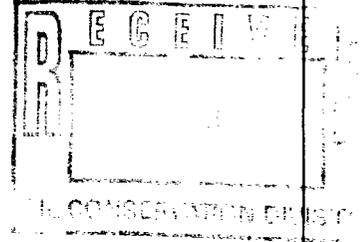


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION



IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
COMMISSION FOR THE PURPOSE OF)
CONSIDERING:)
)
RULE 104 HEARING)
)

CASE NO. 11,351

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

ORIGINAL

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

August 3rd, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, August 3rd, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Commission Hearing
 CASE NO. 11,351

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:58 a.m.:

3 CHAIRMAN LEMAY: Call Case Number 11,351, which
4 is an application called by the Oil Conservation Division
5 to amend Rule 104 of its General Rules and Regulations
6 pertaining to unorthodox well locations and nonstandard
7 units.

8 Appearances in Case 11,351?

9 MR. CARROLL: Mr. Chairman, my name is Rand
10 Carroll and I'm appearing on behalf of the Oil Conservation
11 Division.

12 I have one witness, and he has previously been
13 sworn.

14 CHAIRMAN LEMAY: Additional appearances in the
15 case?

16 Mr. Kellahin?

17 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
18 the Santa Fe law firm of Kellahin and Kellahin.

19 I'm appearing in this case on behalf of the New
20 Mexico Oil and Gas Association; Conoco, Inc.; and Meridian
21 Oil, Inc.

22 CHAIRMAN LEMAY: Thank you.

23 Additional appearances?

24 Okay, Mr. Carroll, you may begin.

25 MR. CARROLL: Thank you.

1 I call Mr. Jim Morrow to the stand.

2 CHAIRMAN LEMAY: Let's swear in the witnesses,
3 I'm sorry. Those witnesses that are about to give
4 testimony, please stand and raise your right hand.

5 (Thereupon, the witnesses were sworn.)

6 JIM MORROW,

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

9 DIRECT EXAMINATION

10 BY MR. CARROLL:

11 Q. Mr. Morrow, will you please state your name,
12 address and current employment for the record, please?

13 A. Jim Morrow, Austin, Texas. I'm working on
14 contract with OCD.

15 MR. CARROLL: Mr. Chairman, I'll ask you to note
16 that Mr. Morrow has testified in the previous case and
17 you've heard his qualifications, and I ask now whether his
18 qualifications are acceptable in this case.

19 CHAIRMAN LEMAY: They're acceptable for this case
20 as well as the last case.

21 Q. (By Mr. Carroll) Mr. Morrow, I will direct your
22 attention to what has been marked OCD Exhibits 1 and 2, and
23 particularly Exhibit Number 1 at this time.

24 A. All right.

25 Q. Mr. Morrow, as you know, this case is to amend

1 OCD Rule 104 to provide for administrative approval of
2 certain unorthodox well locations previously requiring a
3 hearing.

4 What was the impetus for this change in Rule 104?

5 A. For quite some time at OCD we've recognized the
6 need to be able to process nonstandard location
7 applications for geological reasons administratively, and
8 the Rule did not allow us to do that, so -- in most cases
9 it didn't allow us to do that -- so it had to be brought to
10 hearing.

11 Also, at the industry input meeting last February
12 23rd, several suggestions were received for streamlining
13 OCD procedures, and these included the revisions in 104,
14 which we're bringing to you here today, which will allow
15 for administrative handling, and even authorize some
16 operations which previously required applications and
17 hearings.

18 Rule 104 addresses spacing and acreage
19 requirements for drilling tracts.

20 Q. And Mr. Morrow, as part of your current
21 consulting contract with the OCD, you have reviewed 104 and
22 you have certain revisions you propose to be made to 104 to
23 facilitate the administrative handling of these types of
24 applications; is that correct?

25 A. Yes, sir, I've reviewed 104, and we've discussed

1 it in house here with the other engineers in the Division
2 and with Mr. LeMay and with yourself, and with the District
3 Offices also.

4 Q. If you would, Mr. Morrow, if you could take us
5 through what has been marked Exhibit Number 1 and show us
6 the major changes that you have made.

7 The other changes have been shown. Minor typos
8 or word changes, we don't have to go through on the stand.
9 But the major changes, I'd like you to tell the
10 Commissioners what was done.

11 A. All right. When we drafted the proposal which
12 was circulated to industry and which has been presented as
13 Exhibit Number 1, we considered that there were four fairly
14 major changes which we were proposing.

15 The first one is on page C-2, under paragraph B
16 (2) (a), right at the bottom of the page.

17 For wells in San Juan Basin, we're proposing to
18 change the interior distance from quarter-quarter section
19 lines, from 130 feet to 10 feet. We would leave the
20 distance to the outside boundary the same so that
21 correlative rights would be protected. But the interior
22 distance change would give operators flexibility to drill
23 wells in areas where they already have a lot of wells and
24 they've pretty well already taken up many of the standard
25 locations. And in order to get closer than 130 feet they

1 had to apply for nonstandard locations, and this would
2 eliminate the need for that.

3 The second change is on page -- Did all of you
4 follow that? The way we changed that, we just struck the
5 130 and then changed it to 10 feet.

6 The second change is on page C-6, paragraph D (2)
7 (a). This is a new paragraph, the shaded-in new paragraph,
8 which authorizes district approval for nonstandard oil and
9 gas units, which are due to variations in public land
10 surveys and which fall between 70 and 130 percent of the
11 standard size.

12 This would allow those -- such applications to be
13 handled much more efficiently, and we find that they're
14 generally always approved after they've gone through the
15 paperwork and submitted them as nonstandard units. So we
16 recommend that this authorization be given to the District
17 Offices.

18 Third change is on page C-7, and this authorizes
19 unorthodox locations for enhanced recovery operations,
20 provided the locations are standard to the outside boundary
21 and provided also that they're at least 10 feet from
22 quarter-quarter section lines.

23 We've approved a similar authorization in one of
24 the pools in the southeast, and that's working very well,
25 and we believe this will give operators flexibility and cut

1 down on the paperwork that is required now for waterflood
2 expansion for interior wells.

3 The fourth change is in paragraph F (2) on page
4 C-8, and this provides for the administrative handling of
5 unorthodox oil and gas locations for geologic reasons.
6 Those can be submitted administratively, using this
7 provision, instead of having to bring many of them to
8 hearing, which is the current practice.

9 These are the four major changes. We've made
10 some other small changes in wording to make sure that
11 meanings are clear and that -- to accommodate these major
12 change, what we call major changes, that we've made.

13 One such change I'd point out is on page C-6, and
14 the reason I'd like to point that one out, we failed to
15 highlight that change in the copy we circulated, and also
16 in your copy -- your Exhibit 1 copy. This is in paragraph
17 number (2) on page C-6.

18 And the way it reads now, it says, "Any well
19 which does not have the required amount of acreage
20 dedicated to it for the pool or formation in which it is
21 completed...may not be produced until a standard unit..."
22 and so on.

23 And we're proposing to add "in which it is
24 completed" or "to which it is projected", to make it clear
25 that the application can be submitted prior to the drilling

1 of the well.

2 Q. Mr. Morrow, there's a mark there that appears to
3 be a comma, but it's not actually a comma; it's just a mark
4 that appeared on the copying machine; is that correct?

5 A. I believe that's right, on the --

6 Q. In the "to which it is projected."

7 A. We want to eliminate that.

8 And in addition to these changes, when we
9 circulated the proposed changes to the District Offices, we
10 received suggestions from the Aztec office, and they made
11 some suggestions which I'd like to discuss now.

12 On page C-3 --

13 Q. And this is marked as OCD Exhibit Number 2?

14 A. No, we're not to that yet.

15 Q. Okay.

16 A. This is just those changes that the Aztec office
17 wanted and we're proposing to add.

18 Let's see, on page C-3, up at the top of the
19 page, both (b) and (d), we're proposing a change in both
20 those paragraphs, and these require that, "In the event oil
21 production is encountered in a well which was projected to
22 a gas-producing horizon and which is located accordingly
23 but does not conform to the oil-well location rule..." it
24 will be "necessary for the operator to bring the matter to
25 hearing..." and we wanted to amend that, both paragraph (b)

1 and (d), to not require the hearing every time but to say
2 that it will be necessary for the operator to submit the
3 matter for administrative approval or bring it to hearing,
4 if the Division director requires it.

5 MR. CARROLL: And Mr. Chairman, we will
6 supplement the record with our proposed language changes to
7 both (2) (b) and (d), showing the provision for
8 administrative approval rather than going to hearing.

9 THE WITNESS: Another change suggested by the
10 Aztec office is on page C-2, C-3 and C-5. This is just a
11 change in the headings. Where the Rule states
12 "Requirements for San Juan, Rio Arriba and Sandoval
13 Counties," the District has proposed that we also include
14 McKinley County, because they say McKinley County is a part
15 of the Basin and should be handled in the same manner as
16 the other counties. So we would propose that that change
17 be included.

18 And then -- Let's see, I believe that's covered
19 everything. Then one final proposal is on Exhibit 2.

20 Q. (By Mr. Carroll) Okay, if you would turn to
21 Exhibit 2, Mr. Morrow, and tell the Commissioners what
22 proposed changes the OCD recommends --

23 A. All right.

24 Q. -- to 104 A.

25 A. Okay. All right, after discussion with the Aztec

1 office concerning this, Mike Stogner prepared this draft of
2 a proposed change which would redefine the wildcat well in
3 the San Juan Basin.

4 As it is now, throughout the state a wildcat well
5 is a well that's one mile from existing development, and
6 there's a need in the San Juan Basin to increase that
7 distance, because many of the wells which, fairly
8 obviously, if they're completed at all, will be completed
9 in the pool that may be a mile and a half or two miles
10 away, are -- have to be filed as wildcat wells. This would
11 allow for the filing of those wells as development wells or
12 extension wells in the pool to which they would likely be
13 completed.

14 The one mile is left in there for other counties.

15 One other change, or another change here, is that
16 McKinley County is added to the other three, and we've put
17 in some wording to make it clear that any well to be
18 drilled and the spacing and proration unit of which is a
19 distance of one mile in the southeast or two or three miles
20 in the northwest, will be considered a wildcat well.

21 There's some confusion now as to whether that
22 distance should be the distance of the well or the distance
23 of the spacing unit, and we're proposing that the distance
24 be measured from the edge of the spacing unit back to the
25 pool, existing pool boundary, in order to make a wildcat or

1 not a wildcat.

2 Q. So what the OCD has done with Exhibit 2, setting
3 forth the changes to Rule 104 A, is just to separate out
4 the San Juan Basin from the rest of the state and making
5 the distance either two or three miles, rather than the one
6 mile?

7 A. Right.

8 Q. Now, Mr. Morrow, regarding your first proposed
9 change, changing the distance from 130 feet to 10 feet,
10 that only deals with interior locations, and it doesn't
11 affect how close you can drill to the outside boundary of a
12 unit; is that correct?

13 A. That's correct.

14 Q. So it wouldn't affect correlative rights?

15 A. That's right.

16 Q. Mr. Morrow, in your opinion, are your proposed
17 changes to Rule 104 in furtherance of the OCD mandates to
18 prevent waste and protect correlative rights?

19 A. Yes, sir, I believe they'll continue to do that,
20 and they'll reduce the paperwork and the administrative
21 hassle required to obtain approval.

22 MR. CARROLL: Mr. Chairman, that's all I have of
23 this witness, and I offer exhibits that have been marked
24 OCD Exhibits 1 and 2 into the record.

25 CHAIRMAN LEMAY: Without objection, Exhibits 1

1 and 2 of the OCD will be admitted into the record, and
2 we'll have questions of the witness.

3 Commissioner Weiss?

4 EXAMINATION

5 BY COMMISSIONER WEISS:

6 Q. Yes, sir, Mr. Morrow, on page C-8 of your Rule
7 104, in that second paragraph, number (2) up at the top
8 there, "based upon geologic conditions" what's that?

9 A. Well, it would be a situation where the geology
10 would provide a better location at an alternate location
11 than it would at a regular location or an orthodox --

12 Q. Is that subsurface geology?

13 A. Yes, sir. Stick that in there, it would probably
14 be a good idea.

15 Q. Well, I don't know if that's a good idea or not.
16 That's kind of interpretive, isn't it?

17 A. Well, we usually refer to the surface conditions
18 as topography and the geology is the subsurface. But
19 subsurface is certainly what we meant there.

20 Q. It seems to me that we hear these -- used to hear
21 them quite a bit, these unorthodox-location hearings, and
22 they just -- it always looked to me like whoever had the
23 best story, why, they'd drill up against the other guy's
24 oil, and, you know, it's a drainage thing.

25 A. Well, you'll still get to hear those.

1 Q. This doesn't address that. I'm concerned that
2 that problem can be handled administratively.

3 A. Well, this will provide a means for handling
4 those administratively without objection.

5 Q. Ah --

6 A. If there's an objection --

7 Q. -- there it is.

8 A. -- it will come to hearing.

9 Q. Okay, I forgot about objection. Very good, very
10 good. Okay.

11 And I take it, on the second Rule 104, the San
12 Juan Basin changes, that (2) or (3) is yet to be decided?

13 A. We're going to let you all decide that.

14 COMMISSIONER WEISS: Thank you, that's all the
15 questions I have.

16 CHAIRMAN LEMAY: Commissioner Bailey?

17 EXAMINATION

18 BY COMMISSIONER BAILEY:

19 Q. On page C-2, number (2), Wildcat Gas Wells --

20 A. C-2

21 Q. -- the proposal to allow up to 10 feet --

22 A. Yes, ma'am.

23 Q. -- from the interior quarter-quarter, we do have
24 40-acre leases, so my concern is that there would be
25 inadequate notice to us or our lessees.

1 What conditions will be set on the administrative
2 approval for these?

3 A. Well, they would still have to be 790 feet to any
4 outer boundary. So if they were trying to drill a well on
5 40 acres, which I don't think there's any gas-well spacing
6 in here that --

7 Q. No, there's not.

8 A. -- would be that small for gas wells, but --

9 Q. But within the 160, we could have four different
10 lessees?

11 A. Oh, you could. Within the 160 that there's
12 drilling on, and then that's going to be their proration
13 unit?

14 Q. And you could have conceivably four different
15 lessees.

16 A. Well, it would be a pool situation or, if they
17 were assigning the 160 to it I assume they've all gotten
18 together and decided to --

19 Q. You see, that's not normally done until after the
20 well is drilled and completed, for a communitization
21 agreement to be signed and approved by all parties.

22 A. How do they file it? Do they file it on a 40-
23 acre or on 160 acres?

24 Q. They file it on the proration unit. And all
25 parties, all lessees, who have an interest within that

1 proration unit, have to sign this agreement.

2 A. So they would be agreeable to the drilling of the
3 well -- or not?

4 Q. Sometimes. Sometimes not. But that's --

5 A. Well, I guess I don't know the answer to that. I
6 was assuming that if they had all the 160-acre interests
7 together and they agreed to something that, you know,
8 this -- and again, that plus the requirement that it be 790
9 feet to any outside boundary would protect it.

10 Possibly you brought up a situation where it
11 would not, I don't know.

12 Q. And it happens regularly, we have over a thousand
13 communitization agreements --

14 A. How does it handle under the 130-foot situation?

15 Q. We usually have no problem. I mean, I'm not
16 bringing that in, I'm just concerned about the notice to
17 all our lessees, the procedures that would be --

18 A. I can see that. I sure believe, though, that an
19 Interior guy that has been in discussions about the
20 drilling of that well would know that they've spotted it
21 ten feet from his line.

22 Q. It is surprising how many times there has not
23 been notice given to other lessees within the proration
24 unit --

25 A. Is that right?

1 Q. -- that a well is -- That's the basis of my
2 objection here, or question.

3 A. I see, I understand what you're saying.

4 Q. So we'll have to think about this one, I guess.

5 A. Okay.

6 COMMISSIONER BAILEY: That's all I have.

7 EXAMINATION

8 BY CHAIRMAN LEMAY:

9 Q. Mr. Morrow, I assume that geology, as used in the
10 general sense, also includes geophysics. Example: A lot
11 of the unorthodox locations are because of 3-D seismic and
12 it's a small feature and you might have to drill closer?

13 A. Yes, sir.

14 Q. So that's a broad inference on geologic
15 conditions?

16 A. Right. Geologic conditions aren't covered by --
17 or as discovered by geophysics.

18 CHAIRMAN LEMAY: Yeah, right. That's all I have.

19 Any questions, additional questions?

20 If not, the witness may be excused. Thank you,
21 Mr. Morrow.

22 Mr. Kellahin?

23 MR. KELLAHIN: Thank you, Mr. Chairman.

24 Mr. Chairman, I'm appearing on behalf of the New
25 Mexico Oil and Gas Association as their Chairman of the

1 Regulatory Practices Committee.

2 When we received the Division-proposed rule
3 change, with the assistance of Ruth Andrews of the
4 Association we circulated our summary of the rule changes
5 for not only the location wells but the proposed downhole
6 commingling situations.

7 In response to the questionnaire, there were a
8 number of very clear and very useful suggestions, which
9 causes us to appear today to ask you to broaden the scope
10 and take the opportunity to consider additional changes.

11 In both of these cases, we applaud the Division
12 for initiating rule changes, and we think there are
13 additional important changes to be considered.

14 As a result of the questionnaire, then, there
15 were certain operators that immediately came forward, and
16 out of those companies we have selected what I will
17 characterize as a Rule 104 Committee, and that Committee is
18 composed of members, all of whom are here and present and
19 available for discussion.

20 The principal initiator of the Committee for the
21 nonstandard well locations is Mr. Jerry Hoover, an engineer
22 with Conoco.

23 In addition, the rest of that Committee is: Amoco
24 Production Company, through Mr. Bill Hawkins and Ms. Pam
25 Staley; through Meridian Oil, Inc., in Farmington, Mr.

1 Scott Daves and Mr. Alan Alexander. And that's our core
2 group of technical people. They are engineers and a
3 landman to discuss these issues.

4 And as a result, then, we have what we think to
5 be an initial proposed industry rule change for which we
6 would like to suggest the following: that the Commission
7 consider broadening the scope of the rule change, that
8 after our presentation you allow this Committee to be
9 designated by the Oil Conservation Commission as an
10 industry committee and let us discuss with Mr. Morrow and
11 others in the Division our proposed changes, and that
12 within 30 days and the schedule, the next Commission
13 hearing, in September, October, whatever is your
14 convenience, we would come back to you with what we think
15 is a final consensus document.

16 That procedure, then, would allow us to again
17 poll our membership to make sure that the suggestions we're
18 making to you, in fact, have a broad basis of support and
19 we have not made a mistake.

20 We are here to support what Mr. Morrow has
21 described to you, and we have people to explain to
22 Commissioner Bailey her concerns on the last question she
23 asked.

24 And with that introduction, then, I would like to
25 call Mr. Jerry Hoover.

1 MR. KELLAHIN: With that introduction, we tender
2 Mr. Hoover as an expert witness.

3 CHAIRMAN LEMAY: His qualifications are
4 acceptable.

5 Q. (By Mr. Kellahin) Mr. Hoover, let's turn to your
6 exhibit, and we have marked it for the record as Conoco
7 Exhibit 1.

8 As I understand it, apart from the fact that it's
9 marked as a Conoco exhibit, the members of the Rule 104
10 Committee have been involved in discussing these rules, and
11 there is a general consensus among your working Committee
12 that the rules that you're about to discuss need some
13 addition and correction?

14 A. That is generally correct. Time constraints kept
15 us from actually producing an exact consensus document, but
16 we have all looked at it and are in agreement.

17 Q. All right. Let's talk about the general topics
18 that Mr. Morrow described in his summary, and let's deal
19 first with this concept of reducing for the wildcat and
20 development wells in the San Juan Basin the interior
21 setback in spacing units.

22 We are under a rule now that has a 130-foot
23 setback, except when we deal with, I believe, the Coal Gas
24 Pool, and I believe the Coal Gas Pool, you in fact can be
25 10 feet off an interior quarter-quarter line?

1 A. That's correct.

2 Q. All right. Describe for us how you've addressed
3 among the Committee a response to the Division's suggestion
4 that the interior line can go down to 10 feet.

5 A. We certainly agree with Mr. Morrow's initiation
6 of increasing the drilling windows. It's becoming ever
7 more difficult to find locations that do not fall under the
8 unorthodox category, and so this is certainly very helpful
9 in the wildcat and development wells in the northwest part
10 of the state. We simply feel like we need a similar
11 relaxation in the southeast.

12 Q. Let's turn to the end of your exhibit package and
13 look at Attachment C and by way of that illustration, then,
14 address the discussion as to interior -- relaxing the
15 interior setback in spacing units in the northwest.

16 A. Yes, in fact, if you'll put C and D together,
17 you'll see that C is the current spacing for the southeast
18 counties, D is what we're proposing.

19 On the current rule, the windows are really quite
20 small. We have such thick sections in southeast New Mexico
21 with the Central Basin Platform, we have so many wellbores
22 in the same area going to different horizons, that we're
23 almost to the point of having a honeycomb of wells and
24 pipelines and power lines. It's becoming very difficult to
25 find standard locations for new development.

1 Q. In southeastern New Mexico?

2 A. In southeast New Mexico.

3 Q. All right. What about the northwest?

4 A. Northwest, of course, the topographic problems
5 are our main concern there, and those were covered in
6 attachments A and B.

7 Q. If we take the current rule and relax it, you
8 have illustrated, then, with Exhibit D what the consequence
9 is?

10 A. That's correct. Yes, you're right. My mistake.
11 C and D are San Juan. I looked at the wrong headings.

12 I think these are essentially what Mr. Morrow is
13 calling for, simply moving to the 10-foot offset on the
14 interior boundaries.

15 Q. In terms of correlative rights or the
16 distribution of proceeds payable to royalty owners, when we
17 look at Commissioner Bailey's issue, let's use Exhibit D as
18 an example.

19 If, for example you had a shallow Pictured Cliff
20 gas well, all PC spacing, then, is 160 acres?

21 A. That's correct.

22 Q. And if you were consolidating as an operator four
23 40-acre tracts, each separately owned, maybe with different
24 royalty owners, that consolidation is such that the outcome
25 of consolidation will be all those interest owners will pay

1 and share in income on 160-acre spacing?

2 A. Yes.

3 Q. So there will be no one receiving proceeds within
4 the 40 acres that contains the well, which now encroaches
5 an interior line, that's any different from how that money
6 is paid?

7 A. I believe that's correct.

8 Q. So there's an allocation distribution that
9 solves, in your opinion, Ms. Bailey's concern?

10 A. Yes, there would have to be.

11 Q. Let's go now to another topic, and I think
12 perhaps you've got an illustration. When we go to

13 Exhibit -- Let's go to Attachment A and set up the issue.

14 Currently in southeastern New Mexico, when you're
15 looking at the typical setbacks for a 320 gas well spacing
16 unit, on the west -- on the east half of this section, that
17 would illustrate an example of that, right?

18 A. That's correct.

19 Q. Side boundary setbacks on 320s are 660, the end-
20 line setback is 1980, and then the interior line is going
21 to be 330?

22 A. That is correct.

23 Q. Despite having 320 acres dedicated to one gas
24 well, this is very limited in terms of locations, is it
25 not?

1 A. Yes, it is.

2 Q. Let's turn to Exhibit B, then, and have you
3 describe how you would propose to relax the Rule.

4 A. We would propose maintaining the same side
5 setbacks of 660, giving us a little more latitude toward
6 the ends of proration by coming back out to 1650 from the
7 ends, instead of the 1980, and giving us the 10-foot offset
8 on the interior quarter-quarter line.

9 Q. The only change here, then, is to move 1980
10 setback, reduce that down to 1650, and that window, then,
11 is a standard window?

12 A. That's correct.

13 Q. And then on the interior portion, to reduce that
14 from -- to a 10-foot -- yeah, it's reduced from a 330 --

15 A. Yes.

16 Q. -- which is much more restrictive than we
17 currently have in the northwest --

18 A. That's correct.

19 Q. -- and reduce that down to 10 so it's equivalent
20 with the northwest?

21 A. That's correct.

22 Q. All right. All right, sir, let's find the next
23 topic in the rules that the Committee has discussed and
24 what you're proposing to change.

25 A. The next topic comes under 104 D, and that's

1 acreage assignment. It deals with nonstandard units.

2 Specifically, we're looking at D (2), paragraph (a).

3 Q. This is the topic that Mr. Morrow described to be
4 the nonstandard proration unit issue?

5 A. That's correct.

6 Q. All right. What are you describing to do that's
7 any different than what he has proposed?

8 A. (a) is exactly what Mr. Morrow proposes. We're
9 proposing an expansion of that concept down into paragraph
10 (b), which would also allow the supervisor of the District
11 Office to approve all nonstandard units, assuming the wells
12 are still at orthodox locations.

13 Q. Currently, what is the process?

14 A. Currently the process is an administrative
15 application to the Santa Fe office.

16 Q. And you would like to relax that rule and have
17 this decision start and end at the district level?

18 A. That's correct. Typically, if the wells are
19 still orthodox, we don't ever receive any objections.

20 Q. Have you or any member of the Committee ever
21 found a case in which there was an objection filed over
22 that kind of issue?

23 A. I have not been involved with one.

24 Q. It would then shift the work load of that topic
25 from the Santa Fe office and distribute it to the District

1 Supervisor?

2 A. That's correct. This is one of the great
3 delaying issues in a lot of our new gas wells.

4 Q. Let's look at the next topic. In terms of
5 nonstandard proration unit, Mr. Morrow did not make any
6 inclusion of those pools that have 640 acres in them?

7 A. That's correct.

8 Q. And you're proposing with your Committee to
9 expand the availability of that relief to include all
10 spacing sizes, 40s, 80s, 160s and 640s?

11 A. That's correct. That's found under (2),
12 paragraph (b), section (ii).

13 Q. The rest of that page, I think you have what I
14 would characterize to be a clerical issue with regards to
15 sub (e) in terms of how the filing is made on a particular
16 form?

17 A. That's correct.

18 Q. The designation of the spacing unit would be on
19 Form C-102 in terms of its acreage dedication?

20 A. This has been a bit confusing to industry
21 members, at least, and because there's not a specific place
22 on the C-101 to show the acreage dedication, and we thought
23 perhaps it might be clearer to indicate that that be shown
24 on the C-102.

25 Q. Does NMOGA's Rule 104 Committee concur in the

1 Division's recommendation to have an expanded
2 administrative procedure to authorize nonstandard well
3 locations for geologic reasons that are not currently
4 available in the Rule?

5 A. We certainly commend them for this change. It's
6 an excellent amendment.

7 Q. Under your proposed change with your Committee,
8 it still preserves the opportunity with anyone with an
9 objection to timely file that objection and, as a
10 consequence, have the matter set for hearing?

11 A. That is correct.

12 Q. Within the context of your work, have you
13 considered whether or not there should be any default
14 minimum distance to set back a well? In other words, a
15 buffer, regardless of what the operator wanted to ask for,
16 so that under an administrative application, as the
17 Division proposes, you could be all the way up to the line
18 of the spacing unit?

19 A. That is correct. The document, as we presented
20 it to you, does not include any type of a buffer. We've
21 been talking since we developed this and actually got it
22 printed among us and have decided that it probably is a
23 good idea to put some type of minimum buffer zone in which
24 it would automatically be kicked to hearing.

25 Q. The concept is that if a party asks for a hundred

1 feet out of the corner of a 320 and notice is given, it's
2 possible that you might not timely file an objection and
3 simply lose your chance to complain, the well then gets
4 approved at an extremely unorthodox location, for which
5 there is in fact no hearing process?

6 A. Yeah, extreme cases should be dealt with here, I
7 think.

8 Q. In terms of notification, have you and the
9 Committee talked about what to do in terms of notification
10 under the administrative procedure?

11 A. We have, and this is perhaps the major amendment
12 we would like to suggest, in addition to what the Division
13 has already done.

14 There is some confusion on our parts as to
15 exactly what the notification is, depending on whether it's
16 administrative or hearing. We have no problem with the
17 hearing. We understand that we typically have been
18 required to notify all offset operators, completely around
19 the proration unit in which the unorthodox location
20 appears.

21 Apparently, there have been kind of a loophole
22 for administrative applications that was not required.
23 Conoco has always done that anyhow.

24 We feel like that those parties on the opposite
25 sides of the proration unit from where the encroachment is

1 actually taking place do not have a legitimate complaint
2 anyhow, an objection would not receive much of a hearing,
3 and therefore we're a little puzzled as to why we're
4 required to notify them, and we would like to somehow
5 change the wording and language to require notification
6 only of those parties who are truly being encroached upon.

7 MR. KELLAHIN: My next witness will address that
8 issue more fully, Mr. Chairman.

9 Q. (By Mr. Kellahin) With those remarks by Mr.
10 Hoover, I'll let you summarize your position and
11 recommendations, Mr. Hoover, and then we'll submit your
12 exhibit.

13 A. In summary, our recommendations are to expand a
14 little further the enlargement of drilling windows to
15 include the southeast New Mexico pools and counties as well
16 as the northwest.

17 Second is to expand the authority of the District
18 Offices to approve all nonstandard units, assuming well
19 locations are still orthodox, without hearing.

20 And third, to provide a little more concise
21 language concerning notification in the case of unorthodox
22 locations.

23 MR. KELLAHIN: As identified, we submit for
24 introduction, Mr. Chairman, Conoco Exhibit 1.

25 CHAIRMAN LEMAY: Conoco Exhibit 1 shall be

1 admitted into the record, without objection.

2 That's it, Mr. Kellahin?

3 MR. KELLAHIN: Yes, sir.

4 CHAIRMAN LEMAY: Questions of the witness?

5 Commissioner Weiss?

6 COMMISSIONER WEISS: I have no questions.

7 CHAIRMAN LEMAY: Commissioner Bailey?

8 COMMISSIONER BAILEY: No.

9 EXAMINATION

10 BY CHAIRMAN LEMAY:

11 Q. Mr. Hoover, I've got a couple. Let's --

12 A. Sure.

13 Q. For purposes of illustration, let's just go back
14 to your windows, Exhibit A and Exhibit B, and let me pose
15 some hypothetical situations to you.

16 On Exhibit B, by enlarging that 320-acre window
17 at which to drill --

18 A. Yes.

19 Q. -- let's assume that you're an operator, you
20 communitize that 320, Conoco owns one side, maybe Exxon the
21 other. You drill this Morrow well, you drill the 10 feet
22 from the lease line, and let's say you get a San Andres
23 well and you want to produce that San Andres well, and here
24 you are 10 feet from the lease line. And I guess Exxon, to
25 benefit from -- or to protect their acreage, would have to

1 drill 10 feet, get an unorthodox location from that. And
2 here you have two wells 20 feet apart fighting each other
3 in a reservoir.

4 This happens more in the southeast than the
5 northwest. That's why I'd like to bring up that situation,
6 how you would address it?

7 A. That only occurs, you know, with a backup zone,
8 that pops up like that, that you weren't proposing
9 initially.

10 I suppose -- That can certainly happen. Perhaps
11 the Committee needs to consider that to see if there's not
12 some safeguard for that type of thing happening.

13 Q. I think it probably happens. My experience has
14 been maybe it happens more in the southeast than the
15 northwest, where serendipity definitely works for you and
16 you are looking at quite a few zones going down to a Morrow
17 gas well at 12,000 feet or so.

18 A. To this point, we have not had that size of a
19 drilling window for that to happen in that severe case.

20 Q. But 10 feet would certainly make the encroachment
21 for an oil well much -- Wouldn't you call that rather
22 severe in terms of --

23 A. Certainly would. Of course, we -- That's right.
24 We only pose this for gas, but you're saying what if the
25 opportunity for an oil well completion exists there?

1 Q. The other thing I wonder if the Committee
2 considered, and I know maybe we're talking about arbitrary
3 numbers, we're going -- you're proposing going from 1980
4 feet from the short end to 1650 feet, I assume just to give
5 basically more flexibility in the location, but -- Is that
6 true?

7 A. Primarily, it's more flexibility, plus I think
8 we're seeing more and more drilling where we're infilling
9 with more than one well, in a lot of cases, in some of the
10 pools. We may be moving in that direction.

11 Q. You know, there's always been an argument that's
12 been made on a waste issue, that you have 320 acres, and
13 yet if you want to crowd a line too much, you may -- as a
14 practical matter, you may try to reduce risk as an operator
15 by crowding a good well. This would allow you that
16 additional 330 feet, I guess, or not that much.

17 A. Yeah, it's just another --

18 Q. Yeah, another 330 --

19 A. Yeah.

20 Q. -- to crowd a good well?

21 A. Yeah.

22 Q. And as you crowd a good well, at least in the
23 Morrow, with the variations in the thickness and erratic
24 nature of some of those sands, Atoka too, could you maybe
25 not encounter on your proration unit some productive sands,

1 because you -- the tendency is to crowd the good production
2 and therefore not really test the section that may have
3 erratic sands within that 320?

4 I mean, the crowding principle has its risk
5 aversion to it.

6 A. Yes.

7 Q. But by doing that, you're also sacrificing the
8 opportunity to explore on that proration unit for
9 development of other reservoirs?

10 A. I suppose that's possible. I'm not sure another
11 330 feet in a full 320 section here is going to affect it
12 that drastically.

13 Q. I don't know, I'm just raising these issues for
14 the Committee's consideration. I think the 1980 feet may
15 have had some rationale back somewhere. I assume your 1650
16 feet -- How about 1500, how about --

17 A. Well --

18 Q. -- 1720?

19 A. -- sure.

20 Q. I mean, you know, where does that number have any
21 legitimacy in terms of maybe the balance of trying to crowd
22 a good well, reducing the risk and fully developing any
23 potential reservoirs on your proration unit?

24 A. Right, admitting the number was somewhat
25 arbitrary, you know, the familiar 330 length measurement

1 was added to it. I think, especially in the Morrow, you
2 know, more and more we're finding isolated small pods,
3 fewer large pools where perhaps that's going to even be a
4 problem.

5 Q. Would you agree the larger the proration unit,
6 the more opportunity there is to maybe miss some oil or gas
7 by crowding the good wells?

8 A. That's true, we're still going to try and take
9 our best shot geologically at it. You know, it may take
10 precedence over crowding a good well, even.

11 CHAIRMAN LEMAY: That's all I have in the way of
12 questions.

13 Commissioner Weiss?

14 EXAMINATION

15 BY COMMISSIONER WEISS:

16 Q. Can these problems that have just been discussed
17 be addressed prior to drilling? Does Conoco typically have
18 a bail-out zone and can that be addressed earlier with
19 Exxon across the line?

20 A. In many areas that may be true, that there are
21 multiple potential zones to be completed. That could --
22 might be addressed ahead of time.

23 COMMISSIONER WEISS: My comment. Thank you.

24 CHAIRMAN LEMAY: Maybe one more, as long as we
25 have you here, Jerry.

1 THE WITNESS: Sure.

2 FURTHER EXAMINATION

3 BY CHAIRMAN LEMAY:

4 Q. This gets into management decisions on drilling.
5 Assume Conoco -- Assume you had a risky reservoir, Conoco
6 is on the other side of the proration unit, that we're
7 encroaching the other way. Conoco is very interested,
8 there's a 1000-barrel-a-day well there.

9 Because there's a 1000-barrel-a-day well, your
10 offset wants to crowd as close as they can to that 1000-
11 barrel-a-day well.

12 But you're sitting at the other side of this.
13 The closer that well gets to you, the more information you
14 have to project if you want to drill or not drill. And as
15 you get these busy corners, these stepouts -- or these
16 offsets become more of a stepout.

17 So can you visualize a situation where the party
18 that isn't crowded has a legitimate interest in the
19 location of that well and should be notified?

20 A. You're still talking about the boundary, not the
21 interior crowding, right?

22 Q. We're talking now about being notified if you're
23 on the opposite end of encroachment.

24 A. Oh, that issue.

25 Q. That issue. I think the assumption is that it

1 doesn't matter. I'm just saying, could it matter if the
2 encroachment was to crowd good production and therefore
3 your well becomes a further stepout from known conditions?

4 A. It's been at least my assumption and
5 understanding in the past -- maybe this is incorrect --
6 that if we were not directly offset to an encroaching well,
7 that we had no standing to come and make an objection.

8 MR. KELLAHIN: Mr. Chairman, I'll respond to it,
9 and Mr. Carr is here and he could comment.

10 I can't think of a case in 25 years where I have
11 had an offsetting party go towards which the well is moving
12 away -- We're delighted they go the other way. The
13 drainage effect is less on us, and we get some of our share
14 out of theirs. I've never had a protest like that.

15 THE WITNESS: I don't know what we'd present
16 as --

17 CHAIRMAN LEMAY: Assume you'd make a well. My
18 question, Mr. Kellahin, really has to do with not so much
19 the drainage but the risk involved in having to step out
20 further from known data. In evaluating that risk, one --
21 Would they have an objection? I'm throwing this out
22 because the statement was made there would not be an
23 objection. I'm saying, could there be an objection based
24 on increasing your risk?

25 MR. KELLAHIN: Well, here's the glitch in the

1 rules that he's trying to address.

2 If you have an unorthodox location and want to
3 file it administratively and you're eligible for it, you're
4 required administratively to notify everyone around you,
5 operator and, in the absence of an operator, the lessee and
6 owner.

7 You can escape that notice requirement by simply
8 filing for a hearing and under the hearing rules, 1207, I
9 only notify those parties towards whom I'm moving.

10 And apart from that, though, we have a problem
11 with notice as to who we notify towards whom we're moving,
12 and Mr. Alexander is going to refer to that.

13 THE WITNESS: I do not foresee that to be a
14 problem, in our minds at least.

15 Q. (By Chairman LeMay) Okay. It was, really, not
16 so much drainage. It was a risk assessment --

17 A. Right.

18 Q. -- that the operator would make if he has to move
19 further away or from his control.

20 A. Yeah, I don't foresee that as being a problem.

21 CHAIRMAN LEMAY: Thank you. That's the only
22 question I had. Thank you, Mr. Hoover.

23 Other questions of the witness? If not, he may
24 be excused.

25 Do you want to take another one?

1 MR. KELLAHIN: Short presentation.

2 CHAIRMAN LEMAY: Okay, let's have the short -- I
3 was looking at the time, and if it's short that's -- you
4 know, that's fine. We can do it either way.

5 MR. KELLAHIN: I'll mark these at the break, Mr.
6 Chairman, but here's two additional displays.

7 ALAN ALEXANDER,

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

10 DIRECT EXAMINATION

11 BY MR. KELLAHIN:

12 Q. Mr. Alexander, for the record would you please
13 state your name and occupation?

14 A. My name is Alan Alexander. I'm currently
15 employed as a senior land advisor for Meridian Oil, Inc.,
16 in the Farmington, New Mexico, office.

17 Q. As a land advisor, is it your responsibility for
18 your company to satisfy the notice requirements of the
19 Division when your company seeks to file for and obtain
20 unorthodox well locations for production in the San Juan
21 Basin?

22 A. Yes, sir, it is.

23 MR. KELLAHIN: We tender Mr. Alan Alexander as an
24 expert witness.

25 CHAIRMAN LEMAY: His qualifications are

1 acceptable.

2 Q. (By Mr. Kellahin) Let's take the example that
3 has information on the display where the offset is numbered
4 1, 2 and 3.

5 A. Yes, sir.

6 Q. Are you with me?

7 A. Uh-huh.

8 Q. Set up the situation. Describe for us what
9 you're showing.

10 A. This is a very generic plat, but I think it's
11 useful for discussion purposes.

12 On this particular plat let's assume that we're
13 dealing with a 320-acre spaced pool, such as the Mesaverde.
14 Then let's assume that we're dealing with its setback
15 requirements from the outer boundaries, which are 790 feet.
16 And you'll see that I've set this one up to show 650 feet
17 from the north and the east lines.

18 I haven't addressed the current rule. Under the
19 current rule we would be notifying parties all the way
20 around this 320-acre proration unit. I'm assuming --

21 Q. For an administrative application?

22 A. For an administrative application, and I'm not
23 addressing that since we're talking about moving away from
24 that.

25 My intention here is to simply talk about what

1 we're proposing to change the Rule to and to get a little
2 better clarification of our proposed change. So I haven't
3 indicated all those other parties.

4 If you'll look at the plat to the north of the
5 spacing unit and to the northeast of the spacing unit, I've
6 inserted two wells up there. Indicate that in those areas
7 we have known spacing units, because we do have production,
8 and we would be required to notify the operators for those
9 wells in this situation. We would not be required to
10 notify the mineral owners or the owners if we did not have
11 a well.

12 And that's under the square rectangles with the
13 numbers 2 and 3. If you look down at the bottom, for 2 and
14 3, for 2 I say we would notify operator "A", for 3 we would
15 notify operator "B".

16 Q. What's the dilemma when you come to how to
17 understand notification to those adjoining tracts for which
18 there is no well, no operator and no declared spacing unit?

19 A. We have in the past notified -- Where we do not
20 have an existing well that is offset to the proposed well,
21 we would notify -- we would go to the county records and do
22 a record search and come up with the names and addresses of
23 all of the owners in some proration unit.

24 And therein lies the problem we've always had.
25 We've never known exactly who to notify, because -- Let's

1 take this example right here.

2 Over to the east where the well is actually
3 encroaching, we're suggesting that we not notify the owners
4 of the leaseholds upon which the well would be encroaching.
5 Under the old rule we would have done the same thing,
6 except that we would try to figure out which of those
7 leaseholds to notify.

8 I have set up this display to show -- If you'll
9 see the dashed line that's out to the side, I'm indicating
10 that those are boundaries of leaseholds, if you follow
11 that, if it makes sense.

12 And so we would -- We would try to determine,
13 well, who should we notify that's being encroached on by
14 this well? Would it be all of the parties, all the way
15 down the side of this proposed proration unit in all of the
16 leases?

17 Q. Well, if the assumption is a west-half adjoining
18 spacing unit that's undrilled, everybody in the 320
19 adjoining unit, does not have a well, conceivably is
20 entitled to notice?

21 A. That's correct.

22 Q. And if that has not been declared, it in the
23 alternative could be the north half?

24 A. That's correct.

25 Q. And so you're faced with notifying or finding

1 owners in two thirds of an adjoining section for which
2 there is no well?

3 A. That's correct, and therein is where the problem
4 has always been.

5 So what we're proposing to you that we do in this
6 instance would be to notify, number one, only the leasehold
7 owners that are actually being encroached upon.

8 Now, that could still leave you with a little bit
9 of a dilemma, because say the encroached area consists of
10 40-acre leaseholds. So which of those 40-acre leaseholds,
11 maybe, should you notify? You don't really -- We're still
12 in a little bit of a dilemma here.

13 So what we're proposing is maybe that what we do
14 is, we take the actual setback for the proposed well and we
15 draw a radius circle around that well at its current
16 unorthodox location, and any of the leaseholds that is
17 encountered by that circle or touched by that circle, we
18 would in fact notify those parties. And I think that would
19 give everybody a fairly clear understanding of exactly who
20 to notify in these situations. And in fact, those would be
21 the parties that would be encroached upon according to the
22 current rules in effect for that pool.

23 Now, I haven't drawn that radius circle on these
24 plats, so I'm talking a little bit offhand about this
25 particular solution.

1 MR. KELLAHIN: That concludes my questions of Mr.
2 Alexander.

3 I will have these marked as Meridian's Exhibits 1
4 and 2, and subject to having them marked, we submit them
5 for introduction.

6 COMMISSIONER WEISS: Which one is which?

7 MR. KELLAHIN: I'm going to mark Number 1 to be
8 the one that is labeled 1, 2 and 3. The one that has sub
9 1a, -b and -c, that would be Exhibit 2.

10 COMMISSIONER WEISS: Okay.

11 CHAIRMAN LEMAY: Questions of the witness?

12 Commissioner Weiss?

13 EXAMINATION

14 BY COMMISSIONER WEISS:

15 Q. I have one, Mr. Alexander.

16 What is -- I didn't follow your radius discussion
17 there. What's the length of the radius?

18 A. It would be what the radius is for the setback
19 for the applicable pool that you're asking notification on.

20 Let's assume, like I said, this one is a Blanco-
21 Mesaverde proposed well, and --

22 Q. Yeah, look at Exhibit 1 and tell me what you're
23 talking about.

24 A. Okay. In this instance, if we're assuming that
25 the Application was for a Blanco-Mesaverde well, the

1 required setback is 790 feet from the outer boundaries,
2 then you would take -- you would inscribe a circle whose
3 radius is 790 feet from the center of the proposed
4 location. And then that radius, if it cut one or more
5 undeveloped leaseholds, then you would notify the parties
6 in those undeveloped leaseholds about this particular
7 application.

8 Now, that radius would change, depending upon
9 what project you're working on. If you're working on a
10 Coal well or a PC well or a Chacra well or one of the pools
11 down in the southeast, that radius would change. It would
12 be what the setback is for that applicable pool.

13 Q. On Exhibit Number 1, each of these squares is 40
14 acres; is that right?

15 A. No, sir, those squares that have -- Those are
16 just set there to help you find the numbers a little
17 easier. Those squares don't mean anything in and of
18 themselves.

19 Q. Well, what's the size of the big square? Say
20 that 790 feet is the radius that we're talking about.

21 A. Yes, sir.

22 Q. How does that reflect on the size of this big
23 square.

24 MR. KELLAHIN: You're talking two different
25 things, Alan.

1 THE WITNESS: Okay.

2 MR. KELLAHIN: He's asking you within the
3 section. You've subdivided this into 40-acre tracts,
4 haven't you?

5 THE WITNESS: Oh, within the section, that is
6 correct. They're subdivided into 40-acre tracts; that is
7 correct.

8 Q. (By Commissioner Weiss) So 790 feet would just
9 touch the offset if it was right in the middle? It would
10 be all four 40-acre tracts around it; is that correct?

11 A. Within the proposed spacing unit --

12 Q. Yes.

13 A. -- you're talking about?

14 Q. Yeah, yeah.

15 A. It would do that, yes, sir.

16 COMMISSIONER WEISS: I understand what you're
17 talking about. I didn't have a clue until then, so...

18 MR. KELLAHIN: Yeah, it would be 130 feet more,
19 and then you would catch those owners within the circle.

20 COMMISSIONER WEISS: Thank you.

21 THE WITNESS: Uh-huh.

22 CHAIRMAN LEMAY: Commissioner Bailey?

23 EXAMINATION

24 BY COMMISSIONER BAILEY:

25 Q. To follow up on that, so you would have the three

1 40s on the outside of that northeast-northeast for
2 notification, instead of the current rules which require
3 the entire perimeter of that proration unit?

4 A. If you inscribe that circle on this particular
5 plat, I think you would probably be notifying -- And let's
6 just say that there are 40-acre leases offsetting this to
7 the east.

8 If you inscribe that circle, for the northwest
9 quarter of that adjoining section, the sections to the
10 east --

11 Q. Uh-huh.

12 A. -- you would probably -- I'm sure what you would
13 see is, you would probably wind up notifying the parties
14 that are in the northwest of that northwest quarter and the
15 southwest of that northwest quarter.

16 And under our proposal, that would be the only
17 parties of undeveloped leaseholds that you would be
18 notifying.

19 Now, you would notify those parties to the north
20 and the northeast, you would notify the operators there,
21 because there are existing wells there. And we know what
22 those spacing units are, and we know who the operators are,
23 so we would notify those parties as a matter of course.
24 And it's much the same as we've always done in that regard.
25 That has not really changed.

1 Q. This would not look for the lessee?

2 A. Not if we had an existing well and existing
3 operator. And we currently don't do that under the
4 existing rules anyway.

5 COMMISSIONER BAILEY: That's all I have.

6 EXAMINATION

7 BY CHAIRMAN LEMAY:

8 Q. Okay. I'm still trying to get this radius down.
9 What happens if you have a gas well -- You have this
10 colored in as an oil well. Is that your assumption or is
11 that --

12 A. No, sir, it's just a dot so you can find the
13 well. I'm assuming in this particular instance that we're
14 dealing with a Blanco-Mesaverde gas well.

15 Q. Well, the current rules, would you have to -- If
16 that's a gas well, would you have to notify everyone in the
17 adjoining proration unit that wasn't producing? Would you
18 have to go up there on the adjoining section to the east
19 and notify that -- Well, say if there's 40 acres, it would
20 be the northeast of the northwest?

21 A. Well, the adjoining 40 acres, if I understand --
22 To the east side, the adjoining 40 acres would be the
23 northwest of the northwest.

24 Q. Well, you also have to notify under existing
25 rules the northeast of the northwest, because it's part of

1 a 320-acre unit?

2 A. Yes, sir, that's the problem we would struggle
3 with, because there is no existing 320-acre unit there,
4 because there is no well there. So no spacing unit has
5 been applied for, and there is not an official spacing unit
6 on that side.

7 So it puts you in a quandary as to exactly who
8 you would notify under the existing rules, because you
9 could say, Okay, well, I'm going to assume that eventually
10 somebody may form a spacing unit that consists of the west
11 half of that section. Or you could say, Well, I'm going to
12 assume that somebody could eventually form a spacing unit
13 that consists of the north half of that section.

14 So you're going through assumptions, and you
15 really don't know who to notify.

16 Q. So as a practical matter, who do you notify
17 today?

18 A. We make those assumptions. We look at the
19 spacing patterns that have been developed in the area and
20 assume things. We don't know for sure, but we'll assume
21 things. And we'll assume maybe, since this one is a
22 standup, we'll assume the one next door is eventually going
23 to be a standup.

24 And so we've had to assume things in the past.

25 Q. And your notification goes to the party of

1 record?

2 A. Correct.

3 Q. The leasee of record?

4 A. Yes, sir.

5 Q. If it's leased. If it's not leased, I guess you
6 go to the royalty owner?

7 A. Yes, sir, you go to the mineral owner.

8 Q. The mineral owner?

9 A. Yes, sir. And if you have to do that all the way
10 around one of these units, you're talking about a month or
11 two of work in a courthouse to determine those parties if
12 it's undeveloped.

13 CHAIRMAN LEMAY: Additional questions?

14 That's been a landman employment act, hasn't it?

15 THE WITNESS: A little bit more of a nightmare
16 than an employment act.

17 CHAIRMAN LEMAY: Additional questions of the
18 witness?

19 Thank you very much, Mr. Alexander. You may be
20 excused.

21 Take a break for lunch, come back 1:15, resume.

22 (Thereupon, a recess was taken at 12:00 noon.)

23 (The following proceedings had at 1:20 p.m.)

24 CHAIRMAN LEMAY: We shall resume.

25 I'm not sure there's anything more in Case

1 11,351, but I'll call for additional witnesses or comments.

2 Mr. Kellahin?

3 MR. KELLAHIN: To complete the industry's
4 presentation, Mr. Chairman, we have got some preliminary
5 responses back from the industry with regards to the
6 questionnaire NMOGA sent out.

7 The questionnaire came back, in which the
8 information applies to both the commingling case and the
9 nonstandard location application, and I would simply like
10 to put these in the record of the case, in closing out, so
11 that it's available for the Division and for NMOGA's
12 technical committee to continue to look at and to address,
13 if you agree with our request to continue this case till
14 the next Commission hearing and let us finish our work that
15 we have undertaken.

16 CHAIRMAN LEMAY: Will that give you enough time?
17 You're talking about getting together with our staff,
18 you're getting the Committee back together and maybe
19 mailing out whatever recommendations you have compared to
20 what we have; is that --

21 MR. KELLAHIN: It may be too optimistic, Mr.
22 Chairman, but the industry is very anxious to have relief
23 on well locations and downhole commingling, and we think we
24 are very close to some consensus in the industry, and we
25 simply need to see how the Division reacts to our

1 suggestions and what the Commission ultimately wants to do
2 about the proposal, and we'd like to try for the next
3 Commission docket.

4 CHAIRMAN LEMAY: I think that's September 28th,
5 so it gives us almost two months. That's the way the
6 timing works.

7 MR. KELLAHIN: Here's the comments that we've
8 received up to now. I don't suggest that you read them
9 now. I'd just like to put them in the record.

10 CHAIRMAN LEMAY: Is your questionnaire in there
11 too? Okay.

12 MR. KELLAHIN: It is the questionnaire.

13 CHAIRMAN LEMAY: Oh, it is the questionnaire.
14 That's all you have?

15 MR. KELLAHIN: Yes, sir.

16 CHAIRMAN LEMAY: At this time, is there anything
17 more in Case 11,351?

18 If not, we shall continue this case until the
19 September 28th, I think, docket, at which time we'll take
20 it up again and get any additional testimony that may be
21 presented at that time.

22 (Thereupon, these proceedings were concluded at
23 1:22 p.m.)

24 * * *

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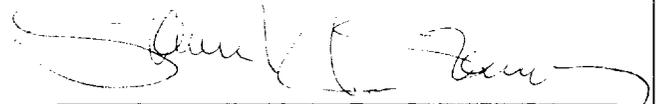
CERTIFICATE OF REPORTER

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 Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 13th, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998