

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4

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

CASE NO. 14133

7 APPLICATION OF THE NEW MEXICO OIL
8 CONSERVATION DIVISION FOR POOL
9 CREATION, PRE-APPROVED FOR DOWNHOLE
10 COMMINGLING AND DESIGNATION OF SPECIAL
POOL RULES, BASIN-MANCOS GAS POOL
(97232), RIO ARRIBA, SAN JUAN AND
SANDOVAL COUNTIES

ORIGINAL

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

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EXAMINER HEARING

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BEFORE: DAVID K. BROOKS, Legal Examiner
TERRY G. WARNELL, Technical Examiner

18

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May 29, 2008

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Santa Fe, New Mexico

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This matter came for hearing before the New Mexico Oil
Conservation Division, DAVID K. BROOKS, Legal Examiner, and
TERRY G. WARNELL, Technical Examiner, on May 29, 2008, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

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A P P E A R A N C E S

FOR THE APPLICANT:

Mikal Altomare, Esq.
Assistant General Counsel, Oil Conservation Division
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Santa Fe, New Mexico 87505

ALSO PRESENT FOR WILLIAMS PRODUCTION COMPANY:

Ocean Munds-Dry, Esq.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501

ALSO PRESENT:

Vern Hansen, Williams Production Company

1 MR. BROOKS: Okay. Let us go back on the record. At
2 this time, we'll call Case No. 14133, the Application for the
3 New Mexico Oil Conservation Division for Pool Creation,
4 Pre-approval for Downhole Commingling and Designation of
5 Special Pool Rules, Basin-Mancos Gas Pool, Rio Arriba County,
6 and San Juan County, and Sandoval County, New Mexico.

7 MS. ALTOMARE: Mikal Altomare on behalf of the Oil
8 Conservation Division. I have one witness.

9 MR. BROOKS: Other appearances?

10 MS. MUNDS-DRY: Good morning, Mr. Examiner, Ocean
11 Munds-Dry with the law firm of Holland & Hart, LLP,
12 representing Williams Production Company this morning. We
13 don't have a witness. I just brought a letter of support to
14 offer for the record for this application.

15 MR. BROOKS: Very good.

16 MS. MUNDS-DRY: I would like to recognize that Vern
17 Hansen with Williams Production Company is also here with me
18 this morning.

19 MR. BROOKS: Very good. Other appearances? You're
20 just here as an observer, Scott? Okay. Very good. You may
21 proceed, Ms. Altomare. You need to swear your witness.

22 [Witness sworn.]

23 MR. BROOKS: And state your name for the record,
24 please.

25 THE WITNESS: Steve Hayden.

1 MR. BROOKS: Proceed.

2 MS. ALTOMARE: Thank you, Mr. Examiner. We're here
3 today basically to -- well, to accomplish a Chinese menu of
4 items with regard to this pool. We would like to designate the
5 pool, the Basin-Mancos Gas Pool. We are seeking pre-approval
6 for downhole commingling for the pool and creation of special
7 pool rules.

8 Basically, I think the application speaks for itself.
9 And Mr. Hayden is much more well equipped to explain the basis
10 for the application and the details of it, so I'm just going to
11 go ahead and call him to the stand and allow him to begin his
12 testimony.

13 We have put the pool adjustment maps on PowerPoint
14 Presentation in anticipation of the fact that there were going
15 to be several people here in attendance. We have also made an
16 exhibit marked as Exhibit A. They are the same pool maps that
17 are attached to the application; however, they are now in the
18 order that they're going to be presented in the hearing.

19 So I'm going to go ahead and distribute these. So
20 I'll go ahead and call Mr. Steve Hayden.

21 STEVEN N. HAYDEN

22 after having been first duly sworn under oath,
23 was questioned and testified as follows:

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DIRECT EXAMINATION

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BY MS. ALTOMARE:

Q. Can you state your name for the record again.

A. Steven N. Hayden.

Q. And what is your position and title?

A. I'm the district geologist for District II NMOCD,
Aztec, San Juan Basin.

Q. And how long have you held that position?

A. Eight years.

Q. Have you testified before for the Division?

A. Yes.

Q. And have you been qualified as an expert?

A. Yes.

MS. ALTOMARE: I would move Mr. Hayden to be
qualified as an expert geologist at this time.

MR. BROOKS: He's so qualified.

Q. (By Ms. Altomare): What are we here for today?

A. Okay. Let me give you a little bit of history
first on how this got started.

When Frank Chavez was district supervisor, he
suggested that it might be a good idea to change the pool rules
of the Basin Dakota to include the Manco Formation much like
the vertical limits of the Blanco Mesaverde were changed to
include the Lewis back in '98 -- I believe it was. Or, anyway,
it was our 10-987, one of the versions.

1 We called a meeting with the industry with the
2 interested operators and the BLM, and we talked this over.
3 And, of course, the landmen had instant horror at the idea of
4 mixing the Gallup and Dakota interests. So basically, we
5 worked it out and came up with a compromise to make a
6 Basin-Mancos Pool. This for the purpose of picking up what
7 extra gas might be available in fractures in the shale and the
8 shale itself and in sand units within the Mancos. And we were
9 going to preserve the existing Gallup Pool as is in order not
10 to confuse the matter extensively.

11 So this got put off by busier times for a few years,
12 and I just got back to getting it going about the start of
13 2007. What I did was looked at the stratigraphy and the
14 completions in the Gallup Pool, realizing that the Gallup
15 Formation itself actually never does really come into the San
16 Juan Basin except in the very southern and western most parts.

17 The only pools in the San Juan Basin that actually
18 have real Gallup Formation in them are the Hospah Upper and
19 Lower Sands and the Nose Rock Hospah Pool, which is abandoned.
20 You can see the Gallup at the surface in the west on Tocito
21 Dome, but it pinched out at that point. It never made it into
22 the San Juan Basin far enough. It was a shoreline, and it's
23 basically equivalent, although older, to what we see when we
24 look at the Point Lookout Formation.

25 It was the sand that prorated into the seaway into

1 the rising sea level. And the furthest it made it was the very
2 southern limits, what we call the Chaco Slope. For some
3 reason, that was all understood, at least by the 1960s. For
4 some reason, they chose to call most of these pools Gallup, but
5 the Gallup interval was never well-defined and everything in
6 that was productive in the Mancos Formation and the San Juan
7 Basin was assigned to the Gallup in these old pools.

8 For the purpose of the enhancing development to get
9 whatever we could manage to pick up out of the Mancos Interval,
10 we wanted to go through and check the old Gallup pools for
11 productivity. Because the new Basin-Mancos will be much easier
12 from a regulatory point of view to apply for wells and to open
13 up, because we're asking to set the number of wells and the
14 setbacks equal to what's present in the Basin Dakota and Blanco
15 Mesaverde.

16 The present Gallup pools are spaced anywhere from
17 40 acres to 640 acres, and with a great variety of setbacks, or
18 drilling windows, ranging from 150 feet -- within 150 feet of
19 the center of a quarter/quarter up to 1650 feet from an outer
20 section line on 640 acres. In order to enhance picking these
21 intervals up in Basin Dakota and Mesaverde duals or trios, that
22 it would be better to assign the same spacing.

23 Q. What are the current spacings for the other pools
24 that will be --

25 A. The current spacing for the Blanco Mesaverde and

1 the Basin Dakota are 320-acre spacing units with three infill
2 wells. Commonly, it's called 80-acre spacing, but it's 320,
3 really.

4 Q. And those are the spacing allocations that you
5 are recommending will be assigned to Basin-Manco gas pools as
6 well?

7 A. Yes. And the setbacks are 660 feet from the
8 outer boundaries and 10 feet from the inner boundaries of the
9 320-acre spacing units.

10 Q. And, again, you're recommending that those be
11 applied to the Basin-Manco Gas Pool as well?

12 A. Yes.

13 Q. What are the vertical and horizontal limits for
14 the new Basin-Mancos Gas Pool?

15 A. Okay. The Mancos Formation itself is commonly
16 thought of as a big shale interval between the Point Lookout or
17 the bottom of the Mesaverde and the top of the Dakota in the
18 San Juan Basin. It gets more complex as you go south and west,
19 but essentially, that works.

20 In the San Juan Basin, though, there's four intervals
21 within the Mancos Formation. That has been called Gallup in
22 the past, and they're sandy, silty intervals. The lowest one
23 is just above the Greenhorn -- what we call the Greenhorn
24 Limestone -- and will be the base of this Basin-Mancos Pool.
25 And the Greenhorn Limestone is actually properly called the

1 Bridge Creek Limestone, but they never use that name in the San
2 Juan Basin.

3 But anyway, slightly above the Greenhorn Limestone
4 there occasionally is a sandy interval they call the Semilla,
5 as in seed. That has been productive in certain areas. Not
6 greatly, usually, but the next interval up that they've
7 commonly assigned to the Gallup is called the Juana Lopez
8 member of the Mancos Formation. It lies several hundred feet
9 above the Greenhorn, but still in the Lower Mancos, what we
10 call the Carlisle Interval of the Mancos.

11 The Juana Lopez member represented a shoaling of the
12 Mancos Sea, and it consists usually of what we call clastic
13 limestone, that is, broken shells and stuff that were basically
14 deposited by the sea shallowing to wave basin, these things
15 being broken up. And it's productive in some areas. It's also
16 referred to in the Basin by the name Sanostee after Sanostee
17 Trading Post south of Shiprock.

18 Above that at the top of the Carlisle Interval of the
19 Mancos is where the Gallup is. Stratographically, if you go
20 shoreward in the Basin, that is to the Southwest, in parts of
21 the Basin there's an unconformity there which represents a gap
22 in the rock record. And right above that, what they call the
23 Basal Nia Brine Sandstone is also referred to as the Tocito
24 member of the Mancos Formation, named for Tocito Dome. You
25 don't actually see it on the Tocito Dome because it lies just

1 above where the Gallup would be if it was there.

2 And then several hundred feet above that and still
3 anywhere from 800 to 1200 feet below the Mesaverde through most
4 of the Basin is the Alvida Sandstone Member, which is named for
5 outcrops around Alvida Lake up to the north. Anyway, these
6 four intervals represent what's been developed as the Gallup
7 Formation in the Gallup Pools in the San Juan Basin over the
8 years.

9 So anyway, I want to -- I'm applying for the vertical
10 limits of the Mancos to go from the base of the Greenhorn to
11 the base of the Point Lookout, which will basically enable
12 wells dedicated to all three pools to be available for
13 perforations from the base of the Pictured Cliffs in the case
14 of the Mesaverde, through the base of the Dakota Formation, the
15 top of the Morrison -- or the Basin Dakota.

16 The Mancos Interval probably is low enough in
17 production that it would never be drilled in these areas solely
18 for the purpose of a Mancos well because several tens of MCF
19 gas is probably limiting what it would produce.

20 Q. What are the horizontal limits?

21 A. Well, the horizontal limits are the same --
22 basically the same as the Basin Dakota, which at a rough scale
23 is San Juan and Rio Arriba Counties. There's one-half section
24 in Sandoval County that's described in here that the Basin
25 Dakota was extended to take in.

1 Q. And that would be Section 21, T23, R5 West?

2 A. Yes. In the northwest, Basin Dakota excludes the
3 Barker Dome/Ute Dome area where there's Dakota pools already
4 established. I didn't bother to exclude that here because the
5 Mancos is very close to the surface. Up there the Mesaverde is
6 at the surface and it's doubtful that anybody's going to
7 produce out of the Mancos. It's a highly fractured area and
8 the Dakota is the first production known up there, so I just
9 didn't bother to put it in as a limit.

10 So anyway, mainly Rio Arriba and San Juan County is
11 the horizontal limits.

12 Q. Are there particular pools that are being
13 specifically excluded in the creation of the Mancos Gas Pool?

14 A. Yeah.

15 Q. What are those pools?

16 A. Okay. The original set of meetings, we came up
17 with an agreement that we would leave the old Gallup Pools
18 alone, basically. That is, you know, in the interest of
19 paid-out royalties and interest owners and so on. We wouldn't
20 try to change them over to include them in the Basin-Mancos.

21 What I did was, in discussions with BLM and some of
22 the operators since the initial planning on this, agreed that
23 in the case of someone drilling a stand-alone oil well that
24 wanted to extend one of the existing Gallup Pools within a mile
25 of the pool boundaries, that we could do that. But if they

1 were drilling a dual and it was outside the pool boundaries, it
2 was dualled with the Dakota or the trio with the Dakota and
3 Mesaverde, that we would put them in the Basin-Mancos because
4 it just makes a lot more sense that way. It's a lot easier
5 from a regulatory point of view.

6 And what I did was use the computer facilities that
7 we now have to run through all the old Gallup Pools in the
8 affected areas -- I didn't bother with Sandoval County Pools
9 that weren't included here -- to look at -- pick up wells that
10 had been dedicated to those pools without ever having the pools
11 extended in the nomenclature hearing, and to look at
12 unproductive, or nonproductive areas within the pools that were
13 on the pool margins where it would be handier to have the pools
14 contracted.

15 And going pool by pool, I came up with about 20 of
16 them that I have changes to for purposes of this hearing.

17 Q. I'm going to go ahead and show you what I've
18 marked and distributed as OCD Exhibit A. Do you recognize
19 that?

20 A. Yes. These are copies of the pool maps that I
21 made up on these.

22 Q. And did you put together this packet and compile
23 it?

24 A. Yes. What I did is I included -- I just took
25 these diagrams, put them in this PowerPoint, so the diagrams in

1 the handout are the PowerPoint.

2 Q. And from where did you get the data that you used
3 to put together this packet?

4 A. I used RBDMS database. And what I did was I took
5 each pool township by township and looked at the sections where
6 they were shown as active in the pool. Well, first I brought
7 up all wells in the pool and then I checked for plugged wells
8 and temporarily abandoned wells and worked it around until I
9 came up with where the pools are active and where they needed
10 to be expanded. And where they weren't active around the
11 margins, I did these contractions so that can be included in
12 the Basin-Mancos.

13 Q. Okay. And so this packet of 20 pool maps
14 represents your recommendations based on the research that you
15 conducted?

16 A. These are the adjustments to the Gallup Pools
17 that I'm recommending to go along with the creation and special
18 pool rules for Basin-Mancos.

19 Q. Okay.

20 A. I guess we'll just run through these and show
21 you. Well, it's hard to read that. The first pool was the
22 Baca Gallup Pool. What I did is I showed pool extensions in
23 yellow and pool contractions in gray on these slides. The
24 first one, the Baca Gallup only has extensions -- well, that
25 shows the title. I think we can work with that, probably.

1 Q. Okay.

2 A. These extensions for the most part take in -- are
3 done with wells that were completed years ago that got omitted
4 from earlier nomenclature hearings and the pools weren't
5 extended. Some of them go way back, like 20 or 30 years.
6 Anyway, the text of the hearing also contains these, but I went
7 through a list first of contractions and then a list of the
8 extensions.

9 Q. The text of the application, you mean?

10 A. On the application itself. So you'll see a
11 slightly different order as you go through that, but all the
12 pools are included alphabetically here and just run through
13 showing both.

14 Do you want me to cover what wells are extensions?
15 Or do you --

16 MR. BROOKS: Whatever you think is appropriate. We
17 probably don't need any more detail than is necessary since
18 it's an uncontested hearing.

19 THE WITNESS: Okay. Well, since the extensions are
20 listed with the wells in the application, basically what I want
21 to show is how these pools have been changed.

22 MR. BROOKS: Okay. Go ahead.

23 A. So you can see the extension to the Baca Gallup
24 here in this one. The B S Mesa Gallup: The B S Mesa Gallup is
25 a Tocito sand completion. It's a gas pool. But it does have

1 different setbacks than the Basin-Mancos -- or the Basin Dakota
2 and the Blanco Mesaverde. So anyway, I've contracted it in the
3 south half of 32 of 27 North, 4 West and extended in 26 North,
4 5 West.

5 Counselors Gallup-Dakota: When the pools contain two
6 formations, I've used a color coding that shows -- the stripes
7 remind me that there's two formations included in the pool. So
8 the Gallup-Dakota Pool, I've extended it by one quarter
9 section. In general, these changes aren't excessive, although
10 this is one of the bigger ones.

11 Devil's Fork Gallup Associated Pool: I've been
12 especially merciless on the associated pools because associated
13 pools are a complexity that really isn't needed at this point
14 in the San Juan Basin. Associated pools have to be completed
15 as oil well dedications and then GOR tested. And if they
16 produce more than 30,000 cubic feet per barrel of oil, they
17 become gas dedications which has to have a new C-102 put in and
18 change the acreage, and it can get really complex if you end up
19 with a 320-acre gas dedication that later has -- well, that has
20 to be an oil well drilled in it.

21 And then they've got to go to hearing to split the --
22 anyway, the oil completions in the Gallup Pools or associated
23 pools in the San Juan Basin are all stripper at this point, so
24 almost any well qualified as a gas well. So it becomes an
25 unneeded complexity. So basically, I've gotten fairly strict

1 with where I'm cutting back on the associated pools. And most
2 of the operators that I've talked to about it are all in favor.
3 They don't like to do GOR tests. Anyway, this is one of five
4 Gallup Associated pools, the Devil's Fork Gallup.

5 Dufer's Point Gallup-Dakota: There are a couple of
6 minor contractions and one extension. And they're all in
7 25 North, 8 West.

8 Escrito Gallup Associated Pool: Again, where I found
9 areas around the margins that were inactive, I've contracted
10 the pools. And I had one well that extended in 24 North,
11 6 West, Section 30, the east half, northeast quarter.

12 Gallegos Gallup Associated Pool: Okay. This -- the
13 included figure that you have in your hands has an error in it.
14 I'm sorry. I thought I had this all corrected. In Township 26
15 North, 12 West, Sections 1 through 5, all the wells in there --
16 or 1 through 4 -- all the wells have been -- all those
17 quarter/quarters all the affected lands have been removed.
18 Only Sections 5 and 6 in the top row of that, which is shown on
19 the slide. I thought I had --

20 Q. (By Ms. Altomare): Is the one on the screen
21 correct?

22 A. The one on the screen is correct.

23 Q. Okay. So I'll reprint the one and replace the
24 one in the exhibit.

25 MR. BROOKS: Thank you.

1 A. I found in that township in the Gallegos Gallup,
2 I think there were 170-some wells and only 60 of them were
3 active. But I just did the contractions on the outside part of
4 the pool, so --

5 Q. (By Ms. Altomare): Actually, let me correct
6 that. I believe I printed the ones that I gave to the Hearing
7 Examiners directly from the slide show. So I believe they --

8 MR. BROOKS: I really don't see a difference.

9 THE WITNESS: The one I've got has --

10 MS. ALTOMARE: You have my version.

11 THE WITNESS: Good.

12 MS. ALTOMARE: They have the correct version.

13 THE WITNESS: Good. Good.

14 MR. BROOKS: That helps.

15 THE WITNESS: That's even better. Okay.

16 A. Anyway, the Gallegos Gallup has a lot of wells, a
17 lot of nonproductive areas, but the rest of them were on the
18 margins and you can make holes in pools, so that's why it looks
19 like it does.

20 Gallo Canyon Gallup-Dakota actually more than doubled
21 its size to pick up a well that hadn't been included in the
22 pool in earlier nomenclature hearings.

23 The Ice Canyon Gallup Ice Pool: We added a quarter
24 section and removed a half section, so --

25 The Kutz Gallup: We removed the one quarter section

1 that was in 28 North, 10 West, the southwest part of 32 and
2 also removed the northwest part of 5 in 27 North, 10 West.

3 MR. BROOKS: Cut off the tip of its tail.

4 A. Well, these actually had been surrounded by
5 Wildcat Basin-Mancos already and there was no productivity
6 there, so it seemed the logical thing to do.

7 La Jara Canyon Gas Pool: Had to pick up a southwest
8 quarter of Section 3 -- or Section 34 of 30 North, 5 West.

9 MR. BROOKS: I'll compliment you on your correctness
10 of you pronunciation. I mostly hear people call that La Jar-a.

11 THE WITNESS: Well, I'm not from Texas, so --

12 MR. BROOKS: Well, I was thinking about people in
13 Colorado, actually.

14 THE WITNESS: Well, I'm originally from Colorado, but
15 I don't say Bun-a Vista anymore, either.

16 MR. BROOKS: Well, I compliment you on that also.

17 A. Laguna Seca Gallup Gas Pool: There are pretty
18 extensive cuts to this based on the fact that there was only
19 one well on that whole big area on 31 North 5 West that somehow
20 got included and it never should have been. And it's plugged,
21 so I deleted that back to just the bare necessities there. And
22 then I picked up one more quarter section that we needed to get
23 up to the west.

24 MR. WARNELL: Let me ask you on that one there: It
25 almost seems to a casual observer you just go ahead and take

1 out everything in the 5 West.

2 THE WITNESS: Well, there was some active wells --

3 MR. WARNELL: There are some active wells down in
4 this area?

5 THE WITNESS: Yeah. That's the way I constrained
6 myself on this. I wanted the landmen not to have heart
7 attacks. Well, the landmen got upset at the very thought of
8 changing pools in all these Gallup pools, and I see their
9 point.

10 MR. BROOKS: I bet you the lawyers would have been
11 somewhat concerned --

12 THE WITNESS: Yeah.

13 MR. BROOKS: -- and would have had to have been
14 notified.

15 THE WITNESS: The lawyers would have had much
16 employment over this.

17 A. South Lindreth Gallup-Dakota: One extension,
18 very minor.

19 MR. BROOKS: What's the significance of the striping?

20 THE WITNESS: That, again, is a Gallup Dakota. I
21 color-coded my pools in these pool maps. I made these up for
22 my own use, basically. And the brown is Gallup and the kind of
23 tan is Dakota. And then wherever they have both I mix them. I
24 do the same thing with Fruitland Sand, Pictured Cliff Pools.

25 Munoz Canyon Gallup Gas Pool: I just picked up an

1 extension there.

2 Northeast Ojito Gallup Dakota: I deleted the stuff
3 that was -- actually, you'll see that the 26 North, 2 West is
4 truncated on the west section, west halves -- or west part of
5 that row of sections is truncated. So it's all of 30 and 31 of
6 26 North, 2 West, which is just barely more than a quarter-mile
7 wide strip. This one was a place that for a while now I've
8 been needing to do this. This is the time it happened. We had
9 developed quite a few years back an overlap between the Otero
10 Gallup Gas Pool -- or Oil Pool -- and the West Lindreth
11 Gallup-Dakota Oil Pool.

12 And the heavy line shows the places where that
13 overlap was, and I've contracted that to get rid of that
14 overlap. So that contraction is actually still going to be in
15 the West Lindreth Gallup. And then I've extended to pick up
16 one well in the Otero.

17 Tapacito Gallup Associated Pool: Again, I'm trying
18 to limit the associated pool. I took out a strip along the
19 south and west of Section 26 North, 5 West and added extensions
20 to pick up one well.

21 Totah Gallup Oil Pool: It's fairly extensive as far
22 as the pool goes and contractions on this, because there's a
23 lot of it that isn't active at this point.

24 I think that this is something that I at least never
25 would have got done before the days of computer databases.

1 MR. BROOKS: It would have been much more --

2 A. It's nice to be able to tell the computer to
3 pull up all the active wells in Township 27 North, or 26 North,
4 3 West, which is the case here.

5 The Wild Horse Gallup Gas Pool: Again, I trimmed it
6 back to take out one plugged well that was more than two miles
7 out of the section, out of the pool. We're almost through with
8 this now.

9 And the Willow Gallup Gas Pool: I trimmed about half
10 of that one back.

11 Anyway, this is what I found in areas where there was
12 inactive wells and wells that needed to be added in the Gallup
13 Pools to more or less freeze them in time and space so that we
14 can have all the un-included areas in these slides that aren't
15 in other more stable Gallup Pools in the Basin-Mancos.

16 Q. (By Ms. Altomare): As you discussed a little bit
17 earlier, our rules allow for the Division to pre-approve
18 certain pools for downhole commingling.

19 A. In 2000, the Division heard -- I don't remember
20 the case number now, but they issued the order -- R-11-363,
21 which changed Rule 303 to allow for selected pools to be
22 pre-approved so that people at the district could handle
23 downhole commingling.

24 Q. Do you think that's appropriate in this
25 particular case?

1 A. Well, I think so in this case, because in
2 general, any of the Basin-Mancos completions that are done will
3 be at least dualled with Dakota and possibly tripled with Dakota
4 Mesaverde. And the Dakota Mesaverde is -- or Basin-Dakota and
5 Blanco Mesaverde are pre-approved, and by far we're within the
6 horizontal limits of the Blanco Mesaverde.

7 Almost all of the wells that aren't coal wells these
8 days are being drilled as duals to Mesaverde Dakota. So
9 there's really no reason not to include the interval in the
10 middle which will produce less gas than either of the two on
11 the ends.

12 Q. And do you think the establishment of this gas
13 pool and the pre-approval of the downhole commingling for the
14 pool with the two other neighboring pools would protect
15 correlative rights, prevent waste, and is in the best interests
16 of conservation?

17 A. Yes. I think that there's no way that the
18 Gallup -- not Gallup -- the Mancos will drain bigger areas than
19 either the Blanco Mesaverde or the Basin Dakota. So that any
20 place that we can drill a well to either of the two -- the
21 other two -- and include the Mancos, the Mancos is going to be
22 draining less area. So there won't be any draining of offset
23 operators.

24 Q. Okay. And you touched on this a little bit
25 earlier, but why do you think that it's necessary that special

1 pool rules be implemented along with the creation of this pool?

2 A. So that the Mancos which will -- like I said,
3 will drain less area than the others. Certainly not more area
4 will be allowed to have the same density as the wells that it
5 maybe tripled or dualled with. In other words, there's no
6 reason to make it -- to do less Mancos than there is to do
7 Basin Dakota, for instance, because the Dakota is going to
8 drain more area than the Mancos.

9 Q. And again, you are just recommending the same
10 setbacks and the same spacing for --

11 A. Right.

12 Q. -- for the Basin-Mancos as the neighboring two
13 pools?

14 A. There's no -- basically, it's an enticement to
15 maximize the drainage of the gas-containing formations in the
16 San Juan Basin with allowing them to pick up something that
17 would never be drilled on its own.

18 Q. So to summarize, we're asking for the creation of
19 the Basin-Mancos Gas Pool pre-approval of the downhole
20 commingling of the Basin-Mancos Gas Pool with Basin Dakota and
21 the Blanco Mesaverde Gas Pool?

22 A. Yes.

23 Q. And the establishment of special pool rules to
24 make the spacing and setbacks consistent with those two other
25 pools?

1 A. Yeah. And what I did with the special pool
2 rules, is I cut and pasted from our 10-987 which established
3 the same for the Dakota and Mesaverde and then substituted the
4 Basin-Mancos for the pool names. So it should be up-to-date
5 and equivalent.

6 Q. Is there anything else that you'd like to add
7 that you think that we've missed?

8 A. Oh, I'm sure I'll find something later. That's
9 all I can think of right now.

10 MS. ALTOMARE: At this point, I think I'll pass the
11 witness to the Examiners.

12 MR. BROOKS: Okay. Mr. Warnell?

13 EXAMINATION

14 BY MR. WARNELL:

15 Q. Very impressive. I worked up in the Farmington
16 area years ago. And it's nice to hear some of those areas that
17 I hadn't thought about.

18 On one of very first slides there -- I should have
19 asked you as we went through it -- just to kind of help clarify
20 in my mind, Sandoval County comes into play. I think it's on
21 the third page.

22 A. Yeah. You'll notice that the changes were all
23 made within Rio Arriba.

24 Q. Yes. That's the only place where Sandoval County
25 comes into play here, isn't it?

1 A. Yeah. I believe so.

2 Q. Yes.

3 A. The county line runs through the middle of
4 Township 23 North and --

5 Q. Yeah. It shows up there on the --

6 A. The range of the west -- excuse me --
7 east/west -- on the -- I don't know if you -- do you guys have
8 copies of the Hopkins Pool Maps down here? Hopkins Map Service
9 in Farmington puts out pool maps based on -- basically, on my
10 nomenclature.

11 MR. BROOKS: If we have them, I'm not aware of them.

12 A. Anyway, that shows the outlines of Basin Dakota
13 and that's what I was -- I'll talk to Jim Hopkins. He's
14 preparing a new map of this interval based on what this hearing
15 is --

16 MR. BROOKS: We rely on Florene and that pencil and
17 paper. She's been doing them for the past 40 years.

18 THE WITNESS: I use Jim Hopkins as, basically, a
19 critiquer of these things, because unlike us, he has GIS and
20 AutoCAD. These pool maps are all done on Microsoft Paint
21 because we don't have a graphics application.

22 MS. ALTOMARE: Which in and of itself is quite
23 impressive.

24 THE WITNESS: I did 250 pool maps.

25 Q. (By Mr. Warnell): Do you think this will

1 stimulate some more activity?

2 A. Well, it will make it easier. I talked to Frank
3 just before he retired -- Frank Chavez -- with the idea and
4 went ahead and created the Wildcat Basin and Mancos in ONGUARD
5 and have allowed them to use it with Wildcat spacing, which may
6 or may not prove a problem in this. I guess we can't
7 grandfather the old ones in at 320, from what I hear.

8 But there has been a certain amount of development
9 already based on that. But I'm constantly getting questioned
10 about when this is going to happen. So I think it will
11 increase -- we'll see an increase in those.

12 MR. WARNELL: I don't have any other questions.

13 EXAMINATION

14 BY MR. BROOKS:

15 Q. Well, again I get to my favorite question, which
16 is: How do you propose to treat existing Wildcat Basin-Mancos
17 units?

18 A. I'd like to include them in the Basin-Mancos, but
19 grandfather them in at the present spacing.

20 Q. What present spacing --

21 A. The present spacing would be 160 acres.

22 Q. They would mostly be quarter sections or quarter
23 section equivalents?

24 A. Right. Right.

25 Q. And that would be specifically provided for in

1 the order, I take it. It would have to be.

2 A. I don't know. I'm not sure how that would be.

3 Q. Okay. The -- I take it the principles that you
4 used in constructing these maps were that you extended pools to
5 include existing Gallup completions?

6 A. Right.

7 Q. Was that within one mile?

8 A. Within two miles, the San Juan Basin rules.

9 Q. Okay.

10 A. Well, actually, let me qualify that: I did it
11 within two miles if it was a new well that they were doing
12 while I've been here. A lot of these extensions were due to
13 wells that were dedicated long before I got here to these
14 pools, and then the pools were never extended to pick them up.

15 Q. So you extended them to pools that had been
16 dedicated -- to wells that had been dedicated to these pools,
17 regardless of where they were?

18 A. Yeah. There's the Gallegos -- no. That one is
19 not two miles. Anyway, there were a couple of them in here
20 that were more than two miles out, but they had been dedicated
21 to those pools for decades.

22 Q. And this is producing wells?

23 A. Right.

24 Q. You won't --

25 A. Yes.

1 Q. -- only extend them for producing wells?

2 A. Yes.

3 Q. And similarly, the contractions, did you contract
4 out areas that had plugged wells on them?

5 A. Right. Wherever they were plugged out along the
6 margins of the pools. That's what I went looking for.

7 Q. You contracted everything subject to not creating
8 holes in pools?

9 A. Right.

10 Q. Refresh my recollection. I've checked it many
11 times, but I don't remember these pool rules very well. You
12 said it was 660 from outer and 10 feet from the inner
13 boundaries, which is the way I remember it. But is it 660 from
14 the outer boundaries of the section -- or from the unit -- or
15 660 from the outer boundaries from the quarter section?

16 A. It's 660 from the outer boundaries of the half
17 section.

18 Q. Okay.

19 A. The quarter section is treated as an internal
20 line.

21 Q. So it's different in that respect from the
22 statewide gas rule, which is, if I remember right, is 660 from
23 the outer boundaries from the quarter section?

24 A. Right. But the statewide spacing is 160 acres.

25 Q. Yeah. But state -- well, statewide in the

1 northwest versus statewide in the southeast.

2 A. The southeast is different. We don't have any
3 statewide 320s in the northwest.

4 Q. Yeah. The statewide --

5 A. They have special pool rules.

6 Q. The 104-CT, which is the statewide rule for
7 320-acre units is 660 from the quarter section.

8 A. Well, the special pool rules for the --

9 Q. But for the northwest pools on 320s, it's 660
10 from the outer boundary --

11 A. It used to contain that quarter section with a
12 setback, but they changed that in the Mesaverde in '98, the
13 Dakota in '02, and Fruitland in '02.

14 MR. BROOKS: Okay. I think that's all I have.
15 Anything further?

16 MS. ALTOMARE: I don't believe so.

17 MR. BROOKS: Very good. Case No. 14133 will be taken
18 under advisement.

19 And if there's nothing further, this hearing will
20 stand adjourned.

21 [Hearing concluded.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on _____.

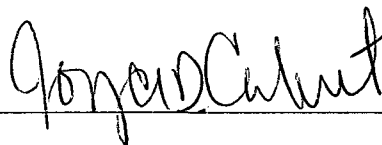
_____, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.

Signed this 29th day of May, 2008.



JOYCE D. CALVERT
New Mexico P-03
License Expires: 7/31/08

1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

3

4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
8 1-30 inclusive, are a true and correct transcript of my
9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 29th day of
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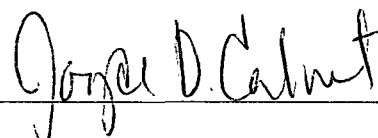
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