMINER STOGNER: Okay, you may be excused, thank you for coming --

THE WITNESS: Thank you.

EXAMINER STOGNER: -- and we'll take this matter under advisement pending --

MR. BRUCE: Yes, sir.

EXAMINER STOGNER: And you can even give me a rough draft order --

MR. BRUCE: I will.

EXAMINER STOGNER: -- addressing those issues.

(Thereupon, these proceedings were concluded at 9:07 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12916 heard by me on 24 October 2002.

, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL November 4th, 2002.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006