

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

ORIGINAL

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

CASE NO. 14259

APPLICATION OF EDGE PETROLEUM
OPERATING COMPANY, INC. TO EXPAND
THE HORIZONTAL LIMITS OF THE
LOVINGTON-UPPER PENNSYLVANIAN POOL,
OR IN THE ALTERNATIVE, FOR APPROVAL
OF A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND AN UNORTHODOX
OIL WELL LOCATION IN THE NORTHEAST
LOVINGTON-UPPER PENNSYLVANIAN POOL,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 18, 2008
Santa Fe, New Mexico

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BEFORE: DAVID BROOKS: Hearing Examiner
TERRY WARNELL: Technical Advisor

This matter came for hearing before the New Mexico
Oil Conservation Division, Terry Warnell, Hearing
Examiner, on July 24, 2008, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: PEGGY A. SEDILLO, NM CCR NO. 88
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Albuquerque, New Mexico 87102

1 Examiner's Hearing
Case No. 14259

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I N D E X

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5 APPLICANT'S WITNESSES:

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WILLIAM MICHALAK

Direct Examination by Mr. Bruce

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HOWARD CREASEY

Direct Examination by Mr. Bruce

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11 APPLICANT'S EXHIBITS:

12

Exhibits 1 through 7

18

Exhibits 8 - 14

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COURT REPORTER'S CERTIFICATE

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A P P E A R A N C E S

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FOR THE APPLICANT:

JAMES BRUCE, ESQ.

Attorney at Law

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Santa Fe, NM 87504

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1 HEARING EXAMINER: At this time we'll call Case
 2 No. 14259, the application of Edge Petroleum Operating
 3 Company, Inc. to expand the horizontal limits of the
 4 Lovington-Upper Pennsylvanian Pool, or in the alternative,
 5 for approval of a nonstandard oil spacing and proration
 6 unit and an unorthodox oil well location in the Northeast
 7 Lovington-Upper Pennsylvanian Pool, Lea County,
 8 New Mexico. Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
 10 representing applicant. I have two witnesses.

11 HEARING EXAMINER: Will the witnesses please
 12 identify themselves?

13 MR. MICHALAK: My name is William S. Michalak.

14 MR. CREASEY: Howard Creasey, Senior Vice
 15 President for Exploration for Edge Petroleum.

16 HEARING EXAMINER: Would the court reporter
 17 please swear in the witnesses?

18 (Note: The witnesses were placed under oath.)

19 HEARING EXAMINER: You may proceed Mr. Bruce.

20 WILLIAM MICHALAK,
 21 the witness herein, after first being duly sworn
 22 upon his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Where do you reside, Mr. Michalak?

1 A. I'm currently living in Houston, Texas.

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

3 A. I am working at Edge Petroleum Corporation
4 through a broker named Ensley Properties and I am employed
5 as a landman.

6 Q. Have you previously testified before the
7 Division?

8 A. No, sir.

9 Q. Would you summarize your education, employment
10 and background for the Hearing Examiners?

11 A. Okay. I hold a Bachelor of Arts degree and a
12 Doctor of Jurisprudence degree, both from the University
13 of Houston. I've also attended Texas A&M University, Duke
14 and Coy Universities in Austin, Texas, and Concordia
15 Universities in Austin, Texas and Ft. Wayne, Indiana. A
16 Concordia seminary, which is Lutheran, in Springfield,
17 Illinois. And I'm licensed as an attorney in Texas and
18 Oklahoma.

19 Q. And what type of employment background as a
20 landman do you have?

21 A. I have about 30 years in the land experience. I
22 began back in 1976 with City Service Company which is now
23 Oxie. They hired me as an attorney and landman to mostly
24 write contracts, E and B contracts.

25 I then went to their Unitization Department and

1 was a senior staff landman and eventually became their
2 lease records manager. I left -- and lease records
3 manager for Western, Southwestern and Canada.

4 I then went to work for Clayton Williams, Jr. in
5 1982. I was his mid-continent division senior landman and
6 division attorney. And then I also had five years with
7 Phillips Petroleum company in Bartlesville.

8 And my New Mexico experience, I have seven years
9 with an independent operator who's operated mostly in Eddy
10 County and some in Lea County, many wells. And then one
11 year with PBP America regarding a large federal
12 participation area that we had an interest in..

13 And prior to Edge, I was land manager for an
14 independent in Mesquite, Texas.

15 Q. And does your area of responsibility at Edge
16 include this part of Lea County?

17 A. Yes, it does.

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

20 A. Yes, I am.

21 MR. BRUCE: Mr. Examiner, I tender Mr. Michalak
22 as an expert in petroleum landman.

23 HEARING EXAMINER: Were you working for Clay
24 when he ran for governor of Texas?

25 THE WITNESS: When he was talking about it, no.

1 He closed his Tulsa office a couple months before. And I
2 don't know if I'm glad or not. He was fun to work with.

3 HEARING OFFICER: The witness is so qualified.

4 Q. Mr. Michalak, could you identify Exhibit 1 and
5 describe the land and the well involved in this case?

6 A. Okay. Exhibit 1 has the southwest of the
7 northwest of Section 25, 16 south, 36 east in solid color.

8 And it is in that location that Edge Petroleum
9 drilled the South Lovington 25 Well No. 1. The location
10 for that well was 1,977 feet from the north line, and 330
11 feet from the west line.

12 Q. And what was the primarily objective in the
13 well?

#1
14 A. The well was drilled to the Devonian formation,
15 which was not productive. It was a wild cat Devonian oil
16 test, but we did dedicate that quarter quarter section to
17 the well. But the well was complete and in the Strawn
18 formation. #2

19 Q. The Strawn formation in this area, there are a
20 number of pools. What are the two closest pools? And I'd
21 refer you to Exhibits 2, 3, and 4.

#3
22 A. The closest -- the two closest pools, the first
23 one is in Township 16, 36 east, southwest quarter of
24 Section 23, is a well in the Lovington-Upper Pennsylvanian
25 Pool. It was spaced 40 acres for the Cisco, Canyon and

C Closest

1 Strawn formations.

2 Q. Okay. And referring to Exhibit 3, what is the
3 other nearby pool?

4 A. The other pool is the Northeast Lovington-Upper
5 Pennsylvanian Pool, which includes amongst other acreage
6 the east half of Section 24 and --

7 Q. That's located to the northeast of your proposed
8 well?

9 A. Right. And it's also those three formations
10 that are --

11 Q. Cisco, Canyon and Strawn?

12 A. Yes.

13 Q. And is Exhibit 4 a copy of the special pool
14 rules for the Northeast Lovington-Upper Pennsylvanian?

15 A. Yes, they are.

16 Q. And what are the acreage and footage
17 requirements?

18 A. Page 2 of that exhibit under Rule 2 provides
19 that the standard unit would be 80 acres, more or less,
20 and that the location of the well would be within 150 feet
21 of the center of a quarter quarter section or lot.

22 MR. BRUCE: And Mr. Examiner, these are the pool
23 rules for the Northeast Lovington-Pennsylvanian Pool,
24 which was later designated the Northeast Lovington-Upper
25 Pennsylvanian Pool.

1 THE WITNESS: And that order number, if you need
2 it, is R3816.

3 Q. Now, when Edge completed the well and hole in
4 the Strawn, in what pool did it place the well or attempt
5 to place the well?

6 A. Edge filed in the Lovington-Upper Pennsylvania
7 Pool, which is the 40 acre pool to the northwest of the
8 well.

9 Q. And what did the Hobbs district office do with
10 that filing?

11 A. The Hobbs district designated the well to be
12 included in the Northeast Lovington-Upper Pennsylvanian
13 Pool or the 80 acre space pool to the northeast.

14 Q. And what did it require Edge to do?

15 A. They required Edge to shut the well in. Because
16 at that point, being included in the 80 acre pool, it
17 became an unorthodox location and we then had to go out
18 and get an 80 acre unit approved.

19 Q. Is the well currently shut in?

20 A. Yes, it is.

21 Q. Now, let's get to what Edge is requesting in
22 this case. What is Edge's first request, or really, it's
23 preferential option in this?

24 A. Our preferred option is to be allowed to have
25 this well in the Lovington-Upper Pennsylvanian Pool so it

1 would be spaced at the 40 acres as it was drilled to be
2 and originally intended to be.

3 Q. And if it was placed in that pool, the well
4 would be at an unorthodox well location, would it not?

5 A. Yes, it would.

6 Q. And will the next witness discuss the geologic
7 bases for these requests?

8 A. Yes, he will.

9 Q. If that preferred request is not granted, what
10 does Edge request in the alternative?

11 A. We are going to -- or we are requesting that it
12 be included in the Lovington Northeast Pennsylvanian Pool,
13 that we be allowed a non-standard 40 acre spacing unit,
14 which would be the southwest quarter of the northwest
15 quarter of Section 25.

16 Doing so would make that an unorthodox oil well
17 location, and so we would also request approval of that
18 unorthodox location.

19 Q. And what are Edge's reasons for these requests?

20 A. The well that we have drilled is actually
21 physically closer to the 40 acre Lovington-Pennsylvanian
22 Pool. It's producing from the well -- of course it's
23 producing from the Strawn formation pool.

24 Mr. Creasey after me, I have heard, the pressure
25 and flow data on this well indicates it is a limited

1 reservoir, which would also justify being 40 acre spacing.

2 And there should be testimony that the formation
3 from which this is -- the Strawn formation from which this
4 is producing from is separate from the Strawn formation in
5 the Northeast Lovington-Pennsylvanian Pool.

6 Q. And again, our next witness will discuss this?

7 A. Yes, Mr. Creasey.

8 Q. Are there any other reasons why you request that
9 the 40 acre spacing unit be approved?

10 A. Yes, there are. Since we would drill this well
11 on a 40 acres basis, if we respace to an 80 acre, it will
12 adversely affect the equities that currently exist in the
13 well that we've drilled.

14 Q. And in your opinion, is the granting of this
15 application in the interest of conservation and the
16 prevention of waste?

17 A. Yes, I do believe so.

18 Q. Let's get into notice given for this
19 application. First of all, referring back to Exhibit 1,
20 the land plat, what type of land is involved in this case?

21 A. This is all fee land that is included in here.

22 Q. And on Exhibit 1, outlined in yellow, is a 320
23 acre tract. What does that signify?

24 A. That is pretty much the common ownership of
25 people that own in the south half of the northwest quarter

1 of 25 and the south half of the northeast quarter of
2 adjoining Section 26.

3 Q. And actually, it also includes the north half
4 southeast of 26 and the north half southwest of 25? It
5 was all covered by --

6 A. Yes, it does.

7 Q. It was all covered by one patent originally?

8 A. Correct. By common ownership, there are about
9 five parties, I believe, in Section 26 that also have a
10 smaller interest.

11 Q. So for the most part -- and we'll get into
12 this -- interest ownership is common in this 320 acres to
13 a large extent?

14 A. Yes, sir.

15 Q. Okay. And let's get into this a little more.
16 First of all, were all affected interest owners notified
17 of the hearing?

18 A. Yes, they were.

19 Q. And describe who we gave notice to.

20 A. As to Section 25, we notified all the mineral
21 interest owners that were in the southeast quarter of the
22 northwest quarter.

23 We also had leased those interests in the
24 southwest quarter northwest quarter but not the southeast
25 quarter of the northwest quarter.

1 Q. Okay, so when Edge leased the interest in this
2 40 acre well unit, not all of those parties were leased as
3 to the offsetting 40 acres?

4 A. That's correct.

5 Q. So those people were notified, in effect,
6 because their interest in one 40 would in effect be
7 different than in the next 40 -- not their underlying
8 mineral interests, but in some they'd be under lease, and
9 in some, they would have just the unleased mineral
10 interest?

11 A. Yes, that's correct.

12 Q. Now -- So you notified people in the southeast
13 northwest, but -- What you're telling me is, if an 80 acre
14 unit needs to be formed, would Edge form that unit
15 comprised of the south half northwest quarter?

16 A. Yes.

17 Q. Why would Edge not form a standup unit?

18 A. Couple reasons. First, we don't really have the
19 northwest northwest leased. That's what we're talking
20 about on the equity issue, and the ownership being common
21 within those two tracts would make it much more logical to
22 have it as a laydown unit.

23 Q. Okay. So having the south half northwest
24 quarter where underlying mineral interest ownership is
25 common would only make sense to have that as the 80 acre

1 well unit?

2 A. Most likely, yes.

3 Q. Okay. And next, was notice also given of the
4 unorthodox location?

5 A. Yes, it was.

6 Q. Okay. Now, let's go to Exhibit 5 which is the
7 notice letter I sent out, and in particular, Exhibit A to
8 that letter. Does that exhibit --

9 A. All of Exhibit A lists all of the people that
10 were notified. It is broken into three different
11 groupings.

12 Q. Okay. So in going through that, there's Group
13 No. 1, which occupies the first three pages of Exhibit A.
14 Group 2, which occupies the next page and a half. And
15 then there is Group 3; is that correct?

16 A. Yes, sir.

17 Q. First of all -- and I think we've already said
18 this once but we need to make sure, if ownership is
19 common, why were so many people notified of this case?

20 A. Most of the people -- First of all, we tried to
21 lease 100 percent where the well is located. We had to
22 notify other people just because there's a common
23 ownership among the offset sections.

24 Q. Okay. But the leases you took on the well unit,
25 not all of them covered the southeast of the northwest of

1 25 or the offsetting south half northeast of 26; is that
2 correct?

3 A. That is correct.

4 Q. So in short, you gave notice of the non-standard
5 unit to the people whose interest in the 80 unit may be
6 different than a 40 acre unit?

7 A. Yes, that's the people in the south half of the
8 northwest quarter.

9 Q. And even though most of -- Let me see. I want
10 to make sure I phrase this right. And those same people,
11 even though they own an interest in the well, did you give
12 certain people notice of the unorthodox location because
13 their interest in the well unit is different than in the
14 Section 26 acreage, the offsetting Section 26 acreage?

15 A. Yes.

16 Q. Okay.

17 A. They were entitled to notice under two different
18 reasons.

19 Q. Yeah. And then we'll get into the final group
20 next. So let's get back to Exhibit A attached to
21 Exhibit 5. First of all, who are the Group 1 people?

22 A. Group 1 are the people whose leases cover the
23 well unit but they are not covered in the offsetting
24 southeast northwest corner of 25 or the south half of the
25 northeast quarter of 26. They may be affected by the

1 non-standard unit. They would also be affected by an
2 unorthodox location.

3 Q. Okay. And just to -- I hope -- make this clear,
4 if they had a 1/16 interest and it was leased in the well
5 unit, they would have a 1/16 of whatever their royalty
6 interest is?

7 A. Yes.

8 Q. And as opposed to in the offsetting acreage, if
9 they're not leased, they will still have that full 1/16
10 interest?

11 A. They'd have a full 1/16 that is not leased.

12 Q. As an example?

13 A. Yes.

14 Q. And who are the Group 2 people?

15 A. Group 2 are the people who we have on our lease
16 but do cover the well unit, but they also cover the south
17 half of the northeast quarter of Section 26.

18 So as to the well, they would not be affected if
19 it is an unorthodox location, but they would be affected
20 if it is to the -- a non-standard unit.

21 Q. Okay. So the Group 1 people are affected by
22 both the non-standard unit and the unorthodox location,
23 and the Group 2 people are only affected by the
24 non-standard unit?

25 A. Correct.

1 Q. And finally, there's the Group 3 people. Who
2 are they?

3 A. They are owners in the south half of the
4 northeast of Section 26.

5 Q. And those -- how many are there, five or six
6 people?

7 A. I think there's five. There's six, I'm sorry.

8 Q. And I believe these people collectively own a
9 3/256 mineral interest?

10 A. They own a very small interest, yes.

11 Q. And they own an interest in the Section 26
12 acreage, but they do not own an interest in Section 25?

13 A. That is correct.

14 Q. So they were given notice purely for the
15 unorthodox location?

16 A. Correct.

17 Q. And is Exhibit 6 the Affidavit of Notice?

18 A. Yes, it is.

19 Q. Now, what did Edge do to locate all interest
20 owners?

21 A. First off before the well was drilled, there was
22 a title opinion that was rendered to determine who all the
23 owners were. When it came time for purposes of this
24 hearing, I had a landman update the title and the
25 ownerships mostly just for the purpose of notification of

1 this hearing.

2 The county telephone books, telephone records,
3 internet records were checked and researched trying to
4 determine all the owners and their addresses.

5 Q. Okay.

6 MR. BRUCE: And Mr. Examiner, if you would go to
7 the back starting at the last page of Exhibit 6, there's
8 the estate of Myrtle Lee Malone, and then the page above
9 that, Mercantile Trading Corp. They have not received
10 notice.

11 There was a force pooling on this well and we
12 could not reach them for that. Which the order was
13 issued, I believe, last May or June. And they could not
14 be reached for that one either.

15 I believe everybody else has received notice or
16 is just picking up, because as is shown in the force
17 pooling proceedings the last go round, everybody received
18 notice.

19 So it would only be those last two pages which
20 are the two people that did not receive -- could not be
21 located and did not receive actual notice.

22 And Exhibit 7 is the notice that was published
23 in the newspaper against Mercantile Trading Corporation,
24 the executor of the estate of Myrtle Lee Malone, and
25 others. I over-covered everything.

1 But I have not received this back from the Hobbs
2 newspaper and I would ask permission to submit the
3 Affidavit of Publication after the hearing.

4 Q. Just a couple of final questions, Mr. Michalak.
5 Were Exhibits 1 through 7 prepared by you or under your
6 supervision?

7 A. Yes, they were.

8 Q. And the final matter is, the well is shut in, a
9 pipeline is being built to connect this well, isn't it?

10 A. We have staked a pipeline and have an issue with
11 the location because of the water fields for the city of
12 Lovington. So we have had to move it.

13 The pipeline was supposed to have been installed
14 this past Monday, and there have been delays. And my
15 understanding is they have started constructing it, which
16 it should be done within the next two or three days,
17 depending on the weather.

18 Q. And with the next witness, we'll discuss this a
19 little more. But whatever decision is made, you would
20 like it as prompt as possible, would you not?

21 A. Yes. We'd like to let the well be producing.

22 MR. BRUCE: Mr. Examiner, I move the admission
23 of Exhibits 1 through 7.

24 HEARING EXAMINER: One through 7 are admitted.

25 MR. BRUCE: And I have no further questions of

1 the witness.)

2 HEARING EXAMINER: Okay, let me see if I can
3 figure this one out. The well is 1,977 from the north and
4 330 from the west?

5 THE WITNESS: Yes, sir.

6 HEARING EXAMINER: So on a 40 acre unit on
7 statewide spacing, it would be a standard location, right?

8 THE WITNESS: Yes, and 40 acres.

9 HEARING EXAMINER: But under these pool rules,
10 it has to be -- under the pool rules of a Lovington, it
11 has to be within 150 feet of the center of the quarter
12 quarter?

13 THE WITNESS: That is correct.

14 HEARING EXAMINER: And it's too far west of
15 that?

16 THE WITNESS: Yes.

17 HEARING EXAMINER: So it encroaches toward the
18 southeast of the northeast 226?

19 THE WITNESS: Yes, sir.

20 HEARING EXAMINER: If it is placed in an 80 acre
21 unit -- if it's put in the Lovington-Upper Pennsylvanian
22 field and it's placed in an 80 acre unit, it will encroach
23 toward the southeast of the northeast?

24 THE WITNESS: Of --

25 HEARING EXAMINER: Of 26.

1 THE WITNESS: Of 26, yes.

2 HEARING EXAMINER: And of course I haven't run
3 the numbers because I don't have the capability to do it
4 here, but it seems that -- Well, it's 660 from the -- No,
5 it's 1,977. It's a little over 660 from the south line.

6 So again, it would seem it's probably not going
7 to encroach on the diagonal toward the northeast of the
8 southeast, but I'm not very good at running those.

9 MR. BRUCE: And I can verify that for you, but I
10 think I did the numbers at one point and it is not.

11 THE WITNESS: And that well is closer to the
12 Lovington -- to the southwest also.

13 HEARING EXAMINER: So the people that would have
14 to be notified --

15 THE WITNESS: I'm sorry, I meant to the
16 northwest.

17 HEARING EXAMINER: -- with regard to the unit
18 application would be those who own in the northeast -- in
19 the -- I need to be very careful here. For the unit
20 application, it would be the owners in the southwest of
21 the northwest of 25?

22 THE WITNESS: Correct.

23 HEARING EXAMINER: And in the northwest of the
24 northwest of 25?

25 THE WITNESS: That is correct.

1 HEARING EXAMINER: And for the non-standard
2 location, it would be the people that own in the southeast
3 of the northeast of 26?

4 THE WITNESS: Yes, sir.

5 HEARING EXAMINER: Now, you said that this area
6 that you have outlined on Exhibit 1 is basically common
7 ownership, but there are no two quarters that are exactly
8 common ownership?

9 THE WITNESS: I don't believe so.

10 HEARING EXAMINER: Okay.

11 MR. BRUCE: Mr. Examiner, I don't have an extra
12 copy, but I can provide you with certain title data.

13 HEARING EXAMINER: I was going to say, you know,
14 Mr. Bruce, what I like to see is a list by tract of the
15 people that own in each tract.

16 MR. BRUCE: And the difference is this. Their
17 ownership in the south half northwest quarter and the
18 south -- people that have ownership -- underlining mineral
19 interest ownership in the south half northwest quarter of
20 25 --

21 HEARING EXAMINER: Yeah.

22 MR. BRUCE: -- and the offsetting south half
23 northeast of 26 is common except for those Group 3 people,
24 that 3 over 256 mineral interests.

25 HEARING EXAMINER: This is in what quarters are

1 common?

2 MR. BRUCE: In the south half northwest of 25.

3 HEARING EXAMINER: Ownership in south half of
4 the northwest of 25.

5 MR. BRUCE: And in the south half northeast of
6 26.

7 HEARING EXAMINER: And south half northeast of
8 26.

9 MR. BRUCE: Are the same except for -- and I
10 will provide this info to you after the hearing -- except
11 for those Group 3 people on the notice letter.

12 HEARING EXAMINER: Okay.

13 MR. BRUCE: June Speight, et al.

14 HEARING EXAMINER: Right.

15 MR. BRUCE: Who own in Section 26 but not 25.
16 And then the -- well, the people who own in 25 but not 26
17 are Edward Elkan, Howard Elkan, and Aetna Barry.

18 HEARING EXAMINER: Okay. Now, is ownership
19 common throughout the south half of the northwest of 25?

20 MR. BRUCE: Yes, it is. The difference is that
21 the leases do not all cover that 880 acres.

22 THE WITNESS: We don't have all 80 acres leased,
23 we only have some leases covering.

24 HEARING EXAMINER: Okay.

25 MR. BRUCE: But the mineral ownership is common.

1 But Edge leased some people as to the 80 acres and some
2 only as to the 40 acre well --

3 HEARING EXAMINER: There are no other working
4 interest owners in this relevant area, this is all royalty
5 owners, is that right?

6 THE WITNESS: Our own interest is partially --
7 We have a working interest. We do not have to lease.
8 Other than that, I believe we have leases from everyone or
9 silence from them.

10 HEARING EXAMINER: So the working interest under
11 the existing leases is all common throughout this area
12 except --

13 THE WITNESS: Section 26. There's a few extra
14 parties in there. But it is a common ownership land-fee
15 wise on the south half of the northwest quarter. But as
16 to our interest, we do not have it all leased.

17 HEARING EXAMINER: But what I'm trying to figure
18 out is, does anybody else have any of this leased, is
19 there any outstanding working interest owners in any of
20 the relevant quarters, which I believe would be the --

21 MR. BRUCE: The only one would be -- I want to
22 make sure I get this right. The only one, Mr. Examiner,
23 would be a lease issued to Yates Petroleum.

24 HEARING EXAMINER: And what does that cover?

25 MR. BRUCE: It covers all of that 320 acres

1 outlined on Exhibit 1.

2 HEARING EXAMINER: Okay, but their ownership is
3 common in the 320 acres?

4 MR. BRUCE: Their ownership is common, so they
5 were not notified.

6 HEARING EXAMINER: Okay. What I would like the
7 witness to do is prepare a list of the owners by quarter
8 quarter sections, if that could be done.

9 MR. BRUCE: Yes, we can do that.

10 HEARING EXAMINER: So we would be able to see
11 just who is where. And show separately -- indicate on it
12 those who are leased and those that are unleased.

13 Because when we get to non-standard locations,
14 you have to notify the unleased owners, you don't have to
15 notify the royalty owners where you have leases.

16 MR. BRUCE: And actually, Mr. Examiner, I think
17 with respect to the unorthodox location, I believe that we
18 notified everybody.

19 HEARING EXAMINER: Okay, very good. If you
20 could provide that as supplemental. Now on this Affidavit
21 of Publication, what date was that published?

22 MR. BRUCE: I believe it was published a week
23 ago Monday, but I'm waiting to hear back.

24 HEARING EXAMINER: Okay, so you don't have -- It
25 was not published within 20 days out, so we do need to

2.
did we
get
this?

1 continue this case to the next hearing.

2 MR. BRUCE: Okay, that would be fine.

3 HEARING EXAMINER: Okay. It would have to have
4 been published November 28th.

5 MR. BRUCE: Yeah. And I'll -- This can be off
6 the record.

7 HEARING EXAMINER: I have nothing further for
8 this witness.

9 MR. WARNELL: I have nothing.

10 MR. BRUCE: And next we'll call Mr. Creasey.

11 HOWARD CREASEY,

12 The witness herein, after first being duly sworn
13 upon his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. State your name and city of residence for the
17 record.

18 A. Howard Creasey. I live in Conroe, Texas.

19 Q. And who do you work for and in what capacity?

20 A. I'm the Senior VP of Exploration for Edge
21 Petroleum.

22 Q. And by trade, what are you?

23 A. I'm a geologist, geoscientist.

24 Q. Have you previously testified before the
25 Division?

1 A. I have.

2 Q. And were your credentials as an expert geologist
3 or geoscientist accepted as a matter of record?

4 A. They were.

5 Q. Does your area of responsibility at Edge include
6 this portion of southeast New Mexico?

7 A. It does.

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

10 A. I am.

11 MR. BRUCE: Mr. Examiner, I tender Mr. Creasey
12 as an expert petroleum geologist.

13 HEARING EXAMINER: So qualified.

14 Q. Mr. Creasey, could you identify Exhibit 8 for
15 the examiner, and then I think we'll go a little bit out
16 of order, but what does Exhibit 8 show?

17 A. Exhibit 8 is a little repetitive from what
18 Mr. Michalak showed, but it is a lease map. It shows the
19 location of the Edge Petroleum 25 No. 1, the 40 acre unit
20 that we had designated with that well. And then to the
21 northwest, the southeast of Section 23, which -- Actually,
22 that should have been -- Is that correct?

23 Q. Yes.

24 A. That's the Lovington PIN Pool and -- Upper PIN
25 Pool, and then the east half of Section 24 which is

1 designated into the Lovington Northeast PIN Pool.

2 Q. Okay. Let's skip ahead to your final exhibit,
3 Exhibit 14, and discuss the location. Could you identify
4 Exhibit 14 and describe why this well location was
5 selected for the well?

6 A. Exhibit 14 is a depth structure map that was
7 generated off a seismic data set that we acquired over
8 this area. The primary objective for this well was the
9 Devonian Dolomite Section.

10 And as you will see, in the northwest quarter of
11 25, there's a localized structure with the high of that
12 structure being in the southwest of the northwest. And we
13 draw that under the 40 acre designation for the Devonian.

14 Q. Okay. And the location was orthodox for the
15 Devonian?

16 A. Correct, it was.

17 Q. And so you weren't -- Edge was not trying to
18 drill in an unorthodox location in the Strawn out here,
19 was it?

20 A. No, we did not. There is Strawn production in
21 the area, and we certainly realized that there was
22 potential for Strawn, Wolfcamp, Cisco, as well as other
23 zones. But it was our primary objective for the Devonian.

24 Q. What is Exhibit 9?

25 A. Exhibit 9 is a little larger scale, a 1 inch to

1 3,000 that I call a location plat. It shows the 40 acres
2 that is associated with the well in Section 23 that is the
3 Lovington Upper PIN Pool. That well is 4,480 feet away
4 from our South Lovington 25 No. 1.

5 The east half of Section 24 is within the
6 designated Lovington Northeast Upper PIN Pool, and the
7 most southerly well in that pool is 5,140 feet away. So
8 we're actually about 700 foot closer to the Lovington
9 Upper PIN Pool. It's more of a location map to show the
10 relationship of the two.

11 Q. Okay. So even though the well unit may be
12 closer to the Northeast Pool, Northeast-Lovington, the
13 actual physical location of the well is closer to the
14 Lovington Upper PIN?

15 A. Correct.

16 Q. Did we try to convince the Artesia officer to
17 move the well into the Lovington Upper PIN Pool?

18 A. We did. I talked to a district geologist and he
19 was resistant to even that.

20 HEARING EXAMINER: Was that Ron while he was --

21 MR. BRUCE: Mr. Kautz.

22 HEARING EXAMINER: Oh, yeah, that's right.

23 Brian was in District 2.

24 Q. Why don't you go to your cross-section, Exhibit
25 10.

1 A. Exhibit 10 is a three well cross-section
2 that has the well to the northwest that is in the
3 Lovington Upper PIN Pool, the Edge Petroleum South
4 Lovington 25 No. 1, and then the well -- the closest well
5 to us to the northeast and the Lovington Northeast Upper
6 PIN pool.

7 And again, the distances between these wells
8 is -- the location map shows we're 4,480 feet away from
9 the Lovington Upper PIN Pool, closest location is 5,140 to
10 the Lovington Northeast Upper PIN Pool.

11 The top of the Pennsylvanian formation in this
12 area is slightly above the top of the Strawn Reef, but
13 what I wanted to show on the cross-section is that the
14 interval that is productive on all three of these wells in
15 the Lovington Upper Pin Pool and the Lovington Northeast
16 Upper PIN Pool are all in the Strawn Reef formation.

17 And the middle of each one of these logs -- And
18 it's a porosity log and a resistivity log on each well.
19 The red highlighted areas are the actual perforations on
20 each one of these wells. The perforations are also listed
21 at the base of the log, and also the cumgas, cumoil and
22 cumwater, and then the cum figures below that.

23 I'll show you in an additional exhibit after
24 this on the structure of the top of the Strawn Reef we
25 have mapped a reentrant or a saddle between the Lovington

1 South 25 No. 1 well that Edge drilled and the Lovington
2 Northeast Upper PIN Pool.

3 So we think structurally, we can certainly
4 separate these two pools, and from an isopach map that
5 I'll also show in just a second, we show a clear
6 termination of the Lovington Northeast Upper PIN Pool
7 moving to the west.

8 Q. Okay.

9 A. There's an index map at the bottom of this
10 cross-section that shows the three wells on the
11 cross-section. It's a structural cross-section also.

12 Q. Okay. Let's discuss -- There was some pressure
13 data take taken on this well, was there not?

14 A. There was. Exhibit No. 11, the first page of
15 Exhibit No. 11 is a DST that we ran in the Strawn
16 interval. The initial bottom hole shut-in pressure was
17 4,273 PSI. Our packers failed after this shut in on the
18 final flow and we did not get a final shut-in pressure on
19 that particular zone.

20 We got very little recovery but got some oil and
21 gas coming out, but the pressure is what we're really
22 concerned about here. If you'll skip the next two pages
23 which is more of the recovery data and some of the
24 terminology that are associated with -- and a description
25 of the test, the fourth page is a log, a open-hole log, a

1 porosity log of the Lovington 25-1.

2 Again, the perfs are in red. And you can see
3 we're using a 4 percent porosity cutoff in green. And to
4 the right, you can see the density and neutron curves that
5 have shown very good porosity in what we're calling the
6 Strawn Reef section.

7 Again, the next page is a flow test that we
8 conducted on this well for three days. There's a little
9 index in the upper right-hand corner of that graph. In
10 green is the oil rate. The rate was up to 450 barrels a
11 day. And you can see it was over a three day period and
12 we were adjusting the choke slightly, but we kept it
13 pretty consistent.

14 You can see the oil rates jumping around a
15 little bit. What was very concerning to us was the black
16 Xs, the flowing tubing pressure. You can see the flowing
17 tubing pressure starts out around 1,200 PSI, and at the
18 end of this three day test, it was as low as 420 PSI..

19 So we were real concerned about the pressure
20 drop during that three day period. We ran a bottom hole
21 bomb, a shut-in test, and if you'll just flip to the last
22 page, these are the grafts in between.

23 The last page is the analysis of that bottom
24 hole bomb. You'll see that the intercept -- excuse me,
25 the P star, which is an extrapolation of the pressure, it

1 was still slightly building. But as you can see on the
2 charts, it was pretty much flattened out. It was 3,352
3 PSI. That's about a 22 percent drawdown from our original
4 pressure on our DST of 4,281.

5 You can see under the skin in that text box
6 which tells you that it's a negative skin factor that we
7 don't appear to have any near well-bore damage from mud or
8 from an acid treatment.

9 So we're real concerned about the fact that over
10 a three day period of producing this well -- and I think
11 our cumulative production was around maybe 800 to 900
12 barrels of oil -- that our pressure has dropped 22 percent
13 bottom hole.

14 So we submitted this to the district geologist
15 initially, and our comments were that, you know, 80 acre
16 spacing is certainly not valid. We don't think that this
17 well is really capable of draining 40 acres. It may be
18 something less than that, in a 20 acre range, but we, you
19 know, just didn't feel like 80 acres was valid.

20 Q. Okay. Let's move on to your next final two
21 exhibits. What is Exhibit 12?

22 A. Exhibit 12 is a structure map on top of a
23 Strawn. And again, the Strawn is a member of the
24 Pennsylvanian-aged section. This is a depth structure
25 map.

1 On this structure map I have some green
2 polygons, which we'll discuss in the next map. Those are
3 isopach thicks within the Strawn section, which in our
4 mind is indicating some patch reefs.

5 And on this map, you'll see the wells that have
6 the red bubbles around them are wells that have made in
7 excess of 100,000 barrels of oil, and the wells that are
8 pink are wells that have made less than a 100,000 barrels
9 of oil. We felt like we had 75 to 80 percent correlation
10 with the good producers to these isochron thicks.

11 You'll notice that the east half of Section 24
12 northeast of our proposed location, there is a little
13 reentrant -- or saddle which we believe is a structural
14 separation between these two fields, and we believe that
15 because of the isopach map that I'll show you next.

16 The Lovington Upper PIN Pool which was
17 designated by the well in the southwest quarter of Section
18 23 to the northwest of us, appears to be on the north
19 flank of a structure that is associated with our South
20 Lovington 25 No. 1.

21 So we feel like there's good structural evidence
22 that there is a separation between the Lovington Upper PIN
23 Pool and the Lovington Northeast Upper PIN Pool.

24 Q. Let's move on to Exhibit 13. What does that
25 reflect?

1 A. Exhibit 13 is an isopach map of the Strawn reef
2 net porosity. And again, we felt like we had a very good
3 corroboration of these green bubbles to these colored in
4 polygons in green.

5 And what that is telling you is that you have
6 porosity buildups within these green bubbles. And the
7 Strawn in this area is known as a patch reef, which are
8 very discrete, small reef buildups that, you know, maybe
9 thicken 20 to 25 foot of porosity, but they're highly
10 prolific.

11 You'll notice that moving to the west of the
12 Lovington Northeast Upper PIN Pool which is in Section 24,
13 there are a couple of wells that have virtually no
14 porosity at all. As you move to the south half of
15 Section 24 in the southeast quarter, you can see that
16 those wells are starting to thin when the most southerly
17 wells in the southeast quarter of Section 24 were very
18 poor producers.

19 So our contention is that those wells are on the
20 west edge of the Lovington Northeast Upper PIN Pool and
21 are on a separate structure.

22 As you move to the west, the porosity in our
23 wells, close to 25 feet of porosity in that well, and we
24 pick up another thickness or an increase in thickness
25 within the Lovington PIN Pool -- within the Strawn section

1 of the Lovington Upper PIN Pool.

2 It appears to be on the same isochron that is
3 associated with the well in the southwest quarter of
4 Section 23.

5 So again, we feel like there's good evidence
6 stratigraphically that the porosity terminates moving west
7 from the Lovington Northeast Upper PIN Pool, and then
8 there's another separate porosity development moving to
9 the west which is the Lovington Upper PIN Pool.

11
10 Q. So geologically, you believe that your well is
11 connected to the Lovington Upper PIN Pool which is based
12 on 40 acres?

13 A. Correct.

14 Q. And even if the well remained placed in the
15 Northeast Lovington PIN Pool, there is not sufficient
16 reservoir to justify an 80 acre well unit?

17 A. Based on the pressure data we have, that's
18 correct.

19 Q. Were Exhibits 8 through 14 prepared by you?

20 A. Yes, they were.

21 Q. And in your opinion, is the granting of Edge's
22 application in the interest of conservation and the
23 prevention of waste?

24 A. Yes, I do. And I would say that if we -- We
25 have acidized the Strawn formation in our South Lovington

1 25 No. 1 and we've only been able to flow it for three
2 days; the longer that we keep this well shut in, it's
3 detrimental to our ability to produce it.

4 MR. BRUCE: Mr. Examiner, I move the admission
5 of Exhibits 8 through 14.

6 HEARING EXAMINER: Exhibits 8 through 14 are
7 admitted.

8 MR. BRUCE: I have no further questions of the
9 witness.

10 HEARING EXAMINER: Okay. Mr. Warnell?

11 MR. WARNELL: What kind of a price did you use
12 for a barrel of oil in your economics?

13 THE WITNESS: Our original economics, we used
14 \$75 a barrel. If we were to redrill this now, we would
15 probably drop it down to \$45 or \$55. I think the banks
16 right now are redetermining what their value will be. We
17 try to tie ourselves to the lending institutions.

18 MR. WARNELL: I really have no questions.

19 HEARING EXAMINER: Okay. If I understand
20 correctly, the basic reason why you think this well won't
21 drain 80 acres is because of the pressure drop; is that
22 correct?

23 THE WITNESS: That's correct.

24 HEARING EXAMINER: So far as the structure --
25 Well, I guess first of all, you have identified yourself

1 as a geologist, a geoscientist. What is the difference
2 between a geologist and a geoscientist?

3 THE WITNESS: When I hire people at Edge, if a
4 person has significant geophysical background -- It's kind
5 of a gray area between a geologist and a geophysicist
6 these days. If they have a significant geophysicist
7 background, I'll call them a geoscientist.

8 We try to hire what I call stand-alone
9 geoscientists. Most of the major companies have the
10 ability because of their situation that they will hire a
11 geologist and a geophysicist to work together as a team.

12 We don't necessarily have that luxury. We do
13 have a geophysicist that does a lot of our modeling and
14 some of the more esoteric stuff geophysically. But this
15 project was worked by myself initially, and there was
16 another geoscientist that worked it, and then I kind of
17 followed up on it.

18 HEARING EXAMINER: Okay. Well, that leads in to
19 my question, does your interpretation of this structure,
20 is that based primarily on well control, or do you have
21 seismic that goes into this?

22 THE WITNESS: We do have seismic. We integrate
23 all the well control. And so I don't -- we try to take
24 all of our geophysical maps to depth. So we don't time --
25 we have time maps, but I didn't bring any time maps.

1 But we have tied the seismic to this well
2 control, and that structure that you're looking at,
3 reflects our seismic interpretations, as well.

4 HEARING EXAMINER: Then the green areas, those
5 are the areas where you have the high --

6 THE WITNESS: Those are in excess of 40 foot of
7 porosity, porosity in the Strawn.

8 HEARING EXAMINER: Okay. I wanted to make sure
9 I didn't say "porosity" when you had said "permeability"
10 or vice versa, because I make that mistake a lot.

11 THE WITNESS: I think that when you do get an
12 increased porosity interval within the Strawn, you have
13 associated permeability that is also increased.

14 HEARING EXAMINER: And you basically drew those
15 based on the -- what was found in these wells that are
16 shown in circles, is that correct, that was how you
17 plotted these areas of high porosity?

18 THE WITNESS: Those are actually used -- We've
19 had seismic support of those.

20 HEARING EXAMINER: Okay.

21 THE WITNESS: You can actually map an isochron
22 thick associated with that Strawn at this particular
23 depth. So we're seeing some indications of an isochron
24 thick. Obviously, you get kind of beyond the resolution
25 tool in some areas. But we did use the seismic to help

1 generate that isopach.

2 HEARING EXAMINER: And the fact that the
3 permeability appears to -- I mean, porosity appears to
4 diminish as you go south in Section 24, is that the
5 primary support for your belief that there is an
6 intervening structure between there and your well in 25?

7 THE WITNESS: Well, the reefs grow on the
8 paleohighs of structures.

9 HEARING EXAMINER: Yeah.

10 THE WITNESS: And so that saddle, I think, is
11 probably the cause of the porosity pinch out, and I think
12 that the structure moving a little further to the
13 southwest is the cause for the porosity developed in our
14 well.

15 HEARING EXAMINER: Yeah, you really don't have
16 any well control within that area, is what I'm seeing. So
17 that's your interpretation that that saddle is in there,
18 right?

19 THE WITNESS: Well, we can see it structurally
20 with the seismic.

21 HEARING EXAMINER: Okay, so you've got seismic
22 support for the areas that --

23 THE WITNESS: I really was reluctant to bring
24 the seismic map and seismic data.

25 HEARING EXAMINER: Well, I can understand that,

1 because they're very hard to read and determine.

2 THE WITNESS: We have a license agreement on the
3 seismic, so it's --

4 HEARING EXAMINER: Yeah. There's a lot of --

5 THE WITNESS: There are some wells -- excuse me
6 for interrupting, there are some wells to the northwest in
7 Section 14 in the east half of 14 and also in the
8 northwest of 24 that have no porosity at all. And so that
9 pinch out is based on --

10 HEARING EXAMINER: Okay, I see you've got a dry
11 hole marker up here in 24.

12 THE WITNESS: The well is -- The API series
13 number that's 03744?

14 HEARING EXAMINER: Right.

15 THE WITNESS: Has zero feet of porosity.

16 HEARING EXAMINER: So that well did penetrate
17 this Strawn formation?

18 THE WITNESS: This map is a filtered map for
19 only wells that penetrated the Strawn formation.

20 HEARING EXAMINER: Okay. And I see you've got
21 the zero feet there, so --

22 THE WITNESS: Correct. So there is some
23 subsurface support.

24 HEARING EXAMINER: I can see that does support
25 it. I know that there is a lot of -- talking about

1 geoscience, I know there's a lot of art to drawing these
2 lines and figuring out which direction they run, and you
3 probably have a lot experience working with this area.

4 THE WITNESS: Well, we do. And that's why we --
5 You know, 20 years ago before you had 3-D seismic, there
6 was a lot of discretionary contours with the geophysics.
7 Now, and with the 3-D seismic, the -- you know, we try to
8 integrate everything that we do. So -- Especially when
9 you're looking at a well that was a \$4 million well.

10 HEARING EXAMINER: I'm not supposed to ask you
11 about hearsay but I guess I'm curious. Did Paul Kautz
12 give you any explanation as to why this well should be in
13 the Northeast PIN Pool?

14 THE WITNESS: He mentioned that he had done some
15 pressure work in the Northeast PIN Pool 12 or 13 years
16 ago, and he felt like that the pressure that we had on the
17 final -- on the final pressure on the bomb, bottom hole
18 bomb, was about where it should be.

19 And I, you know, talked to him about the DST
20 with our initial pressure being much higher, and he just
21 kind of shrugged that off.

22 His primary concern after talking to him for a
23 while was that there was some amount of liability on his
24 part if there were offset lease owners who wanted to be
25 included in the 80 acre unit versus not be included in the

1 40 acre units.

2 I mean, that's where he kind of -- he said -- I
3 offered to show him seismic, and he said, "Well, I just
4 don't know that that would change my view."

5 HEARING EXAMINER: I've tried to explain to
6 these guys that they're not liable because we're a
7 regulatory agency.

8 THE WITNESS: Well, he said he had gotten a call
9 from somebody years ago, and whoever called him years ago
10 on something similar to this, he said, you know, he didn't
11 want to be in that position again.

12 HEARING EXAMINER: Okay. Well, I think that's
13 about as far as my knowledge of geology or geoscience will
14 take me. So, do you have anything further Mr. Warnell?

15 MR. WARNELL: No.

16 HEARING EXAMINER: Mr. Bruce?

17 MR. BRUCE: Nothing further at this time. And I
18 believe the case has to be continued so I can submit the
19 other --

20 HEARING EXAMINER: Okay, very good. Case
21 No. 14259 will be continued until January 6, 2009 for
22 supplementation of the record. The hearing is adjourned.

23

24

25

I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner's office of Case No. _____
heard by me on _____

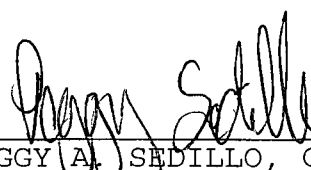
Examiner

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4

5 REPORTER'S CERTIFICATE

6
 7 I, PEGGY A. SEDILLO, Certified Court
 8 Reporter of the firm Paul Baca Professional
 9 Court Reporters do hereby certify that the
 10 foregoing transcript is a complete and accurate
 11 record of said proceedings as the same were
 12 recorded by me or under my supervision.

13 Dated at Albuquerque, New Mexico this
 14 8th day of January, 2008.

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 20 PEGGY A. SEDILLO, CCR NO. 88
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