

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

ORIGINAL

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

APPLICATION OF PRINCIPAL PROPERTIES FOR
A NONSTANDARD GAS SPACING AND PRORATION
UNIT, EDDY COUNTY, NEW MEXICO

Case 14755

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

December 1, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, December 1, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ESQ.
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1 EXAMINER JONES: At this time let's call
2 Case 14755, application of Principal Properties for a
3 nonstandard gas spacing and proration unit in Eddy
4 County, New Mexico.

5 MR. BRUCE: Jim Bruce, of Santa Fe,
6 representing the applicant. I have two witnesses.

7 EXAMINER JONES: Any other appearances?
8 Will the witnesses please stand?

9 EXAMINER BROOKS: Is that for a
10 nonstandard proration unit? Is this a compulsory
11 pooling, or is this just --

12 MR. BRUCE: No. It's just a nonstandard
13 unit at this point.

14 EXAMINER BROOKS: That's surprising.

15 EXAMINER JONES: Will the court reporter
16 please swear the witnesses?

17 (Two witnesses were sworn.)

18 MR. BRUCE: For the Examiners, first of
19 all, I'm glad you have arms on your chairs, because this
20 involves a Morrow well, so you won't fall out.

21 EXAMINER JONES: I haven't seen one in a
22 while.

23 EXAMINER BROOKS: That is a surprise.

24 EXAMINER JONES: Good luck with that.

25 MR. BRUCE: Mr. Brooks, at this point

1 we're just seeking the nonstandard unit to make sure that
2 we can get this. And then I think the landman will be
3 dealing with the other parties. The bulk of them approve
4 of what is being sought here today, but we just want to
5 take it one step at a time.

6 DOUG LAUFER

7 Having been first duly sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

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

12 A. Doug Laufer.

13 Q. And by profession, what are you?

14 A. I'm a landman.

15 Q. And what is your relationship to Principal
16 Properties?

17 A. Principal Properties is the operating name I
18 use. It's a d/b/a.

19 Q. Have you previously testified before the
20 Division?

21 A. No, I have not.

22 Q. Would you please summarize your educational
23 and employment background for the Examiners?

24 A. I graduated from the University of Texas with
25 a BBA in PLM. I've been in the industry over 30 years,

1 17 years was with Exxon in the Midland office, and the
2 last 14 years I've been operating on my own as an
3 independent.

4 Q. And both at Exxon and as an independent, have
5 you had substantial experience in the Permian Basin,
6 including Southeast New Mexico?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Laufer as an expert petroleum landman.

10 EXAMINER JONES: He is so qualified.

11 Q. (By Mr. Bruce) Mr. Laufer, could you identify
12 Exhibit 1 and discuss the -- identify the lands involved
13 in your proposed nonstandard unit?

14 A. Yes. Exhibit 1 is a plat of Midland Map
15 showing property ownership, surface leasehold and mineral
16 ownership. The red outlined area is the proposed
17 320-acre unit that we're seeking, and the red X indicates
18 the approximate location of where that well would be
19 located.

20 As far as interest owned by Principal, I'm an
21 undivided owner in the north half of 12 and also the
22 south half of Section 2.

23 Q. Okay. Now, is the nonstandard unit based on
24 geologic reasons?

25 A. Yes.

1 Q. And do you have a witness here today to
2 testify about those reasons?

3 A. Yes, we do.

4 Q. When we're looking at the nonstandard unit,
5 what is the township and range of this?

6 A. This is in Township 21 South, Range 21 East,
7 Eddy County, New Mexico.

8 Q. And the proposed nonstandard unit is the
9 southwest quarter of Section 1 and the northwest quarter
10 of Section 12?

11 A. Yes.

12 Q. And what type of land is involved, fee,
13 federal, state, in the proposed nonstandard unit?

14 A. Section 1, the southwest quarter, is a federal
15 lease that is HBP and has a well currently producing in
16 the west half of the section from the Pin, which is a
17 horizon above the Morrow, and that acreage is HBP.
18 Section 12 is a lease that we acquired back in 2006.
19 That's a federal lease, and we actually have two leases
20 in there: One covering 280 acres, which is primarily the
21 north half of the northwest quarter and the northeast
22 quarter, and there's a 40-acre tract -- excuse me -- in
23 the south half of the northwest quarter that was recently
24 acquired at a sale in the last year.

25 Q. But this is all federal land?

1 A. Yes, it is.

2 Q. And in looking at this for offset purposes, is
3 section -- Sections 1, 11 and 12 are all federal land,
4 are they not?

5 A. Not 1. 11 and 12, that's my understanding,
6 yes.

7 Q. And Section 2 is State of New Mexico land?

8 A. Yes, that's correct.

9 Q. Okay. Could you identify Exhibit 2 for the
10 Examiner?

11 A. Exhibit 2 is a list that was compiled to
12 identify the leasehold owners in the four sections
13 surrounding the proposed 320-acre unit that comprises the
14 lands in Section 1, 2, 11 and 12.

15 With regards to Section 1, the list of owners
16 was secured from the operator, Nadel and Gussman. Since
17 there is a producing well, they had accurate addresses
18 with regards to the working interest owners. As to the
19 other sections, we utilized BLM records and county
20 records to capture the other ownership information.

21 Q. So again, Section 1, those are from current
22 Division order files of the operator, who you believe is
23 Nadel and Gussman?

24 A. Yes, that's correct.

25 Q. So to the best of your knowledge, these are

1 current and accurate?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, we've been --
4 Mr. Brooks and I have been in email contact about Exhibit
5 3. That's the letter that the Division and I received
6 from the State Land Office.

7 The State Land Office is an offset mineral
8 owner to the nonstandard unit, and you can see that the
9 land office does not object to the nonstandard unit.
10 They do object to the unorthodox location.

11 Q. (By Mr. Bruce) And Mr. Laufer, at this point
12 there isn't -- the location is not fixed at this point?

13 A. No, it is not. We have not surveyed the
14 property.

15 Q. And an APD has not been filed on the well
16 location?

17 A. No, it has not.

18 Q. Insofar as the State of New Mexico, will
19 Principal Properties remain at least 660 feet from the
20 west line of Section 1 or 12?

21 A. Yes. Well, not Section 12.

22 Q. It will be -- the location will be in Section
23 1?

24 A. Yes. Yeah, we'll stay at least 660 feet off
25 the west line of the unit.

1 Q. And we will have to -- once a location is
2 finalized, we will have to come back to the Division to
3 apply for an unorthodox location; correct?

4 A. Yes, that's correct.

5 Q. And you will not be unorthodox toward the
6 state lands involved in the offsets?

7 A. That is correct.

8 Q. Now, there are geologic reasons for the
9 formation of the nonstandard unit and for the location;
10 correct?

11 A. There is some concern regarding the surface
12 topography. That's why we've given ourselves a window to
13 potentially locate the well, depending on that.

14 Q. Besides geologic reasons for the location,
15 there are also topographic features that will require
16 probably some negotiation with the Bureau of Land
17 Management over the lease location?

18 A. That's correct.

19 Q. And notice was given of this hearing to all of
20 the offset working interest owners, was it not?

21 A. Yes.

22 Q. And is that reflected in Exhibit 4?

23 A. Yes.

24 Q. If you'll refer to the last two pages of
25 Exhibit 4 -- not the last two pages. Well, the last

1 three pages, I should say, to correct it, notice was also
2 given to the Commissioner of Public Lands and the Bureau
3 of Land Management of this application?

4 A. That is correct.

5 Q. If you'll go a couple of pages further in,
6 there were two people who we did not get green cards back
7 from. The first one was Hollyhock Corporation. And
8 again, to reiterate, their name and address came from
9 current Division order files of the operator of Section
10 1?

11 A. That is correct.

12 Q. And likewise, Presidio Resources, Inc., was
13 sent notice, and we have not received a green card.
14 Again, that came from the current Division order records?

15 A. That is correct.

16 Q. What is the approximate percentages of working
17 interests owned by those parties in Section 1?

18 A. Based on the information provided from Nadel
19 and Gussman, Hollyhock Corp had .002, and Presidio had
20 .006 working interest percent. So combined, they were
21 less than 1 percent.

22 Q. Although you have not sent out proposal
23 letters because you don't have a specific well location
24 at this point, have you discussed this proposal with a
25 couple of the larger working interests in the proposed

1 well unit?

2 A. Yes, we have. With regards to the southwest
3 quarter of Section 1, Apache Corporation owns 62 percent,
4 and we've been in contact with them. Nadel and Gussman,
5 which is the operator of the Hilltop Well in the west
6 half, they have 15 percent. And we've been in
7 discussions with them, and they have let us proceed with
8 our proposal.

9 Q. Okay. In your opinion, will the granting of
10 this application be in the interest of conservation and
11 the prevention of waste?

12 A. Yes, it will.

13 Q. Were Exhibits 1 through 4 either prepared by
14 you or compiled from company business records?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I move the
17 admission of Exhibits 1 through 4.

18 EXAMINER JONES: Exhibits 1 through 4 will
19 be admitted.

20 (Exhibits 1 through 4 were admitted.)

21 MR. BRUCE: And I have no further
22 questions of the witness.

23 EXAMINER JONES: Okay.

24

25

1 EXAMINATION

2 BY EXAMINER JONES:

3 Q. The notices that you sent out, were they to
4 the owners in all of Section 1 and all of Section 12?

5 A. Yes, they were.

6 Q. Okay, that was my question. But it sounds
7 like your well may encroach eventually, depending on your
8 BLM and geology decision, on the -- less than 660 from
9 the south line of Section 1 some day, whenever you
10 finalize it?

11 A. Right.

12 Q. Okay. And as far as why you didn't just form
13 a 160 Morrow spacing unit --

14 A. The reason we did the 320, we felt it
15 protected correlative rights of both properties. We
16 believe, based on the science that you'll see from the
17 geologist, that the channel dissects right through the
18 middle of those 160s.

19 If we had our druthers, we'd probably put it
20 right on the section line. But to the south, there's a
21 big channel. So depending on how close we can get to
22 that without having -- have the BLM approve it, that will
23 dictate where our actual location is.

24 Q. Nadel and Gussmman and you said another --

25 A. Apache.

1 Q. -- Apache in the southwest of 1, did your
2 company own anything in that before that or --

3 A. Andrews Oil, LLP, owns a two-and-a-half
4 percent working interest in the Hilltop 320 in the west
5 half. So we do have an equity position in that section
6 or that 320.

7 Q. And you've received no protests from any of
8 the parties you noticed?

9 A. No, none.

10 Q. But you haven't hammered out the agreement
11 totally yet with Nadel and Gussman and Apache?

12 A. Our discussions with both parties have been
13 that when we have an operator designated. And we'll
14 submit an AFE, and we'll sit down with them. And they'll
15 join us or work some kind of agreement to farm out their
16 interest to us.

17 EXAMINER JONES: I have no more questions.

18 EXAMINATION

19 BY EXAMINER BROOKS:

20 Q. This is all federal land, except for that
21 state section? Is that what I -- I believe I heard you
22 testify?

23 A. Yes, sir.

24 Q. And the BLM, you've talked to the BLM about
25 what you're planning?

1 A. We have not contacted them yet with regards to
2 an APD.

3 Q. And the people that you noticed -- I believe
4 Will already asked this. But the people that you've
5 noticed, does that include all the working interest
6 owners in both Section 1 and Section 12?

7 A. Yes.

8 EXAMINER BROOKS: I think that's all the
9 questions I have.

10 MR. BRUCE: I'll call Mr. Andrews to the
11 stand.

12 DAVID ANDREWS

13 Having been first duly sworn, testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

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

18 A. David Andrews, Austin, Texas.

19 Q. And by profession, what are you?

20 A. A geologist.

21 Q. What is your relationship to Principal
22 Properties in this case?

23 A. Principal Properties is a d/b/a/ company, the
24 land person who acquired the leases on this prospect.
25 And I generated the prospect, being a geologist with

1 them.

2 Q. Mr. Laufer just mentioned Andrews Properties.

3 Is that --

4 A. Andrews Oil, LLP, that's the name of my
5 company.

6 Q. So through your company, you are a working
7 interest owner in the proposed well?

8 A. That's correct.

9 Q. Have you previously testified before the
10 Division as a geologist?

11 A. It's been several years ago, but yes, I have.

12 Q. Were your credentials as an expert geologist
13 accepted as a matter of record?

14 A. Yes, they were.

15 MR. BRUCE: Mr. Examiner, I tender
16 Mr. Andrews as an expert petroleum geologist.

17 EXAMINER JONES: How many years ago?

18 THE WITNESS: I was trying to remember
19 that the other day. It was probably in the late '80s,
20 when I was working for Exxon out of Midland. We had two
21 or three hearings up here.

22 EXAMINER JONES: Do you remember the
23 Hearing Examiners?

24 THE WITNESS: Catanach was one. That's
25 the name that sticks out. But he was at one of them at

1 least, yeah.

2 EXAMINER JONES: You don't remember
3 Mr. Stogner?

4 THE WITNESS: Stogner was at one. Yes, he
5 was. Yes, sir. Sorry. How could I forget that? Yes,
6 he was.

7 EXAMINER JONES: Mr. Andrews is qualified
8 as an expert in geology.

9 Q. (By Mr. Bruce) Mr. Andrews, I'll just turn
10 you loose. You've got two exhibits marked Exhibits 5 and
11 6. Could you go through these and discuss, number one,
12 the reason why you want the -- geologically why you want
13 the nonstandard unit and why you think the well should be
14 at an unorthodox location close to the center of the well
15 unit; and number three, how you think that protects
16 correlative rights?

17 A. Starting with Exhibit 5 -- this is a busy map.
18 I apologize for it. This basically shows two channels.
19 The north channel is a producing analog called Littlebox
20 Canyon. It is stratigraphically equivalent to the
21 southern-most channel. It's the southern-most channel
22 that we generated a prospect on.

23 You can see that I put the proposed proration
24 spacing unit in the southwest of Section 1 and the
25 northwest of Section 12.

1 The other contours, the black contours here,
2 are structural contours. This is a geo map, base map.
3 The structural contours are completely irrelevant to what
4 we're looking at here. The next exhibit will show an
5 accurate Morrow contour.

6 So if you could, just ignore the black
7 contours and just focus on the channel that I've drawn
8 trending northeast to southeast. What we're playing off
9 of is actually the production in the township just to the
10 east of our proration spacing unit. The wells designated
11 by red dots are gas producers. The blue dots are wet
12 wells. These are all wells that are in the Morrow
13 channel.

14 But you can see over in Section 7 of 21 South,
15 22 East, we have three wells that are operated by Yates.
16 The total production there is right about a little over
17 10 bcf of gas. As you move toward our location, you can
18 see in the northeast quarter of Section 12 there's two
19 wet wells. So we're going a little bit downdip, and the
20 next exhibit will show that.

21 And then we come updip towards our proposed
22 location in the southwest quarter of Section 1. So we
23 hope to be updip from the wet wells and hopefully in the
24 gas leg.

25 You can also see that the dry holes adjacent

1 to the channel are shaded in yellow and have zero feet,
2 which indicates that they don't have any of the channel
3 sand.

4 And I have good control of this channel. In
5 Section 1 of 21 South, 21 East, probably the most
6 significant well is the Arco Permian Hilltop Federal
7 Number 3, and that is in the southwest quarter. It had
8 three feet of extremely tight sand. It did not have any
9 reservoir.

10 The main significance of that is it did not
11 have any channel sand at all. So according to my
12 interpretation, they drilled just slightly to the north
13 of where I think the channel is.

14 There's two other dry holes in the -- excuse
15 me -- two other wells that do not have sand in the north
16 half of Section 1. So I've got pretty good control in
17 Section 1 about where the channel is not.

18 Due south in Section 12 of 21 South, 21 East,
19 probably the most significant well is the well in the
20 northwest quarter. That's a Yates well. It had
21 absolutely no channel sand. So really you can see that
22 with the Arco well in Section 1 and this Yates well in
23 Section 12, if the channel is going up to the northwest,
24 it pretty much has to go through our proposed location,
25 or at least that's my interpretation.

1 Also in Section 12, I mentioned before the two
2 wells in the northeast quarter. Those are wells that did
3 have channel sand, but both wells were wet. In the
4 southeast quarter there's a well that had a little bit of
5 overbank sand. It's sand that's not associated with our
6 channel.

7 You can see in Section 11 I've got three wells
8 that didn't have any sand. I've got pretty good control
9 on where the channel is not. You can see the general
10 trend and why we put a location in the southwest of
11 Section 1.

12 On the next exhibit, it's a cleaner exhibit
13 and has a better look at the structure. Again, focusing
14 on our channel, you can see it doesn't have any of the
15 section lines. I just wanted this to be as clean as
16 possible to show the Morrow structure.

17 You can see our proposed location designated
18 with an arrow, and you can see production to the south is
19 actually on a little bit of a Morrow structure. Those
20 are the three red dots again that produced about 10 bcf.
21 As I go slightly northwest, you can see the two blue dots
22 are coming down off structure. They're designated Sub C
23 3705 and Sub C 3637.

24 And then I'm going updip towards our proposed
25 location. And that is approximately 90 feet updip from

1 the well that has a Sub C of 3637, which was wet. Again,
2 we're hoping that we are far enough updip to be out of
3 the water and into the gas leg.

4 Why we think this unorthodox location is
5 necessary here is one well will absolutely drain this
6 reservoir. This is very high permeability Morrow sand.
7 IPs in this sand -- in Littlebox Canyon Channel to the
8 north, we had wells making 23 million a day, and those
9 wells were all in direct location. So this is extremely
10 high-quality sand.

11 If we have an unorthodox proration spacing
12 unit like this, one well will absolutely drain that 320.
13 So we didn't want to be in a situation where we had two
14 laydowns and we were going to have drill two mirror-image
15 wells and drill two wells for the reserves that one well
16 could produce. That was part of our purpose for doing
17 this.

18 Q. Again, looking at Exhibit 5, the proposed
19 location, your aim is to get it as close to the south
20 line of Section 1 as is physically possible?

21 A. That's correct, yes.

22 Q. And based on your interpretation, it looks
23 like, at least looking at Sections 1 and 12, the bulk of
24 the productive reservoir in those sections would be in
25 the southwest of 1 and the northwest of Section 12?

1 A. Absolutely. The northwest of 12 again is wet.
2 And probably most of the southwest of 1 is wet because
3 that's just slightly structurally updip. So the part of
4 the channel that we're not incorporating here had been
5 proven by well control to be nonproductive.

6 Q. Were Exhibits 5 and 6 prepared by you?

7 A. Yes.

8 Q. In your opinion, is the granting of the
9 nonstandard unit application in the interest of
10 conservation and the prevention of waste?

11 A. Yes, it is.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 5 and 6.

14 EXAMINER JONES: Exhibits 5 and 6 are
15 admitted.

16 (Exhibits 5 and 6 were admitted.)

17 EXAMINATION

18 BY EXAMINER JONES:

19 Q. Do you have any information on those good
20 wells over to the east as far as the pressure goes and
21 the pressure history?

22 A. Yes, sir. The first well that was drilled was
23 the Mescal well in Section 18. That's the well that's
24 furthest to the south of the three wells. That well
25 encountered an oil/water contact in the Morrow sand, and

1 it was virgin pressure when they completed it. They
2 completed the very top of the Morrow sand. You can see
3 it's fairly thick there, about 54 feet thick.

4 And shortly after they completed it, it
5 started cutting water, and slowly the water production
6 kept increasing. After I think a couple of years, they
7 drilled the well due north in the next section. That
8 well was almost virgin, but certainly in communication
9 with the well to the south. That well produced for
10 several years, and then it started cutting water as the
11 water leg started moving up structure.

12 Then in the late '80s, I believe, the third
13 well, the one furthest north, was drilled. That well had
14 a bottomhole pressure of about 12- or 1,300 pounds, so it
15 was partially depleted by the wells to the south. It's
16 still producing. It's been a nice well. It is also
17 cutting water now, so that water has continued to move up
18 the structure. But there was definitely pressure
19 communication between those three producers.

20 Q. That Pin well in the northwest of 1 says it's
21 Upper Pin gas?

22 A. Yes, sir, I believe that's right.

23 Q. Is that Strawn or Cisco?

24 A. That's probably going to be more Strawn age.
25 I don't believe it's Cisco Canyon. I don't believe it's

1 that shallow.

2 Q. Has it been a good well?

3 A. No. It's been a low producer for a long time.

4 Q. But it hangs in there?

5 A. Yeah. I think it makes 20, 30 mcf. It's been
6 doing that for a long time. It's one of those wells that
7 it is obviously communicating with something, but very
8 tight, very low permeability. I don't even know the cume
9 on it. It's been producing for a while, so it probably
10 has a decent cume, but it's never been a sexy well or a
11 barnburner of any sort.

12 Q. Was it drilled as a test in the Morrow?

13 A. Yes, sir. Almost all these wells out here
14 were drilled through the Morrow. We're only 8,500 feet
15 here, so it's not very deep. Almost all the upper
16 production was found as a result of drilling to the
17 Morrow and either finding the Morrow and subsequently
18 plugging back up to the Morrow plate out, or not finding
19 the Morrow and then completing in a shallow horizon.

20 Q. You're not asking here in this nonstandard
21 proration in the Upper Pin --

22 A. No, sir.

23 Q. -- for gas?

24 A. No, sir, just for the Morrow.

25 Q. But it is a bailout, potentially?

1 A. Yes, sir. Potentially, it is.

2 Q. What part of the Morrow are you in there?

3 A. This is going to be in the middle Morrow.

4 Q. There's no Atoka possibility?

5 A. You know, I've not seen any Atoka sands
6 producing here. The other possibilities we have here,
7 there is another middle Morrow sand slightly shallower
8 than our channel sand that produces in a few of the wells
9 in this area.

10 There's also a basal Morrow sand that is
11 fairly sporadic. It's produced to the north at Littlebox
12 Canyon in two or three wells. So we would look at those
13 as potential bailout zones if we don't find the channel
14 that we're looking for.

15 Q. Was the lower Morrow in that instance wet? Is
16 the water coming from below, or is it --

17 A. No. The water we're seeing is coming from
18 this channel sand here. The basal Morrow we encountered
19 in Littlebox Canyon was loaded up. It was actually a
20 nice producer. Not very extensive, not a big reservoir.
21 I think the cumes on it were 2 to 3 bcf, something like
22 that.

23 But the only water I've seen out here has been
24 in particular channel sand.

25 Q. If you miss in this well, will you move south?

1 A. No, sir. If we miss here -- you know, if we
2 find the sand here, I think the main risk we're going to
3 have is is it going to be gas productive or not? If we
4 move due south -- if we miss the sand completely, it's
5 going to be hard to justify another well, especially in
6 this environment where gas prices are poor. It's going
7 to be a tough sell anyway.

8 If we miss the sand, then the prospect is
9 probably a bust. If we drill and find the sand and it's
10 wet, we could look at going up into Section 2. We
11 certainly would like to see some indication of gas, maybe
12 a contact or something, in the first well. Without that,
13 again, it's going to be difficult to drill a second well
14 if it's completely wet and we don't see any indication of
15 gas on the first well.

16 Q. Do you have any idea about the AFE, how much
17 it would cost?

18 A. A lot more than it would have a year or two
19 ago. I'm guessing probably a couple million dollars to
20 drill and complete, and that is a guess.

21 Probably 10 years ago, when we first started
22 putting this together, it was probably going to be maybe
23 a million dollars, maybe a little bit more than that.
24 And things have just gotten more expensive, as you all
25 know.

1 Q. Northeast of 1 there's a well -- I see a well
2 there.

3 A. Yes, sir, the Nasser.

4 Q. You talked about that already. I forgot what
5 you said.

6 A. The Nasser is a well that completed --
7 initially, it was drilled by Stevens & Tull back in the
8 '90s. It initially completed in the middle Morrow and
9 made, I think, three-tenths to four-tenths of a B out of
10 that.

11 They subsequently commingled that with a Cisco
12 Canyon. It's been a really nice Cisco Canyon well. I
13 think the cume on this is 3 to 4 bcf, something like
14 that. It's still producing today, but not in the Morrow.
15 I believe it's just a Cisco Canyon producer now.

16 Q. That's another possibility, then?

17 A. It is. We do have some -- the wells nearest
18 to this did not have good Cisco Canyon, but it's also
19 sporadic. If it fits there, we'll certainly take
20 advantage of it.

21 EXAMINER JONES: I wish you luck.

22 THE WITNESS: Thank you.

23 EXAMINER JONES: David, do you have
24 questions?

25

1 EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. I think I agree with you that you have pretty
4 good control on where the channel is not. I'm not sure I
5 see why you think you're going to get a good well in
6 there.

7 These blue dots, those are wet wells?

8 A. Yes, sir.

9 Q. So if you go down the channel into the east
10 half of 12, that's wet?

11 A. Yes, sir.

12 Q. And you don't have anything to the west?

13 A. We do not have -- that's right. I think that
14 is the risk on this prospect. Always in the Morrow you
15 worry about finding your sand. That's normally your
16 number one risk. I like my chances here. But I don't
17 have anything to the west that says, "Okay, I have a trap
18 here. I'm in the gas leg."

19 I think when we go to sell it, that's going to
20 be the main question. "Prove to me that if I drill 90
21 feet updip, I'm in the gas leg." Well, I don't have
22 that. That's one of the risks of the prospect.

23 So we're saying we feel really good about
24 finding our sand. That's your main risk in the Morrow.
25 I'm going to be updip to the wet wells. I'm going to

1 strike to our channel to the north, but that doesn't
2 guarantee you you're going to be in the gas leg. That's
3 simply one of the risks of the prospect that we're going
4 to take.

5 The flipside to that and what we hope will be
6 a selling point to this is if we do find our gas leg
7 here -- again, these wells are extremely good producers.
8 We can easily produce 10, 15 million a day. It's
9 shallow. It's not cheap anymore, but it's certainly
10 cheaper than drilling a 10- or 12,000-foot well. And one
11 well can drain the countryside.

12 So it's going to be if you want to make a lot
13 gas and make it quick, do you want to accept the risk of
14 perhaps drilling a wet well?

15 Q. What depth are you planning --

16 A. 8,500 feet will be TD.

17 EXAMINER BROOKS: That's all I have.

18 FURTHER EXAMINATION

19 BY EXAMINER JONES:

20 Q. Basically your geologic risk, what do you
21 think it is?

22 A. I think it's are we going to be gas
23 productive, or are we going to be wet?

24 Q. Like one in four or one in six?

25 A. I think the chances -- I would probably say we

1 have a 60 to 70 percent chance of being gas productive
2 because we are updip of our wet wells, we're on strike
3 with the production to the south, and I'm on strike to
4 the Littlebox Canyon channel.

5 Some people can look at it and say, "I think
6 you've got a 20 or 30 percent of success." It's a
7 subjective call.

8 I like our chances because we are getting
9 high, we are definitely getting regionally very high.
10 And even though we have wet wells in this channel,
11 normally, as you're moving in this direction, you tend to
12 get gas leg. I'm hoping those work in our favor.

13 Q. Your geologic risk is good, and your price --

14 A. It's extremely good, even with low gas prices,
15 because you can really have big time wells from a daily
16 production standpoint. I wish it were \$8 or \$10 mcf.
17 That would make this an easier sell. But because it's
18 relatively shallow, relatively cheap and I can produce
19 the hell out of this reservoir and get the gas fast,
20 we're hoping that that will be an attractive product.

21 EXAMINER JONES: Thank you very much.

22 THE WITNESS: Thank you.

23 MR. BRUCE: Nothing further in this
24 matter, Mr. Examiner.

25 EXAMINER JONES: Okay. Thank you,

1 Mr. Bruce. We'll take Case 14755 under advisement.

2 Anything else on this docket? That's all the
3 cases that I show, so Docket 34-11 is adjourned.

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

Oil Conservation Division, Examiner

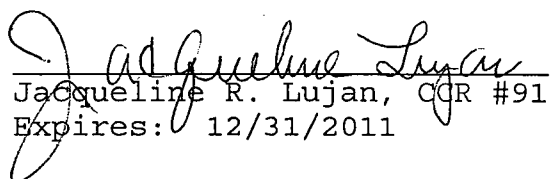
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on December 1, 2011, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 12th day of December,
2011.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2011