

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:

Case No.: 14799

APPLICATION OF ENDURANCE RESOURCES LLC FOR APPROVAL OF A
PRESSURE MAINTENANCE PROJECT IN EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

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

March 15, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Technical Examiner, and DAVID K. BROOKS, Legal Examiner, on March 15, 2012, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis, Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253
Paul Baca Professional Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:

ERNEST PADILLA
PADILLA LAW FIRML, PA
1512 St. Francis Drive
Santa Fe, NM 87504

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1 EXAMINER BROOKS: Very good. At this time we call
2 14799, the application of Endurance Resources LLC for
3 approval of a pressure maintenance project, Eddy County, New
4 Mexico. Are you going to put on your two together, Mr.
5 Padilla?

6 MR. PADILLA: I can.

7 EXAMINER BROOKS: That's up to you.

8 MR. PADILLA: I think it will flow easier if we just
9 separate them, but you can call them both.

10 EXAMINER BROOKS: I will just call 14799 and then
11 we'll deal with them one at a time.

12 MR. PADILLA: I have two witnesses this morning.

13 EXAMINER BROOKS: You want to state your entry of
14 appearance?

15 MR. PADILLA: Ernest Padilla for Endurance
16 Resources.

17 EXAMINER BROOKS: Could the witnesses -- are there
18 any other appearances in Case 14799?

19 (No response.)

20 EXAMINER BROOKS: Very good. Would the witnesses
21 please stand, identify yourselves for the record and be
22 sworn.

23 MR. HARRIS: Randall Harris, Endurance Resources,
24 geologist.

25 MR. RITTER: Donald Ritter, Endurance Resources.

1 MR. PADILLA: Mr. Examiner, we'll call Don Ritter,
2 first.

3 DONALD RITTER
4 (Sworn, testified as follows:)

5 DIRECT EXAMINATION

6 BY MR. PADILLA:

7 Q. Mr. Ritter, would you please state your name?

8 A. Donald Ritter.

9 Q. Mr. Ritter, where do you live?

10 A. I live in Dallas, Texas.

11 Q. And what is your connection with Endurance
12 Resources?

13 A. I'm the CEO of Endurance.

14 Q. Mr. Ritter, are you also a petroleum engineer?

15 A. I am a petroleum engineer.

16 Q. Have you testified before the Oil Conservation
17 Division and have your credentials been accepted as a
18 petroleum engineer?

19 A. Yes, I have.

20 MR. PADILLA: We tender Mr. Ritter as an expert
21 petroleum engineer.

22 EXAMINER BROOKS: He is so qualified.

23 Q. Mr. Ritter, tell us a little bit about this
24 application. Why did you --

25 A. Sure. The basis of this application is we have a

1 field, the Hinkle Field, it's a Queen Grayburg field. We
2 previously were selling or disposing of our off -- our
3 producing water to an injection project in the same reservoir
4 to another company up until September of last year or so. At
5 that point in time this company refused -- changed ownership
6 and then refused to take any off-lease water.

7 And, at that time, we made an application and began
8 the process of converting a well, the Hinkle Number 19, which
9 is a well that we had worked over as part of our internal
10 field project, but it was unsuccessful and it did not
11 produce. So we had a wellbore that was unusable for
12 production, but usable for saltwater disposal, and we began
13 the application process as a saltwater disposal and then were
14 asked to change that to a pressure maintenance project, so we
15 have resubmitted this as a pressure maintenance.

16 Q. Mr. Ritter, can you tell the Examiner a little bit
17 about the economics for the necessity for this project?

18 A. Yes. We -- we currently produce 20 to 30 barrels a
19 day out of the entire project, but our water hauling costs,
20 since we were unable to move the water off lease to this
21 flood, which was at a very, very low rate, is now costing
22 between 30- and \$40,000 a month for us to haul the water, and
23 that is beginning to impact the economics of the project.

24 Q. Mr. Ritter, originally this was designated as a salt
25 disposal case and now it's a pressure maintenance case, I

1 take it, because you are injecting in the same zone that you
2 are producing?

3 A. Yes. We were -- we were asked to change that.

4 Q. Did you encounter any difficulties from anyone
5 regarding the saltwater disposal portion of that, or when it
6 was a saltwater disposal case?

7 A. No. No. Just requests from the OCD to change the
8 case.

9 Q. Let's turn to what we have marked as Exhibit Number
10 1 and have you identify what that is, please.

11 A. Oh, Exhibit -- that would be the application for
12 authorization to inject.

13 Q. Is that a Form C-108?

14 A. Yes, it is.

15 Q. Now, can you turn to the third page of that, and
16 let's go over the well schematic. Is this the injection
17 well?

18 A. This is the proposed injection well.

19 Q. Can you tell the Examiner a little bit about that
20 well?

21 A. Yes. Perforations currently in the Queen Formation
22 are about 34 hundred feet. There's a packer and plastic
23 coating tubing as is common with most injection well
24 proposals, and we propose to inject about 300 barrels a day
25 of fluid into that zone.

1 There is another saltwater disposal, commercial
2 saltwater disposal well in the area, in the same zone that
3 injects about 21 hundred barrels a day within a mile of where
4 we currently are, and then there's a waterflood in that
5 particular zone to the southeast of us as well.

6 Q. And I noticed that you're referring to Exhibit
7 Number 2. Is that --

8 A. Yes, I'm sorry, Exhibit 2.

9 Q. Okay. And can you identify that saltwater disposal
10 on Exhibit 2?

11 A. Yes. On Exhibit 2, our proposed well is marked with
12 a blue dot in the middle. The commercial well is directly to
13 the west of that well about five-eighths of a section away.

14 Q. Is there anything that's noteworthy on the page
15 beyond the schematic, the second page? Next page.

16 A. Page 2?

17 Q. Yes.

18 A. No, I don't think there is anything that's out of
19 the ordinary.

20 Q. Let me ask you, sir, about injection pressures.
21 What kind of injection pressures will you be encountering in
22 your injection operation?

23 A. We would expect it to be less than 500 PSI.

24 Q. And how does that fact affect the formation you are
25 injecting into?

1 A. It would be below the fracture gradient, and we
2 should have no trouble disposing of water at that pressure,
3 and I believe it's a bit less than the 2 PSI per foot and
4 that's normally attributed to injection pressures for wells
5 in this area.

6 Q. Some of that injection into the vacuum is --

7 A. There -- this well, when we worked it over the last
8 time, we had acidized the well and it had gone on a vacuum.
9 We pumped it for a while and got no response, so we think it
10 will take water very easily.

11 Q. You have what -- would you -- because you are
12 injecting in the same producing formation, would there be a
13 chance that you might water out production of that -- lose
14 production would not otherwise be produced?

15 A. No, this particular area of the field is on the wet
16 side of the reservoir. Any of the adjacent wells to the west
17 were all marginal wells. The water should go to the
18 southeast, down dip, so it, if anything, it might enhance
19 several of the wells surrounding, but we have seen no effect
20 at all from this other well that's putting in 21 hundred
21 barrels of water a day.

22 Q. You're producing into your own lease?

23 A. Yes.

24 Q. Injecting into your own lease, right?

25 A. We are injecting into our own lease.

1 Q. And that lease is a federal lease?

2 A. It is.

3 Q. Have you received any objection from the government,
4 the BLM, in particular, about your injection project?

5 A. Yes. That would be Exhibit 3.

6 Q. Okay. And did you deal with the government
7 officials on that well, or did Mr. --

8 A. Mr. Harris did.

9 Q. Mr. Harris.

10 A. He might be better to speak to that since he dealt
11 with them directly, but we -- we have discussed the -- the
12 letter that was proposed to us. We've answered that letter
13 point by point, and Mr. Harris has met with them, and I will
14 let him tell the -- tell the board the results of that
15 discussion.

16 Q. What other wells could be affected by your injection
17 project right in the immediate vicinity for the injection
18 well?

19 A. We would expect possible enhancement from the Well
20 Number 5, Number 6, Number 7, and Number 21 in our -- on our
21 lease.

22 Q. Is that good or bad?

23 A. That would be good. We would most likely enhance
24 production in those.

25 Q. Mr. Ritter, is there anything else in Exhibit 1 that

1 you would like to address that you haven't otherwise
2 addressed in terms of this project?

3 A. I think, just in general, one of the things the BLM
4 brought up was concerning pressure maintenance on leases in
5 Section 26, 35, and 27, and those sections are off -- off of
6 this -- off of this exhibit. They are far away, so we expect
7 no -- no effect at all on that.

8 Q. Do you know whether Mr. Harris has addressed that
9 with the BLM?

10 A. He has, and he can address that.

11 Q. Okay.

12 MR. PADILLA: No further questions. We pass the
13 witness.

14 EXAMINER BROOKS: Are you going to offer any of the
15 exhibits?

16 MR. PADILLA: We will offer Exhibit 1 and 2 -- well,
17 I'll wait on Exhibit 2, but we'll offer Exhibit 1.

18 EXAMINER BROOKS: Exhibit 1 is admitted.

19 (Exhibit 1 admitted.)

20 EXAMINER BROOKS: Okay. Mr. Jones?

21 EXAMINER JONES: Mr. Ritter, can you identify the
22 different leases on this Exhibit Number 3?

23 THE WITNESS: Exhibit 3, Section 26, 35, and 27 is
24 that -- is that what you are referring to, or this is -- this
25 is Exhibit 2.

1 EXAMINER JONES: Yeah, Exhibit 3.

2 EXAMINER BROOKS: Exhibit 3.

3 EXAMINER JONES: I have this as Exhibit 3.

4 EXAMINER BROOKS: No, this is 2.

5 EXAMINER JONES: This is 2?

6 THE WITNESS: Maybe yours is mismarked. I'm sorry.
7 Mine is here as 2.

8 EXAMINER JONES: That answered my other question,
9 but could you look at Number 2, Exhibit 2, and tell us
10 separately all the tracts of land in Exhibit 2, at least as
11 far as around your well?

12 THE WITNESS: Sure. We have this tract of land in
13 Section 30 -- is it 30 -- 27. This would be 32. In this
14 north, northwest quarter is the tract of land that's our
15 particular lease, and then we have leases in these sections
16 that are off of this page that are also part of the lease.
17 Randall might be able to explain that a little better when
18 he's up here.

19 EXAMINER JONES: So is it correct that East Shugart
20 Unit is to the southeast?

21 THE WITNESS: Yes. The East Shugart Unit is to the
22 southeast, and that's not ours.

23 EXAMINER JONES: Is that the outline of the East
24 Shugart Unit?

25 THE WITNESS: Yes, that is the outline.

1 EXAMINER JONES: So you are basically in the same
2 reservoir?

3 THE WITNESS: We are.

4 EXAMINER JONES: Both the Queen and Grayburg
5 Reservoir?

6 THE WITNESS: Yes.

7 EXAMINER JONES: And your Hinkle, is it the Hinkle ~~Q~~
8 Federal, is that the name of the lease?

9 THE WITNESS: Yes, it is.

10 EXAMINER JONES: Okay. And it -- it doesn't include
11 the southeast or the northwest. Is that correct? So it's
12 just the lands outlined within that Section 32 that's not
13 within the East Shugart Unit?

14 EXAMINER BROOKS: I think that's actually Section
15 34.

16 THE WITNESS: Is it 34? I'm sorry.

17 EXAMINER JONES: Okay. So you are generally wet to
18 the west. Has that been shown by drilling? Which wells
19 would you say determine that?

20 THE WITNESS: This well, the Shugart A just to the ~~#1~~
21 west of us, I think that well has only cumed 7,000 barrels in
22 its history. It's been shut in a couple of years. It was
23 making less than a barrel a day. The well to the southwest,
24 I believe, is not penetrated in the zone that we wish to
25 inject in.

1 EXAMINER JONES: Okay.

2 THE WITNESS: Which would tell me that it was never
3 completed in that.

4 EXAMINER JONES: Okay. Do you own this land in
5 Section 33 directly to the west of this well?

6 THE WITNESS: No, we do not.

7 EXAMINER JONES: Who does?

8 THE WITNESS: I believe that is Canyon. Of course,
9 we sent out our notices to all offset operators.

10 EXAMINER JONES: And no objections?

11 THE WITNESS: No objections.

12 EXAMINER JONES: Do you -- are both of these
13 reservoirs waterfloodable, the Queen and Grayburg? Are you a
14 reservoir engineer?

15 THE WITNESS: I'm primarily a drilling engineer, but
16 I have -- I have had plenty of reservoir courses as well. I
17 think there are floods, and then Randall will be able to help
18 me a little bit better with this question, but I believe
19 there are Queen and Grayburg floods within the area. I'm not
20 sure if we are flooding both of those here at the same time.

21 EXAMINER JONES: But in this case you would be. And
22 where do you think the water would go? Is it going to go in
23 the Queen or the Grayburg?

24 THE WITNESS: That would be -- let me check the
25 perforations here -- that would be into the Queen

1 perforations, 34 hundred.

2 EXAMINER JONES: But do you think that that -- you
3 do have perforations down into the Grayburg, it looks like.
4 Do you think that the water would go preferably --
5 preferentially into one or the other? Do you have any idea
6 on that?

7 THE WITNESS: Randall will probably be a better --

8 EXAMINER JONES: Okay. That's fine.

9 THE WITNESS: -- answer for that.

10 EXAMINER JONES: Tell us what you know about the
11 East Shugart Unit. Is that a statutory unit?

12 THE WITNESS: That's another question I would prefer
13 to pass to Randall.

14 EXAMINER JONES: Are you familiar with what zone is
15 being flooded in that unit?

16 THE WITNESS: I believe that is Queen.

17 EXAMINER JONES: So it's not the Grayburg. So how
18 much money do you think it's going to take to convert this
19 to --

20 THE WITNESS: It will be about 30 to \$40,000 to do
21 the piping, and then we would set a pump for another 40 to
22 \$50,000 -- about \$70,000.

23 EXAMINER JONES: Do you think that -- do you have an
24 estimate of what kind of recovery you would get from the
25 other wells? You mentioned four wells that might get some --

1 some stimulation from this well. If you recover more oil,
2 did you make any estimate of that?

3 THE WITNESS: We didn't make an estimate of that
4 particular benefit because, to be quite frank, the cost
5 benefit for just stopping hauling the water is a two to three
6 month payout on the injection well versus water hauling.

7 EXAMINER JONES: But you have already testified that
8 you did think it would be a positive benefit?

9 THE WITNESS: We said it could be a positive benefit
10 if we are injecting well into this area, there could be
11 pressure maintenance for those surrounding wells. We have
12 seen some response from other wells, not on this part of the
13 lease, but on another part of our Hinkle lease from offset
14 floods coming through, so we feel there is support that's
15 possible.

16 EXAMINER JONES: So you have seen it, you have seen
17 some positive --

18 THE WITNESS: Yes, in our other -- when we worked --
19 we worked about 20 wells over in the other leases as well.

20 EXAMINER JONES: So you think it -- the
21 classification of it as pressure maintenance is reasonable?

22 THE WITNESS: Yes. It could provide some pressure
23 maintenance for that part of the reservoir, yes.

24 EXAMINER JONES: If that happens, and you get some
25 response from secondary recovery, do you have any plans to

1 look at this as a possible waterflood handling?

2 THE WITNESS: We could -- we have some room to drill
3 some of these wells on 20s, so we could have additional
4 drilling possibilities there, some down spacing.

5 EXAMINER JONES: Okay. Does Endurance Resources
6 have -- do you know how many wells they operate in New
7 Mexico?

8 THE WITNESS: 230 odd wells. Somewhere in that.

9 EXAMINER JONES: Do you know how many are inactive
10 at this time, as far as the Division's Rule 5.9.

11 THE WITNESS: Less than five, and three of them we
12 are going to speak to on this next application.

13 EXAMINER JONES: Okay. Okay. So it's possible
14 there's more than allowed that you are going to make a case
15 for a Catch 22?

16 THE WITNESS: No. We're -- we're in compliance.

17 EXAMINER JONES: You're in compliance.

18 THE WITNESS: But we can remove another three of our
19 shut in wells with the next application.

20 EXAMINER JONES: Are there any additional bonds that
21 are needed for inactive wells?

22 THE WITNESS: No. We have all of our bonds in
23 place.

24 EXAMINER JONES: And can you tell us generally where
25 this is located, as far as Carlsbad and Artesia, generally,

1 like a layman's definition where it's located?

2 THE WITNESS: Gosh. It's closer to Artesia than it
3 is to Carlsbad, I guess.

4 EXAMINER JONES: So it's north of Carlsbad -- north
5 of Carlsbad -- a little bit east of Carlsbad, is that
6 correct?

7 THE WITNESS: Yes, it should be to the northeast.

8 EXAMINER JONES: So these wells are drilled through
9 the Capitan Reef. Is that correct?

10 THE WITNESS: I will have to defer to Randall on
11 that.

12 EXAMINER JONES: Randall would know that. I am kind
13 of interested in whether this East Shugart Unit is going into
14 the Grayburg or not. Maybe that's something that you guys
15 could supply later.

16 THE WITNESS: Randall has a lot more information
17 on --

18 EXAMINER JONES: Randall is going to tell us, okay.
19 Okay.

20 THE WITNESS: -- on the specifics here.

21 EXAMINER JONES: I think I better pass it on to
22 David.

23 EXAMINER BROOKS: Okay. I don't think I have many
24 questions here, but the -- you have a federal lease or your
25 Hinkle federal lease covers the north half and the southwest

1 quarter of the northwest quarter of 34. Is that right?

2 THE WITNESS: Yes, I believe so.

3 EXAMINER BROOKS: Okay. Now, you said you did not
4 own -- you did not have a lease on the 26 -- on 33. 33 is
5 the section to the west.

6 THE WITNESS: Yes.

7 EXAMINER BROOKS: Now, do you have anything else on
8 this map, Exhibit 2, is any of the rest of it, is this yours?

9 THE WITNESS: I believe our other leases are to the
10 east of here.

11 EXAMINER BROOKS: Okay. So the sections to the
12 north, 27 and 28, those belong to other people?

13 THE WITNESS: Yes.

14 EXAMINER BROOKS: Okay. And you indicated that the
15 concerns that the Bureau of Land Management had articulated
16 in Exhibit 3, that your other witness would be the person --

17 THE WITNESS: Yes.

18 EXAMINER BROOKS: -- who should address those
19 concerns? Now, I got the impression that while pressure
20 maintenance is expected to be a result of this project, that
21 actually the primary motivation for it is to have a place for
22 saltwater disposal. Is that correct?

23 THE WITNESS: That is -- that is true, and that is
24 the way that we proposed it the first time, and we were asked
25 to re-propose it as pressure maintenance.

1 EXAMINER BROOKS: Okay. Very good. I think I have
2 no further questions.

3 THE WITNESS: Thank you.

4 MR. PADILLA: Nothing else. We call Mr. Randall
5 Harris.

6 RANDALL HARRIS

7 (Sworn, testified as follows:)

8 DIRECT EXAMINATION

9 BY MR. PADILLA:

10 Q. Mr. Harris, please state your name.

11 A. My name is Randall Harris.

12 Q. And you are from Artesia?

13 A. I'm from Artesia.

14 EXAMINER BROOKS: You may be seated. You have
15 already been sworn.

16 Q. Mr. Harris, what is your connection with Endurance
17 Resources, Inc.?

18 A. I run the Artesia office, and I'm the geologist.

19 Q. Tell us about how you have been involved in this
20 application process.

21 A. I have been in this process from the beginning of
22 day one. We had to find some place to go with our water, it
23 became uneconomical, so I went about looking for the best
24 candidate of wells that we had in the area for disposal.

25 Q. So you made a study of the geology and the best

1 reservoir aspects?

2 A. Yes.

3 Q. And have you testified before the Oil Conservation
4 Division as a geologist in the past?

5 A. Yes, I have.

6 Q. And have your credentials been accepted by the OCD
7 as a geologist?

8 A. Yes, they have.

9 MR. PADILLA: We tender Mr. Harris as a geologist,
10 expert in geology.

11 EXAMINER BROOKS: He is so qualified.

12 Q. Mr. Harris, did you prepare the C-108 in this case?
13 Are you primarily responsible for that?

14 A. Yes, I am.

15 Q. And this is the same C-108 that you submitted in
16 connection with the saltwater disposal --

17 A. Yes, it is.

18 Q. -- in the original case? Has anything changed on
19 that in terms of the application for saltwater disposal or
20 pressure maintenance?

21 A. No, just -- just the cover page.

22 Q. Okay. Now, there's been a number of questions asked
23 by Mr. Jones concerning geology and whether or not injection
24 is going to be into the Queen or Grayburg, and I wonder if
25 you can refer to -- first of all, refer to Exhibit Number 2.

1 And on the left side is what I understand is a type log, is
2 that right?

3 A. That's correct. That's the actual Hinkle B Number
4 19 Log.

5 Q. Can you tell the -- identify for the Examiner the
6 Queen and the Grayburg in that type log?

7 A. In the type log, the perforations are marked in red.
8 The very top set at 37 hundred feet is the Queen, and down in
9 the Grayburg, the top of the Grayburg is at 2710, and the
10 perforations are in the lower part of the Grayburg at -- if I
11 have my glasses -- 3850, approximately.

12 Q. Mr. Jones asked a question about where -- where the
13 injection is going to go into, the Queen or the Grayburg.

14 A. Initially, just by depth, the majority of the pro --
15 the injection water will go into the Grayburg, just from the
16 pressure differential. But eventually it will pie-line out
17 and be pretty well 50-50, would be my guess. And we see this
18 in the Grayburg Unit to the southwest of us, both zones are
19 being injected simultaneously, also.

20 Q. Mr. Ritter talked about the area to the west. Is
21 that up dip or --

22 A. No. It's slightly up dip. This is more of a
23 stratigraphic placement of the sands, and up dip, you get
24 wet, in particular, one that I'm very familiar with is called
25 the Phillips Federal, and that would be about 1980 from the

1 north and 1980 from the east in Section 33, that well
2 produced 18 barrels of oil in its entire lifetime from the
3 Queen and Grayburg, the rest being wet, and it was
4 subsequently plugged and abandoned. I happened to be
5 responsible for the completion of that well.

6 Q. Okay. Are there any other wells that -- in the area
7 that would potentially be harmed by the pressure maintenance
8 project?

9 A. No. I do not see any harmful -- for one thing,
10 you've got an injection pattern down dip of you, and you have
11 a commercial injection up dip from you, so you are being
12 sandwiched in between, and you would just be -- it could be
13 enhanced more by our injection itself being closer.

14 Q. Can you tell us about the injection that's occurring
15 with the pressure maintenance east of the proposed well?

16 A. It is a waterflood.

17 Q. Okay. And who is doing that?

18 A. Americo. It has changed hands several times in the
19 last ten years, but the current operator is Americo.

20 Q. Have you received any injection from Americo
21 regarding the -- your proposal?

22 A. No.

23 Q. I want you to turn to the C-108 where you have some
24 of the maps, and I want to go over some of the land on the
25 very short -- well, we know what that is, it's towards the --

1 about two-thirds of the way back of the C-108. Do you see
2 that?

3 A. Yes.

4 Q. Okay. Let's -- the first map you have attached to
5 that, what does that show? What's that circle?

6 A. That is a half mile radius from the proposed
7 injection well, the area of review.

8 Q. And to the north of Section 27, who is operating
9 that?

10 A. We are.

11 Q. And to the Section 28, the southeast quarter?

12 A. The southeast quarter is Ocean, and there is no well
13 that's penetrating in that quarter.

14 Q. Okay. How about the northeast quarter of Section
15 33?

16 A. That is Canyon Exploration and Production,
17 Canyon's --

18 Q. Can you tell us a little bit about Canyon? I was
19 unable to find them.

20 A. I have also been unable to find them. I've gone to
21 the OCD to get current addresses. I have gone to the sundry
22 notices that were filed. I have gone to Mike Bratcher with
23 the OCD in Artesia, and he is trying to locate them. The
24 last address that I have on any paperwork, when it is
25 Googled, it is a vacant lot in Irving, Texas, so we were

1 unable to establish any kind of communication with them.

2 Q. How about the northeast quarter of Section 34,
3 that's where you are, right?

4 A. That's our acreage.

5 Q. Okay. And as you stated, Americo is the one that
6 operates the East Shugart Unit?

7 A. Currently, yes.

8 Q. And where is that flood, in what zone?

9 A. It is in the Queen and Grayburg. It's the same
10 zones that we are producing out of, and the same zone that we
11 are proposing to inject in.

12 Q. Have you had any influence from that flood in terms
13 of enhancing production?

14 A. There is possibilities as we have acidized our
15 wells, the increasing production, I can contribute to some of
16 the flood, yes, sir, especially in Section 26 we seem to get
17 more of a kick in that area being down dip from the Shugart
18 flood.

19 Q. Okay.

20 A. And we could attribute maybe up to two to three
21 barrels per day to the flood.

22 Q. Mr. Ritter testified that the effect of your well as
23 far as lease increasing production from your wells would be a
24 good thing.

25 A. Yes, it would.

1 Q. Okay. In your opinion, would it be in the best
2 interest of conservation to -- that this pressure maintenance
3 application be granted?

4 A. Yes, it would.

5 Q. And for the reason it would enhance production. Is
6 that right?

7 A. Enhance production and lower lease costs and put a
8 usable wellbore to work. This well, as Mr. Ritter testified,
9 after I did a pressure or an acid job on it, the well went on
10 a vacuum and I have never been able to recover a drop since.
11 All the other ones responded fairly good, and I actually
12 increased production by a little acid clean-up jobs, but this
13 one went the other way. So it may have an excellent disposal
14 candidate, pressure maintenance candidate.

15 Q. Looking at Exhibit 3, the -- the BLM letter, did you
16 ever receive a copy of that letter?

17 A. Yes, I received a copy.

18 Q. When did you receive it?

19 A. I received it two weeks ago.

20 Q. Okay. And how was it you received it?

21 A. Through the mail.

22 Q. Okay. And have you had a chance to discuss the
23 issues raised by the BLM in that as stated in that letter?

24 A. Yes. On March the 1st, I had a personal meeting
25 with Wesley Ingram who prepared the letter. He is the

1 engineer for the BLM in Carlsbad.

2 Q. What was the outcome of your discussion with
3 Mr. Ingram?

4 A. Our outcome was he was reasonably certain that he
5 would remove the objection now that he understood that we are
6 not doing an entire pressure maintenance across all the
7 Hinkle leases for four sections, and that the well is on a
8 vacuum, and he actually thought it would be a good thing.
9 And he was supposed to -- he was going to remove or was --
10 once I got this written and all the documentation backing up
11 my statements to him in person, then he said, more than
12 likely, he would remove the objection immediately.

13 Q. And you are referring to what, the attachment to
14 that letter?

15 A. Yes.

16 Q. That's part of Exhibit 3?

17 A. Yes, part of Exhibit 3 is my response to Mr. Ingram,
18 and then behind that is the actual backup data that I'm
19 stating in the reply.

20 Q. Prior to this hearing, have you had -- did you have
21 a chance to contact Mr. Ingram, again?

22 A. Yes. I contacted Mr. Ingram on Tuesday of this
23 week, and he apologized that he was not able to get this, he
24 was out, a family -- a funeral, and he was out of the office
25 at the time that my response got in, and at the time he had

1 not had time to review it.

2 Q. Okay. So it's your assessment that the objection
3 will be removed?

4 A. In my assessment from my conversation with him in
5 person, yes.

6 Q. Mr. Harris, do you have anything else to offer by
7 way of testimony?

8 A. No, sir.

9 MR. PADILLA: Pass the witness, and we'll offer
10 Exhibits 2 and 3.

11 EXAMINER BROOKS: 2 and 3 are admitted. Mr. Jones?
12 (Exhibits 2 and 3 admitted.)

13 EXAMINER JONES: Mr. Harris, so you've got the Queen
14 marked as the -- on this log, but you are saying something
15 that it's going on a vacuum. Is this -- is this within the
16 horizontal limits of the Capitan Reef?

17 THE WITNESS: No. There is no Capitan Reef above
18 this. We're further north and east of the Capitan Reef.

19 EXAMINER JONES: So you are north and east of the --
20 the defined generally accepted limits of the reef?

21 THE WITNESS: Yes. Yes, we are far north of that.

22 EXAMINER JONES: So it's Queen and not Capitan?

23 THE WITNESS: It's true Queen.

24 EXAMINER JONES: True Queen.

25 THE WITNESS: True Queen Sand. As far as the

1 directions for this, this is southeast of Loco Hills about
2 eight miles.

3 EXAMINER JONES: Okay.

4 THE WITNESS: If you are familiar with West Abo
5 Road, this is right off of West Abo Road.

6 EXAMINER JONES: Would you object to requirements
7 for an injection survey soon after you start disposing in
8 this well or injection in this well.

9 THE WITNESS: No, I would not.

10 EXAMINER JONES: Why did you pick -- why did you
11 pick disposal or injection into the same zone you are
12 producing out of and not pick a lower zone or a -- or a
13 different well?

14 THE WITNESS: Well, you always hope for enhancement.

15 EXAMINER JONES: Okay.

16 THE WITNESS: Especially since you are being
17 waterflooded in one direction, and disposed of in your other
18 direction, it's going to get fluid to move, and so you would
19 end up with some benefit.

20 EXAMINER JONES: So your knowledge of that is by
21 analogy of -- of offsetting leases that have moved some oil?

22 THE WITNESS: Yes, sir.

23 EXAMINER JONES: There's been no reservoir
24 engineering work here to look at the parameters to see if
25 water will displace oil in this reservoir?

1 THE WITNESS: No.

2 EXAMINER JONES: You just did an analogy. So the
3 East Shugart Unit, did you say it was Queen and Grayburg?

4 THE WITNESS: Yes, sir.

5 EXAMINER JONES: Is it the same zone you have in
6 this well?

7 THE WITNESS: Yes, sir.

8 EXAMINER JONES: Did you have a mud log on this well
9 before you -- I mean, how did you pick these two zones of all
10 of them? I mean, did you see anything, for instance, from,
11 let's see, 36, around 3630?

12 THE WITNESS: Oh, that -- that would be the Penrose
13 Zone and Queen. It's not currently perforated. We are not
14 planning on doing any perforating stimulation or any other
15 type of work, I was just going to go into the existing --

16 EXAMINER JONES: But if you needed to get away more
17 water, you could perforate that?

18 THE WITNESS: Yes.

19 EXAMINER JONES: In this well's production history,
20 when is the last time it did produce?

21 THE WITNESS: The last time it produced was December
22 2011.

23 EXAMINER JONES: So how much did it make in
24 December?

25 THE WITNESS: December it made about two barrels --

1 about 60 barrels total.

2 EXAMINER JONES: Was it pumped off?

3 THE WITNESS: Yes, it stays pumped off. All of
4 the -- all of our Hinkle leases stay pumped off.

5 EXAMINER JONES: Okay.

6 THE WITNESS: And prior to that, the total
7 production out of that well since inception is about 20,000
8 barrels of oil.

9 EXAMINER JONES: Okay. So it's essentially
10 depleted?

11 THE WITNESS: Yes.

12 EXAMINER JONES: The notice, you talked about
13 northeast of Section 33 as unable to locate Canyon. Is that
14 correct?

15 THE WITNESS: That's correct.

16 EXAMINER JONES: But you know it is leased. Is that
17 correct?

18 THE WITNESS: Yes.

19 EXAMINER JONES: And they are the lessee?

20 THE WITNESS: Lessee, yes, sir.

21 EXAMINER JONES: Okay.

22 THE WITNESS: From my small amount of research that
23 I did into them using the OCD well list, non-compliance, they
24 have 400 and -- I may be off a little bit -- about
25 approximately 450 wells total of which 275 are in

1 non-compliance.

2 EXAMINER JONES: Okay. Do you know anything about
3 the pressure on the East Shugart Unit, their injection
4 pressures?

5 THE WITNESS: Pressures are anywhere from about 800
6 to 12 hundred pounds. They did some step rate tests.

7 EXAMINER JONES: I think I remember Americo being
8 pretty aggressive on their pressures.

9 THE WITNESS: Yes.

10 EXAMINER JONES: Sometimes the Queen formation is
11 almost in pretty -- pretty good pressure in the Queen.

12 THE WITNESS: (Nodding.)

13 EXAMINER JONES: I don't know what else to ask you
14 on the notice issues, but I better pass it over to David.

15 EXAMINER BROOKS: Yeah. You said you sent notice to
16 all the offset operators, and I assume Mr. Padilla will go
17 into the notice issues, but you were unable to find Canyon?

18 THE WITNESS: No, sir.

19 EXAMINER BROOKS: And Canyon is, of course -- is
20 another incarnation of the old -- petroleum that's been
21 around for quite a few years, as long as I have been with the
22 OCD, so I don't know if they're -- if they really exist or
23 not.

24 Looking at Exhibit 3, what Mr. Ingram has said here,
25 and you have responded, I assume, to each of those points in

1 the other attachments to Exhibit 3?

2 THE WITNESS: Yes, sir.

3 EXAMINER BROOKS: Okay. First he says, "According
4 to the production reports, the well is still producing in
5 paying quantities." What is the status of production in this
6 well proposed for conversion?

7 THE WITNESS: The production as of December, end of
8 December has been zero, and the C-115s and OGARs reflect zero
9 production attributed to that well.

10 EXAMINER BROOKS: Okay. Is it still capable of
11 production, or is it --

12 THE WITNESS: No, sir. No. In fact, we moved the
13 pump jack off two weeks ago and placed it on another location
14 because it -- we can try to run it less than 5 percent a day
15 and had no entry after our acid job. We never even got the
16 acid back.

17 EXAMINER BROOKS: Okay. Now, in the second item,
18 Mr. Ingram says, "The well on the far west of the lease --
19 the well is on the far west of the lease and will move
20 Federal minerals into another lease," but that area to the
21 west of it would be -- that's another -- that's federal,
22 also, is it not?

23 THE WITNESS: Yes, it is.

24 EXAMINER BROOKS: Okay. "The operator shall provide
25 geologic structure maps detailing how converting this well

1 will benefit the lease." Have you done that?

2 THE WITNESS: Yes, sir.

3 EXAMINER BROOKS: Okay. "Three: Operator to
4 explain how this well will provide pressure maintenance for
5 Sections 26 and 35." Well, 26 and 35 would be to the east of
6 33 -- 33, right?

7 THE WITNESS: Correct.

8 EXAMINER BROOKS: 34. And this map is a bit
9 confusing because there is a 36 that's almost in the middle
10 of Section 34, and Number 36 is a well number. Well, there
11 is a Well Number 33 and Well Number 36 that are right there
12 in the middle of that section, but that is actually section
13 33, is it not.

14 THE WITNESS: 34.

15 EXAMINER BROOKS: No, it's 34. Okay, I see it. The
16 Number 34 is right above where it says Shugart, and that's
17 the section. It would have to be because when you're in the
18 30s, you are moving left to right, so 35 is way over on the
19 east side of this map.

20 THE WITNESS: And it's still the Hinkle B Lease.

21 EXAMINER BROOKS: Okay. Is this -- is this project
22 going to affect Sections 27 and 35?

23 THE WITNESS: No.

24 EXAMINER BROOKS: Okay. And you have attempted to
25 explain that to Mr. Ingram?

1 THE WITNESS: Yes.

2 EXAMINER BROOKS: Okay. Now, he says Section 27 is
3 also questionable. Where is Section 27? Is that up in the
4 northeast part of this Exhibit 2?

5 THE WITNESS: Yes.

6 EXAMINER BROOKS: And will this well affect Section
7 27?

8 THE WITNESS: No.

9 EXAMINER BROOKS: And I believe you said the water
10 would move to the southeast.

11 THE WITNESS: Yes.

12 EXAMINER BROOKS: So you think it would mostly move
13 into the East Shugart Unit?

14 THE WITNESS: And we have a line of wells between
15 there and the East Shugart Unit. We have the 21, and --

16 EXAMINER BROOKS: Okay. And I assume you wouldn't
17 want to inject into it if you thought it was going to
18 adversely affect your own wells?

19 THE WITNESS: No, sir.

20 EXAMINER BROOKS: But you don't believe it will
21 affect the Shugart lease?

22 THE WITNESS: No. They are actively injecting.

23 EXAMINER BROOKS: They are doing a waterflood of
24 their own, right?

25 THE WITNESS: Yes.

1 EXAMINER BROOKS: And what -- but you said that was
2 in the Queen, right?

3 THE WITNESS: Queen-Grayburg.

4 EXAMINER BROOKS: So they are doing the
5 waterflooding both the Queen and the Grayburg?

6 THE WITNESS: Yes, sir, both zones.

7 EXAMINER BROOKS: In the East Shugart. The last one
8 he says, Mr. Ingram says, "Operator is intending to expand
9 this project to the other portions of the Hinkle Lease. That
10 shall be discussed in the proposal or operator should reduce
11 the request to a more appropriate area."

12 Are you planning to expand this into other portions
13 of the lease?

14 THE WITNESS: No, sir, we're not. We believe one
15 well will be sufficient to handle our disposal needs.

16 EXAMINER BROOKS: Well, like I said, I assume
17 Mr. Padilla will cover the notice issues, so I think that's
18 all I have.

19 MR. PADILLA: Mr. Examiner, we tender Exhibit 4,
20 which is my affidavit. As has been elicited in the
21 testimony, the only return receipt that we have not had from
22 offsetting operators is from Canyon, and that's been a
23 difficult process trying to locate them. Originally when we
24 sent notices on the saltwater application, all of the
25 mailings were returned. We finally used the address that the

1 OCD has for Canyon in Irving, Texas, and we haven't
2 received --

3 EXAMINER BROOKS: From whom at the OCD did you get
4 that address?

5 MR. PADILLA: From Dorothy Phillips.

6 EXAMINER BROOKS: I guess that's all I have.
7 Mr. Jones --

8 EXAMINER JONES: No.

9 EXAMINER BROOKS: -- do you want to ask any
10 questions of the witness?

11 EXAMINER JONES: No.

12 EXAMINER BROOKS: Very good. You are tendering
13 Exhibit 4?

14 MR. PADILLA: Tendering Exhibit 4.

15 EXAMINER BROOKS: Exhibit 4 will be admitted.
16 (Exhibit 4 admitted.)

17 MR. PADILLA: And that's all we have in this case.

18 EXAMINER BROOKS: Very good. If there's nothing
19 further, then Case Number 14799 will be taken under
20 advisement.

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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 _____*

_____, Examiner
Oil Conservation Division

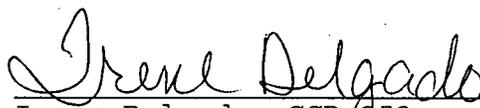
REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY
CERTIFY THAT ON March 15, 2012, 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 _____ day of March 2012.


Irene Delgado, CCR 253
Expires: 12-31-2012