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:	
APPLICATION OF BENSON-MONTIN-GREEN DRILLING CORPORATION SEEKING APPROVAL OF A PILOT PROJECT, INCLUDING AN EXCEPTION TO RULES 4 AND 7 OF SPECIAL RULES AND REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS POOL FOR THE PURPOSE OF ESTABLISHING A PILOT PROGRAM TO DETERMINE COMMERCIAL FEASIBILITY FOR FRUITLAND COAL GAS WELLS IN TOWNSHIP 25 NORTH, RANGE 2 WEST, NMPM, RIO ARRIBA COUNTY, NEW MEXICO	CASE NO. 13,770

2006 SEP 28 AM 8 52

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

September 14th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, September 14th, 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.

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I N D E X

September 14th, 2006
Examiner Hearing
CASE NO. 13,770

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

TOMMY ROBERTS
Attorney at Law
P.O. Box 129
Farmington, New Mexico 87499

* * *

WHEREUPON, the following proceedings were had at 8:20 a.m.:

EXAMINER JONES: Let's call Case 13,770, Application of Benson-Montin-Green Drilling Corporation seeking approval of a pilot project, including an exception to Rules 4 and 7 of special rules and regulations for the Basin-Fruitland Coal Gas Pool for the purpose of establishing a pilot program to determine commercial feasibility for Fruitland Coal gas wells in Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

Call for appearances.

MR. ROBERTS: Mr. Examiner, my name is Tommy Roberts, I'm an attorney in Farmington, New Mexico, appearing on behalf of the Applicant. I have one witness to be sworn.

EXAMINER JONES: Any other appearances?

Will the witness please stand to be sworn?

(Thereupon, the witness was sworn.)

GEORGE F. SHARPE,

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

DIRECT EXAMINATION

BY MR. ROBERTS:

Q. Mr. Sharpe, would you please state your name and your place of residence for the record?

A. My name is George Sharpe, I live in Farmington, New Mexico.

Q. By whom are you employed?

A. I work for Merrion Oil and Gas Corporation.

Q. In what capacity?

A. I'm a petroleum engineer and work in the -- as the manager of oil and gas investments.

Q. And how long have you been employed by Merrion Oil and Gas in that capacity?

A. Sixteen years.

Q. And generally describe your responsibilities.

A. My responsibilities are to evaluate investment opportunities, either acquisitions or drilling opportunities, and to ascertain the viability of those and try to aggressively pursue those.

Q. What is your relationship -- or what is the relationship of Merrion Oil and Gas to the Applicant in this case, Benson-Montin-Greer Drilling Corp.?

A. Merrion Oil and Gas is a partner in a joint venture with Benson-Montin-Greer to develop the Fruitland Coal in the Gavilan area.

Q. And are you authorized today by Benson-Montin-Greer to represent it?

A. I am.

Q. Have you testified on any prior occasions before

the New Mexico Oil Conservation Division?

A. I have.

Q. And in what capacity?

A. As an expert witness.

Q. In the field of petroleum engineering?

A. In the field of petroleum engineering, yes.

Q. Are you familiar with the Application in this case?

A. Yes, I am.

Q. Have you made an engineering study and geologic study of the area that is the subject of this Application, or have you caused those studies to be made?

A. Yes.

Q. And are you prepared to testify as to the results of those studies?

A. Yes, I am.

MR. ROBERTS: Mr. Examiner, I would tender Mr. Sharpe as an expert witness.

EXAMINER JONES: Mr. Sharpe is qualified as an expert petroleum engineer.

Q. (By Mr. Roberts) Mr. Sharpe, briefly describe the purpose of this Application.

A. If you'll look at Exhibit 1, it shows that we plan to do a pilot project, a fivespot pilot, by drilling an additional well on 80-acre density, in the center of

four wells on 160, to evaluate the commercial viability of the Fruitland Coal in the Gavilan area.

Q. Referring to Exhibit 1, would you elaborate on that five-well program and simply address your comments toward the exceptions from the pool rules that you see?

A. The project outline is shown in red on there. We have drilled one Fruitland Coal well, which is the red triangle with the circle around it. That's the Price Number 1 well.

We would like to drill four additional wells, three of those wells at standard locations -- those are labeled wells 2, 3 and 4 -- and then the fifth well at a nonstandard location would need exceptions to allowing a third well on a 320-acre spacing unit and would need an exception to allow that well to be drilled closer than 660 feet to the spacing unit boundary.

Q. And what is the reason for the exception on the location of the third well in the east half of this section?

A. The reason that we need the well, or --

Q. Why do you need that location, that particular location, which is a nonstandard location?

A. I will present evidence in later testimony that shows that the dewatering time on 160-acre spacing, we feel, is excessive; and to try to accelerate the evaluation

of the viability of the Coal in this area, 80-acre spacing is warranted and necessary; and to try to within a reasonable amount of time, determine whether a coal project in this area would be economic.

Q. The geographic scope of the area depicted in Exhibit Number 1 is one mile, the perimeter of the project area, which is Section 34. What are you attempting to demonstrate by showing that one-mile-perimeter geographic area?

A. The main thing we're demonstrating is that there are no other Fruitland Coal wells except for the Chubby Hubby in the northwest quarter of Section 2. That well has been drilled by -- through our joint venture and is one of six well that we have drilled in the area to look at the coal.

You can also see the other types of wells in the area. Generally Mancos producers is the primary production, some Pictured Cliff production. Also shows the operators of those different wells surrounding the pilot project.

Q. What's the status of the Chubby Hubby well?

A. The Chubby Hubby is currently shut in, waiting on a pipeline connection, and really probably will remain shut in, waiting on the outcome of this pilot test.

Q. I ask you to refer to what's been marked as

Exhibit Number 2, and would you identify that exhibit?

A. Exhibit Number 2 is land ownership plat, lease ownership plat. It also on the second page of the exhibit has a tabulation of the ownership in the east half and the west half of Section 34, which are the two standup 320 spacing units for the Fruitland Coal in this area.

The yellow acreage shown on that map is controlled by Benson-Montin-Greer in our joint venture. The green acreage to the north and east is NM&O, owns the Fruitland coal on that acreage. And the blue acreage to the southwest is controlled by ConocoPhillips.

Also shown in hached marks is the federal acreage, so there is federal acreage that's involved in our pilot project area and fee acreage. We have the north half of Section 34 is federal, the south half is fee.

Q. Is the north half of Section 34 covered by a single federal oil and gas lease?

A. That is my understanding, that is correct.

Q. And the south half, I take it, is privately owned minerals subject to leases, all leased?

A. Yes.

Q. And is the ownership of the south half uniform throughout the southeast quarter of the southwest quarter?

A. It is not uniform. There is a very slight difference, and that is shown in the second page which

shows the division of interests. And you can see that all of the owners are common except that NM&O owns a very, very small override in the west half but does not own an override in the east half. NM&O owns a slightly different working interest, also in the west half, in the east half.

But for the most part, the ownership in the west half and east half is common.

Q. The tabulation of ownership attached to Exhibit Number 2 would indicate that the ownership of the overriding royalty interests and the royalty interests are common when comparing ownership in the west half and the east half; is that correct?

A. That is correct.

Q. Under the list of owners, Benson-Montin-Greer is listed along with *et al.*'s. I'm assuming the *et al.*'s are investors or partners in the joint venture. Can you confirm that?

A. They are, Merrion being one of those *et al.*'s.

Q. And are those nonoperating working interest owners in concurrence with this Application?

A. They are.

Q. If there were a disadvantage to any of the interest owners as a result of the drilling of a third well in the east half of Section 34 or the nonstandard location of that well, what parties would -- whose interests would

be adversely impacted?

A. The west half could potentially be adversely impacted by drainage from the third well that is too close to the lease line --

Q. Okay, so --

A. -- or to the spacing --

Q. -- that would impact the Applicant, Merrion Oil and Gas, and the members of the joint venture who are in favor of this Application?

A. It would actually, yeah, be a negative impact to us, because we actually own more in the west half than we do in the east half.

Q. Let me ask you to refer to what's been marked as Exhibit Number 3. Would you identify that exhibit and describe its contents?

A. Exhibit Number 3 Is a copy of a letter of support from Jim Lovato, the senior technical advisor of the Bureau of Land Management Farmington office, expressing their support for the pilot project.

Q. Are there conditions of that support?

A. There are two conditions. They would like the pilot project duration be limited to two years, to allow us to determine the commercial feasibility and optimal well spacing. If conditions warrant at that time, they would support an extension if approved by the BLM and the OCD.

The second condition is that the results of the pilot test be reported to both the BLM and the OCD within 60 days of the completion of the pilot.

Q. Did you meet with Mr. Lovato and other BLM employees prior to --

A. Yes, we did.

Q. And when did you meet with them and --

A. We met with them Monday of this week and went over the technical aspects of our proposal. And again, they understand and support the Application.

Q. Turn your attention to Exhibit Number 4. Would you identify that exhibit?

A. Exhibit Number 4 is proof of notification that was prepared by Benson-Montin-Greer. It lists the parties that were notified and has the return receipts from that notification.

Q. And these entities, I take it, were operators of wells offsetting the project area?

A. Right, these were operators of -- not only owners of the Fruitland Coal rights, but operators of any well offsetting our acreage at any horizon level.

Q. Have you had any reaction communicated to you from any of these notified parties with respect to the Application?

A. NM&O, which is an offset owner as well as a

working interest owner in the project area, has indicated their support for the project.

Q. In your opinion, have the notification rules of the Oil Conservation Division been satisfied with respect to this Application?

A. In my opinion they have.

Q. Let's look at Exhibit Number 5. Identify that exhibit, please, and then --

A. Okay.

Q. -- proceed to describe what it contains.

A. Exhibit Number 5 shows the geology of the area, and the first page of the exhibit shows the entire project area and the Benson-Montin-Greer joint venture leasehold across this area.

Depicted in the bubbles is Pictured Cliff production, and it can be seen that there's Pictured Cliff production surrounding the acreage, but the acreage itself is in a kind of a hole in the production, in the northern part of the acreage. There's a little bit of Pictured Cliff production on the south.

The --

MR. ROBERTS: The project -- Let me interrupt you there, just so that we're -- we can be sure that the Examiner is oriented to the project area. Do you see that, Mr. Examiner, the project area?

EXAMINER JONES: I'm trying to find it right now.

MR. ROBERTS: Project area is the green --

THE WITNESS: Project area is the green square, Section 34.

EXAMINER JONES: Okay, here we go. Got it.

MR. ROBERTS: There's a lot of information there, and --

EXAMINER JONES: Right above the Chubby Hubby.

MR. ROBERTS: Right.

THE WITNESS: Right above the Chubby Hubby. The Price 1 is the well that has been drilled to -- on the project area as one of our five wells that we'd like to include in the pilot.

Also identified across this project area are the other wells that have been drilled. From north to south we've drilled the Page 1, Casaus 1, the Price 1 that's in the project area, the Chubby Hubby, the Bunny Tracks, and the Cookie Dough. And in addition the Twilight Zone is identified as a Fruitland Coal recompletion, and it's actually been recompleted into the -- is that Fruitland Coal, or is that -- Okay, so the Twilight Zone has been recompleted in the Fruitland Coal.

The nature of those wells as they are spread out across this acreage -- and the reason they're spread out across the acreage, they were drilled as part of a farmout

to earn acreage in the farmout and to fill in acreage that Merrion already had.

We were testing both the Fruitland Coal and the Pictured Cliff, and the Pictured Cliff has been marginal. You can see the Cookie Dough is a Pictured Cliff completion to the south making 20 MCF a day. There's been no commercial in terms of being a payout of investment of the Pictured Cliff. The hole that's there is a real hole in Pictured Cliff production, I guess that's what we're seeing.

So we now want to focus primarily on the Coal, which was a target as well. But unfortunately, our wells are spread out throughout the project area, not concentrated as they need to be to have a pilot project and dewater the coal. And so we are now again asking -- or planning on trying to drill a concentrated group of wells and asking for permission to drill one additional well in that area to try to accelerate the evaluation.

Q. (By Mr. Roberts) What conclusions can you draw with respect to the quality of the coal in this area?

A. The second page of the geologic exhibit is an isopach map of the Fruitland Coal across the area. Again, the pilot project can be shown in green -- is shown in green in the center of the map. The coal is fairly thick, as thick as 50 feet, and averages 40 feet across our

project area.

If you go to the final exhibit, it's a cross-section through that area. In fact, the cross-section is shown on the isopach map, you can see the wells that are included in the cross-section. It's a north-south cross-section through the project area.

And if you look at the -- if you'll look at the Coal, you can -- a number of things jump out at you. If we focus on the Price 1 and the Bunny Tracks 1, which are the two center logs on that diagram, the coal pay that's less than 1.75 grams per cubic centimeter is highlighted in black on the density log. And it's -- it is fairly thick. The basal coal is fairly continuous across the area, but the upper coals come and go.

But none of the coals are what you would call high-quality coals. The very basal coal, a little bit of it gets below 1.5 grams per cubic centimeter, but most of the coal is fairly shaly, ashy coal that's between 1.75 and 1.5. So it's marginal -- marginal coal. And one of the reasons why the Coal has not been developed to this point in the area is that it's a fairly marginal coal.

Q. Do you have any other comments regarding the data that's depicted in Exhibit 5 or the conclusions that can be drawn from that data?

A. If you look at the -- and we're going to talk in

the next exhibit about the gas content of the coal and the gas -- the coal sample that we've analyzed, but those are shown in the -- the results of that is also shown on the coal isopach map.

The Casaus Number 1 in the north central portion of the map, we did a gas absorption test. The coal gas had 38 percent -- or the coal had 38 percent ash. Again, it's a very dirty coal with a dry, ash-free content of 138 standard cubic feet per ton at 500 p.s.i., which is again a fairly low gas content compared to the 400 to 600 in the sweet spot of the Basin.

There's another gas content shown down in the very bottom right-hand corner of that exhibit. EOG did a coal analysis, verified high ash contents greater than 30 percent, and verified gas contents of 112 to 156 standard cubic feet per ton, which matches the gas content that we got from our absorption tests on the Casaus 1.

Q. Let me have you refer to your Exhibit Number 6, and please identify that exhibit.

A. Exhibit Number 6 is the results of the adsorption test on the cuttings from the Price Number 1 -- or excuse me, the Casaus Number 1 -- and they just have the detail of the analysis, again showing the 38-percent gas content, fairly low moisture content of 4 percent, and at our reservoir pressure of around 500 pounds, at 504 p.s.i., the

gas content is 135.7 standard cubic feet per ton.

Q. What conclusion or conclusions do you draw from this data with respect to the purpose of the Application?

A. The conclusions that I draw from the data is that it's a marginal coal, it's dirty, and even the dry, ash-free content of the coal, it's fairly low gas content. But with a 40- to 50-foot-thick coal, the resources there that makes it worth trying to evaluate, determine the commercial viability.

Q. Now I refer to what you've marked as Exhibit Number 7. Identify that exhibit, please.

A. Exhibit Number 7 is the production test on the Price Number 1 when it was completed only in the Fruitland Coal, and it was produced for approximately half the month of October, 2005. It was actually making -- although no gas is reported, it was making enough gas to run the pumping unit, and so that's 5 to 7 MCF per day to run the pumping unit. And it was producing approximately, when it stabilized, 80 barrels of water a day.

And so the production tests on the Price 1 substantiated a couple things. It substantiated the fact that we had reasonable permeability at 80 barrels of water a day, we had water-saturated cleat system, but we also had a gas-saturated coal because the coal immediately produced some gas. And again, all indications are that this has a

chance of being commercial, if the coal is dewatered and the gas is allowed to produce.

Q. And this well is currently shut in and has been shut in since October, 2005?

A. That is my understanding, BMG operates. I think it may have produced for some time. We actually commingled the PC with the Coal and produced it for a short period of time --

Q. Okay.

A. -- after this, but this was the portion of the production that was only from the Coal.

Q. Okay, Mr. Sharpe, refer to Exhibit 8 and identify that exhibit, please.

A. Exhibit 8 is the -- is a Fruitland Coal prediction model, and it is really the -- kind of the guts of our Application. It is an evaluation that I did in February of this year to try to look at the commercial viability of the Coal and try to look at the optimum well spacing.

Without getting into the text, on pages 1 and 2 -- if you go to page 3 of that exhibit -- and there are little handwritten numbers at the bottom -- the basis for the analysis is a material balance model that is adjusted to take the gas content of the coal and predict the performance of the coal over time based on that gas content

analysis.

The methodology is to match the initial production rate from your wells by varying the assumed -- First off, we don't assume the coal thickness; we know we have approximately a 40-foot coal thickness. But we vary cleat porosity, cleat initial water saturation and some other variables that try to match your initial production rates and match the 80 barrels of water a day and the trace of gas. It then uses the material balance of the model to predict the performance of the well over time as it dewaters.

And circled on page 3 is the initial gas in place per well, and I believe this is for, in this case, 160-acre spacing. There's 1.4 BCF of gas per 160 acres, volumetrically, with 40 feet of coal. So again, there's a resource there that definitely warrants further evaluation.

If you go to page 4 --

Q. And let me interrupt you --

A. Okay.

Q. -- just for clarity. Attachment 1 is a model based on 160-acre spacing; is that correct?

A. Yes, attachment 1, page 3, is the data that was input on 160-acre spacing. I actually made this run.

I then varied the well spacing on the next set of curves. I looked at a 2500-acre spacing, a 160-acre

spacing and 80-acre spacing. So that's the only variable that's being changed in this model on the ensuing graphs that show the prediction of how the wells would perform under the different spacings.

The first is 2500 acre spacing, which is really a well by itself in the middle of nowhere. And you can see that in any real time the well, even after it looks like years, the well has not even dewatered to the point where it's producing much more than 20 MCF a day 20 years from now, that a well in the middle of nowhere, as we found out from industry, just will never produce economical quantities of gas, economic quantities.

Pages 5 and 6 show the production of 160-acre spacing, and the gas rate on 160-acre spacing is predicted to within two years, be it 100 MCF a day, dewatering occurs between years 5 and 6, with a peak gas rate of 200 MCF a day. So again matching the fact that this is a marginal area with a peak gas rate of 200 MCF a day.

The cumulative gas curve that's shown on page 6 shows that on 160-acre spacing over time, projected to recover a little over 800 million cubic feet of gas or .85 BCF of gas over the life of the project, per well.

On 80-acre spacing, pages 7 and 8, we're able to get to 100 MCF a day within one year and dewater our well within two to three years. And the real key, we think, is

trying to see that 100 MCF a day within a year and not extend that out to a two-year period, or to be able to start to see some production from our well in a quick enough time frame that we can react and come back in and start to look at developing this.

One of the questions I'm sure he would ask if I didn't address it would be, What outcomes may come from this?

One of the outcomes that could come is that we do this pilot, we drill four more wells, put another $2 million into this thing, and if it doesn't work, it never does -- production rates don't come up, production is marginal, it's uneconomic, we go away.

Another outcome is that it works as predicted and works even better than predicted, and so we say, Okay, we know it's economically viable but we can develop it on 160-acre spacing, and so we would then proceed to shut our pilot in and develop the area on 160 acres.

The other -- the third option is that it works, but we feel based on the pilot that we really are going to need 80-acre spacing to make it work on a larger scale, at which time we would be looking at coming back for potentially 80-acre spacing in this area, which would be, we know, a much bigger deal.

We aren't necessarily moving toward that right

now. What we're trying to do is to evaluate this marginal coal in a time frame that is reasonable and that allows us to see which way we should go, either go away, develop on 160, or possibly look at coming back for 80-acre spacing in this area.

Page 8 is the cumulative gas per well on 80 acres, and you're getting a little over half a B per well, so you do actually have some incremental gas recovery with two 80-acre wells over one 160-acre well. Two 80-acre wells would cum just a little over 1 BCF, and a 160-acre well would be .85.

This does not account for the discontinuity in the upper coals wherein 80s could actually have a better incremental recovery. But again, our goal isn't right now to justify 80s by this. Our goal is to be able to evaluate this very marginal coal in a reasonable time frame.

The balance of this is some economics. Pages 9 and 10 are some actual costs on the -- one of the wells that was drilled in the area. It cost right at $400,000. Our current estimate is about $500,000 to drill and complete, with the increase in costs that we've seen, so it's going to be about $500,000 per well.

Attachment Number 3, which is page 11, is the economics of a single well on 80-acre spacing that cums a BCF and shows that that well would be economic. We

actually have a little -- the investment in that case is $630,000, which has some costs over and above the drilling cost to account for water disposal and the potential need for water disposal.

And then the final -- I don't know that they're necessarily relevant, but the final is a -- if we developed it fully on 80-acre spacing, what the economics would be. And again, if we can show that it performs as predicted, it would be an economically viable project, and we're trying to get to the point that we can do that.

Q. Mr. Sharpe, in order to allow you to re-emphasize probably what the main point of your assertions are with this exhibit, why would development in accordance with the existing pool rules, which allows two Fruitland Coal wells per 320 not allow an analysis or an evaluation in a timely manner?

A. If you look at page 5 of Exhibit 8, you can see that we would -- after a year we would still be at 20 MCF a day -- well, no, I'm sorry, not 20 MCF a day. Maybe about 50 MCF a day from our existing well. I don't think that would provide us the comfort to move forward.

Even after a couple of years, getting to 100 MCF a day, it would be difficult to know for sure and have confidence in the remainder of the prediction, and the bottom line is that the ultimate five years to get to a

peak water rate -- or, excuse me, a peak gas rate of 200 MCF a day, is too long of a period for such a marginal coal to be able to -- to be able to economically look at this whole project and package.

And so we feel that the shorter time frame of the 80-acre pilot will help us make our decisions in a time frame that allows us to economically develop this.

Q. Do you have anything else to add with respect to Exhibit 8?

A. I do not.

Q. Look at Exhibit 9, please identify that.

A. Exhibit 9 is an analogy -- or an analog in another part of the Basin. It was actually an application that Coleman Oil and Gas made back in the year, I believe, 2000, prior to the approval of 160-acre spacing, or the infill density -- two wells on 320. They got approval to drill an additional 160-acre well.

And it just illustrates the benefits of drilling a cluster of wells, versus having your wells spread out.

MR. ROBERTS: Let me interrupt you just there, and Mr. Examiner, for the record that was an application of Coleman Oil and Gas in Case Number 12,485, and the order of the Division was Number R-11,462.

EXAMINER JONES: Thank you.

Q. (By Mr. Roberts) Go ahead, Mr. Sharpe.

A. On this particular map I've got a kind of a montage of the Fruitland Coal production in the San Juan Basin. You can see the heart of the production up here, you can see the Coleman pilot. Again, it was an edge pilot at the time. You can see the location of the Gavilan, and you can see that we're a long, long ways from commercial production.

And on the diagram itself I've identified two wells. One is the Juniper 32-16, which is one of the central wells to the Coleman pilot at the time. And I've also identified the Trading Post Number 1, which is a well that's not surrounded by any other wells.

The next page shows the production from the Trading Post Number 1, and again shows that over its six years it has hardly dewatered at all. Its gas rate has increased from -- and these are in MCFs per month on this particular graph -- from 15 MCF per month, and over the six-year period it's now making 1000 MCF per month, which is a little over 30 MCF a day.

So again, one well in the middle of nowhere just doesn't dewater and never really gets there.

The next page is the Juniper 16-32. It also started at pretty low gas rates. In fact, they had no gas reported for six months or so. But over a three-year period it's now producing 6000 or 7000 MCF per month, which

is a commercial 200 MCF per day.

And so again it just -- it illustrates the need for tighter spacing. This -- The productivity in this area, with the 200 to 300 barrels of water per day, is multiples of the productivity in the Gavilan area, it's two or three times our 80 MC- -- 80 barrels of water a day -- I said MCF a day -- 200 or 300 barrels of water a day is over three times our 80 barrels of water a day that we're getting from the Price.

And so again, for our dewatering period it's going to take us longer to dewater at the lower rates because of the tighter coal and the poor quality of the coal.

Q. Mr. Sharpe, we've concluded our exhibit testimony. I'm going to give you an opportunity to briefly summarize the justifications that the Applicant has for the request for the order in this case.

A. Benson-Montin-Greer has an acreage position in an area with 30 to 50 feet of very marginal coal, high ash content, low gas content, but yet enough gas at 1.4 BCF per 160-acre spacing unit to try to figure out whether or not we can get it or not. And our Application is focused on trying to perform that evaluation in a time frame that's reasonable and allows us to proceed with whatever development is appropriate.

If 80-acre spacing is going to be required, there's going to be -- you know, that will probably be a year process, possibly, or a long process, to try to come back before the Commission to talk about that. And so again, the whole time frame of this development needs to be accelerated, and we need to evaluate this marginal coal quickly.

In addition, with the discontinuity in the coals that are there, you may need the tighter spacing to really be able to effectively hit those coals and dewater it, again, in a reasonable time.

Q. The Bureau of Land Management has indicated its support for this pilot project, conditioned upon a two-year project time. Is that a reasonable time frame for you to evaluate --

A. We think it's --

Q. -- the results of these wells --

A. We think it's reasonable. We like the fact that they're open to extending it if necessary. Just with permitting the four additional wells, we've only started the permitting process.

We have that process to go through, and then the availability of rigs is a serious issue, and so it may be six months, probably at the earliest, to a year at the latest before we get the pilot in place. And that really

gives us one year from that point to evaluate the productivity of the pilot, to determine how it's performing, and that is a little tight.

We would like two years, but I think with the provision that we can come back for an extension, if that's -- if we can warrant it and justify it at the time, I think that's something that I think is workable for us.

Q. Mr. Sharpe, in your opinion will the granting of this Application be in the best interests of conservation and result in the prevention of waste and the protection of correlative rights?

A. I think that it would. I think without the approval of this Application, I don't think this investment would be made, and this gas would go unrecovered, both to the federal government that owns the minerals on a portion of it, and the fee owners that are in the area. So I think that they would very much support trying to see their resources developed.

Q. Were Exhibit Numbers 1 through 9 either prepared by you or at your direction and under your supervision?

A. They were.

MR. ROBERTS: Mr. Examiner, I'd move the admission into evidence of BMG Exhibit Numbers 1 through 9.

EXAMINER JONES: BMG Exhibits 1 through 9 will be admitted to evidence.

MR. ROBERTS: And I have no other questions on direct.

EXAMINER JONES: Okay, thank you, Mr. Roberts. I'll try to hold the questions down here. I think you're kind of speaking to the choir here, I --

THE WITNESS: Okay.

EXAMINER JONES: -- like your Application, at least so far, but...

EXAMINATION

BY EXAMINER JONES:

Q. How deep are these wells?

A. They are 3000 feet.

Q. Okay, and the PC is real close below that.

A. The PC, you can look at the -- if you'll turn to Exhibit 4 -- no, which was the geology exhibit?

Q. The cross-section has got it on there.

A. Right. There's a pretty good shale in many cases below the Fruitland Coal before you get down to the PC. You can see it on the Price 1, there's probably a 40- to 50-foot shale stringer between the PC perfs and the coal perfs in the Price 1.

Q. Now on these others, you have deemed it necessary to commingle, it looks like, so you didn't want to come in -- you didn't want to also ask for a --

A. No.

Q. -- increased density PC and --

A. No, we anticipate going after the coal --

Q. So you --

A. -- in fact, we would plug the coal off, the PC off, in the Price 1 and produce just the coal. This would be a coal pilot. Our focus is the coal.

Q. Is there water sands -- Where's your water coming from? Is it coming from the coal or is it coming from around the coal?

A. Well no, we think it's coming from the coal. The Ojo Alamo -- I don't know if it shows on this cross-section or not, but it's over 100 feet -- I think that might be the Ojo Alamo in the -- the bottom of the Ojo Alamo is that purple line going across, and so it's 60 to 100 feet above the coals, is the --

Q. So you have to make sure you get it cemented off --

A. Right.

Q. -- pretty well.

A. Right.

Q. Speaking of that, though, the water that you're -- you're saying that 80 barrels a day. Is that coming from the coal or is that coming from sands around the coals or what?

A. Well, we think it's coming from the coals. It's

similar to the coal tests that we had in our other six coal tests, or other five coal tests in the area, and we don't have any indication that we frac'd out of zone, and so we believe that the water is coming from the coals.

Q. The simulator you used, is that -- you just used a simulator and changed the spacing, is that --

A. Yes.

Q. -- how you --

A. Yes.

Q. -- generated --

A. Yes.

Q. -- these predictions?

This 80-acre spacing -- I guess you'd get your results a lot quicker if you'd drill a 40-acre pilot or something like that, wouldn't you?

A. Well, we would that. We could put them all in the same section. We feel based on the simulation, though, that 80-acre is a reasonable spacing, and that we will see that within a year we'll be up to 100 MCF a day if it performs as predicted, and I think that would give us the encouragement to look at additional development.

Q. How did you come up with your permeability numbers?

A. Those were tweaked. The 10 seems high to me, actually, the 10 millidarcy that was used to match,

basically match -- if you'll look at the prediction case -- matching the 80 barrels of water a day --

Q. Okay --

A. -- so...

Q. -- but it's an overall system permeability, it's not just --

A. It's an overall -- right, we did not -- we did not do any pressure transient analysis. It's part of the match to what the initial productivity of the well is.

Q. Do you plan on doing some pressure tests on this well?

A. We don't have any current plans, but it probably would be prudent as part of the pilot to do that.

Q. So the pilot, you're just going to monitor rates, surface pressures -- Are you going to monitor where things are coming from downhole? Are you going to do any kind of production test on that well?

A. Well, again, we anticipate on the Price 1 that we would shut off the Pictured Cliff --

Q. Okay.

A. -- and just have the Price 1 open in the Fruitland Coal, and that the other four wells drilled as part of the pilot would be Fruitland Coal wells alone.

Q. The mud log shows a big kick in the lower coal; is that right?

A. The mud log shows good shows throughout the coals.

EXAMINER JONES: Okay. Let's see here. The notices -- Gail, are you satisfied with our notice?

MS. MacQUESTEN: I wanted to ask Mr. Roberts on Exhibit 4, the proof of notification, were these entities also notified at the hearing itself?

MR. ROBERTS: Yes.

MS. MacQUESTEN: In addition to the Application?

MR. ROBERTS: Yes.

Q. (By Examiner Jones) Okay. Okay, I think that's -- As far as -- You're just going to keep the rates, pressures, and you're going to make that available to anybody, any other partners on this, or --

A. Yes, first off, all the rates will be public information, they'll be reported --

Q. Monthly rates.

A. Monthly rates on the C-115.

Part of the BLM's request is that we report the results, and so whatever analysis we do on the results I think we would make available to --

Q. Do you have an objection to coming back in in a couple years and showing your results?

A. No.

Q. You're pretty liberal with showing your

desorption isotherm. Must be a --

A. Well, you know, I don't know that we're -- I guess if it proves to be economic, then there's a whole big area down to the south that we're -- you know, it's not just our little project area. There was miles and miles between where we are and where the major coal production is that would stand to benefit from this pilot test --

Q. Was there --

A. -- from the results of this pilot test.

Q. -- any comments during the last Fruitland Coal spacing hearing about this area or the other low-permeability -- low-producibility coal area?

A. I went to some of the early committee meetings prior to the 160-acre approval, and at the time there was discussion more on, you know, whether you needed 160 acres up in the overpressured area or not and whether there should be a line of demarcation to where 160 is approved outside the overpressured area and 320s within, and I do think -- and this is my personal opinion -- I do think that there are going to be areas where 80-acre spacing is warranted, and I think this may be one of them.

I don't think that 80-acre spacing should be approved on a Basinwide basis, I don't -- I mean, the material balance data and the -- We just looked at an acquisition of a well up in La Plata County where they've

approved 80s, and these guys want to be paid for 80s, and I can't come up volumetrically and make 80s work, not in this specific area. I know there areas in La Plata County where they probably do work, but I don't think -- I don't think that we ought to have 80s across the Basin, but that again, that's just me talking from what I've seen on a few analyses.

Q. But is it true that the majority of the discussion during the last Fruitland Coal spacing hearing did not include just --

A. The discussion --

Q. -- the low-productivity area, and any additional --

A. They --

Q. -- density in the low-pro- --

A. They did not, and that -- I don't know that it was an oversight per se, but you know, I think the focus at the time is one bite at a time, you know, let's --

Q. Okay.

A. -- let's get the 160s first and --

Q. Okay.

A. But I do think that there are going to be areas in the Basin where if you're going to get recent decent recoveries and economically drain it, 80s are going to be warranted.

Q. Okay, and you can get rid of your water out here somewhere?

A. Well, we would drill a disposal well, probably to the Entrada --

Q. Okay --

A. which is --

Q. -- sounds good to me.

A. -- another part of the investment, so...

EXAMINER JONES: Okay, I have no more questions. Thank you.

THE WITNESS: Okay.

EXAMINER JONES: Thank you, Mr. Sharp.

Mr. Roberts?

MR. ROBERTS: That concludes our case.

EXAMINER JONES: Thank you very much. With that, we'll take Case 13,770 under advisement.

THE WITNESS: Thank you.

(Thereupon, these proceedings were concluded at 9:11 a.m.)

* * *

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

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 September 15th, 2006.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006