

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

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

CASE NO. 13,804

APPLICATION OF READ AND STEVENS, INC.,)
TO LIMIT THE WELL SPACING RULES FOR THE)
LAKE ARTHUR-PENNSYLVANIAN GAS POOL TO)
ITS CURRENT HORIZONTAL EXTENT, CHAVES)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 9th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 9th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
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I N D E X

November 9th, 2006
 Examiner Hearing
 CASE NO. 13,804

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APPLICANT'S WITNESS:	
<u>JOHN C. MAXEY, JR.</u> (Engineer)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

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

3 EXAMINER CATANACH: At this time I will call Case
4 13,804, the Application of Read and Stevens, Inc., to limit
5 the well spacing rules for the Lake Arthur-Pennsylvanian
6 Gas Pool to its current horizontal extent, Chaves County,
7 New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant. I have one witnesses.

11 EXAMINER CATANACH: Are there any additional
12 appearances in this case?

13 Okay, swear in the witness.

14 (Thereupon, the witness was sworn.)

15 JOHN C. MAXEY, JR.,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Will you please state your name for the record?

21 A. John Maxey.

22 Q. Where do you reside?

23 A. Roswell, New Mexico.

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

25 A. I work for Read and Stevens, Incorporated, I'm

1 the president of the company, I'm a petroleum engineer.

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

4 A. Yes, I have.

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

7 A. Yes, they were.

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

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I would tender Mr.
12 Maxey as an expert petroleum engineer.

13 EXAMINER CATANACH: Mr. Maxey is so qualified.

14 MR. BRUCE: Mr. Examiner, before we get into Mr.
15 Maxey's testimony I've got a couple of exhibits for you.

16 The first one is a copy of Commission Order
17 R-2449, which created the Lake Arthur-Pennsylvanian Gas
18 Pool. This pool was created in March of 1963, so under
19 rules then in effect the well spacing 160 acres, and it
20 remains 160 acres to this day.

21 Submitted as Exhibit 2 is a couple of pages, the
22 first one out of Byram's showing the current extent of the
23 pool, and the pool does cover two adjoining quarter
24 sections of land in 15-26 and 15-27. And attached to that
25 is information from the Division's ONGARD site, showing

1 that the well in Section 36 of 15-26 is operated by Read
2 and Stevens, Inc., and the second well, 31 of 15-27, is
3 operated by COG Operating, L.L.C. Those are the only two
4 wells in this pool.

5 Q. (By Mr. Bruce) Mr. Maxey, in this case Read and
6 Stevens seeks to limit the 160-acre spacing provisions of
7 the Lake Arthur-Pennsylvanian Pool to those two existing
8 quarter-section well units; is that correct?

9 A. That's correct.

10 Q. Does Read and Stevens have drilling plans in this
11 area for certain wells?

12 A. Yes, we have plans for a well just south of those
13 two producers that are in that field.

14 Q. And are you also drilling a second well currently
15 in that --

16 A. We're drilling a second well, it's in a different
17 field further south. We have a rig that's running right
18 now.

19 Q. Okay. And you would like your wells simply to be
20 developed on statewide spacing rules for pools below the
21 base of the Wolfcamp; is that correct?

22 A. That's right.

23 Q. Could you identify Exhibit 3 for the Examiner?

24 A. Exhibit 3 is -- basically, it's an IHS survey --
25 or a search, excuse me, of production, existing production

1 and inactive production well spots in the vicinity of the
2 red arrow, which is the well we have an approved BLM permit
3 on right now. The symbols represent the various fields.
4 The legend is in the lower right-hand corner of the exit.
5 And basically these well spots are Penn production -- it
6 would be Strawn-Morrow-Atoka production in the area -- and
7 it's coded by -- I started to code it by color, I ran out
8 of color, so I went with symbols.

9 And the two -- excuse me, the three largest
10 fields in the area would be the red well spots which is
11 Buffalo Valley, the green well spots which is Diamond
12 Mound, and the black well spots which are Crow Flats. And
13 we've drilled wells in all three, and all three of those
14 fields, basically being the large fields in the area, are
15 on 320-acre spacing. And a search of -- I did a search of
16 Byram's on the remaining field names and found no field
17 rules on any of the remaining fields.

18 There is a well, if you'll notice -- I'll go
19 ahead and draw your attention to the red arrow on the map.
20 Due south of that you see a symbol that overlies another
21 symbol, a square with an X in it that overlies a green well
22 spot. That well was drilled prior to the mid-1960s and was
23 on 160-acre spacing in the Duffield field. And within the
24 last 10 years Snow Oil and Gas re-entered that well, and it
25 was on 320-acre spacing for the same existing Morrow that

1 was originally completed in the well.

2 The well was produced, it was plugged on 160-acre
3 spacing. Then within the last 10 years Snow re-entered,
4 re-stimulated the existing perforations in the Morrow, but
5 it was done on 320-acre spacing. I did not do a search to
6 see if they'd come to a hearing or how it was -- it may
7 have been reclassified in a different field, is what it
8 indicates in the IHS.

9 Q. And then you mentioned a well that you are
10 currently drilling. Where is that well?

11 A. The well we're currently drilling is in Section
12 17 of the same township --

13 Q. Okay, so just to the --

14 A. -- which would be a couple of miles --

15 Q. -- southwest of that well you were --

16 A. Right.

17 Q. -- discussing?

18 A. Right.

19 Q. And except for the two wells in the Lake Arthur-
20 Penn Pool, all of these dozens of other wells are developed
21 on 320-acre statewide spacing?

22 A. That's correct, based on the research I've done.

23 Q. What is Exhibit 4?

24 A. Exhibit 4 is basically the same map as Exhibit 3,
25 but I wanted to illustrate -- again, it's done on an IHS

1 Energy search of their database. The various colored well
2 spots indicate the various -- the way that the wells are
3 classified productionwise on the IHS data, and again this
4 is Penn production, the red being the Atoka formation. The
5 blue is Morrow, black well spots are classified as Penn,
6 which would be Atoka-Morrow. There is some Strawn
7 production, that's the green well spots. And then yellow
8 being classified as upper Penn, which again would probably
9 be Strawn.

10 The two well spots in the Lake Arthur-Penn field
11 are black, because they were classified as Penn production.

12 Q. Is Morrow the primary zone that you're looking
13 for in the well you're currently drilling and also in the
14 proposed well you have in --

15 A. Yes.

16 Q. -- Section 4 of 16-27.

17 A. Atoka-Morrow.

18 Q. Atoka-Morrow.

19 A. Yes.

20 Q. Let's move on to your cross-section, Exhibit 5.

21 A. Okay.

22 Q. Would you go through that and discuss the
23 correlative producing zones in the wells in this area?

24 A. Exhibit 5 is a cross-section in the area. If
25 you'll notice the key map in the upper left-hand side of

1 the cross-section, the cross-section runs from A' up in the
2 northern part of the map, Section 36, the well that we
3 operate is in the Lake Arthur-Penn, it moves south to the
4 well in Section 16, which is a Diamond Mound well on 320-
5 acre spacing. And then the cross-section moves on to a
6 well in Section 21, and that well is in the Duffield-Morrow
7 on 320-acre spacing.

8 If you'll notice on the cross-section, it's
9 just -- this is -- the cross-section was set up to show you
10 that the Penn section -- it was hung on the Morrow -- or
11 excuse me, it was hung on the Atoka, stratigraphic cross-
12 section hung on the Atoka. That's why the Strawn -- the
13 marker on top of the Strawn moves upward.

14 You can tell that basically what we're doing here
15 is, from A' going to A we're falling off the shelf, headed
16 Basinward, and all the sediment is thickening. And
17 basically we're looking at very -- the same type of
18 environment for all these wells and this entire play out
19 here.

20 Q. Looking at this exhibit, do you -- or does Read
21 and Stevens' geologist notice any difference in the
22 producing intervals among the wells from the various
23 Pennsylvanian pools in this three- or four-township area?

24 A. No, we've noticed no difference in the sands.
25 It's a series of sand channels stacked on top of each

1 other, typical Morrow, trending north or northwest, and
2 they can be mapped to the south or southeast.

3 Q. And do you see any difference in an engineering
4 standpoint as to the producing characteristics of the wells
5 in this area?

6 A. No difference.

7 Q. And again, Read and Stevens would simply like to
8 conduct its ongoing exploration in this area on statewide
9 rules; is that correct?

10 A. That's correct, we'd just like to develop from
11 this point forward in the future on 320s.

12 Q. In your opinion, is the granting of Read and
13 Stevens' Application in the interests of conservation and
14 the prevention of waste?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, Exhibit 6 is simply my
17 notice affidavit to the other operator in the pool, COG
18 Operating, L.L.C. They have been notified, they have not
19 objected. We only notified the operator since we are not
20 seeking to alter anybody's interest in any existing spacing
21 units in the pool.

22 Q. (By Mr. Bruce) Were Exhibits 1 through 6, Mr.
23 Maxey, prepared by you or compiled under your supervision?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I'd move the admission

1 into evidence of Exhibits 1 through 6.

2 EXAMINER CATANACH: Exhibits 1 through 6 will be
3 admitted.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Maxey in Section -- there's two existing
7 wells, right, one in Section 36?

8 A. In the Lake Arthur-Penn, yes.

9 Q. And that's operated by -- is that you or --

10 A. Yes. The well to the east is operated by COG
11 now.

12 Q. Section 31 is COG?

13 A. Yes, it used to be Maralo and they sold it to
14 COG.

15 Q. And those wells are -- Are they both producing
16 from the -- what you call the Atoka-Morrow?

17 A. The well to the east is producing from Strawn,
18 equivalent to the Strawn sand that we have on our cross-
19 section --

20 Q. Uh-huh.

21 A. -- and we are also producing from the Morrow in
22 our well. They did not have Morrow sand in their well.

23 Q. Okay, so in your well you're producing from
24 Morrow and Strawn?

25 A. Yes, it's been commingled.

1 Q. You kind of lump the Atoka-Morrow together on the
2 cross-section.

3 A. Right.

4 Q. There is a Morrow section in here, right?

5 A. Yes, there's a Morrow section, I believe in the
6 Diamond Mound. It's really not differentiated, and when
7 you talk to geologists in this area -- our geologist, other
8 company geologists -- they'll tell you this is really all
9 the same. They don't have -- there's not much difference
10 between Morrow-Atoka in this area up on the shelf, and you
11 -- there's better differentiation as you move southward
12 into the Basin.

13 Q. Okay, you're currently drilling a well in Section
14 17; is that correct?

15 A. Yes.

16 Q. And that really doesn't have any bearing on this
17 case, because that's going to be 320 anyway.

18 A. That's 320.

19 Q. And you plan on --

20 A. It's Diamond Mound.

21 Q. Okay.

22 A. That's the field it was placed in.

23 Q. You plan on drilling a well in Section 4?

24 A. Yes, that red arrow is our location.

25 Q. And so you would be within a mile of the Lake

1 Arthur-Penn?

2 A. Yes.

3 Q. So that's the reason?

4 A. That's why it was placed in that field, that's
5 correct.

6 Q. Okay.

7 A. That is a federal location, and we do have an
8 approved APD on it.

9 Q. What's the proposed 320 unit for that well?

10 A. It would -- That's the irregular-shaped section.

11 Q. Uh-huh.

12 A. It would be a standard 320, which would consist
13 of basically the southwest quarter and the four lots north,
14 so it would be a standup west half. There are two standard
15 320-acre locations in that section, and if we drilled up on
16 the north end of that section we'd have to either get an
17 administrative or a hearing order on a nonstandard
18 proration unit.

19 Q. Okay, is that going to be at a standard well
20 location?

21 A. Yes.

22 Q. Now, if you're not subject to the Lake Arthur-
23 Penn, would you be subject to any other pools? Are you
24 within a mile of any other Atoka-Morrow pools?

25 A. I have -- You know, I did not ask the Artesia

1 office about that.

2 Q. Okay.

3 A. But based on the map of existing production, it
4 could be classified wildcat.

5 Q. Okay. And in that well in Section 4, what do you
6 anticipate completing the well in? Atoka-Morrow?

7 A. Yes.

8 Q. Is there any Strawn present there?

9 A. There's Strawn potential there, because we are
10 offsetting Strawn production. There's not much Strawn
11 production in the area, that's why I put together the one
12 map by producing zone.

13 Q. So you may end up in more than one pool,
14 depending on what you complete the well in. There may be
15 separate Strawn and Atoka-Morrow pools. I don't know, I'll
16 have to check on the pool situation.

17 A. Yeah, I'm not sure how it would be placed in
18 separate pools, but -- In the existing well that we have,
19 we are commingled with Strawn and Morrow and are placed in
20 one pool in the Lake Arthur-Penn.

21 Q. Yeah, the Pennsylvanian -- the old Pennsylvanian
22 pools took into -- I think they encompassed the whole
23 Pennsylvanian --

24 A. I believe that's correct.

25 Q. But some of the newer pools, they kind of

1 differentiate --

2 A. Right.

3 Q. -- and break out the Morrow-Atoka?

4 A. Yes, that's correct.

5 Q. But geologically, you don't see any difference
6 between the Lake Arthur area and the area to the south?

7 A. Absolutely none. The only -- The cross-section
8 illustrates we're just moving from shelfward, more
9 Basinward across the cross-section, and you have thickening
10 of the sediment and you tend to encounter more and more
11 Morrow sand as you move to the south. Very typical.

12 Q. Is there anything to the north of the Lake
13 Arthur-Penn Pool?

14 A. Well, the search that I did, basically if you
15 came in about one section from the border I put on this
16 map --

17 Q. Uh-huh.

18 A. -- on the two different maps, that's where the
19 search -- the northern end of the search is. If you look
20 at those Buffalo Valley well spots, the red ones, and where
21 they're truncated, that's basically the northern extent,
22 all the way across that map of the search, so I went about
23 -- a little over two miles north of those existing wells.
24 The Buffalo Valley extends further north, but there's
25 really -- to the west of the Buffalo Valley there's not a

1 significant Morrow production present. There's a lot of
2 dry holes up there.

3 EXAMINER CATANACH: Okay, I don't think I have
4 anything else.

5 MR. BRUCE: I have nothing further.

6 EXAMINER CATANACH: Okay, there being nothing
7 further in this case, 13,804 will be taken under
8 advisement.

9 (Thereupon, these proceedings were concluded at
10 8:39 a.m.)

11 * * *

12
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14
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16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the examiner hearing of Case No. 13804
20 heard by me on November 9, 2006
David R. Catnach, Examiner
21 Oil Conservation Division
22
23
24
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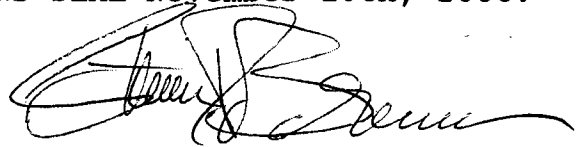
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL November 10th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010