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 NADEL AND GUSSMAN PERMIAN, L.L.C., FOR A NONSTANDARD GAS SPACING AND PRORATION UNIT AND AN UNORTHODOX GAS WELL LOCATION, OR FOR ALTERNATIVE RELIEF, EDDY COUNTY, NEW MEXICO

CASE NO. 13,115

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

August 7th, 2003

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, August 7th, 2003, 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

August 7th, 2003
Examiner Hearing
CASE NO. 13,115

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E X H I B I T S

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* * *

Additional submission by the Applicant, not offered or admitted:

	Identified
Letter dated 8-6-03 to Nadel and Gussman Permian from Michael E. Stogner	59

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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By: PAUL R. OWEN

* * *

ALSO PRESENT:

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Hearing Examiner
New Mexico Oil Conservation Division
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Santa Fe, NM 87505

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
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* * *

WHEREUPON, the following proceedings were had at 10:43 a.m.:

EXAMINER JONES: At this time we'll call Case 13,115, which was continued from July 24th, Application of Nadel and Gussman Permian, L.L.C., for a nonstandard gas spacing and proration unit and an unorthodox gas well location, or for alternative relief, Eddy County, New Mexico.

Call for appearances in this case.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing the Applicant.

I have three witnesses.

MR. OWEN: May it please the Examiner, Paul Owen of the Santa Fe law firm of Montgomery and Andrews, appearing on behalf of Snow Oil and Gas, Inc.

I have no witnesses and do not anticipate presenting testimony today.

EXAMINER JONES: How do you spell Noe?

MR. OWEN: Snow.

EXAMINER JONES: Snow, okay.

Any witnesses in this case?

MR. BRUCE: I have three witnesses.

EXAMINER JONES: Three witnesses. Will the witnesses please stand to be sworn?

(Thereupon, the witnesses were sworn.)

SAM H. JOLLIFFE, IV,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. Yes, my name is Sam Jolliffe. I live in Midland, Texas.

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

A. I work for Nadel and Gussman Permian as land manager.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes.

Q. And are you familiar with the land matters involved in this case?

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I tender Mr. Jolliffe as an expert petroleum landman.

EXAMINER JONES: Mr. Jolliffe is so qualified.

Q. (By Mr. Bruce) Mr. Jolliffe, would you identify

Exhibit 1 for the Examiner?

A. Yes, Exhibit 1 is a land plat covering Section 28 in Township 21 South, Range 27 East in Eddy County. In particular it highlights the Tucker Fee Well Number 1Y, located 1600 feet from the south line and 2300 from the east line of Section 28.

Q. What pool is the well completed in?

A. It is in the North Esperanza-Delaware Pool. It's an oil pool developed on statewide rules.

Q. In looking at your Exhibit 1, you show the Tucker Fee 1Y. There's a well to the west northwest. Is that well now completed in and producing from the North Esperanza-Delaware Oil Pool, just immediately to the west of your well?

A. I'm not sure, I believe it is.

Q. Okay. And is -- then to the southeast of your well there's also a Delaware oil well; is that correct?

A. Yes. Yes, that's correct.

Q. Okay. Now this is statewide rules, so normally statewide spacing is 40 acres for a Delaware oil pool, is that not --

A. Yes, sir.

Q. And what is Exhibit 2?

A. Exhibit 2 is the Form C-102 originally filed on the well, with the northwest of the southeast of Section 28

being dedicated to the well.

Q. When was the well drilled?

A. The well was commenced on February 6th, 2003, and completed on April 18th, 2003.

Q. When the well was completed, was it producing as an oil well?

A. Yes, but after producing for a number of weeks it became a gas well. It is currently shut in, and our engineer will go into this in more detail.

Q. Okay. Now, potentially or conceivably, if it's a gas well, could spacing be 160 acres?

A. Yes.

Q. What was the cost of the well?

A. The dryhole cost was approximately $650,000, the completed cost was $200,000, approximately.

Q. Okay, for a total of $850,000?

A. Yes, that's correct.

Q. What does Nadel and Gussman seek in this case?

A. We seek either an 80-acre nonstandard unit comprised of the west half of the southeast quarter of Section 28 or an order by the Division holding that the well should be governed by statewide rules for the North Esperanza-Delaware Pool, including 40-acre spacing.

Q. Now, is the west half, southeast quarter of Section 28 a single tract?

A. Yes, it is.

Q. So it has common royalty, overriding royalty, and working interest?

A. That's correct, everything is uniform.

Q. So if a west half, southeast quarter unit is formed, equities in the well would not be affected?

A. That's correct.

Q. Now, is the east half, southeast quarter of Section 28, the offsetting 80 acres, also a single tract?

A. Yes, it is covered by a federal oil and gas lease.

Q. Okay. And are the interest owners in that 80-acre tract listed in Exhibit 3?

A. Yes.

Q. And were they notified of this hearing?

A. Yes, they were, even though we could not locate an address for David DeMarco and Lowell Todd Armstrong, they had a very minor interest.

Q. Okay. And Mr. Owen's client, Snow Oil and Gas, was notified as an interest owner in the east half, southeast, was it not?

A. Yes.

Q. When I asked you earlier about the Delaware well in the southwest quarter, in the northeast quarter of the southwest quarter, is that well operated by Snow Oil and

Gas also?

A. Yes, I believe it is.

Q. Okay, so they were also notified as an offset operator?

A. Yes.

Q. Now, you gave the footage location as 1600 feet from the north line and 2300 feet from the east line. If this is an oil well, that location would be unorthodox, correct?

A. Correct.

Q. It's too close to the quarter quarter section?

A. Right, right, and it actually is 1600 feet from the south line.

Q. What was the original location of the well?

A. 1650 from the south and 2300 from the east.

Q. What happened to cause the location to be moved?

A. We had to skid the rig.

Q. Okay, so you encountered some downhole problems and skidded the rig --

A. Right, right.

Q. -- 50 feet --

A. -- 50 feet, and we did get an approval from the OCD.

Q. And is that Administrative Order NSL-4925?

A. Yes.

Q. Okay. Now, this is kind of an odd case, Mr. Jolliffe, but if Nadel and Gussman had to form a 160-acre unit because it's gas well production, would the working interest owners in that well be entitled to share in all Delaware production?

A. We don't think so. As our geologic and engineering witnesses will testify, there are prospective zones uphole in the Delaware but they will be oil-bearing and will be spaced on 40 acres. Therefore, if others join in the well and pay their proportionate share of well costs, they will share in production only from this one limited Delaware zone.

Q. Okay. And is Exhibit 4 my affidavit of notice to the offset owners?

A. Yes, sir.

Q. Were Exhibits 1 through 4 prepared by you or under your supervision or compiled from company business records?

A. Yes.

Q. And in your opinion, is the granting of Nadel and Gussman's Application in the interests of conservation and the prevention of waste?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Nadel and Gussman Exhibits 1 through 4.

EXAMINER JONES: Mr. Owen?

MR. OWEN: No objection.

EXAMINER JONES: Exhibits 1 through 4 will be admitted to evidence.

Mr. Owen?

MR. OWEN: No questions.

EXAMINER JONES: Okay, Mr. Bruce, do you have a letter that you got yesterday?

MR. BRUCE: Yes, I really just got it this morning.

EXAMINER JONES: Okay, have you looked at it?

MR. BRUCE: I did, Mr. Examiner.

EXAMINER JONES: Can you talk about it a minute --

MR. BRUCE: Sure.

EXAMINER JONES: -- explain that and your reaction to the letter?

MR. BRUCE: Well, I mean, before I begin, does Mr. Owen have a copy of that letter?

MR. OWEN: I don't know what you're talking about.

(Mr. Bruce hands a document to Mr. Owen.)

MR. BRUCE: Mr. Owen, I gave you a copy of the letter I received from Michael Stogner this morning. I pulled it up off of -- It was an e-mail, so it doesn't have

the OCD letterhead on it.

I just want to give Mr. Owen a chance to read the letter.

(Mr. Bruce hands another document to Mr. Owen.)

MR. OWEN: Jim, do you have another copy? Is this mine?

MR. BRUCE: That's yours.

MR. OWEN: Okay. Okay.

MR. BRUCE: A couple of things. There's a couple of reasons why -- I read the letter, and I agree with what Mr. Stogner said in the matter. I looked at the Rule, and we do have an approved unorthodox location, and we could produce. There's a couple of factors, which is why I would like to present the evidence today, especially of our engineer, there's a couple of factors.

It is our understanding that Mr. Owen's client has filed a -- Take a step back.

The well came on at about a million cubic feet of gas a day, Mr. Examiner, which obviously is in excess of the allowable which would apply under Rule 506. And although it had produced oil, the oil dropped off. There is pressure decline in this well, and as you will see from the evidence we think it is a limited reservoir.

Mr. Owen's client, Mr. Snow, as we understand it -- or Snow Oil and Gas, Inc. -- filed a complaint with the

Artesia Office regarding the well, to the effect that it was a gas well and should be shut in pending some type of approval, which is why we're here today, we want to make sure that we don't produce outside the bounds of what the Division would allow.

And there is a -- certain operational difficulties with the well, which the engineer will also address, with respect to producing at this allowable, and we may have to amend the Application, but I would like to go ahead and present the evidence today, so that you have all the facts in front of you and so that Mr. Owen has all the facts.

EXAMINER JONES: Well, that's acceptable to me. And Mr. Owen, you can have a chance to talk and question anybody here and then make a statement at the end.

MR. OWEN: That would be fine, Mr. Examiner. It is -- My client's concern is that it is, in fact, a gas well, and may be draining reserves under my acreage, which my client holds. My client has had extensive discussions with the Applicant and has reviewed a number of the technical exhibits and the data underlying the technical exhibits, but it has not resolved all of his concerns. That's why I'm here to monitor the proceedings today, but not to present affirmative testimony at this point.

EXAMINER JONES: Okay, before we go -- let's make

sure we finish with Mr. Jolliffe, because if indeed it turns out to be a potential nonstandard proration unit in a gas zone, which -- Is that right? That's -- Yeah, gas spacing and proration unit. We need to make sure that we have all the notices that would be -- by Rule 1207, would be required in that case. Can you talk about that?

MR. BRUCE: Yeah, and perhaps I glossed over that, Mr. Examiner.

EXAMINER JONES: Yeah, you've talked about it to the -- directly to the east, but I didn't hear you say anything about all the way around the proration unit.

MR. BRUCE: Mr. Examiner, I believe that we did notify everyone in the east half, southeast, who would be the people excluded from a 160-acre unit, so we have notified all of them.

EXAMINER JONES: Okay.

MR. BRUCE: So -- Now, I don't have the Rules in front of me, but I believe those would be the only people we would have to notify insofar as the nonstandard unit.

EXAMINER JONES: Okay, can you talk about the size of the proration units and the other boundaries around the proposed spacing unit? Are they 160?

MR. BRUCE: Oh, the -- Mr. Examiner --

EXAMINER JONES: There's no gas, so --

MR. BRUCE: -- there are only Delaware oil

wells --

EXAMINER JONES: Right, okay, so there's no --

MR. BRUCE: -- and so they're all 40-acre units, of the existing Delaware oil wells. And we did not -- We notified Snow Oil and Gas, which is the Delaware operator to the west in the southwest quarter, because if this was deemed a gas well, the well would be too close to the quarter section line.

EXAMINER JONES: But if it was deemed a gas well, it would also be potentially draining people to -- all around it, even the people that are classified in the Delaware as oil.

MR. BRUCE: Well, I don't think under Rule 120-- actually, if you look at the location, the only one we would be encroaching upon for the unorthodox-location rules would be the southwest quarter. We are not encroaching upon people, say, in the northwest quarter. If you --

EXAMINER JONES: Even at a gas location?

MR. BRUCE: Even at a gas -- Even at this location. We would have to be further north to be encroaching on people in the northwest quarter, or in the northeast quarter as far as the unorthodox location goes. So the only ones adversely affected, as far as an unorthodox gas well location are the people in the southwest quarter, and we have given notice to the operator

as required by the Rules.

EXAMINER JONES: Okay.

MR. BRUCE: And so I think we've satisfied that. And then as far as the nonstandard unit, I believe we only have to notify the people in the -- who are excluded from the proration unit.

EXAMINER JONES: Okay, that was my main concern.

Mr. Jolliffe, do you have any -- do you want to talk about that anymore or --

THE WITNESS: No, sir, I don't have any further --

EXAMINATION

BY EXAMINER JONES:

Q. Do you have evidence of notification here?

A. Yes, in Exhibit 3 --

Q. Okay.

A. -- and 4, right.

Q. 3 and 4, which we have already entered into evidence here.

A. Yes, sir.

MR. BROOKS: I had a concern about Exhibit 4, that it states the hearing will be on July 24, and the notice -- oh, yeah, that's okay, I overlooked that. The docket sheet does say this was continued.

MR. BRUCE: Yes, sir, it was continued at Snow

Oil and Gas's request.

MR. BROOKS: Okay. I think you're right about Section 1207, but I have it right in front of me so if you'll give me a minute here I'll just check that.

Q. (By Examiner Jones) And while he's checking that, Mr. Jolliffe, that 80 acres, is it -- did you talk about how many owners are in that 80 acres?

A. From a mineral standpoint?

Q. Minerals and working interest.

A. Okay, there are two mineral owners. Mr. James Tucker and Mrs. Ciserine Sanchez each own 40 net acres apiece. Working interest ownership, it's us, and we have an internal partner, Rubicon Oil and Gas.

Q. And you have tried to contact them and get them to be part of this -- well, this is not a compulsory pooling at all, but they're --

(Off the record)

MR. BROOKS: Let me clarify a couple of things. This is a standard unit for oil, right?

MR. BRUCE: It is a standard unit for oil.

MR. BROOKS: It's nonstandard for gas?

MR. BRUCE: It would be nonstandard for gas, and that 80-acre nonstandard unit has uniform ownership.

MR. BROOKS: Okay. Now tell me, what is -- the standard unit for gas would be 160; is that right?

MR. BRUCE: Yes, sir.

MR. BROOKS: And you're asking -- if it's classified as a gas well, you're asking for an 80-acre --

MR. BRUCE: Yes, sir.

MR. BROOKS: And the 80 acres would be --

MR. BRUCE: West half.

MR. BROOKS: -- the west half of the southeast quarter?

MR. BRUCE: Yes, sir.

MR. BROOKS: So the people you would have to notify, then, would be everyone in the east half of the -- all the mineral owners in the east half of the southeast quarter?

MR. BRUCE: It is a -- Mr. Jolliffe can confirm this. It is a federal lease --

MR. BROOKS: Right.

MR. BRUCE: -- obviously the BLM, plus all of the working and overriding royalty owners were notified.

MR. BROOKS: And that's what you've done?

MR. BRUCE: Yes, sir.

MR. BROOKS: Okay, I think you're okay on notice, then.

MR. BRUCE: And in the west half, southeast, none of those four owners -- Nadel and Gussman, and Rubicon and the two royalty owners -- would have their interests

diluted --

EXAMINER JONES: Okay --

MR. BRUCE: -- so therefore we did not notify them of this Application?

MR. BROOKS: Right.

MR. BRUCE: They would be in the well regardless.

EXAMINER JONES: Okay.

MR. BROOKS: Yeah.

EXAMINER JONES: I think that's all I have of Mr. Jolliffe.

Mr. Brooks, do you have anything more on the land question?

MR. BROOKS: Yeah, for the -- the location is unorthodox for a gas well, as well as being a nonstandard unit; is that correct?

MR. BRUCE: Yes, it -- instead of --

MR. BROOKS: It's 2300 from the east, which would make it 340 from the half-section line?

MR. BRUCE: That's correct, yes.

MR. BROOKS: And the 160 acres is supposed to be 660, right?

MR. BRUCE: That's correct.

MR. BROOKS: So you then -- you also notified everybody in the -- you also notified the --

MR. BRUCE: We notified Snow Oil and Gas as the

Delaware operator in the southwest quarter.

MR. BROOKS: Okay, okay, and so they would be the only person you would be required to notify?

MR. BRUCE: Yes, sir.

MR. BROOKS: Okay, thank you.

EXAMINER JONES: Thanks, Mr. Jolliffe.

KEITH LOGAN,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Keith Logan.

Q. Where do you reside?

A. Midland, Texas.

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

A. Nadel and Gussman as an exploration geologist.

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

A. Yes, I have.

Q. And were your credentials accepted as a matter of record?

A. Yes, they were.

Q. And does your area of responsibility at Nadel and Gussman include this portion of Eddy County?

A. Yes, it does.

Q. And are you familiar with the geology involved in this well?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Logan as an expert petroleum geologist.

EXAMINER JONES: Mr. Owen?

MR. OWEN: No objection.

EXAMINER JONES: Mr. Logan is so qualified.

Q. (By Mr. Bruce) Mr. Logan, could you identify Exhibit 5 for the Examiner?

A. Okay, Exhibit 5 is a production map showing just the Delaware production in the area around Section 28 of 21 South, 27 East. As you can see on this production map, I've also colored in yellow the 80-acre unit we're proposing.

To the west of us, Snow Oil and Gas operates the -- it was a re-entry of an old Cities Service well, the Cawley. The well is an oil well, it has made 57,000 barrels, it's making 65 barrels of oil a day.

Then they also show to -- completed a well to the north, in the northwest quarter, but I have not found any production on that one as yet.

Q. Completed in the Delaware?

A. In the Delaware, yes. The remaining gas wells in

this area are either -- are generally Morrow, but there are some Wolfcamp and Atoka wells scattered throughout.

Then on the subject acreage, of course, is the Tucker Fee 1Y, which has produced gas, made about 46 million out of the lower Delaware sand. It's currently shut in.

Q. Mr. Logan, so offsetting your well to the west northwest is an oil well, and the same -- there is an oil well to the southeast?

A. Right, and all I'm showing there is -- and that's the -- it was originally a Morrow test also by KCS Medallion. That was re-entered by Snow and has made 2.5 MBO, but I'm not showing any current rate from that point.

Q. Okay. Would you identify your Exhibit 6 for the Examiner and tell us what zones the various Delaware wells in this area are producing from?

A. Okay, this exhibit is really just a one-inch cross-section, because I wanted to show the entire Delaware interval. If you start on the left side of the cross-section or the west, you've got the old Cities Service Cawley A Number 1, which -- I've shown the producing interval and the perforations in red. As you can see, they perforated in some upper Delaware sand and then something what I would call in the Cherry Canyon.

And I've got two correlation points I've used in

here, the Manzanita marker, which is used frequently throughout the area, and to anchor it I've used the Bone Spring lime at the bottom.

And if you look across the cross-section from the Cawley to our well, which is the second well, you can see that we're really -- the interval we've perforated is what I would call in the lower Brushy Canyon, just above the top of the Bone Spring.

And the well next to it to the east, the KCS Medallion well, was re-entered by Snow. It has perforations up in a similar interval to what the Cawley produces from, but then I've also colored in in yellow the correlative sand to what we've perforated in our well.

And continuing to the east, in Section 27, I again show the correlation points. That well was a Wolfcamp producer but never attempted any of these Delaware sands.

Q. So in looking at the well on the left, which is one of the Snow oil wells, that is completed in and producing from an interval substantially above your current completion interval?

A. Correct.

Q. And so same thing with the Snow well to the southeast of you, it is producing -- or its perforated interval is quite a bit above your producing interval?

A. Right.

Q. Now, in looking at it, the interval that you're producing from -- that is, producing the gas -- is it present in this Snow oil well to the west?

A. It sure does not look like it is, no.

Q. What about the Snow oil well to the southeast?

A. I'm just saying it would have a trace of sand.

Q. You've highlighted in red --

A. In red, yes.

Q. -- but there's not much there?

A. Right --

Q. But --

A. -- and I have here, soon, another exhibit that's got a blow-up of that, of those two logs, so...

Q. Okay. Now, you've got a couple of structure maps, Exhibits 7 and 8. Could you identify those for the Examiner?

A. Right, what I wanted to do here too was just -- I mentioned that the Manzanita marker is a common interval or a common point that's mapped in the area in the Delaware, so I've used that point and done a structure map on that. And as you can see, in Section 28 you've got a strong structural nose, even a slight closure across the center of Section 28, which could explain some of the production we're seeing in there.

But I've also followed it with -- since the pay interval that we've perforated is closer to the Bone Spring, I've also put in a Bone Spring map, which is really considered the base of the Delaware out here. And again you see a nose, it's just -- some of the -- Well, the well to the -- in the northwest quarter shows not -- did not penetrate that interval, so there's not as much control there, but it is a little closer to the interval we're talking about today.

Q. What is Exhibit 9?

A. Exhibit 9 is a net isopach map of what we call the Delaware "D5" sand, which is the sand in question. And as you can see, I've drawn in an isopach, and a lot of this is based on engineering data that will be presented by our engineering witness.

Q. Okay, so you took the well control and also incorporated pressure information that the engineer has?

A. Correct.

Q. And he will discuss that further?

A. Right, and I've gone ahead and planimetered volumes in here to match data that he will present --

Q. Okay.

A. -- to make my isopach in Section 28.

Q. So the conclusion, based not only on the well logs but on the engineering, is that the gas-producing zone

within the Delaware zone is limited in extent?

A. It's limited. I just know it can't be very big.

Q. Okay.

A. And if it gets -- if for some reason it's thicker, then it's even smaller in areal extent --

Q. Okay.

A. -- so...

Q. Before we move on to the final exhibit, I forgot to ask you one question. With respect to your Tucker 1Y well, are there other zones uphole from your current completion that look like they can -- that you will perforate them?

A. Yes, I mean I would think it -- especially if, you know, we have difficulty with this, we will perforate some oil-producing intervals.

Q. And they do appear to be oil-producing?

A. Yes, they do.

Q. Let's move on to your final exhibit, Number 10. What does that show?

A. Okay, this is just a -- this is a 2-1/2-inch of just the "D5" sand, which is the sand that we've perforated in our well, compared to the only well in the area that we see even a remnant of this correlative sand. Our well, I gave it 6 feet of pay greater than 14 percent, which I feel is -- really in the Delaware, cutoffs are normally that or

higher. So I've given it 6 feet.

And as you can see, the well on the right is the Snow Oil and Gas Esperanza 28, and it's got, I'm saying, just a trace of sand in that interval.

Q. And that well was there before yours, and nobody ever tried to complete in that zone?

A. Correct, it was originally drilled by KCS.

Q. As a Morrow well?

A. As a Morrow well.

Q. Okay. Now, if the well was considered a gas well and it was unorthodox, do you believe that your well is adversely affecting any offset interests?

A. No, I don't.

Q. It's just because of the limited extent of the reservoir?

A. Right, and what I'm seeing is quality of potential pay in the offset wells.

Q. Okay. Now, if Nadel and Gussman couldn't produce this gas-bearing zone, what might happen? I mean, could those reserves be left behind?

A. Yes, I believe they would be left behind.

Q. Okay, if you completed uphole first?

A. Yes, and then I -- I think then you would a difficulty going back and recapturing those reserves.

Q. Were Exhibits 5 through 10 prepared by you or

under your supervision?

A. Yes, they were.

Q. And in your opinion is the granting of this Application in the interests of conservation and the prevention of waste?

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I tender the admission of Exhibits 5 through 10.

EXAMINER JONES: Mr. Owen?

MR. OWEN: No objection.

EXAMINER JONES: Exhibits 5 through 10 will be admitted into evidence.

Mr. Owen?

MR. OWEN: No questions.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Logan, the well was skidded. Was it skidded while it was drilling or -- how much --

A. Yeah, we drilled it to about 500 feet and had --

Q. Oh --

A. -- had some problems -- had to --

Q. -- Okay.

A. -- skid the rig. Our next witness could give you a little more detail on that.

Q. Okay. And you just happened to hit a really good

porosity zone in the upper part of the "D5" sand; is that right?

A. Right.

Q. Is that the -- the entire Delaware interval is -- for gas would be wildcat, for oil would be the North Esperanza-Delaware oil. So the well strictly to the west, that one is completed in an oil zone above your well; is that right?

A. Oh, yes, it's what I would call -- Well, they perforated, now, something -- an interval, probably what I would call in the Bell Canyon, but then they've also perforated an interval in the Cherry Canyon between 3400 and 3500 feet, which looks to be a really good well. It's made 60,000 barrels or 50,000 barrels, and it's still making 65 a day.

Q. Okay. And they didn't even try the same equivalent gas zone that you've got in your well?

A. Well, it doesn't look like they have it, to me.

Q. Okay. And so you don't see this gas zone in any well around you?

A. Well, and the numbers that we're seeing tell us that, I mean, that the ultimate recovery is about 213 million, so it can't be very big.

Q. So you're talking .2 BCF?

A. Correct.

EXAMINER JONES: Okay, that's all the questions I have.

Mr. Brooks?

MR. BROOKS: No questions.

EXAMINER JONES: Thank you, Mr. Logan.

KEM E. McCREADY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Kem Ed McCready, Midland, Texas.

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

A. I work for Nadel and Gussman as an operations engineer.

Q. Have you previously testified before the Division?

A. No, I have not.

Q. Would you please summarize your educational and employment background?

A. I graduated in 1980 from New Mexico State with a bachelor of science in chemical engineering. I've worked in the E&P industry since that time. From graduation until 2000 I worked for Mobil Oil in southeastern New Mexico and

west Texas. From 2000 to 2002 I worked for a company called CMS Energy. Since April of 2002 I've been employed by Nadel and Gussman.

Q. Does your area of responsibility include southeast New Mexico?

A. Yes, it does --

Q. And are you --

A. -- almost exclusively.

Q. And are you familiar with the operational matters regarding this well?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I tender Mr. McCready as an expert operations engineer.

EXAMINER JONES: Mr. Owen?

MR. OWEN: No objection.

EXAMINER JONES: Mr. McCready, do you ever regret going into the oil business?

THE WITNESS: Sometimes, but it's a fun business, I enjoy it.

EXAMINER JONES: Mr. McCready is qualified.

Q. (By Mr. Bruce) Mr. McCready, could you identify Exhibit 11 and discuss -- maybe go into the history of the drilling of the well and the operation of the well and the production --

A. Yeah, let me go into the history, and then we can

address how it affects the production plot that we see here.

You had some questions originally about the original well, the Tucker Fee Number 1. That well was originally spudded on January 30th of this year. At 505 feet we stuck our bit in our stabilizer, we had to back it off eventually, we lost that equipment in the hole. Various attempts over the next two to three days to get down to that equipment to fish it. We just -- the hole just kept caving in on it. The last time, our attempt to get into the well, we couldn't past about 60 feet.

At that time, the Artesia District granted us permission to plug the well and then skid the rig south and redrill the well, which we did. And as previously testified, we went ahead and spudded that well on the 6th of February.

On the 1Y, on the 21st of February we were drilling ahead at 4978 feet when we took a -- with 8.5-pound-per-gallon mud -- when we took a gas kick, requiring us to increase our mud weight to 9.2 pound per gallon. This was rather surprising to us.

The offset records that we had from the east and the west well show that they had drilled this interval with a normal weight 8.3- to 8.5-pound-per-gallon fluids, had seen no evidence of any gas. They had a little bit of

drilling break on the well to the east, but no flow and never had to weight up. They did not see any gas. And we didn't really -- We were drilling to the top of the Bone Springs, just so we'd have the entire Delaware section drilled. We didn't really expect to see anything in this interval either. We went ahead and set pipe and started completion operations on the well on March 13th.

On the 15th of March of this year, we perforated the Delaware from 4964 to 4970. That well, we shut it in for 48 hours. The next -- when we came back on that Monday, we had 1900 pounds of surface pressure.

We then attempted -- We then acidized the formation and got it broken down, got a little flow out of it. It was swabbed, just a little gas. We didn't really flow a significant volume of gas to surface.

We again shut the well in for a pressure buildup on March the 21st. This was for an 87-hour buildup. The buildup indicated that we had bottomhole pressure of 2250 and a surface pressure of right under 1900 pounds. It was 1893 when we pulled the bomb. So a little bit of drawdown, but we didn't expect to -- you know, but the significant portion of this was that we got an initial pressure early in the life of the well. This would help out later in determining just what our reserves were, because we were concerned, since it wasn't present in the offsets, just how

big we were, if it was even worth messing with.

We then elected to go ahead and frac the well. We frac'd the well on April 1st, we cleaned the well up from April 2nd to April 6th. From April 6th until the 18th the well was shut in, waiting on our gas-line connection.

During this period that the well was shut in to the 18th, we never saw more than 1800 pounds of tubing pressure. So this indicated to us immediately that we've gone from 1900 to 1800, we've flowed very little gas, that we were dealing with a limited reservoir. This was just an indication that we did not have a very large reservoir.

On April 18th we put the well on production. We tried to open it on a smaller choke, around a 16- to a 17/64 choke. We experienced freeze-up problems, we could not flow the well at that rate. We had to increase the choke to keep a sustained flow for 24 hours till we were flowing about a million a day.

When we tested the well on the 23rd of April, we were flowing 1096 MCF a day, 20 barrels of oil and 30 barrels of water. This GOR is about 56-, 57,000, so it looked like we were possibly dealing with an oil well. At this time on the 29th I filed a request for a testing C-104, and we began production of the well.

As you can see if we refer to Exhibit 11 here, we have a production plot, and you can see that from -- the

green line shows the oil, the red line is indicative of the gas rate, and the water is shown in blue.

From when we first put the well on until mid-May or so, the oil fluctuated from day to day, it gradually -- but it was still running below 100,000 and gradually began to creep up. The tubing pressure -- I mean the choke setting, was -- from May 4th until May 24th was fairly constant, though the rate was slightly dropping. But we also saw our flowing tubing pressure coming down, which once again is significant that we may have good perm but we're drawing the zone down fairly quickly.

We continued to -- Starting about May 18th or 19th, the well started to level off at about 3 barrels of oil a day. And with this happening and all that, it became evident that -- with a gas well in an oil zone. I continued to open the choke slightly in an effort to bring in more fluid and maybe increase the relative perm of oil to gas, see if we could get more oil and decrease our GOR. It brought our flow rate up a little bit, back up to a million, but had no effect on the oil.

Around June the 6th or June the 7th, we received notice that Snow Oil and Gas was concerned about what we were producing here. We cut the well back to a 10/64 choke in an attempt to see if we could produce at a GOR that would be acceptable under the oil rules, under the 80-acre

yardstick rules for an oil well. What this indicated when we cut it back, we lost all of our oil, we were still at 127,000 GOR at 400 MCF a day, which slightly above what the GOR allowable is for this depth, so we had a problem, we had a gas well.

On the 6th -- 7th of June we began a pressure buildup test, which we can get into here slightly. If we go through there, the next exhibit is a -- I'll get to the pressure data in a minute. On Exhibit 12, that's the C-105 which we filed on June the 9th from a test based on June 7th, once again indicating that at that time we went on a reduced choke with a reduced amount of gas. We're still at 127,000 GOR.

We felt on this well that we really needed to flow it at a higher rate for a couple of reasons. One, when you get this low we were making water, I was concerned that we may load up the well, we were seeing freeze-up, and we just were unable to produce the well unless we were producing at about a million a day.

Q. Now, have you kept the Artesia District Office fully informed of what you've been doing?

A. Yes, we have. Once we decided that we were going to seek hearing they were informed of that, they've been informed of the pressure work that we've done, and currently we've told them that the well would be shut in

until we have resolved the issue on this well.

Q. And the Artesia Office did inform you that Snow Oil and Gas had filed some type of protest or something --

A. And around June the 5th, June the 6th, I received a call from Tim Gum saying that Snow Oil and Gas had filed a complaint. And we talked about what the production was. He said, Well, if you've got a gas well you're going to have to shut it in. And so we then proceeded to do so.

Q. Okay. Before we move on to the pressure data, or maybe this is part of the pressure data, you've mentioned -- Mr. Logan has said that there are uphole zones that could be perforated and produced and that those would probably be oil zones. Do you agree with that?

A. Yes, I do.

Q. Could you safely or properly perforate those zones and produce this gas zone while you were producing those upper oil zones?

A. That could cause us significant production problems, operational problems that could in fact -- that could affect the production. I'd be concerned that we could have problems -- The offset wells, the upper zones, do not have enough gas, they would have to be rod-pumped. With a gas zone below you, if you have to rod-pump the well, you can gaslock the pump. You get so much interference you just can't move any fluid. It would be

extremely difficult, with a gas zone below you, to commingle in a pumping situation.

Q. Okay.

A. In all probability, if we moved uphole, if this zone was still productive, we would plug it off with a bridge plug, we would isolate it.

Q. Okay, so the favorable way to Nadel and Gussman to produce this well is to first deplete that gas zone --

A. Yes.

Q. -- and then complete uphole?

A. Yes, that is the most efficient way and preventive of -- the least amount of waste, it would minimize any waste.

Q. And actually where you would be completing next would probably be in the interval that Snow's offset well to the west is producing?

A. Right, it would be that equivalent interval in our well.

Q. Okay, why don't you move on to your Exhibit 14?

A. Okay. This is the -- When we shut the well in on June 7th we ran bombs in the hole to obtain a buildup. This was a buildup that would last about 164 hours. The purpose of this buildup was enabling us with knowing the original pressure to gather enough pressure information to obtain an estimate of what size of reservoir that we were

looking at.

Exhibit 14 is a P/Z plot indicating that -- with the points there indicating that since this is a reservoir that has declining pressure, we don't think we have any water influx, that we can treat it as just a simple material balance, and it's applicable to a P/Z of giving you an estimate of reserves.

What the pressure data shows, that when we pulled the bombs on June 17th, we had a bottomhole pressure of 1850. This is a P*, this is a theoretical pressure that if we left the well shut in for an infinite amount of time we would equilibrate to. This compared to the P* of about 2264 that we had seen back in March 26th.

So what we're looking here roughly is, we've got 400 pounds of drawdown on reservoir pressure, and our producing days are right at about 60 producing days, indicating once again we've got a limited reservoir.

After going through the analysis based on this plot and extrapolating out and using an abandonment pressure of about 230 pounds, 250 pounds, we ended up with an original gas in place of about 239 million standard cubic feet and estimated recoverable reserves of 213 million. To date we've recovered about 46 million.

We felt that we needed to get this testing time -- we've produced about 10 percent of the -- to produce

enough gas from the reservoir to make a P/Z plot meaningful. If you do a P/Z plot early in the life of the plot, you actually end up in an overestimation of what your reserves. Our estimation of reserves, this is probably 90- to 95-percent accurate of what the well could recover if we produced it to abandonment.

Q. So again, you're estimating a little bit over .2 BCF?

A. Right, a little bit over .2 BCF. So the next question that brought forth is, what areal extent are we talking about, since from our geological analysis and bulk analysis we didn't see it in the well to the west. We saw maybe a trace of it in the well to the east.

The pages behind the P/Z plot are a volumetric analysis, calculating an acreage area that we would have, assuming that we had 6 feet of pay, average porosity of about 15.4 percent and a water saturation of .44 percent off log calculations.

What this shows, that if we plugged in 40 acres, we ended up with a gas-in-place of 168 million, which is below what we calculated off the P/Z plot.

If we look at 60 acres, we end up with 252 million in place, which is slightly above what we had calculated off the P/Z.

If you look at 80 acres, you ended up at 336,

which is about 50 percent above what we had calculated in place.

Therefore, based on this it's our belief that we are looking at a reservoir that is somewhere between 40 to 60 acres, probably a little bit closer to 60 acres in size, which became the basis of our Application for a nonstandard proration unit.

Q. Okay. And again, because of the small extent of the reservoir, you don't believe that producing the gas from this reservoir will adversely affect the offsets?

A. No, I do not. Our estimation of this -- This is a one-well field. If we do not produce the gas that's in this well, then it will probably not get produced, affecting our royalty owners, and -- primarily.

Q. One final question. Again, getting back to the producing rate, you've read the letter from Mr. Stogner, have you not?

A. Right.

Q. And regarding the gas allowable which would apply in this pool of about 160 MCF per day, in this limited instance is that practical for this well?

A. It is my belief it is not. I have concerns that. One is, the volume of water that we're making on this well is 15 to 20 barrels a day. At that low rate it would be extremely difficult with our line pressure to move the

water, the well would be loaded up.

We would also probably experience some freeze-up problems, which would involve having us to spend some more money on this well, to invest more money in the well to fix that.

Q. And because of the downhole problems you encountered with the initial well, unfortunately you've already spent more than you desired to?

A. Yeah, we've spent at least $200,000 more than what we anticipated to spend on this well.

Q. So in essence, you would like to be able to produce this well at its ability to produce?

A. Right, we would like to be able to -- and we feel this is in the best interest of everyone, you know, particularly of Mr. Tucker and the other royalty owners.

Q. Were Exhibits 11 through 15 prepared by you or under your supervision?

A. Yes, they were.

Q. And in your opinion is the granting of Nadel and Gussman's Application in the interests of conservation and the prevention of waste?

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I would move the admission of Nadel and Gussman Exhibits 11 through 15.

EXAMINER JONES: Mr. Owen?

MR. OWEN: No objection.

EXAMINER JONES: Any questions, Mr. Owen?

MR. OWEN: I may have a couple.

EXAMINER JONES: We'll admit Exhibits 11 through 15.

EXAMINATION

BY MR. OWEN:

Q. Mr. McCready, you have calculated the areal extent of the gas reserves as between 40 and 60 acres; is that right?

A. Yes, sir.

Q. But you don't have an idea of where that 40 to 60 acres lies, do you?

A. We have -- We think it probably trends more north to south, based on the available geological evidence. I believe the -- We know it's not present in the well to the east, we see a minimal amount of it present into the -- present to the west, rather. We see a minimal amount of it in the east. So our opinion, if I'm not mistaken, is that it does lie more north-south than it does --

Q. And that's based --

A. -- east-west.

Q. -- partly upon the assumption that the Snow Oil and Gas well to the west didn't have any show?

A. That and also partly from the pressure analysis.

If you look at the pressure curves and the derivatives of those curves, we indicated that we had a bounded reservoir. We saw one boundary at approximately 213 feet and another one at 400-and-some-odd feet.

I do not know what direction these are because it's pressure buildup, but the curve analysis did indicate that we had a bounded reservoir.

Q. The curve analysis indicates that it has a bounded reservoir, but it doesn't tell you which direction those boundaries --

A. That is correct.

Q. And your assumption that it does not trend to the west is based upon the fact there was minimal show in the Snow Oil and Gas well to the west; is that right?

A. Yes, sir.

Q. Have you discussed this matter with any representatives of Snow Oil and Gas?

A. I have not directly, no, sir.

Q. Do you know if Snow Oil and Gas is considering recompleting their well to the west?

A. I do not know. We would not be adverse to that. We have furnished under my direction all this information presented here, plus the raw pressure data has been transmitted to Snow Oil and Gas. We did this back in July, and after this data was transmitted to them I received no

communication from them questioning the data.

Q. Okay. And your well is unorthodox -- as a gas well it's unorthodox, too close to the west; is that right?

A. That is -- I believe that's what we have testified to, yes.

Q. All right. And it's too close to Snow Oil and Gas's interests; is that right?

A. I believe that's what we have testified to, yes.

MR. OWEN: Okay, that's all the questions I have, Mr. Examiner.

EXAMINATION

BY EXAMINER JONES:

Q. Okay, so you did see a boundary, 230 feet?

A. 213 was one, the other one was 400-and-some-odd feet, approximately.

Q. Okay, I think this is a lot of good data here. I'm kind of concerned about the dates you had, though. You said that the well went on line for production April 18th?

A. Yes.

Q. And you didn't get a nonstandard location approved until July the 22nd?

A. That was our oversight, not getting it submitted in a timely manner. We had received a verbal permission when we skidded the well, and at the time we were trying to determine if we had gas or oil.

Q. So when you skidded the well, you didn't really realize that all of a sudden you were in a nonstandard situation?

A. I discussed that with the Artesia District, and --

Q. Okay.

A. -- they were in agreement that we could go ahead and skid the well. So our timing on this was that we did not follow up in a timely manner to file the appropriate application, but we did have a verbal approval and we did receive --

Q. To skid the well?

A. -- a C-102 to skid the well, yes.

Q. But you didn't really have approval yet to produce the well until you had a nonstandard location approved -- Artesia didn't give you that approval, did they?

A. I filed the testing C-104 in a -- to allow us to test the well, in a timely manner. I did not receive any communication saying, Hey, you all might need to do something about this before you produce the well.

Q. And then all of a sudden Snow objected, and on June 5th Tim Gum called you guys?

A. Yes.

Q. Okay. And all of a sudden we're maybe in a --

And you ran your second pressure buildup when? It was June 17th.

A. Yeah, he called -- I think June 5th I was out of the office. He called me on a Friday, and it may not have been the 5th. But anyway, I got back to him on Monday, I told him we would shut the well in on the following Tuesday and -- at that point, because I wanted to get a buildup at that point too --

Q. Okay.

A. -- for agreement, so we shut the well in on the 7th.

Q. And at that point, all of a sudden you realized you were in a limited-reservoir situation for sure, you --

A. Yes.

Q. -- you realized that, and you knew your GOR was still really high.

A. We knew we couldn't produce it at a reduced rate, that --

Q. Just -- Okay. Okay, well, I guess I'd just advise you to keep -- It's your business, but I would keep your attorney informed of things like this that go on so that things like this won't happen again as far as producing before you get approval for a nonstandard location.

I shouldn't be talking to you, I probably should

be talking to Sam Jolliffe.

A. Well, when we first brought the well on, you know, we thought we were looking at an oil well. It wasn't till we had later produced the well during the testing period that we realized it was looking more and more like a gas well.

Q. Of course the oil was what was -- the oil was nonstandard?

A. Yeah.

EXAMINER JONES: Mr. Brooks, any questions?

MR. BROOKS: No thanks.

EXAMINER JONES: Mr. Stogner?

EXAMINATION

BY MR. STOGNER:

Q. I'm Michael Stogner, engineer here at the New Mexico Oil Conservation Commission.

On your Tucker Fee Well Number 1Y, I want to make sure I understand your methodology of producing this well. You want to produce the gas for a certain amount of time?

A. Till depletion, or --

Q. Till depletion?

A. -- an economic limit, yes.

Q. And then go after the upper oil zones?

A. Yes.

Q. Now, will -- the lower gas zone, will that be

abandoned?

A. Yes.

Q. And squeezed?

A. Squeezed, yes, as required by the Rules.

Q. Did you discuss a possible vertical detachment of this pool, having an upper North Esperanza oil and a lower gas zone or a gas pool, where there are two separate common sources in which they could be treated as two different pools?

A. No, we --

MR. BRUCE: Mr. Examiner, if I could answer that. Perhaps Mr. McCready wasn't in on the conversation, but I believe Mr. Logan and Mr. Jolliffe -- we had that conversation at one point. We decided not to pursue that at the time.

I've always found that with the Division it's not easy getting the Delaware separated that much, or at least -- you know, it has been done, I understand, but we decided not to pursue that.

MR. STOGNER: Okay. Just like -- Let's see, you wanted an alternative in which --

MR. BRUCE: Yeah.

MR. STOGNER: -- the well was designated an oil pool or an oil well, and it had 40-acre spacing and that the well was orthodox -- Well, you already had an

unorthodox.

MR. BRUCE: Yeah.

Q. (by Mr. Stogner) All of a sudden today, Mr. McCready -- You got what you wanted, but that's not good enough? Am I to read that right? You asked for an alternative and you were given that alternative, and that's not good enough?

A. I'm not sure I understand the question, sir.

Q. Well, you've asked for a nonstandard -- Look at your Application --

A. Right, right.

Q. -- look at the ad.

A. Right.

Q. You've asked for two things. You got one of them, but you're declining to go for that; is that correct?

A. We now have it -- we were -- It has always been our belief that the best solution to this and to enable us to produce the well most efficiently with prevention of the least amount of waste would be to satisfy it as a nonstandard 80-acre gas well.

Q. Are you familiar with the associated pool rule?

A. No, sir, I am not. Oh, the associated -- the associated oil and gas -- yes, sir.

Q. Okay, would that be an alternative solution, perhaps?

A. In this --

Q. This is one, you get one. I've suggested another one, but your attorney said --

MR. BRUCE: Well --

Q. (by Mr. Stogner) -- you didn't want to go that way, so --

THE WITNESS: I think the producing -- I think the producing characteristics of this well says that we have to move a significant -- more gas than would be allowed by the associated gas rules to keep the water from loading up in the wellbore on us.

MR. BRUCE: Mr. Examiner --

Q. (by Mr. Stogner) Could you ask for a higher GOR or a gas if that would be the case? Couldn't you adjust the associated pool rules to fit this particular situation?

A. That could have been a -- yes.

Q. Or even come in and ask for the North Esperanza-Delaware Pool to have a higher GOR, could maybe satisfy your needs; is that --

A. That would have been an al- -- that could have also been an alternative, yes.

Q. -- fourth or fifth possibilities that you could -- Well, I'm sorry, I interrupted you, Mr. Bruce.

MR. BRUCE: Well, Mr. Examiner, if I could respond to one of Mr. Stogner's questions, I believe that

based on the testimony today I would have to amend the Application anyway, either to get the higher allowable to produce the well at the -- You know, it's currently capable of producing 900,000 or a million a day, which would exceed the 160,000.

So I believe I would have to amend the Application to produce it -- or to allow Nadel and Gussman to produce it at that higher rate. Otherwise, they would have to produce -- if Mr. Stogner is right in his letter, then we would have to produce it at 160,000 a day, which we do not believe is practical.

EXAMINER JONES: So you want to amend this Application to --

MR. BRUCE: Yes, and I would --

EXAMINER JONES: -- and refile?

MR. BRUCE: Well, amend the Application, but I -- the witnesses --

EXAMINER JONES: Continue --

MR. BRUCE: -- are here, which is why I wanted to present the testimony.

EXAMINER JONES: Yeah, we've got the testimony on the record, at least.

Mr. Owen, what do you think?

MR. OWEN: I don't have an objection to that. I do have an advertisement issue that I should have raised

with the initial witness, and I had to work through it before I could raise it.

The notice for the unorthodox well location was given to the one operator to the west, which is Snow oil and Gas, because it is an operator of a Delaware oil pool. There is no operator of the Delaware gas, it's a wildcat.

Therefore, I believe under 1207.A.(2) Nadel and Gussman would need to provide notice to all mineral owners to the west.

EXAMINER JONES: If they're unsigned.

MR. OWEN: Well, they are unsigned as to gas, it is a --

EXAMINER JONES: As to gas.

MR. OWEN: There is no operator as to gas.

EXAMINER JONES: Yes.

MR. OWEN: Kind of analogous situation is, oftentimes there are shallow gas pools being operated and an unorthodox well location is requested in the Morrow. You only provide notice to Morrow owners or to Morrow operators upon whom you're encroaching. You don't provide notice to all the unit operators which are uphole and you're not encroaching on, because it's different pools.

In this case we're talking about different pools, and the gas is not being operated --

EXAMINER JONES: Yes.

MR. OWEN: -- so all those interest owners in the 160 to the west should probably be included within the notice.

MR. BRUCE: Let me ask Mr. Owen this question. Is Snow the operator in the Delaware in the southwest quarter?

MR. OWEN: Snow is an operator of the Delaware within the southeast of the southwest. I don't know about the remainder of the acreage within the southwest.

MR. BRUCE: Okay.

EXAMINER JONES: Okay, so we have a few issues here, and -- Is that the completion of the testimony in this case?

MR. BRUCE: I just did have one other question -- two other questions of Mr. McCready.

FURTHER EXAMINATION

BY MR. BRUCE:

Q. You are aware, Mr. McCready, that Mr. Edelson of Nadel and Gussman's Oklahoma office has been in contact with Mr. Snow?

A. Yes, I am.

Q. Several times?

A. Yes, they have been.

Q. Okay. And so Mr. Snow has been kept informed of --

A. Yes, he has.

Q. -- this matter?

One other question. Do you happen to have any idea of -- the offset well to the west, what the GOR is of that well?

A. No, I do not.

MR. BRUCE: Okay. That's all I have, Mr. Examiner.

EXAMINER JONES: Okay.

(Off the record)

MR. BROOKS: I take it what you propose, Mr. Bruce, is that we will -- this testimony is on the record now and it will be considered when the case is disposed of, but you intend to -- you wanted it continued so you can --

MR. BRUCE: So I could --

MR. BROOKS: -- amend your Application?

MR. BRUCE: So I can amend the Application, yes, sir.

MR. BROOKS: And in the meantime I assume if you conclude that Mr. Owen is right and that you need to readvertise, you will also readvertise?

MR. BRUCE: Renotice.

MR. BROOKS: Yeah.

MR. OWEN: I believe the case will need to be readvertised in any event, it's just considering the scope

of the notice to be provided of the amended Application that needs --

MR. BROOKS: Well --

MR. OWEN: -- to be expanded to include the other interest owners within the 160.

MR. BROOKS: -- yeah, I guess the case doesn't need to be readvertised if the Application is amended to provide -- to ask for something that's not asked for in the present Application. So...

But then you'll also address the notice issue?

MR. BRUCE: That's no problem.

MR. BROOKS: Okay.

EXAMINER JONES: So what's the status of the well right now?

THE WITNESS: It is shut in.

EXAMINER JONES: Okay, are we agreeable to continuing the case and readvertise until maybe September 4th?

MR. BRUCE: Yes, sir.

EXAMINER JONES: I think we can do it in two weeks.

MR. BRUCE: That wouldn't satisfy the notice requirements --

EXAMINER JONES: Oh, it wouldn't satisfy --

MR. BRUCE: -- if there additional requirements.

EXAMINER JONES: Right.

MR. BRUCE: So...

I tell you what, Mr. Examiner, if we could continue it for two weeks, and if I -- depending on what we find out, but it may have to be continued again.

MR. BROOKS: Well, is your Application -- What are you going to ask for in your amended Application?

MR. BRUCE: Well, essentially we would like to produce the well at its capability to produce, to prevent any --

THE WITNESS: Prevent waste and to minimize --

MR. BROOKS: Yeah.

MR. BRUCE: -- minimize problems with the well.

THE WITNESS: -- problems, producing problems.

MR. BRUCE: And Mr. Stogner has raised some other issues, so...

MR. BROOKS: If you're going to amend to ask for different relief from what's asked for, then it would have to be readvertised, and of course we can't do a -- regardless of whether we have additional parties to notice, we can't do a readvertisement, so...

MR. BRUCE: Yeah, September 4th would be appropriate.

MR. BROOKS: So it seems we should continue it to September 4th.

EXAMINER JONES: With that, Case -- Is everybody else --

MR. OWEN: I just have one question.

FURTHER EXAMINATION

BY MR. OWEN:

Q. Are you going to continue to leave the well shut in during the pendency of the case?

A. We may do that, or we may elect it is in our economic interest to move up to the next oil zone. In that case, there is all probability that these reserves will never be captured by any well.

Q. I guess the follow up to that is, you're not going to produce the gas --

A. We will not produce the gas, no.

Q. -- until you have permission to do so? Okay.

EXAMINER JONES: Okay, with that, Case 13,115 will be continued to September 4th.

MR. OWEN: Mr. Examiner, I do have a question. We talked about a letter from Mr. Stogner, and I don't believe that was ever introduced as an exhibit. I don't know if you want to, Mr. Bruce.

MR. BRUCE: If it could just be incorporated in the record, since it is a Division record, I won't give it an exhibit number.

EXAMINER JONES: Okay, we'll make it part of the

case file and include it in the record, that Mr. Stogner has submitted a letter dated August 6th that's pertinent to this case.

Okay, let's go off the record and let's break until like 1:30. Is that okay with everybody?

(Thereupon, these proceedings were concluded at 11:55 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 _____ 19____.

_____, 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 August 10th, 2003.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006