STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

10 May 1989

EXAMINER HEARING

IN THE MATTER OF:

Application of Stevens Operating Corporation to amend Division Order No. R-8917, directional drilling and an unorthodox oil well location, Chaves County, New Mexico.	CASE 9670

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For Stevens Operating Corporation:	William F. Carr Attorney at Law CAMPBELL and BLACK, P. A. P. O. Box 2208 Santa Fe, New Mexico 87501
For Exxon Company USA:	W. Thomas Kellahin Attorney at Law KELLAHIN, KELLAHIN & AUBREY P. O. Box 2265 Santa Fe, New Mexico 87504
For Santa Fe Exploration Company:	Ernest L. Padilla Attorney at Law PADILLA & SNYDER P. O. Box 2523 Santa Fe, New Mexico 87504

I N D E X

E X H I B I T S

MR. STOGNER: This hearing will come to order.

We're going to call next Case Number 9570, which is the application of Stevens Operating Corporation to amend Division Order No. R-8917, directional drilling and an unorthodox oil well location, Chaves County, New Mexico.

At this time I'll call for appearances.

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell & Black, P. A., of Santa Fe. We represent Stevens Operating Corporation.

MR. STOGNER: Any additional appearances?

MR. PADILLA: Mr. Examiner, Ernest L. Padilla, Santa Fe, New Mexico, for Santa Fe Exploration Company.

MR. STOGNER: Are there any witnesses, Mr. Padilla?

MR. PADILLA: I have one witness. It will be very short.

MR. STOGNER: Mr. Carr?

MR. CARR: One witness.

MR. STOGNER: I'm sorry, Mr.

Carr?

MR. CARR: I have one witness.

MR. STOGNER: Okay. Will the witnesses please stand and be sworn.

(Witnesses sworn.)

MR. STOGNER: All right, Mr. Carr.

MR. CARR: Mr. Stogner, initially I think I should point out --

MR. KELLAHIN: Mr. Stogner, I'd like to enter my appearance on behalf of Exxon Company, USA.

I'm Tom Kellahin of the Santa Fe law firm of Kellahin, Kellahin & Aubrey.

MR. STOGNER: Do you have any witnesses, Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. STOGNER: Are there any other appearances which we missed?

There being none you may continue, Mr. Carr.

MR. CARR: Mr. Stogner, on April 19, 1989, the Division entered Order R-8917 in Case

9617, which approved the nonstandard -- or an unorthodox oil well location and a nonstandard proration unit, Chaves County, New Mexico.

Stevens Operating Company is before you here today seeking authority to directionally drill a well and that is the only aspect or provision of the prior order which we are interested in changing or amending.

Our testimony will show that we intend to comply with the provisions of the order as previously entered.

If you will note, the order contains a severe restriction on the allowable that is assigned to the well. In Finding 15 there is a calculation which indicates the restriction could be as -- could be allowed to produce only 15.6 percent of the allowable assigned to the well, and the purpose of this application is to utilize an offsetting wellbore to reduce costs and therefore attempt to make a completion at the location previously approved.

My first witness, my only witness, is Jack Ahlen.

JACK AHLEN,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

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

A My name is Jack Ahlen.

Q Mr. Ahlen, where do you reside?

A In Roswell.

Q What do you do for a living?

A I'm a consulting geologist.

Q And in what capacity are you employed in this case?

A I'm a consultant for Stevens Oil and Curry and Thornton in this particular -- in this matter.

Q Have you previously testified before this Division and had your credentials as a geologist accepted and made a matter of record?

A Yes, sir.

Q Were you an expert geological witness in Case 9617, which resulted in the prior order approving the nonstandard unit and unorthodox well location?

A Yes, sir.

Q Are you familiar with the application filed in this case on behalf of Stevens Operating Corporation?

A Yes, sir.

Q Have you studied and are you familiar with the subject area?

A Yes, sir.

MR. CARR: Are the witness' qualifications acceptable?

MR. STOGNER: They are.

Q Mr. Ahlen, would you briefly state what Stevens Operating Corporation seeks with this application?

A Stevens Operating Corporation seeks to reduce the costs in drilling to their particular acreage in the tract. By re-entering a previously drilled hole in the immediate vicinity and doing directional drilling from that wellbore we expect to have a savings of approximately 50 percent of the normal cost of a well.

Q Would you refer to what has been marked for identification as Stevens Exhibit Number One, identify it and review it for Mr. Stogner?

A This is the -- exactly the same application that was utilized in Case Number 9617. It shows a copy of the Midland Map Company land map showing lease ownership. It shows the discovery well and the standard

proration units surrounding that well. It also shows the applied for proration unit for the unorthodox location which was granted.

Q And this is the same plat that you testified from at the prior hearing.

A Yes, sir.

Q And in what pool are you -- is Stevens going to be attempting to make a completion?

A In the North King Camp Pool.

Q And you propose to dedicate to it the previously approved nonstandard proration unit?

A Yes, sir.

Q And that is the east half of the west half of Section 9.

A Being approximately 160 acres.

Q Would you now go to Exhibit Number Two, identify that and review it for the Examiner?

A Okay, Exhibit Number Two is the same Devonian seismic structure map that was used in the previous testimony, except that I have added to that the notation that the original requested location has been approved by Order No. should be R-8917.

I have also added a semi-circle to the west of that approved location and we propose to hit that target with our directional well.

Q And it is your intention to control the well so that you will be no closer to the eastern boundary of your spacing or proration unit than the location that was previously approved, is that correct?

A We will conduct a continuous deviation and directional survey during the drilling of that well such that we know where the bottom of the hole will be.

Prior to kicking off we will also run a deviation and directional survey of the old hole at the standard location so that we know the surface, the relative surface location of the old hole.

Q Now, when these directional or deviation surveys are conducted, will the Oil Conservation Division be notified?

A They will be supplied with a copy of all surveys that are made for the deviation. We will making them at a regular interval so it will be difficult to call exactly when each one will be made.

Q Will you make copies of these also available to other interest owners in the area if they re= quest?

A Yes, sir.

Q All right. Now, in the prior case the applicant was Curry and Thornton. Could you explain to Mr. Stogner the relationship between Curry and Thornton and

Stevens Operating in regard to this particular venture?

A Yes, sir. Curry and Thornton do not operate wells in this part of New Mexico and Mr. Stevens was a working interest owner in that particular lease and he has accepted operations from Curry and Thornton.

Q All right, and Exhibit Number Two also shows the fault that was the subject of the last hearing --

A Yes, sir.

Q -- is that correct? Would you now refer to Stevens Exhibit Number Three, identify that, and review it for Mr. Stogner?

A This is a schematic diagram of the PhilTex Honolulu Federal previously drilled in Section 9 of 14 South, 29 East, located 1980 out of the south and west corners.

I have noted on this exhibit the surface elevation; that there is a 4 inch marker pipe sticking out of the ground cemented to the surface; that the well has 13-3/8ths inch casing set at 320 feet, the cement was circulated. It also has an intermediate string of 8-5/8ths at 3990, cement was circulated. A 25-sack cement plug was placed in the well over that, the interval at the bottom of that pipe from 4050 to 3950. It also has a 25-sack cement plug at 5740 to 5637; another 25-sack cement plug at 7784 to 7681; and a 25-sack cement plug in the bottom of the

hole from 9894 to 9791; and the total depth of the well is 9894.

We intend to drill all the cement markers out above the 7700 foot plug and kick off our well immediately above that.

Q And so Exhibit Number Three shows the current configuration.

A Current, yes, sir, the current configuration of the dry hole that was drilled several years in the past.

Q All right. Let's now go to Stevens Exhibit Number Four and referring to this exhibit I would ask that you review for Mr. Stogner exactly how you propose to directionally drill this well.

A The display is an east/west cross structure cross section between the PhilTex Honolulu Federal No. 1 and the Santa Fe Exploration Holmstrom Federal No. 1.

I illustrate a copy of the electric log on the PhilTex Well to the west of the stick diagram. The stick diagrams represent the wells and they are in true scale proportion on the diagram. That means that one inch equals 100 feet vertically as wells as horizontally.

You'll note that the datums in the PhilTex Well are substantially lower than those in the -- in

the Santa Fe Exploration Well, being that the -- the primary pay zone, the Devonian formation, is approximately 150 feet low at a datum of -6109 in the PhilTex Well; for the producing well the Devonian datum is at -5976.

Our seismic information suggests that the fault in question that was one of the primary concerns of the previous testimony is very close to the location Santa Fe had exhibited in their initial presentation before the committee. The seismic that we ran shows it at the same spot, being approximately 100 to 200 feet east of the PhilTex Well.

It is our proposal that we kick off the hole at a point close to 7474 in the PhilTex Well, build an angle to the east of approximately 15 degrees by the time we reach a depth of 8224 feet, measured. At that depth we will attempt to hold the angle constant at 15 degrees to the east until we reach a depth of 8913, measured.

At that point we will start to straighten the hole out at the rate of 2 degrees per 100 feet, pass through the fault near the top of the Mississippian formation and drop to vertical at a depth of approximately 9450 feet, measured.

We will continue that rate to the west, building an angle of -- at the rate of 2 degrees per 100 feet to the west, intersect the top of the Fusselman or the

Devonian formation at 59 -- -5945, penetrate the same approximately good pay zone as the Holmstrom Well did, and our total depth will be at a depth of 9751 feet, measured, depth. That would be equivalent to a depth of 9710 feet if it had been, measured from the surface straight down and that would be a location which is 330 feet east of the Philtex Honolulu Federal No. 1 Well.

Q Now, Mr. Ahlen, by doing this you will save the cost of drilling to the kickoff point at 7474 feet, is that correct?

A Yes, sir, that is correct.

Q And if you are unable to affect this economic savings, in your opinion will it be possible from an economic point of view to go forward with the well to test or to produce the reserves on this nonstandard proration unit?

A Yes, it will.

Q Would an order resulting from this hearing which provided that you were authorized to complete within 500 feet of the location but in all events west of the proposed -- or the previously approved location, be satisfactory for your purposes?

A That would accomplish our purpose.

Q Would you identify what has been marked as Exhibit Number Five?

A Exhibit Number Five is an affidavit that offset operators have been notified of this cause.

Q In your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes, sir, it will.

Q Were Exhibits One through Five either prepared by you or compiled at your direction?

A Yes, sir.

MR. CARR: At this time, Mr. Stogner, we would move the admission of Stevens Operating Corporation Exhibits One through Five.

MR. STOGNER: Are there any objections?

Exhibits One through Five will be admitted into evidence.

MR. CARR: And that concludes my direct examination of Mr. Ahlen.

MR. STOGNER: Mr. Padilla, your witness.

CROSS EXAMINATION

BY MR. PADILLA:

Q Mr. Ahlen, on your Exhibit Number Two

you show the approved location and I'm wondering what's -- what's the other circle to the left of the proposed location in that exhibit?

A That would be the approximate location of the directional hole. If we succeed in doing what has been -- this -- this is an idealized attempt to reach the reservoir with a directional survey and directional techniques. We would hope that we can come close to this -- this exact drilling program.

Q Mr. Ahlen, you are then trying to bottom hole locate -- the bottom hole location will be just east of the fault as shown on this exhibit, then.

A Yes, sir, if we are -- if the interpretation, the geophysical interpretation is correct.

Q What is the distance between the approved location and your approximate bottom hole location?

A In this particular instance it would be 165 feet.

Q How would that affect the penalty as made in Order R-8990 (unclear)?

A It would not affect it all. The formula would be --

Q Constant.

A Yes, sir. Well, the formula would be as determined by the order.

Q But as I understand, you've changed the footage and as I read the order footage has to -- it is factor in the formula, is that not true?

A Yes, sir, whatever it figures out to be.

Q Would locating the well in this manner have the effect of lessening the penalty?

A Yes, sir.

Q By how much?

A I have not calculated it.

Q By the distance of 165 feet, whatever that is, is that --

A It -- it affects both of the penalty calculations, since it's the product of the -- of the two penalties.

Q You haven't done any calculations as to how this proposed bottom hole location would affect the formula as described or as written in the order.

A The formula remains the same, sir.

Q I understand the formula remains the same. I'm just simply asking you whether or not you have made calculations as a result of the new footage location.

A I have not.

Q Looking at your Exhibit Number Four, what are the chances that you can -- if you're in effect changing the direction of the well twice, is that correct?

A Yes, sir. Yes, sir. If you change the direction of a well as slowly as possible so that you don't get any dog legs in it, which make it hard to produce.

Q What -- what range of deviation do you have in locating your -- your bottom hole location considering the fact that you're changing the direction twice?

A In effect the Eastman people, who are the leading experts in this particular field, say that as they change these directions they get better and better control as to the location. As a matter of fact, they say that they steer the bottom of the hole in the direction that you want it.

Our maximum deflection will be 15 degrees from vertical when we are drilling that segment between 8224 and 8913.

Q Do the Eastman people have a figure as to what the range of deviation that you --

A How far we would be from that location?

Q How far you're going to be from that location?

A In projecting it they feel as though they can control it within 50 feet, but after you get there they'll probably know within 2 feet.

Q 2 feet of the actual bottom hole --

A Of the actual bottom hole location, yes,

sir.

Q But you could actually be 50 feet away from where you actually projected the bottom --

A Anticipated, yes, sir.

Q So you could be closer to the fault or you could be --

A Further away.

Q -- further away, so there's a range of 100 feet, approximately, between what you actually project either way.

A Yes, sir.

Q I mean -- I shouldn't say either way, but the total error, total potential error could be 100 feet.

A If you would allow me, though, the greatest potential error in drilling a well like this is the misinterpretation of the seismic data as to the exact location of the fault, as well as the angle of the fault.

Q Now what --

A So that could vary 100 percent.

Q What effect would you have crossing the -- crossing the fault? What does the fault do in -- to your drilling activity here as you cross a fault?

A It causes significant deviation in the immediate vicinity of the fault. There is -- de[ending

upon the nature of the fault itself, how broad the fault angle, the broken strata in the vicinity of a fault is, as well as the angle of those segments of rock, cause the bit to deviate violently in that -- in the immediate vicinity of a fault.

Q But how --

A Eastman has developed a technique to lower the consequence of that with a downhole turban bit.

Q So you could have some wild gyrations right at the point of crossing the fault, essentially.

A Yes, sir. Yes, sir, there was significant discussion of that when we held the previous hearing.

Q How do you -- how do you -- suppose you do find you're going in a different direction than you want to go, how do you control the bit at that point? Do you come back up hole and start again or how do you do that?

A Yes, sir. Yes, sir, if they go too far off, you plug back and redrill the hole.

Q So you actually have to plug back and come back up again.

A If the deviation encountered is too great and the dog leg is too great as a result of crossing that fault, you do plug back, unless it's nominal and then -- and then they can steer the course of the hole back on -- on course.

Q If you -- if you have that kind of problem, what -- what increase in cost would you experience should that problem --

A Probably lose a day. I would imagine it's a day -- a day of rig time plus a day of the Eastman people. It's approximately $4-to-$5000 a day.

Q How -- do you have an estimate in your cost estimates as to how many times you may have to actually come back up and plug back again and start over, you know, start the hole again?

A The Christianson people say we shouldn't have to do that. They -- they have developed a technology well enough so that shouldn't be necessary. That will be a surprise to us.

Q But you -- you considered this, haven't you?

A Oh, yes. Oh, yes. That's part of the risk.

Q Have you added anything to your cost as part of that risk?

A I have not. I do not have a copy of the AFE with me so -- and I have not seen one. It was being developed as I left Roswell for this hearing.

Q Do you know the difference in the cost between what the well would cost to drill as originally

proposed and using this method?

A We're saving approximately half the cost of the well, of a new well.

Q And it's -- your testimony is that you have -- you will do a continuous drilling survey in accordance with the --

A Yes, sir, in conformance with the order.

MR. PADILLA: Mr. Examiner, I believe that's all I have.

MR. STOGNER: Mr. Carr, do you have any recross -- redirect further?

MR. CARR: Nothing further, Mr. Stogner.

MR. STOGNER: Mr. Padilla, before I start cross examining Mr. Ahlen here, has your witness done some calculations based on the formula given on this particular application?

MR. PADILLA: I believe that we have in terms of figuring and computing what the total amount of penalty would be in terms of barrels per day produced. In other words, it's a simple calculation, multiplying the penalty times the top allowable, which is approximately 80 barrels.

MR. STOGNER: Through the whole gamut of the 500=foot radius?

then we would apply whatever the actual location is to the factors set out in this order.

CROSS EXAMINATION

BY MR. STOGNER:

Q Well, I did a preliminary calculation and correct me, Mr. Ahlen, along here.

Finding Number 13 in Order No. R-8917 is a penalty (unclear) should be assessed for crowding the east line of the unit in proportion to the distance moved from a standard location towards that line, or in this case, 495 over 660.

Well, you were asking for 500 feet target area of a location 2475. So I took 2475 minus 500 coming up with 970. Now that comes up with 870 from the lease line. 870 over 660 equals 1.318.

Now, then, the formula goes on as 1 minus P1, 1 minus 1.318, gives us a negative number. A negative number times another number is going to give you a negative allowable. So we have a problem here.

A Okay. I -- as I -- as I read the penalty, the normal distance would have been 660 from the boundary line and we're going 330, so that would be a 50 percent penalty right there.

Q Uh-huh.

A Okay, and then -- and then we're going -- and the next dimension is from the dry hole to the discovery well, and the relative distance of the location to the discovery well.

Q Yes.

A Okay, so that would be approximately, let's say, 7/8ths, so 7/8ths times 1/2 would be the penalty.

Q Oh, but you put a 500 foot target area in, so let's take the worst case --

A Okay, I -- I --

Q -- scenario --

A Yeah, okay, well, in the first place we're not going to go west of the dry hole. That's obviously a -- I'd say that the boundary would be the fault.

Q Okay. And --

MR. PADILLA: Mr. Stogner, I'd be all for a negative allowable, if that's the way you compute it, I agree.

Q Well, if we take everything -- I realize that -- that more than likely you're not going to swing that way but I'm looking at what is written and the worst case scenario and that really throws this particular --

A I'm going to presume that we're doing pretty well on getting it where we hope we can get it.

Q So there will probably be an extra stipulation on there, anyway, either like you suggest, either the fault line or to 660 from the -- in this case 1980 from the west line, because anything past that you're going to get a negative -- I'm mean you're going to get a zero product or you're going to divide a number by zero.

A You're going to be 800 over 600. See, that's a 660 location --

Q Uh-huh.

A -- and if we get west of that location it would be 800, as an example, over 600. That's not a negative number.

That's 1.3.

Q 1.3 but you've got to subtract that from one according to the formula on the order in paragraph number 4, part C.

A Right.

Q So there will probably be an extra stipulation that this will work out considering you're not going to be drilling east of your location.

A Right.

Q So to make this work there will probably be an extra stipulation and do you see a problem in an extra stipulation being added, Mr. Carr, Mr. Ahlen?

MR. CARR: No, I don't.

Q In which --

MR. CARR: It would avoid having to come back if we did something that we don't think we can do, but, you know, I think an additional requirement would be appropriate.

MR. STOGNER: Other than that, that's all the questions I have for this witness.

Are there any other questions of Mr. Ahlen?

MR. CARR: I have no questions of Mr. Ahlen.

MR. STOGNER: He may be excused.

Mr. Carr, do you have any other witnesses?

MR. CARR: No, I have no other witness, Mr. Stogner.

MR. STOGNER: Okay, Mr. Padilla?

MR. PADILLA: No, I don't have any further questions.

I have one witness, though.

We'll call Bill McAlpine at this time, Mr. Examiner.

WILLIAM A. McALPINE, SR.,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. McAlpine, will you state your full name, please?

A William A. McAlpine, Senior.

Q Your President of Santa Fe Exploration Company?

A I am.

Q And you testified here in Case 9617 as President of Santa Fe Exploration Company?

A Yes, sir.

Q Does the proposed application affect your -- what you own -- well, tell us, sir, where you own property in relation to the proposed location.

A We're the adjacent operator with the discovery well of the Devonian that is east of the proposed location and the location that was set forth and approved in Order No. R-8917.

Q Mr. McAlpine, have you figured what the total barrel allowable would be under Order R-8917?

A An engineer in our office did.

Q At your direction?

A Yes.

Q And what did he conclude?

A Well, at that depth the maximum allowable was 515 barrels a day, and based on the formula, he calculated that the well would be allowed to produce 80 barrels a day if it received the maximum.

Q Do you have any problem with 80 barrels a day as authorized by that order generally?

A Well, we have no objection to the directional drilling being done here as long as the maximum production allowed under the formula is not in excess of 80 barrels a day.

Q Mr. McAlpine, --

A The -- if I may?

Q Go ahead.

A Mr. Examiner, when this case was heard this was not contemplated and the Commission, the Division, approved a most unorthodox shaped proration unit and which, you know, was hashed at length.

I'm of the opinion that the reason that the formula was given was at that time that if there was deviation in the hole toward our leaseline, then that could be taken into account.

Q Concerning the testimony of Mr. Ahlen,

whether they want to drill the well or -- or come through the dry hole, we have no objection to it.

Q You just simply don't want that top allowable based on that penalty to be increased above 80 barrels a day, is that --

A For the reasons I just got through saying.

MR. PADILLA: I have no further questions, Mr. Examiner.

MR. STOGNER: Mr. Carr, your witness.

MR. CARR: I have no questions.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. McAlpine, no matter where the location of the well is, 80 barrels max, that's what you're requesting.

A Yes, sir, because of the shape that the Commission approved of the proration unit and the indeterminable -- now they're, the way they're going to approach it, you know, one foot through the fault line into that zone, that's all they have to do, but that doesn't tell you that that fault line is that distance from the lease line

that entire mile went north/south.

Q So it could be right up against the fault line which is further west of your lease, but you still want 80-acre allowable.

A No, sir, they have -- there is a 160-acre allowable here.

Q Uh-huh.

A But -- and as you'll notice, well, going back further, --

Q I'm sorry, I should have said 80 barrels a day allowable no matter where the location in the proration unit, as long as it's no closer than 2417, or whatever --

A Yes, sir, whatever was approved on that prior order.

Q Okay. I wanted to make sure that I understood you on that.

MR. STOGNER: Okay, I have no other questions of this witness.

Is there any other questions of Mr. McAlpine?

MR. CARR: No. I just have a closing statement and that's it.

MR. STOGNER: He may be excused.

Mr. Padilla, I'll let you go first and, Mr. Carr, I'll let you be last.

MR. PADILLA: Well, Mr. Examiner, I think the -- this case is very simple. It's just simply a matter of Santa Fe Exploration being able to live with the nonstandard proration unit and the nonstandard location with an allowable, maximum allowable of 80 barrels a day.

To -- now, obviously, the order states a formula which in effect could increase that allowable beyond the 80 barrels per day if the well is actually located -- if the bottom hole location is actually (not clearly heard) west of the original proposed location.

We're simply saying that, yes, it may be a matter of another challenge of the Order R-8917 insofar as any increase in the allowable is concerned.

The other side is obviously going to argue that we have a formula and whatever parameters fit into that formula is fair game.

We're simply saying that we believe that without necessarily a collateral attack on the previous order that if a directional drilling application is going to be approved that the allowable ought to be maintained at 80 barrels and no greater than 80 barrels.

MR. STOGNER: Thank you, Mr.

Padilla.

Mr. Carr?

MR. CARR: Mr. Stogner, we're before you asking for an amendment of the prior order in one respect and that's for authority to directionally drill.

I think that it's important to understand the case to look at what the order says and if you look at what the order says and the order paragraphs that we're focusing on are 3 and 4 and the sub-parts of 4.

There's nothing in here that says an 80 barrel per day allowable. That's not what the order says.

The order requires a continuous directional survey to be run on the well to establish a bottom hole location and then it sets certain factors for determining what the penalty will be and it says in paragraph 4, the depth bracket allowable for the well shall be penalized by using the following formula based on the bottom hole location.

It's penalized for being too close, too close to Mr. McAlpine's property. Now we don't know exactly where the well is going to bottomed, but what we are doing is coming in here with a penalty that could be as much as 85 percent of the well's allowable and trying to

do it in a way that will, one, enable us to produce the reserves that are under that tract and do it in an economically feasible way. And all we're asking for is a provision to permit the directional drilling and a bottom hole location that will still be determined by directional survey, and we use that -- that location and apply it to this formula, and yes, if it is farther away from them, the penalty would be reduced, but we think if it's farther away from them a penalty should be reduced and it would be consisten with the prior order.

We believe that if this application is granted as proposed, we'll be able to develop the reserves that are under our tract in the most efficient and economic way, thereby preventing waste, that will impair the correlative rights of no one but will enable us to produce without waste the reserves under our tract.

MR. STOGNER: Thank you, Mr. Carr?

Is there anything further by anybody in Case Number 9670?

This case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9670, heard by me on [illegible] 1983.

[illegible], Examiner
Oil Conservation Division