

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

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

) CASE NO. 14,034

APPLICATION OF US ENERCORP, LTD., FOR)
AN EXCEPTION TO THE WELL DENSITY)
REQUIREMENTS OF THE SPECIAL RULES AND)
REGULATIONS FOR THE WEST PUERTO-)
CHIQUITO-MANCOS POOL AND AN UNORTHODOX)
OIL WELL LOCATION, RIO ARRIBA COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Hearing Examiner

November 29th, 2007

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, November 29th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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November 29th, 2007
Examiner Hearing
CASE NO. 14,034

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A P P E A R A N C E S

FOR THE APPLICANT:

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P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 11:54 a.m.:

3
4 EXAMINER BROOKS: We'll call Case Number 14,034,
5 Application of US Enercorp, Ltd., for an exception to the
6 well density requirements of the special rules and
7 regulations of the West Puerto-Chiquito-Mancos Pool and an
8 unorthodox oil well location, Rio Arriba County, New
9 Mexico.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant. I have two witnesses to be
13 sworn.

14 EXAMINER BROOKS: Okay, will the witnesses please
15 state your names for the record, please?

16 MR. WHITSETT: Jerry Whitsett.

17 MR. McCONNELL: James McConnell.

18 EXAMINER BROOKS: How long do you anticipate this
19 presentation will take?

20 MR. BRUCE: About 20 minutes.

21 EXAMINER BROOKS: Do the witnesses have travel
22 problems, that they need to get out of here?

23 MR. BRUCE: No, no.

24 EXAMINER BROOKS: Okay, I think I will go ahead,
25 then, and take a lunch recess, and we'll begin the

1 afternoon session with this case.

2 MR. BRUCE: At one o'clock?

3 EXAMINER BROOKS: Let's go to 1:20.

4 MR. BRUCE: 1:20. I'm going to tell Scott Hall
5 to be here about 1:45.

6 EXAMINER BROOKS: Okay, that's fine.

7 (Thereupon, noon recess was taken at 11:55 a.m.)

8 (The following proceedings had at 1:25 p.m.)

9 EXAMINER BROOKS: Okay, back on the record now in
10 Case Number 14,034, Application of US Enercorp for an
11 exception to the well density requirements of the special
12 rules and regulations of the West Puerto-Chiquito-Mancos
13 Pool and an unorthodox oil well location, Rio Arriba
14 County, New Mexico.

15 And I believe the witnesses are being sworn.

16 (Thereupon, the witnesses were sworn.)

17 MR. BRUCE: Mr. Examiner, I -- package of
18 exhibits, and then I'll supplement that in a little bit.

19 EXAMINER BROOKS: Thank you.

20 MR. BRUCE: Mr. Examiner, Exhibit 1A I've
21 submitted to you is an acreage dedication plat for US
22 Enercorp's Almagre Arroyo 30 Federal Well Number 2. It's a
23 Mancos test well, and this well is in the west part of the
24 Chiquito-Mancos Oil Pool, which is spaced on 640 acres.
25 One well is allowed per section, and the wells are to be no

1 closer than 1650 feet from the outer boundary of the
2 section and no closer than 330 feet to an interior boundary
3 line.

4 This is a directional well, which my second
5 witness will tell you about. US Enercorp already drilled
6 one directional well on this acreage. It was approved last
7 year, and I think it was drilled this year, and that was
8 simply an unorthodox location, and that was approved by
9 Division Administrative Order NSL-5483.

10 The purpose of this hearing is twofold. There is
11 an unorthodox location for the directional well, and the
12 reasons for that will be discussed by the geologist. Also,
13 since the pool rules only allow one well per well unit,
14 that's the main reason we are here today, because of the
15 second well. I don't think there was an administrative
16 procedure for allowing a second well on the well unit.

17 My first witness is Jerry Whitsett.

18 JERRY WHITSETT,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Whitsett, would you please state your name?

24 A. Jerry Whitsett.

25 Q. Where do you reside?

1 A. I live at Canyon Lake, Texas.

2 Q. And what is your occupation?

3 A. I'm an independent landman.

4 Q. And what is your relationship to US Enercorp in
5 this case?

6 A. I just contracted my services.

7 Q. Have you previously testified before the Oil
8 Conservation Division?

9 A. No, I have not.

10 Q. Would you summarize your educational and
11 employment background for the Examiner?

12 A. Well, I have a bachelor of science, I have some
13 postgraduate work, basically been a landman for close to 10
14 years and been in New Mexico for almost a year.

15 Q. And in New Mexico have you been employed pretty
16 much exclusively examining title in the general area of
17 this well for US Enercorp?

18 A. Yes, I have, I've been in 23 North, I've done
19 some work in 24, a little bit in 25, both 1 West and 1
20 East.

21 Q. And so you are -- and you have reviewed
22 documentation in your files and in U.S. Enercorp's files
23 regarding interest owners in these offsetting sections?

24 A. Yes, sir.

25 MR. BRUCE: Mr. Examiner, I'd tender Mr. Whitsett

1 as an expert petroleum landman.

2 EXAMINER BROOKS: So qualified.

3 Q. (By Mr. Bruce) Mr. Whitsett, I've handed you
4 Exhibit 1, and highlighted in yellow is Section 30. That
5 is the location of the proposed well, is it not?

6 A. Yes.

7 Q. And has offset ownership to the proposed well
8 been examined via the federal -- the BLM records and the
9 records of Rio Arriba County?

10 A. Yes, they have.

11 Q. And does Exhibit 1 accurately reflect the
12 ownership -- the results of that examination and the
13 ownership of the offsetting sections to Section 30?

14 A. To the best of my knowledge, yes.

15 MR. BRUCE: Okay. Mr. Examiner, there was one
16 error on this plat, and it's simply this: If you look at
17 Section 25 to the west of the proposed well unit, there's a
18 fee tract. It lists Ramon G. and Irene A Sanchez and a
19 bunch of other people. US Enercorp actually owns a bunch
20 of leases in that same fee tract, but this is just the
21 unleased owners.

22 Q. (By Mr. Bruce) Attached to the back of Exhibit 1
23 are a number of pages showing -- listing interest owners
24 and the lands they own in. To the best of your knowledge,
25 are these current and accurate addresses for these interest

1 owners?

2 A. Yes, sir.

3 Q. And was notice of the Application given to the
4 persons listed on Exhibit 1?

5 A. Yes, sir.

6 Q. And that's shown on Exhibit 2, my affidavit of
7 notice. Is that correct, Mr. Whitsett?

8 A. Yes, sir.

9 MR. BRUCE: Okay. Mr. Examiner, at this time
10 virtually everybody -- almost everybody received an actual
11 notice, if you'll look at the green cards. If you'll look
12 back, there are three -- four people who did not receive if
13 you'll start -- yeah -- leafing through it. Just go past
14 the address pages.

15 The first is Ramon G. and Irene A. Sanchez, who
16 refused service. And we believe that's an accurate
17 address, they just simply refused service.

18 Secondly, the Paul and Betty Phillips Trust,
19 those folks were notified. I don't have the green card
20 back yet, but the Post Office's website shows that they did
21 receive notice, albeit just a few days ago.

22 The next one, on the next page, Mr. Examiner,
23 there's an Evelyn June Wall, Trustee.

24 And submitted to you as Exhibit 2A, these people
25 were notified before in regards to the original unorthodox

1 location for the Number 1 well, the existing well on this
2 section, and so we've been trying to track them down. And
3 this is simply from the Dex yellow pages, showing her
4 current address. This is up to date as of a few weeks ago.

5 And the next one is a Mr. Tedrick Sedillo, who
6 has not yet picked up his mail, but I submit to you as
7 Exhibit 2B the prior notification that went out for the
8 unorthodox location for the existing -- the Number 1 well,
9 was received and signed for him at that same address.

10 So I believe all of the notices were accurate.

11 I did publish notice as against certain people
12 where I wasn't certain at the time I filed the application,
13 and I was informed by the *Rio Grande Sun*, the paper in
14 Espanola, that this notice was published on the 15th.

15 I haven't gotten the publication affidavit back,
16 and I would ask for permission to submit that after the
17 hearing.

18 EXAMINER BROOKS: Okay.

19 Q. (By Mr. Bruce) Mr. Whitsett, was Exhibit 1
20 compiled from the records, the land records, of U.S.
21 Enercorp?

22 A. Yes, sir.

23 MR. BRUCE: Okay. And Mr. Examiner, as I said,
24 Exhibits 2 and 3 -- 2A, 2B and 3 are from my files
25 regarding notice previously given -- or given or previously

1 given -- and I would move the admission of Exhibits 1
2 through 3.

3 EXAMINER BROOKS: 1 through 3 are admitted.

4 MR. BRUCE: And I have nothing further of the
5 witness.

6 EXAMINER BROOKS: It's my understanding, the way
7 this is put together, that the listings addressed on
8 Exhibit -- on the succeeding pages behind the map on
9 Exhibit 1, list all of the working interest or unleased
10 interest owners for each of the identified tracts?

11 MR. BRUCE: That is correct.

12 EXAMINER BROOKS: And you said there was an error
13 on the front page of Exhibit 1. Is that corrected on the
14 succeeding pages?

15 MR. BRUCE: No, it isn't.

16 I can correct it, but US Enercorp is a lessee in
17 Section -- it would be in the final two pages -- Section 25
18 of 24 North, 1 West.

19 EXAMINER BROOKS: The only error in 25 -- in
20 Section 25 was the failure to list US Enercorp?

21 MR. BRUCE: That is correct.

22 EXAMINER BROOKS: Okay, thank you. Witness may
23 stand down.

24 You may call your next witness.

25 MR. BRUCE: My next witness, Mr. McConnell.

1 JAMES D. McCONNELL,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

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

8 A. My name is James D. McConnell, resident of San
9 Antonio, Texas.

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

11 A. I work for US Enercorp in the capacity of -- as a
12 geologist, and I'm a consultant for that company.

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

15 A. Yes, sir.

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

18 A. Yes.

19 Q. And are you familiar with the geology involved in
20 this Application?

21 A. Yes.

22 Q. And did you previously testify a few months ago
23 regarding a case involving a directional Mancos well
24 immediately to the southwest of this proposed well here?

25 A. Yes.

1 Q. So you have spent a fair amount of time examining
2 the Mancos geology in this area?

3 A. Yes.

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

6 EXAMINER BROOKS: So qualified.

7 Q. (By Mr. Bruce) Mr. McConnell, before we get to
8 your exhibits, could you maybe give a brief overview of why
9 US Enercorp desires more than one well in Section 30?

10 A. Yes. Mr. Examiner, you may remember from the
11 summer when we had previously come before the Commission to
12 get permission to change up some of the sections, such that
13 we could drill a well in such a way as to target the Gallup
14 members of the Mancos formation.

15 This is a similar type of project. We're going
16 to target a different member of the Gallup formation -- a
17 different member of the Gallup, which is within the Mancos
18 formation. We don't think that these various members of
19 the Gallup are connected, so that it would require a new
20 lateral to test this other member that's the lower member.
21 And in this case we'd already drilled the Almagre Arroyo 30
22 Number 1, and it's cased, so we'll have to go and actually
23 drill a new vertical hole to bring out our lateral. And
24 the exhibits I'll be showing you in a moment will give you
25 more detail on these efforts.

1 These Gallup members within the Mancos formation
2 are commonly produced together. The wells to the north
3 here are largely vertical wells. They would perforate
4 various members and frac them together, so they effectively
5 produce them all at one time.

6 However, our existing well is in just the top --
7 what we call the B1 member, and we do not believe that it
8 will ever produce this lower zone. So that the general
9 idea is to go in below that, into this lower member, and
10 produce it separately.

11 Q. And I think you testified in the prior hearing
12 also that this -- there hasn't been a lot of activity in
13 this pool in some time?

14 A. That's correct.

15 Q. And so what you're doing in testing your theories
16 out here about obtaining the best production is somewhat of
17 an experiment in this area?

18 A. That's correct.

19 Q. Let's move on to your exhibits -- Let's move
20 first to Exhibit 4. What does that show?

21 A. Exhibit 4 is a geologic cross-section which
22 actually goes through the Almagre Arroyo 30 Number 1 and
23 also shows our proposed well. The Number 1 well is shown
24 as a red line, and the Number 2 well which we're proposing
25 is shown as a green line. And you'll see they're very

1 close together but never touch.

2 Also in the exhibit you'll see the kind of
3 cartoon depiction of the sands, because it's such a large
4 scale, being two separate members. The first well targeted
5 the upper one, as you can see, as we went around the bend,
6 and the lower one will be the target of the second well
7 that we're proposing.

8 Q. And the other wells to the -- well, I don't know
9 which -- I forget which direction that is. Those are other
10 vertical wells that have tested the Mancos?

11 A. Yes, there are several wells shown on this cross-
12 section that are projected into the line of cross-section.
13 They're not all in a line, so you bring them in a certain
14 distance, which I believe those distances are shown in very
15 small print at the top. Those are to give a view of the
16 depth of the various formations we're targeting.

17 So this is sort of a composite cross-section,
18 showing that out to the left, to the north, the beds are
19 fairly flat dipping, and as they come toward the southeast
20 or to the right they come and bend upwards. And of course
21 you may recall from our other hearing that this bend is
22 what we're targeting with our activities.

23 The beds then subsequently outcrop at the surface
24 on the right.

25 Q. Okay. And what does Exhibit 5 reflect?

1 A. Exhibit 5 gives a lot closer in detail of the
2 actual well plan for the proposed well. In Exhibit 5 in
3 red with the check shot dots shown is the well path of the
4 Almagre Arroyo 30 Number 1. We had actually drilled a
5 pilot hole, which is the slanted straight line on the left,
6 and then you can see the actual course of the drilling is
7 shown with the red line, sort of in the right of the middle
8 of the diagram.

9 Our proposed location, while it doesn't show the
10 vertical line of the well, which would extend basically the
11 blue line straight up, is shown in blue, and it has our
12 targeted positions for the -- what we call the C member of
13 the Gallup formation. The Number 1 well targeted what we
14 call the B1 member. So you can see it is somewhat parallel
15 to the original well, but it's always separated by
16 approximately 150 to 200 feet, during the course of the
17 lateral and even the vertical section.

18 Q. And you hope that this lateral extends a little
19 further than in the Number 1 well; is that correct?

20 A. Well, that's true. We'd actually been permitted
21 to go to the northwest quarter of the section with the
22 first well but didn't quite make it due to drilling
23 conditions. So we're hoping that we'll complete the
24 lateral completely this time.

25 Q. Let's move on to your Exhibit 6, Mr. McConnell.

1 There's enough colors on here to perhaps cause epilepsy,
2 but if you'd go through that fairly slowly so that the
3 Examiner sees all of your points with respect to that
4 exhibit.

5 A. Well, as Mr. Bruce suggested, Exhibit 6 is a
6 little bit busy. It is actually a log from our pilot hole
7 from the first well, and I wanted to bring it to the
8 Commission's attention, because it helps to show the
9 separation between the members of the Gallup that we're
10 proposing to target.

11 On the left of this exhibit is an image log. And
12 basically the image log, in lighter colors, sort of at the
13 peak, white, and then largely and orange, are sandier
14 sections of the geologic formations we've penetrated.

15 The darker colors, bridging to black, are shale
16 beds. The thicker the shale bed, of course, the greater
17 the chance of a seal between the separated members.

18 On the right, it -- just sort of a -- to complete
19 the figure we have the resistivity log, and it ties with
20 the image log, and the curve in the middle of the image log
21 is a gamma-ray. All these things taken together sort of
22 differentiate sands from shales, and that's identified with
23 arrows and labels.

24 Okay, so the first well we drilled, we were
25 really targeting the sand that appears at 6250, at the top

1 of it, and as labeled objective zone of the AA 30 Number 1,
2 which we call the Gallup B1 member.

3 And I had attempted to shade it, and it didn't
4 come through very well in the color copy, but our lateral
5 stayed largely in the top member of that -- top piece of
6 that member, which would be from 6250 to 6260.

7 There's an additional piece of that sand, the B1,
8 which would be a little bit lower, separated by a small
9 shale break. While we may drain some of that with the
10 fractures that go through that small shale break, we didn't
11 actually get our well path through that lower piece.

12 Right below that at 6280 is a very dark shale
13 section, probably gives relatively good separation to what
14 we call the B2 sand, which is the next two bright areas on
15 the image log.

16 And then below that there's a fairly thick dark
17 area on the image log. That is a shale section from
18 approximately 6330 to pretty close to 6400 feet. We
19 believe that shale section is thick enough and substantial
20 enough to create a separation between the upper members and
21 the lower member for production reasons, purposes, so that
22 we would have no chance of draining the lower member, the C
23 at the base of the log, with our lateral from above.

24 In the future we will hope to try to use dual
25 laterals out of the same vertical well to achieve this

1 separation. But, you know, our first well was -- we were
2 kind of new to what we were going to try to do, and we were
3 going to try to keep our costs down. So we ended up trying
4 a single zone first.

5 Unfortunately, that's led us to come back to you
6 and try to test this lower zone, which will then require a
7 second vertical well to access the lateral.

8 Q. Finally, what is Exhibit 7?

9 A. Exhibit 7 is a production graph of the first well
10 that we had drilled. There's the oil production daily
11 shown in green and the gas production shown in red.

12 The well started out over 150 barrels a day and a
13 little bit more than 300 MCF of gas. And as you can see
14 from the curves, it's dropped somewhat in the intervening
15 three or four months to where it's about 80 barrels a day
16 of oil and 200 MCF of gas.

17 So while this isn't anywhere near allowable for
18 this section, which I believe is 800 barrels a day, and
19 it's frankly a little bit less than we were hoping for, we
20 feel that there's room to test the second member of the
21 Gallup C without causing any problems with the allowable
22 limitations.

23 Q. And as we mentioned before, there hasn't been a
24 lot of activity in this pool recently or in the Mancos in
25 general in this area, but drilling second wells on well

1 units has been done before, has it not?

2 A. That is true. There was a company -- there were
3 two companies a little bit south of there that had done a
4 very similar project, and those orders -- actually Jim had
5 handled some of that work -- were their request to drill
6 the dual lateral. The second lateral was approved at the
7 time.

8 MR. BRUCE: And Mr. Examiner, that was before the
9 directional drilling rule also, and directional -- special
10 directional drilling rules were issued. Order R-9330,
11 R-9676, and R-9951 approved the horizontal directional
12 drilling and second wells on well units in some of those
13 instances.

14 EXAMINER BROOKS: Very good.

15 Q. (By Mr. Bruce) Mr. McConnell -- and Hearing
16 Examiners don't like to hear this, but would you like an
17 order as soon as possible?

18 A. That is correct. And the reason is, we're
19 drilling at the well that was approved this summer, and we
20 actually finally got the permit in late September, early
21 October. And what we would like to do in an effort to
22 conserve funds is to drill them back to back.

23 We have submitted the APD to the BLM as of the
24 19th, I believe. They had a notice of staking, probably 35
25 to 45 days ago, so the 30-day clock has run on it, so that

1 this process is sort of our last object to tackle to get
2 the permit.

3 And I hate to hand a short fuse to you, but we
4 were hoping to get at least a verbal to proceed, such that
5 we can save the demob costs on the rig.

6 EXAMINER BROOKS: Well, you may have heard of the
7 pit rule hearing.

8 (Laughter)

9 MR. BRUCE: I know you're tied up, Mr. Examiner.

10 EXAMINER BROOKS: Mr. Brenner and I are both very
11 much involved in that project at this point, but what is
12 your -- what are your time constraints? I didn't fully
13 understand exactly from a quantitative standpoint what your
14 time constraints are.

15 THE WITNESS: Well, we're drilling the first well
16 right now. We think it will probably take at least a week
17 to 10 days to complete that well, at which time the rig
18 will be ready to move. If we could -- We need about four
19 days ahead of that to prepare the location for the Almagre
20 Arroyo 30 Number 2, so I would think if we could get the
21 approval by the end of next week or early the following
22 week, we would be in good shape.

23 EXAMINER BROOKS: Well, I don't think -- Have you
24 completed your questions?

25 MR. BRUCE: Yes, sir.

1 EXAMINER BROOKS: I don't believe I have any
2 questions of this witness, so I will take -- Well, did you
3 tender his exhibits?

4 MR. BRUCE: I did not. I move the admission of -
5 -

6 Q. (By Mr. Bruce) And they -- the exhibits were
7 prepared by you, were they not, Mr. McConnell?

8 A. Yes, sir.

9 Q. Exhibits 4 through 7?

10 A. Four through 7.

11 MR. BRUCE: And I would tender those exhibits
12 into evidence.

13 EXAMINER BROOKS: Okay, Exhibits 4 through 7 are
14 admitted.

15 And if there's nothing further, Case Number
16 14,034 will be taken under advisement.

17 Now we'll go off the record.

18 (Thereupon, these proceedings were concluded at
19 1:55 p.m.)

20 * * *

21
22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner's hearing of Case No. 14,034
25 heard by me on 11-29-07. 14034
David E. Brooks, Examiner
OIL Conservation Division

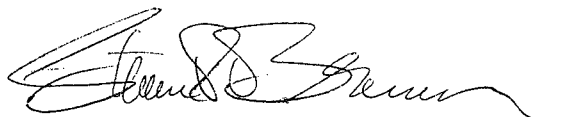
CERTIFICATE OF REPORTER

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 December 1st, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010