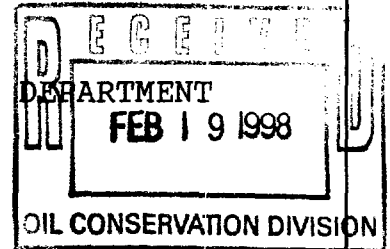


STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES
 OIL CONSERVATION DIVISION



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

CASE NO. 11,877

APPLICATION OF FASKEN LAND AND)
 MINERALS, LTD., FOR COMPULSORY)
 POOLING AND AN UNORTHODOX GAS WELL)
 LOCATION, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 5th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 5th, 1998, 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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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR REDSTONE OIL AND GAS COMPANY:

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:45 a.m.:

3 EXAMINER CATANACH: Call the hearing to order,
4 and at this time we'll call Case 11,877.

5 MR. CARROLL: Application of Fasken Land and
6 Minerals, Limited., for compulsory pooling and an
7 unorthodox gas well location, Eddy County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 on behalf of the Applicant.

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
14 and I'm representing Redstone Oil and Gas Company. I have
15 one request.

16 A couple of weeks ago Redstone Oil and Gas
17 Company filed a counter pooling application. It was
18 advertised for the February 19th hearing, but it's all the
19 same parties, on the same land, same everything, and we
20 would ask that they just be consolidated for hearing today.

21 EXAMINER CATANACH: Do you know the case number
22 on that, Mr. Bruce?

23 MR. BRUCE: I do not.

24 EXAMINER CATANACH: Mr. Bruce, all the parties
25 intend to present all the evidence and testimony at this

1 hearing today?

2 MR. BRUCE: Yes.

3 MR. KELLAHIN: Mr. Examiner, I'm opposed to the
4 consolidation.

5 EXAMINER CATANACH: Okay, and your reason?

6 MR. KELLAHIN: Yes, sir. Mr. Bruce sent me a
7 copy of his compulsory pooling Application. My information
8 is, it was filed on January 26th.

9 Here's a copy of his Application.

10 Mr. Examiner, I was -- Yes, the last page of the
11 Application shows it was filed on January 26th. I was
12 preparing a motion to dismiss this Application.

13 My information, and my witnesses will testify,
14 that Redstone never proposed their well location to Fasken
15 or the other working interest owners. And if you'll look
16 at the statute, in the absence of proposing the well you
17 can't ask the Division to issue a pooling order, and your
18 application is subject to being dismissed.

19 MR. BRUCE: Mr. Examiner, there's a couple of
20 things. As you well know, we argued this case a couple of
21 weeks ago. We are filing this Application to protect our
22 rights, and we request that Redstone be named operator.

23 I would ask what harm will befall Fasken. We
24 will make a well proposal to them. We have an AFE ready
25 today. If it's dismissed, we'll simply re-file and ask

1 that this whole matter be continued. We could put on the
2 testimony today but ask no decision be issued until
3 sometime maybe in March or April or May when the matters
4 are heard.

5 We believe that Fasken is operator under a JOA,
6 that it does not -- that the only proposal it needs to make
7 is a proposal or -- under that JOA in which there's 30 days
8 to elect or consent and under which -- a JOA under which
9 Redstone is the operator.

10 We see no need to dismiss the case at this time.
11 If you want to dismiss, we'll re-file. We'll put on our
12 testimony today. I don't know what will be gained by
13 dismissing the case.

14 MR. KELLAHIN: Mr. Examiner, may I respond?

15 If you'll look at their Application, they're
16 asking for a different well location. They're asking for a
17 well location that they haven't even proposed. It's a well
18 location to be 500 feet from the north boundary of Section
19 12. It's to be 125 feet from the centerline of Section 12.

20 Our compulsory pooling Application was filed back
21 on October 14th. Redstone was served on October 20th, and
22 since then they've been seeking to delay the introduction
23 of our force-pooling order so that we could proceed with
24 our well.

25 You've already had a motion hearing in which you

1 denied Mr. Bruce's claim about the joint operating
2 agreement issue. We're ready to proceed with force-
3 pooling, and here we are three months later and Redstone
4 has yet to propose their well to us, and they had plenty of
5 time to do it. I believe it's appropriate to dismiss their
6 Application.

7 EXAMINER CATANACH: We have concluded that we
8 should hear the evidence and testimony in both cases today.

9 I would suggest that, Mr. Kellahin, you're
10 probably right insofar as the fact the Redstone case is not
11 -- they have not properly followed the procedures filing a
12 case. I would suggest that the Redstone case be continued,
13 if need be, from the February 19th docket, so that
14 procedures can be followed.

15 And again, I would probably defer a decision in
16 this case until that matter is settled.

17 MR. BRUCE: Mr. Examiner, we're not trying to
18 delay anything. If we had, we would have sent out the AFE
19 and waited 30 days and filed our Application.

20 We're here today. I called Mr. Kellahin to see
21 if we should put on the case today. He informed me,
22 through a telephone call, yes. And we just want to get the
23 case over with.

24 EXAMINER CATANACH: And I don't think this case
25 should be settled on a technicality such as has been

1 proposed. This case probably needs to be decided on its
2 own merits and not on --

3 MR. KELLAHIN: I'm confused, Mr. Examiner. Mr.
4 Bruce called me, and the only case on the docket is the
5 Fasken case. He did not ask me to consolidate his case
6 with this case today.

7 The Redstone case is not properly docketed before
8 you. It's highly unusual to take that pooling case and
9 advance it over my objection to consolidate it with this
10 case that we're prepared to go forward with today.

11 MR. CARROLL: Well, Mr. Kellahin, we're granting
12 your motion to deny consolidation of the Redstone case on
13 today's docket. We will take evidence from Redstone,
14 which, when the Redstone case is called, if it's not
15 dismissed by that time, and ask that the record in this
16 case be incorporated so that we don't to hear the same
17 testimony again.

18 MR. KELLAHIN: All right, sir.

19 MR. CARROLL: So at this time we're going to
20 defer ruling on the motion to dismiss, we're going to deny
21 the motion to consolidate, and we'd like to hear both
22 sides.

23 EXAMINER CATANACH: Are you prepared to proceed,
24 Mr. Kellahin?

25 MR. KELLAHIN: Yes, sir. Do you want to swear

1 the witnesses?

2 EXAMINER CATANACH: Yes, we need to do that.

3 Will the witnesses please stand to be sworn in?

4 (Thereupon, the witnesses were sworn.)

5 MR. KELLAHIN: Mr. Examiner, Mr. Carroll, in the
6 Fasken pooling case we're seeking two issues.

7 One is the compulsory pooling to consolidate all
8 of Section 12. That is necessary because the two Morrow
9 gas pools for the upper Morrow and the lower Morrow,
10 they're both designated Rock Tank. They are spaced on 640-
11 acre spacing. The compulsory pooling is necessary only for
12 those pools.

13 The unorthodox well location is unorthodox as to
14 all deep gas formations below the top of the Wolfcamp, and
15 so we're asking you to approve an unorthodox gas well
16 location for the two deep Morrow gas pools, plus Fasken
17 proposes to dedicate the west half of Section 12, which it
18 controls 100 percent, and that will place this location
19 unorthodox for other 320 gas pools.

20 We'll seek to have you enter an order that
21 approves this location, then, for the 640 pools and the 320
22 pools.

23 We will present Sally Kvasnicka. Ms. Kvasnicka
24 is a landman for Fasken Land and Minerals. She's also a
25 landman for Fasken Oil and Ranch. Fasken Land and Minerals

1 is the ownership company, if you will, the ownership-
2 partnership entity, and they seek to designate their
3 operating entity, Fasken Oil and Ranch as the operator of
4 the well.

5 We're prepared to proceed with her testimony.

6 SALLY KVASNICKA,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Ms. Kvasnicka, for the record would you please
12 state your name and occupation?

13 A. My name is Sally Kvasnicka, and I'm a petroleum
14 landman for Fasken Oil and Ranch. I'm a certified
15 professional landman, and I live in Midland, Texas.

16 Q. On prior occasions have you testified before the
17 Division?

18 A. No, I have not.

19 Q. Summarize for us the activities that you're
20 involved in concerning this particular prospect by Fasken.

21 A. Through the acquisition of the lease on the west
22 half, through multiple discussions with Redstone and the
23 other working interest owners in the Rock Tank unit, we
24 have developed this prospect.

25 Q. Are you familiar with the identity of the various

1 working interest owners, and have you spent time and effort
2 to become knowledgeable about their percentage working
3 interest owners and the various configurations of these
4 spacing units?

5 A. Yes, I have.

6 Q. Have you become familiar with what is the Rock
7 Tank Unit?

8 A. Yes, sir.

9 Q. Have you been the principal landman for Fasken
10 that has been responsible for contacting the various
11 working interest owners in order to attempt to consolidate
12 the interests?

13 A. Yes.

14 MR. KELLAHIN: We tender Mrs. Kvasnicka as an
15 expert witness, Mr. Catanach.

16 EXAMINER CATANACH: Any objection?

17 MR. BRUCE: No.

18 EXAMINER CATANACH: She is so qualified.

19 Q. (By Mr. Kellahin) Ms. Kvasnicka, let's start
20 with your Exhibit Number 1. If you'll unfold that display,
21 you've outlined Section 12 for us, and you have divided it
22 in two standup 360-acre (*sic*) configurations.

23 Identify for us what is intended to be portrayed
24 by the area in the west half of Section 12 that's outlined
25 in yellow.

1 A. The west half of Section 12 is Fasken's lease
2 that it acquired from Santa Fe in December of 1993, which
3 covers the west half.

4 Q. This is a federal oil and gas lease?

5 A. And it's a federal oil and gas lease, and it's
6 owned 100-percent by Fasken Land and Minerals.

7 Q. Okay. When we talk about Fasken Land and
8 Minerals, it is what I characterize to be the lease-
9 ownership entity of your companies?

10 A. Yes.

11 Q. And when we refer to Fasken Oil and Ranch, is
12 that the operating entity?

13 A. Yes, sir.

14 Q. If the Examiner issues a compulsory pooling order
15 in favor of Fasken, do you desire to have Fasken Oil and
16 Ranch designated as the operator?

17 A. Yes, sir.

18 Q. When we look at the east half of Section 12,
19 there is another 320-acre portion that's outlined in green.
20 What is the significance of that area?

21 A. That area is within the boundaries of the Rock
22 Tank Unit that is currently operated by Redstone, and it
23 pools all of the formations.

24 Q. Does Fasken have an interest in the Rock Tank
25 Unit?

1 A. Yes, we do.

2 Q. When we look at the area that's included within
3 the Rock Tank Unit, help us identify what that area is.

4 A. The Rock Tank Unit consists of Sections 6 and 7,
5 and I can tell you the township and range if I look at
6 another piece of paper.

7 Q. Well, it's the Section 7 to the west of 12 --

8 A. Yes.

9 Q. -- the Section 6 to the northeast of 12 --

10 A. That's correct.

11 Q. -- and it includes Section 1 --

12 A. Section 1 to the north.

13 Q. All right.

14 A. And the east --

15 Q. We have four townships coming together here?

16 A. That's right. And the east half of Section 12.

17 Q. Okay. So that the Examiner will understand the
18 identity of the working interest owners and the various
19 percentages that they have, let me ask you to turn to
20 Exhibit Number 2.

21 Have you and others with Fasken under your
22 control and responsibility prepared this exhibit?

23 A. Yes.

24 Q. And to the best of your knowledge, is it true and
25 accurate?

1 A. Yes, it is.

2 Q. When we look at the identity of the working
3 interest owners, what are you intending to portray?

4 A. The ownership of the east half of Section 12 is
5 governed by a 1970 JOA which superseded the Rock Tank Unit
6 with respect to the Morrow formation only.

7 The west half is Fasken stand-alone leasehold
8 that it acquired from Santa Fe.

9 And the unit working interest is the combination
10 of those two 320-acre spacing units.

11 Q. Let's find the Fasken entry so we can explain how
12 you've done this. When we see the 1970 JOA, we're talking
13 about the west half of Section 12?

14 A. The east half of Section 12.

15 Q. I'm sorry, the east half of Section 12.

16 A. Yes.

17 Q. And exclusive as to the east half of 12, Fasken
18 has 20.4 percent working interest?

19 A. Under that 1970 JOA, yes.

20 Q. All right. In the west half it has 100 percent?

21 A. That's correct.

22 Q. Excluding the east half of Section 12, in the --
23 I'm sorry, if we combine the west half of 12 and the east
24 half of 12 together, then the resulting working interest
25 for Fasken in this spacing unit is 60 percent?

1 A. That's correct.

2 Q. And the Examiner and Mr. Carroll can read this
3 tabulation and see what happens with the other interest
4 owners; is that not true?

5 A. Yes, that's correct.

6 Q. Am I true in understanding that the working
7 interest owners in the east half of 12 are also the working
8 interest owners in Section 1 to the north of Section 12?

9 A. Yes.

10 Q. Their percentages will change?

11 A. That's correct, because it's subject to the Rock
12 Tank Unit ownership in Section 1.

13 Q. All right. When we look at this tabulation, you
14 have a last column to the right. It says "elected to
15 participate". What do you mean by that entry?

16 A. That means that Fasken and Olwick Corp have
17 elected to participate in the drilling of our Carnero
18 Federal Number 1.

19 Q. At this point in your efforts to consolidate the
20 working interest owners in Section 12, what total
21 percentage has been committed to the drilling of the Fasken
22 well at the Fasken well location?

23 A. Sixty-seven percent.

24 Q. And at this point the rest of the interest owners
25 have not yet committed?

1 A. That's correct.

2 Q. Let's turn now to Exhibit Number 2A. This is
3 similar -- in fact, it's identical to Exhibit 1, except
4 with an additional column imposed; is that not true?

5 A. That's correct.

6 Q. When we look at the first column to the right of
7 the names, you have introduced another calculation which
8 shows the Rock Tank working interest owner unit
9 percentages?

10 A. That's correct.

11 Q. This would be the various companies' and
12 individuals' percentage interest, for example, in Section
13 12 to the north?

14 A. That's right.

15 Q. And it would be in the other sections in the
16 unit, with the exclusion of Section -- east half of 12, as
17 to the Morrow reservoirs?

18 A. Yes.

19 Q. Okay. In Section 12 -- I'm sorry, in Section 1,
20 north of Section 12, Fasken has a little over 32 percent --

21 A. That's correct.

22 Q. -- of that section?

23 A. That's correct.

24 Q. All right, that's how to read this display.

25 Okay.

1 I've asked you to prepare a chronology based upon
2 your records, files, and informations of your contacts and
3 efforts to identify the identity of your working interest
4 owners and your various contacts with those working
5 interest owners in order to achieve voluntary agreement for
6 the drilling of the Fasken well at the Fasken well
7 location?

8 A. Yes, sir.

9 Q. And have you done that?

10 A. Yes, sir.

11 Q. And this represents your work product?

12 A. Yes, it does.

13 Q. In addition to the chronology, you also have
14 prepared and provided copies of various documents and
15 correspondence that are in this file?

16 A. That's correct.

17 Q. All right. Let's start at the beginning of your
18 efforts to identify the interest owners and to propose the
19 drilling of the Fasken well at its location.

20 A. In August we began discussing with Redstone the
21 idea of drilling a well in the west half of Section 12, and
22 I asked Joe Small to send us a copy of the current owners
23 with addresses.

24 Q. Now, who is Joe Small?

25 A. Joe Small is the landman with Redstone Oil and

1 Gas.

2 Q. Prior to August 12th, 1997, had any other working
3 interest owner in Section 12 proposed a Morrow well?

4 A. In the west half of 12?

5 Q. In either part of 12?

6 A. No.

7 Q. So yours is the first proposal?

8 A. Yes, it is.

9 Q. After you talked to Mr. Small about obtaining the
10 names and addresses and interests, what then happened?

11 A. He quickly responded and sent us a listing of
12 those owners. We began putting our AFE together to propose
13 the drilling of our well. We obtained our -- On September
14 4th, we obtained our drilling title opinion.

15 We also obtained on September the 9th offset
16 leasehold owners so we could, because we knew it was going
17 to be an unorthodox location, send notices to those offset
18 owners.

19 Also on September 9th, we proposed the drilling
20 of the Carnero Federal well to the owners of the Rock Tank
21 Unit.

22 Q. You made that proposal to Redstone and to all the
23 working interest owners that you had identified?

24 A. That's correct.

25 Q. All right. Let's turn and have you identify for

1 the record, then, what is marked as Fasken Exhibit Number
2 4. What is that?

3 A. That is the letter in which Fasken Oil and Ranch,
4 on behalf of Fasken Land and Minerals, proposed the
5 drilling of the well.

6 Q. All right. And the reference is to the Carnero
7 Federal 1 well?

8 A. Yes.

9 Q. That's the well in question?

10 A. That's correct.

11 Q. And you specifically advised them of the proposed
12 unorthodox well location?

13 A. Yes, the location being 500 feet from the north
14 line and 2265 feet from the west line of Section 12.

15 MR. KELLAHIN: Just a second, I think Mr. Carroll
16 doesn't have an exhibit.

17 MR. CARROLL: Three, yeah, the chronology.

18 Q. (By Mr. Kellahin) You and Fasken have determined
19 that the location was unorthodox, and this is the specific
20 proposal, 500 feet from the north and 2265 feet from the
21 west line?

22 A. That's correct.

23 Q. Is there any topographical reason as to why this
24 well is located where it is?

25 A. Yes, the terrain is quite rough, and there's a

1 fairly flat spot in the northeast portion of our leasehold,
2 in 12, that has a good drilling site.

3 Q. In addition, did you provide the working interest
4 owners with the proposed AFE for the well?

5 A. Yes, I did. It's attached to the letter.

6 Q. Also attached to the letter, if we turn past the
7 cover page, you have sent a proposed operating agreement?

8 A. That's correct.

9 Q. Okay. Have any of the working interest owners
10 that you've contacted with this letter or otherwise
11 objected to the AFE costs?

12 A. No.

13 Q. There have been no objections about the well
14 cost?

15 A. No.

16 Q. Does your operating agreement propose some
17 overhead rates?

18 A. Yes, it does.

19 Q. And what are your proposed overhead rates?

20 A. Overhead rates are \$5000 during drilling
21 operations, and during producing operations \$500.

22 Q. Do you have an opinion as to whether those are
23 fair and reasonable rates?

24 A. I know that they are reasonable from what
25 Redstone is charging Fasken for operating its interest in

1 the Rock Tank Unit.

2 Q. And what do they charge you?

3 A. Fasken is charged a rate of \$550 a month for the
4 interest in the Rock Tank Unit. All the other working
5 interest owners in that unit are charged \$450.

6 Q. All right. Do you have a recommendation to the
7 Examiner as to overhead rates to apply in the compulsory
8 pooling order?

9 A. I think \$500 a month is fair.

10 Q. Okay. Have you had any of the working interest
11 owners object about any of the items, provisions or content
12 of the operating agreement?

13 A. There was a letter from Joe Small that indicated
14 that they had some concerns about some of the provisions,
15 but as yet we have not heard from them as to what those
16 concerns are.

17 Q. At any time did Mr. Small or anyone on behalf of
18 Redstone object to the Fasken well location?

19 A. No. In fact, they agreed with our location and
20 declined to attend a meeting that we held in our offices on
21 October the 21st, because they agreed with the Fasken
22 location.

23 Q. At any time up till today, have you ever received
24 from Redstone a proposal for the well that they have filed
25 the compulsory pooling Application for?

1 A. No, sir, we have not.

2 Q. Did that come as a total surprise to you when you
3 were faxed a copy of that compulsory pooling Application
4 back on January 26th, 27th?

5 A. Yes, it was.

6 Q. Let's turn now to the next item in the
7 chronology. You've sent the letter out on September 9th.
8 What then transpired?

9 A. Joe Small called on the 17th and said that he
10 wanted to do some additional research as to our well
11 proposal with respect to the election time period.

12 Q. All right. Now, that's what his concern was
13 about the well proposal, was the election period?

14 A. That's correct.

15 Q. There was some discussion about what the election
16 period should be, if any, and whether or not the well was
17 subject to the 1970 operating agreement?

18 A. That's correct. At the that we proposed the
19 well, I was under the assumption that the Rock Tank Unit
20 would govern operations for the east half -- or the
21 ownership would govern operations for the east half.

22 Q. And subsequently did you obtain an attorney's
23 opinion with regards to resolving issues you had about
24 whether those agreements applied or not?

25 A. Yes, we did.

1 Q. And who did you obtain your opinion from?

2 A. We obtained our opinion from Bob Bledsoe, with
3 the law firm of Cotton, Bledsoe, Tye and Dawson.

4 Q. And when did you receive that?

5 A. That was on October 28th.

6 Q. Apart from the issue about election periods, did
7 Mr. Small communicate to you any other concerns about your
8 well proposal?

9 A. Not -- No.

10 Q. Not at that time?

11 A. No, not at that time.

12 Q. All right, continue then. What happened next?

13 A. We visited with some of the other working
14 interest owners, specifically Wes Perry.

15 Q. And who's Wes Perry?

16 A. Wes Perry is the owner of a company on the
17 listing SES Oil and Gas, Inc. And also Paul Lerwick with
18 Olwick Corporation, who's a working interest owner in the
19 Rock Tank Unit.

20 Q. Mr. Perry provided you information on the Rock
21 Tank Unit 4 well?

22 A. Yes, he did. We knew that Redstone had run a
23 pressure buildup test on the Rock Tank Unit 4, and we were
24 trying to get that information. We had requested it
25 directly from Redstone, and we were having a hard time

1 getting it.

2 Q. All right, let's look back on Exhibit 1 and find
3 the Rock Tank Unit 4 well. I think if you look north into
4 Section 1, the Number 4 well is going to be down in the
5 southeast quarter of Section 1. Is that the well you're
6 talking about?

7 A. Yes, sir, that is.

8 Q. All right. After talking to Mr. Perry and the
9 gentleman at Olwick, what then transpires?

10 A. We continued to visit with Redstone regarding
11 ownership information. We were trying to resolve the
12 difference of opinion as to whether or not the Rock Tank
13 Unit would govern or the 1970 JOA would govern. And
14 through that -- That continued until mid-October.

15 Q. At this point you're discussing ownership and who
16 operates?

17 A. Not so much who operates; it was mainly just
18 ownership.

19 Q. Ownership, okay.

20 By October 14th, then, you have another entry of
21 a phone call with Mr. Small to discuss the well proposal.
22 At this point, what are you discussing concerning the well
23 proposal?

24 A. He -- Mr. Small wanted us to hold a working int-
25 -- or hold a meeting so we could discuss the geology for

1 our proposal, and we discussed tentative dates, being the
2 23rd or the 27th.

3 Q. All right. And you agreed to have that meeting?

4 A. Yes, we did.

5 Q. Okay. October 15th, you and Mr. Small are again
6 discussing the ownership spreadsheets and making sure that
7 they're accurate?

8 A. Yes.

9 Q. All right. On October 14th, Fasken filed its
10 compulsory pooling Application and requested to be docketed
11 for the November 6th hearing?

12 A. That's correct.

13 Q. Why had you elected to file the compulsory
14 pooling Application at that time?

15 A. We were at that time getting some resistance from
16 Redstone as to joining voluntarily in drilling the well,
17 and we wanted to proceed and push this along to get the
18 well drilled.

19 Q. What was your understanding of their issue
20 concerning their resistance to having the well drilled?

21 A. What operating agreement governed -- or ownership
22 governed the interest in the east half.

23 Q. At that point in time were they asserting that
24 the well ought to be drilled at a different location?

25 A. No, they were not.

1 Q. Did they raise any concerns about the well
2 location?

3 A. No they did not.

4 Q. Next entry shows Redstone was served with the
5 pooling Application on October 20th, and then there's an
6 entry here on October 21st, at the top of the next page,
7 that various interest owners in the unit are meeting with
8 you to discuss geology.

9 A. That's correct.

10 Q. All right. Summarize for us what happened.

11 A. We -- The dates that we had tentatively discussed
12 with Redstone of October 23rd or 27th, at that point,
13 between the 14th and the 21st, they allowed that they
14 agreed with the Fasken location and didn't even feel like
15 they needed to have their geologist present. And so we
16 pushed the meeting date forward and met with Wes Perry and
17 Paul Lerwick in our office.

18 Q. Continue, then, with the rest of the entries for
19 October. Summarize for us what happens.

20 A. We filed our force pooling Application, and that
21 Application was set for hearing on November the 6th. At
22 Redstone's request, we continued that November 6th hearing
23 to a date in December and then again to a date in January,
24 also at Redstone's request.

25 Q. When we turn to Exhibit 5, there is another

1 letter that you've sent, dated October 30th, 1997?

2 A. That's correct.

3 Q. What is the purpose of this letter?

4 A. This letter is to set out the -- basically the
5 contents of our letter opinion that we received from Bob
6 Bledsoe of his discussion with respect to the 1970 JOA.
7 And it's reverberating the opinion from Bob Bledsoe as to
8 that, the effect of the 1970 JOA only being an effect as to
9 the east.

10 Let's see, it also was -- because on October 28th
11 we realized that the 1970 JOA was in effect with respect to
12 the east half of Section 12, and we agreed to revise the
13 Exhibit A to the proposed August 1st, 1997, JOA to reflect
14 Fasken's dilution of its interest to 50 percent.

15 MR. KELLAHIN: Hang on just a minute. Mr.
16 Carroll, do we have you with the right set of exhibits?

17 MR. CARROLL: Five, I believe, right.

18 MR. KELLAHIN: Yes, sir.

19 MR. CARROLL: Okay.

20 MR. KELLAHIN: I'm sorry, I thought maybe I had
21 not given you a copy of that one.

22 Q. (By Mr. Kellahin) All right. We're looking at
23 Exhibit 5, and part of the proposal here -- well, part of
24 the communication is to advise all working interest owners
25 of Mr. Bledsoe's legal opinion concerning the various

1 contracts?

2 A. That's correct.

3 Q. In addition, you are proposing to dilute your
4 interest?

5 A. That's correct.

6 Q. You're proposing to take your interest from 60
7 percent down to perhaps 50 percent, to -- in order to
8 obtain voluntary agreement with these other interest owners
9 by sharing that additional 10 percent?

10 A. That's correct.

11 Q. All right. Were you able to successfully achieve
12 a resolution of the consolidation with that offer?

13 A. Redstone did not agree with this offer.

14 Q. All right, so you were unsuccessful?

15 A. That's correct.

16 Q. Let's talk about the entries in November. What
17 happens in November?

18 A. We had a -- Fasken had a phone call and
19 discussion with Joe Small on November the 12th, discussing
20 the terms of the October 30th letter. At that point he
21 seemed to feel that we could still work something out
22 between the parties. Redstone was concerned about
23 increasing its size of its interest.

24 Q. Now, Redstone was negotiating on behalf of the
25 working interest owners in the unit, or on behalf of

1 itself?

2 A. I believe it was for itself.

3 Q. And his concern, Mr. Small's concern on behalf of
4 Redstone, was to increase the interest that Redstone had in
5 the spacing unit for the Fasken well?

6 A. That's correct.

7 Q. The parties were unable to resolve that?

8 A. That's correct.

9 Q. All right. What happens in November? There's an
10 entry of November 25th. What's going on here?

11 A. A gentleman by the name of Craig Hubbard and I
12 spoke to Joe Small. We discussed many issues regarding our
13 location of the Carnero Federal, but also issues regarding
14 the Rock Tank Unit.

15 Q. I don't see anything in this entry, Mrs.
16 Kvasnicka, about the location of the Fasken well.

17 A. They still had not objected to our location.

18 Q. Oh, I see what you're saying. You were talking
19 about other issues, including gas imbalance, but you never
20 talked about their proposing a different well location?

21 A. No, that's correct.

22 Q. And they had no objection to your well location?

23 A. That's correct.

24 Q. The discussion centers around increasing their
25 interest?

1 A. That's correct.

2 Q. All right. On November 26th, what's going on
3 here?

4 A. Joe spoke again with a representative from Fasken
5 and -- at length about the gas imbalances between Fasken
6 and Redstone, with respect to the Rock Tank Unit.

7 Q. Again, no discussion with any representative of
8 Fasken from Redstone about their objection to the Fasken
9 well location?

10 A. No, that's correct.

11 Also on November 26th, we spoke with Wes Perry
12 regarding the Carnero Federal and the gas imbalance issues.
13 Wes was in agreement with the Fasken location and was ready
14 to go ahead and drill the well.

15 Q. All right. Let's go back to the -- off the
16 chronology. Let's identify some more documents. Exhibits
17 6 and 7 are simply copies of the various continuances of
18 your case?

19 A. That's correct.

20 Q. All right, let's turn to Exhibit 8. Would you
21 identify this for us?

22 A. This is a letter from Joe Small with Redstone Oil
23 and Gas Company.

24 Q. Did you receive any other written communication
25 from Redstone about this issue?

1 A. This, I believe, was the first communication we
2 had from Redstone --

3 Q. Okay.

4 A. -- as to our location.

5 Q. Have you subsequently received any other letters
6 from them?

7 A. There as -- No, I don't believe so.

8 Q. All right. What is Mr. Small proposing on the
9 November 20th communication?

10 A. He is again working -- or discussing trying to
11 resolve the balancing issues on the Rock Tank Unit. They
12 felt like the working interest unit ownership they had --
13 they were concerned about participating in a well with
14 their ownership in the Rock Tank Unit being 375 or 500 feet
15 from the unit boundaries.

16 Q. All right, let's turn to page 2. If you'll look
17 at numbered paragraph 5, look below that and it says,
18 "Redstone further proposes the following..." and then
19 there's a -- two subparagraphs, and the first one has got
20 the dot. What does Redstone tell you is their opinion
21 about the Rock Tank Unit 4 well?

22 A. They believe that the Rock Tank Unit Number 4
23 well is close to its economic life or limit in the upper
24 Morrow.

25 Q. And what are they advising you they are proposing

1 to do with that wellbore?

2 A. They would like to recomplete that in the
3 Cisco/Canyon.

4 Q. The second paragraph, is this the first
5 indication you have from Redstone that they are proposing
6 to object, now, to the Fasken well location?

7 A. Well -- Yes.

8 Q. Okay. All right, let's turn to Exhibit 9 and
9 have you identify and describe what Exhibit 9 is.

10 A. This exhibit is a letter communication from
11 Fasken Oil and Ranch to Joe Small and the other working
12 interest owners, setting out that we'd like to separate the
13 issues of the gas-balancing problems with the Rock Tank
14 Unit.

15 We again urged the adoption of our proposal to
16 reduce our interest from 60 percent to 50 percent, and that
17 we don't wish to dilute ourselves any further.

18 We wanted to hear what Redstone's objections were
19 to the proposed joint operating agreement, but even to date
20 we don't have those objections.

21 We did agree that there would be a two-thirds
22 majority voting percentage governing any proposed drilling
23 of a second Morrow well located in the northeast quarter of
24 Section 12.

25 And we further agreed to consider the merits of

1 waiving protest of a Cisco/Canyon or shallower proposal
2 with like distance from this section line.

3 Q. All right. Were you able to reach a settlement
4 or a solution with Redstone based upon this proposal?

5 A. No.

6 Q. Let's turn to Exhibit 10 and 11, are out of your
7 file. They represent notes from Mr. Hubbard. Who's Mr.
8 Hubbard?

9 A. Craig Hubbard is a landman who works for Fasken
10 Oil and Ranch.

11 Q. Again, his contacts with Redstone were about
12 matters other than this specific well location?

13 A. It was mainly to resolve the ownership
14 differences that -- or the ownership of the 1970 JOA. We
15 were not certain of the chain of owners from the 1970 JOA
16 to present, and Craig Hubbard and Joe Small worked through
17 that so we could resolve and know the current ownership.

18 Q. During any of those discussions that Mr. Hubbard
19 had with Redstone's representative, does his notes indicate
20 that Redstone ever advised him that they were going to
21 propose a well at a different location than the Fasken
22 location?

23 A. No.

24 Q. At this point, Mrs. Kvasnicka, do you believe
25 you've exhausted all good-faith efforts to achieve

1 voluntary agreement for the drilling of the Fasken well by
2 Fasken at its location?

3 A. Yes, I do.

4 Q. You have no other recourse but to ask the
5 Division to enter a pooling order?

6 A. That's correct.

7 MR. KELLAHIN: Mr. Examiner, that concludes my
8 examination of Mrs. Kvasnicka.

9 We move the introduction of her Exhibits 1
10 through 10.

11 EXAMINER CATANACH: Exhibits 1 through 10 will be
12 admitted as evidence.

13 Mr. Bruce?

14 MR. BRUCE: Yeah, a few questions.

15 CROSS-EXAMINATION

16 BY MR. BRUCE:

17 Q. If there's a 320-acre gas well unit, you're
18 proposing a standup unit, Fasken is?

19 A. At Fasken's location?

20 Q. At Fasken's location.

21 A. Yes.

22 Q. If it's a standup unit, is Fasken going to
23 propose any method to apportion well costs if an uphole
24 zone, uphole from the Morrow, is successful?

25 A. Well, through negotiations or attempts to

1 negotiate forming a 640-acre spacing unit with the owners,
2 they would have the right to participate in any uphole
3 zones. But as yet, that is -- they've not agreed.

4 Q. What about in this pooling case, if somebody goes
5 under the force-pooling order, either consenting or
6 nonconsenting owner? Is Fasken going to propose any method
7 to apportion well costs if, for instance, the Morrow is dry
8 and you complete uphole in the Cisco/Canyon?

9 A. I'm sure we would consider that.

10 Q. But you don't have any specific proposal?

11 A. No, we do not.

12 Q. Now, you said at least part -- Is Fasken's well
13 location totally due to topographical reasons?

14 A. Yes.

15 Q. Have you personally visited the well site?

16 A. No, I have not.

17 Q. Have any of other Fasken's witnesses today
18 visited the well site?

19 A. I can't speak for them.

20 Q. Was this based on an agent for Fasken or, you
21 know --

22 A. Other representatives from Fasken, through
23 staking the location and looking at topography, topographic
24 maps.

25 Q. Let's look at your Exhibit 4, which is, I

1 believe, your initial proposal letter dated September 9,
2 1997. On that letter -- it's your September 9, 1997,
3 proposal letter -- I believe it would be the first page,
4 the third paragraph, you're making this proposal pursuant
5 to the Rock Tank Unit operating agreement.

6 In other hearings in front of the Division,
7 Fasken has stated that there is no operating agreement
8 covering this acreage. Why are you making the proposal
9 pursuant to the unit operating agreement?

10 A. Fasken is a nonoperator in the Rock Tank Unit,
11 and at the time that we proposed the well it was my
12 assumption that the Rock Tank Unit governed operations for
13 the east half of Section 12. And as stated earlier, we
14 received a letter opinion, dated October 28th from Bob
15 Bledsoe, that corrected that assumption.

16 Q. Now, attached to your letter is a model form
17 operating agreement dated August 1, 1997. Is this still
18 the operating agreement that Fasken is proposing to all of
19 the interest owners in the Rock Tank Unit?

20 A. Yes, to govern operations for its well in the
21 west half.

22 Q. Okay. Could you turn to page 14a of the
23 operating agreement?

24 MR. BRUCE: The operating agreement is part of
25 that same exhibit, Mr. Examiner.

1 EXAMINER CATANACH: Four?

2 MR. BRUCE: Yes, it's the legal-sized paper.

3 EXAMINER CATANACH: Okay, page 14?

4 MR. BRUCE: Page 14a, which contains Article XV,
5 "Other Provisions".

6 Q. (By Mr. Bruce) Item A, the second paragraph,
7 states, if I may paraphrase, "Upon the effective date of
8 this agreement the Operating Agreement dated January 1,
9 1970...shall be superseded."

10 Now, that 1970 operating agreement is the
11 operating agreement that applied to all of Section 12; is
12 that correct?

13 A. Yes. However, it doesn't affect the leasehold
14 that Fasken has in the west half of 12.

15 Q. Then why is it necessary to have this operating
16 agreement supersede the January 1, 1970, operating
17 agreement?

18 A. It just -- Fasken wanted to alleviate any
19 problems that it might encounter, and also to clean up the
20 records, the files.

21 Q. Does Fasken still insist on this provision?

22 A. To operate the well in the west half, yes.

23 Q. Now, from your package of Exhibits here, Ms.
24 Kvasnicka, you've -- there's been lots of correspondence
25 with Redstone?

1 A. Through -- Since Redstone assumed operations of
2 the Rock Tank Unit, yes.

3 Q. And there have been numerous phone calls among
4 Mr. Small and either you or Mr. Hubbard?

5 A. Yes.

6 Q. And really the bottom line is that Fasken and
7 Redstone never came to terms regarding the drilling of
8 Fasken's proposed well; is that correct?

9 A. We never came to terms as to the ownership.

10 Q. Or operatorship?

11 A. Well, through --

12 Q. Or well location?

13 A. Well, in earlier correspond- -- or discussions,
14 Redstone agreed with Fasken's location.

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

16 EXAMINATION

17 BY MR. CARROLL:

18 Q. I may get a little picky again. The Applicant in
19 this case is Fasken Land and Minerals, Limited. Who's the
20 working interest owner?

21 A. Fasken Land and Minerals.

22 Q. I see on Exhibit 2 Fasken Oil and Ranch, Limited,
23 is listed as the working interest owner.

24 A. That actually should be Fasken Land and Minerals.

25 Q. So that's a mistake on the exhibit?

1 A. Yes, it should -- Fasken Land and Minerals holds
2 both the interests in the east half under the Rock Tank
3 Unit and the west half.

4 Q. And in the third page of Exhibit Number 4, that's
5 also a mistake? It should be land and minerals?

6 | A. That's correct.

7 Q. And page 5 of Exhibit Number 5, they're all
8 mistakes and it should be Fasken Land and Minerals?

9 A. Well, Fasken has submitted in prior records a
10 management agreement between Fasken Land and Minerals and
11 Fasken Oil and Ranch, designating Fasken Oil and Ranch as
12 the operating entity on behalf of Fasken Land and Minerals.

13 Q. Okay. So in all these cases where Fasken Oil and
14 Ranch, Limited, is listed, it should be Fasken Land and
15 Minerals listed as the owner?

16 A. As the owner.

17	Q. Right.
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18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. On your Exhibit Number 2, it's Fasken's belief
21 that the east half of Section 12 is, in fact, governed by
22 the 1970 JOA agreement; is that correct?

23 A. That's correct.

24 Q. And under that agreement, that interest ownership
25 breakdown is shown on Exhibit Number 2?

1 A. Yes.

2 Q. Okay.

3 A. Under the column headed 1970 JOA.

4 Q. Okay, you don't believe that the Rock Tank Unit
5 agreement is in effect in the east half?

6 A. Not with respect to the Morrow formation.

7 Q. Okay. Have you negotiated with any of these
8 other interest owners in the east half?

9 A. Through correspondence and carbon copy of all of
10 the correspondence that was sent to Redstone and the other
11 working interest owners, yes. The offer that we extended
12 to Redstone was sent to all of those owners.

13 If you'll note, we have sent those and have
14 certified return receipt mailings to all of those owners.

15 Q. That's Exhibit Number 4 you're referring to?

16 A. If you look at Number -- Number 4 may not have
17 been -- No, Number 4 was also sent certified mail, return
18 receipt, where we originally proposed the drilling of the
19 well.

20 Q. Okay. This was sent to the -- These are the
21 interest owners in the east half?

22 A. That's correct.

23 Q. Have you ever spoken to any of the other interest
24 owners in the east half besides Redstone?

25 A. We've spoken to Paul Lerwick with Olwick Corp.

1 We've talked to Wes Perry with SES. We understand that
2 there is -- It's a tightly knit group of people. Those
3 include Finwing Corporation; Manta Oil and Gas; Petraitis
4 Oil and Gas, Inc., SES Oil and Gas; and Olwick Corp, that
5 all office fairly close -- If you'll notice, they all -- a
6 lot of them share the same address.

7 And through Wes Perry and Paul Lerwick we were
8 discussing the terms and, you know, all of the multiple
9 correspondence. They were included in, you know, attending
10 the meeting that we held at our office on October 21st to
11 discuss the geology.

12 FURTHER EXAMINATION

13 BY MR. CARROLL:

14 Q. But today only Olwick has elected to participate?

15 A. That's correct. And prepaid his share of the
16 drilling cost.

17 Q. Do you anticipate the other four entities
18 electing to participate?

19 A. Well, yes, I do. Wes Perry in communication said
20 that he was in agreement with Fasken's location and was --
21 after the hearing would join in drilling our well.

22 EXAMINER CATANACH: Wes Perry, again, is with
23 SES?

24 THE WITNESS: He's with SES Oil and Gas.

25 Q. (By Mr. Carroll) Why is he waiting till after

1 the hearing?

2 A. I understand that Wes Perry and Paul Lerwick have
3 -- they're friends with Redstone, and they don't want to
4 upset any of the relationship there might be. They don't
5 want to rock the boat.

6 Q. But Olwick's already rocked the boat?

7 A. Yeah.

8 EXAMINER CATANACH: I think that's all we have,
9 Mr. Kellahin.

10 MR. BRUCE: I've got just one question.

11 FURTHER EXAMINATION

12 BY MR. BRUCE:

13 Q. Did Olwick Corporation sign the JOA?

14 A. No, they did not.

15 MR. BRUCE: Thank you.

16 FURTHER EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. They've agreed to participate?

19 A. They've agreed, and I can send you a fax copy of
20 his check for dryhole cost.

21 Q. Are they going to sign the JOA?

22 A. To -- There will have to be some form of
23 operating agreement negotiated and signed for the drilling
24 of the well in the west half.

25 EXAMINER CATANACH: Okay.

1 MR. KELLAHIN: Mr. Examiner, Exhibit 12 is the
2 original notice of hearing sent on October 15th.

3 Exhibit 13 is the supplemental certificate sent
4 on January 9th, where we've sent notice to all of the
5 working interest owners in the unit, which would provide
6 adequate notice for pool purpose, plus notifying them as
7 offsetting interest owners towards whom the well
8 encroaches. You should have copies of both of these.

9 We would move the introduction of Exhibits 12 and
10 13 at this time, Mr. Examiner.

11 EXAMINER CATANACH: Exhibits 12 and 13 will be
12 admitted as evidence.

13 So far as the offset operator -- hang on a second
14 -- who are the affected offset operators?

15 MR. KELLAHIN: The same working interest owners
16 that are in the Rock Tank Unit, the operator of which is
17 Redstone. And so we simply sent notice to all of them,
18 which covers any formation.

19 EXAMINER CATANACH: You did sent notice to all
20 the interest owners in the Rock Tank Unit?

21 MR. KELLAHIN: Yes, sir.

22 MR. CARROLL: And all the interest owners in the
23 Rock Tank Unit, are they listed on Exhibit 2?

24 MR. KELLAHIN: Yes, sir.

25 THE WITNESS: 2A, they are.

1 MR. KELLAHIN: On 2A.

2 THE WITNESS: In that first column. The Rock
3 Tank Unit is a beneficial working interest unit, and that
4 column represents the cost-bearing interest.

5 EXAMINER CATANACH: All right, Exhibits 12 and 13
6 will be admitted as evidence.

7 This witness may be excused.

8 MR. KELLAHIN: Mr. Examiner, I'd like to call
9 Dexter Harmon. Mr. Harmon is a petroleum geologist.

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

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. Harmon, would you please state your name and
16 occupation?

17 A. My name is Dexter Harmon. I'm the exploration
18 manager for Fasken Oil and Ranch.

19 Q. And where do you reside, sir?

20 A. Midland, Texas.

21 Q. Do you have a technical degree?

22 A. I do.

23 Q. In what field?

24 A. Geology.

25 Q. How long have you practiced geology?

1 A. I graduated in 1977.

2 Q. Have you spent a considerable amount of time and
3 effort examining the opportunity for a Morrow gas well in
4 Section 12?

5 A. Yes, I have.

6 Q. As part of that effort, have you developed the
7 geologic presentation that we're about to see?

8 A. Yes.

9 Q. Is this your work product and your conclusions
10 and opinions?

11 A. Yes, it is.

12 MR. KELLAHIN: We tender Mr. Harmon as an expert
13 petroleum geologist.

14 EXAMINER CATANACH: Any objection?

15 MR. BRUCE: No.

16 EXAMINER CATANACH: Mr. Harmon is so qualified.

17 Q. (By Mr. Kellahin) Let me have you turn to what
18 is marked as Fasken Exhibit 14, Mr. Harmon. Let's talk,
19 first of all, about the topic of the topography, and then
20 we'll talk about the position of this wellbore as it
21 relates to the various reservoirs.

22 Let's first of all talk about the topography.
23 Are there topographical constraints or limitations within
24 Section 12 that limit the ability of Fasken, or anyone
25 else, to locate a well in Section 12?

1 A. Yes, there is. Very rugged country out there.
2 This is a topographic map contoured on a five-foot
3 interval, and you can see the steep cliffs out there. And
4 basically, the only flat spot in the west half of Section
5 12 is up in the northeast corner.

6 Q. Have you had Fasken's personnel or agents walk
7 the surface and locate this proposed well location?

8 A. Yes, we did. We sent our drilling engineer out
9 there, Tommy Taylor, with the surveyor, and they picked
10 this location from a surface standpoint.

11 Q. Is it a staked location at this point?

12 A. Yes, it is.

13 Q. Let's turn now to give the Examiner some
14 background information about the Rock Tank upper and lower
15 Morrow reservoirs. They are separated by the Division into
16 two separate pools, are they not?

17 A. They are.

18 Q. And each one is spaced on 640-acre spacing?

19 A. That's correct.

20 Q. And a standard well location would be set back
21 1650 from the side boundaries of the section?

22 A. That's right.

23 Q. Let's turn to a locator map, then. If you'll
24 look at Exhibit Number 15, let's talk about the existing
25 wells. How is this color-coded?

1 A. The color code is in the legend on the left-hand
2 bottom corner. Rock Tank upper Morrow production is
3 colored in red, the Rock Tank lower Morrow producers have
4 yellow color, and the Rock Tank upper Penn production is
5 purple.

6 Q. Let's start with the well in Section 7. That's
7 the Rock Tank Unit 1 well. It's the discovery well for the
8 pool. What's that approximate vintage of that well?

9 A. That well was drilled in 1968, I believe.

10 Q. It has produced -- the legend shows -- You've
11 listed lower Morrow production first; below that is upper
12 Morrow production?

13 A. That's correct.

14 Q. And these are cumulative numbers good through
15 what period of time, Mr. Harmon?

16 A. This production is through June of 1997; it's our
17 latest production.

18 Q. All right. When we look at the Rock Tank 1 well,
19 what's its current status in the upper Morrow?

20 A. The upper Morrow in the Rock Tank 1 has made 3.2
21 BCF plus 981 barrels of oil during eight years of
22 production, and it currently makes 334 MCF a day.

23 Q. So when we look at each of these entries, the
24 lower entry is going to show what its current rate is?

25 A. Yes.

1 Q. For example, on the lower Morrow, it's recovered
2 almost 16 BCF of gas, and its current rate is just a little
3 over 2 million a day?

4 A. That's correct.

5 Q. Let's look at the Rock Tank 4 well, which is in
6 Section 1. Describe for us what that well has done and
7 what its current status is.

8 A. The lower Morrow in the Rock Tank Number 4 well
9 made 7.1 BCF, 1618 barrels of oil, during eight years of
10 production. It was plugged and abandoned in 6 of 1978.

11 The upper Morrow is the current producer in that
12 well. It's made 2.7 BCF in 19 years, and its current
13 production is 49 MCF a day.

14 Q. Do you agree with Redstone's letter of November
15 that it's about time to abandon the Morrow reservoirs in
16 the Rock Tank 4 well?

17 A. I do.

18 Q. It has exhausted its full and complete
19 opportunity to produce gas out of both the Morrow
20 reservoirs?

21 A. Yes.

22 Q. Do you see any potential in that well for
23 workover in the Morrow, to add additional pay in the Morrow
24 intervals for that wellbore?

25 A. Not in that wellbore in the Morrow.

1 Q. Let's go down to the well in Section 12. There
2 is an old Chevron well. Describe for us what the status of
3 that well is and what it produced.

4 A. Well, it's plugged and abandoned right now. The
5 upper Morrow produced .6 BCF at that location, and the
6 lower Morrow produced 5.1 BCF. It's been plugged since
7 1979.

8 Q. Let's set aside the locator map and now turn to
9 your interpretation of the various reservoirs, and we're
10 going to start with the upper Morrow sand. It's marked
11 Fasken Exhibit 16.

12 A. Should we look at a cross-section and identify
13 where that is?

14 Q. I've got -- We can do that in just a second here.

15 A. Okay.

16 Q. Let's look at Exhibit 16 now. It takes some
17 concentration because you have put a structure map on top
18 of an isopach, have you not?

19 A. I have.

20 Q. When we look at the generalized shading of the
21 green, it is to help us see the isopach?

22 A. It's the isopach, 20 foot and greater. It just
23 helps you see where that is.

24 Q. All right. That color code is not to represent
25 and is not an indication of the productive limit of the

1 upper Morrow green sand, is it?

2 A. No, it's not. The productive limit is controlled
3 by structure.

4 Q. How are we -- What kind of reservoir is this? Is
5 this a sand reservoir?

6 A. Yes, this is a sand reservoir. It was deposited
7 in a near-shore environment, a beach to offshore bar
8 environment. It's a fine-grained sandstone, well rounded,
9 well sorted.

10 Q. When we look at the structure, show us how to
11 read the structure map. There's a significant event west
12 of the well that appears to influence structure.

13 A. Yes, the structure map indicates a northeast-to-
14 southwest fault in this area. This is a major fault that
15 occurred during Wolfcamp time, and it is the sealing fault
16 and the reason that there's a production here at all.

17 Q. When we find attempts in the upper Morrow
18 reservoir west of the fault, they have not been successful,
19 have they?

20 A. That's right, everything west of the fault is
21 downdip and wet.

22 Q. When we look at the proposed Fasken location, do
23 you have an opinion as to what is the appropriate risk
24 factor penalty to assess, based upon geologic risk, for a
25 well at this location? The Division a maximum of cost plus

1 two times, or 200-percent factor.

2 A. We do recommend a 200-percent risk penalty.

3 Q. Describe for us the components of the risk that
4 reach that conclusion when we look at the upper Morrow
5 green sand.

6 A. In the upper Morrow green sand the risk is that
7 you'll have low permeability, like the Chevron well
8 exhibited south of us. Also that there's been depletion
9 out there and that this fault out here, you don't know
10 exactly where that fault is, but there's risk getting too
11 close to it and getting on the wrong side of it.

12 Q. When we look at the Chevron well in 12, it
13 appears to have a reasonable structural position. It
14 appears to have substantial sand thickness, and yet it did
15 only a little more than half a BCF of gas and was plugged
16 and abandoned in 1979.

17 What do you attribute the failure of that well
18 to, in light of its favorable geologic position on this
19 map?

20 A. I think it was a permeability problem.

21 Q. Is there still an opportunity for the recovery of
22 gas in Section 12 that can be achieved with the Fasken well
23 location?

24 A. Yes, we believe we could get as much as a --
25 right around a BCF out of this sand at our location.

1 Q. Let's set this aside for a moment and look at the
2 cross-section that you had referred to earlier. It's going
3 to be Exhibit 18, so we're going to skip 17 for a moment.
4 Look at 18. Let's unfold your cross-section, and you can
5 help us see, then, the structure.

6 Mr. Harmon, when you're looking at the structure
7 for the upper Morrow, find us the structural marker on the
8 cross-section, Exhibit 18, that you used to make your
9 structure map as shown on Exhibit 16.

10 A. On each well, on the left-hand log there is a
11 subsurface number that is right next to a blue zone, which
12 is an oolitic limestone and sits right on top of the first
13 green sand that you come to on the cross-section, coming
14 from the top of each log, and that's the marker.

15 Q. Is that a readily identifiable marker that's used
16 by experts like you to prepare cross-sections and structure
17 maps?

18 A. Yes, it is.

19 Q. When we look at the cross-section and Exhibit 16,
20 and you're locating this fault, there are some control
21 points -- there are some control points, are there not --

22 A. Yeah --

23 Q. -- that substantially preclude you from moving
24 the fault farther east; is that not true?

25 A. That's correct. The well in the southwest

1 southwest of Section 11 was on the upthrown side of the
2 fault. Also, a well just south of there in Section 14 was
3 on the upthrown side.

4 Conversely, moving north of our acreage in
5 Section 36, that well was on the downthrown side. So you
6 do have well control out here.

7 Q. And you look at the Rock Tank 4, and it's on the
8 upthrown side?

9 A. That's correct.

10 Q. So in terms of defining the location and the
11 orientation of the fault, it would be very difficult to
12 move it farther east, and you're reasonably certain of its
13 orientation?

14 A. That's correct.

15 Q. You might possibly move it slightly to the west,
16 not very far; is that true?

17 A. That's correct.

18 Q. All right. Now, let's look at the isopached
19 interval, this upper Morrow green sand. Is that shown on
20 your cross-section, 18?

21 A. Yes, it's colored in green on each log.

22 Q. When you're coloring the green sand, are you
23 coloring a gross-sand interval, or have you determined some
24 net cutoff value?

25 A. We color the gross sand and map the gross sand.

1 Q. And why do you do that?

2 A. We feel that all of the sand contributes to the
3 production. Even though it may be low porosity, it's still
4 sandstone and it still contributes.

5 Q. When we turn in a minute and look at the lower
6 Morrow brown sand -- Well, sorry, I'm confused. This is
7 the blue sand, not the -- Exhibit 19. When we look at that
8 map -- Oh, I'm sorry, I thought I had a brown map. Hang
9 on.

10 Yeah, the lower Morrow brown sand, Exhibit 17.
11 When we talk about the details of 17, show me on the cross-
12 section, Exhibit 18, what you mean by a reference to the
13 lower Morrow brown sand.

14 A. Well, the brown sand is colored in brown on each
15 log, and it's at the bottom of each section. That has the
16 subsurface number right above it, and it's colored in
17 brown.

18 Q. Again, for the lower Morrow brown sand, you've
19 chosen to identify and map the gross interval?

20 A. Yes, we have.

21 Q. In addition, do you think the lower Morrow sand
22 contributes on a gross basis as it does in the upper
23 Morrow?

24 A. Yes.

25 Q. All right, let me have you sit down, then, and

1 let's look at Exhibit 17 and talk about the lower Morrow
2 brown sand.

3 The well data has been coded so that for these
4 wells that produce from the lower Morrow brown sand we're
5 looking at information that is applicable to that formation
6 only?

7 A. That's correct. When a well is colored brown,
8 that well produced from the brown sand. If the well is not
9 colored brown, it did not produce from that sand. And
10 that's also true for all of the maps.

11 Q. Describe for me the Fasken well location in
12 relation to the lower Morrow brown sand and what your
13 conclusion is about the opportunity for the well to recover
14 the gas reserves for Section 12.

15 A. Our location is in a structurally favorable spot.
16 It's about as high as you can get on the structure. It's
17 in a thick brown sand channel that comes from the northwest
18 to the southeast, through this location, and it will be the
19 highest well drilled in this sand on the south side of the
20 fault.

21 Q. When we look at Section 7 and find the Rock Tank
22 1 well, that well cum'd more than 15 BCF of gas out of this
23 interval?

24 A. That's correct.

25 Q. And it's still taking gas out of the reservoir at

1 2 million a day?

2 A. That's correct.

3 Q. The Rock Tank 4 well in Section 1 was abandoned,
4 what, in 1978? Is that it?

5 A. That's right.

6 Q. And it's exhausted its opportunity to produce
7 this gas, having achieved more than 7 BCF?

8 A. That's correct.

9 Q. The contribution of gas in the lower Morrow sand
10 for Section 12 will be taken from what portion, using the
11 structure map?

12 A. You mean the gas-water contact?

13 Q. Well, if there is one, or how far downstructure
14 can we go and still have productive gas in Section 12?

15 A. I don't know where that is today, but originally
16 it was down there at 6605..

17 Q. Okay. And it's got to be below the Rock Tank 1
18 well, because that one's still producing gas?

19 A. That's correct.

20 Q. On -- Let's look at the control point in 13 to
21 the south, in the northwest quarter, the Mewbourne Federal
22 "K" 1 well. It has a drill stem test. It's at a
23 structural elevation minus 6400, and it had a small gas
24 show, right? No water?

25 A. Yeah, it was depleted.

1 Q. All right. So it was depleted, but it did not
2 produce water?

3 A. Right.

4 Q. All right. So if we're going to make estimates
5 of the opportunity for gas production in Section 12, that
6 opportunity is best achieved at the Fasken well location?

7 A. Yes, at the highest point in that section.

8 Q. And it also is at a point of reasonable thickness
9 in this reservoir?

10 A. It is.

11 Q. Okay. Is there still a substantial risk that
12 deserves the maximum risk factor penalty for a well drilled
13 and attempting to be produced out of the lower Morrow brown
14 sand?

15 A. Yes, we're still -- You know, the overall zone is
16 still depleted, and we still don't know the exact location
17 and the nature of this fault, so there is a risk.

18 Q. Have the operators of these wells chosen to
19 produce the two pools as downhole commingled, or have they
20 been dualled? Do you know?

21 A. They've each been produced separately.

22 Q. All right. The target reservoir that you're
23 seeking are both the lower Morrow and the upper Morrow
24 pools?

25 A. Yes.

1 Q. Are there any secondary potentials that you might
2 be able to test with a well at this location?

3 A. Yeah, all of the Penn section was faulted up
4 during Wolfcamp time, so anything in the Penn that has
5 porosity has potential for having gas trapped in it.

6 Several zones that come to mind are the upper
7 Morrow "A" zone, which produced down here in the southwest
8 southwest of Section 11; the Strawn zone looks potentially
9 productive behind pipe in the Rock Tank Number 4 well; and
10 also a Canyon zone looks potential in there. But anything
11 in the Penn might be potential that has porosity in it.

12 Q. Are you seeking to have the Fasken well location
13 approved as an unorthodox well location for all the gas
14 reservoirs below the top of the Wolfcamp?

15 A. We are.

16 Q. Let's turn to the Canyon mapping that you've
17 done. If you'll look at Exhibit 19, when we look at
18 Exhibit 19 the Canyon obviously is above the Morrow, so all
19 these wells would have penetrated the Canyon?

20 A. That's correct.

21 Q. Has any of these wells been able to establish
22 production out of the Canyon reservoir?

23 A. None of the wells have produced out of the Canyon
24 so far.

25 Q. When we look at the Rock Tank 1 well in 7, that's

1 still producing in the Morrow, but there's no opportunity
2 for it to produce gas in the Canyon?

3 A. There's 60 foot of Canyon rock in there, and the
4 top of it is 4407. That's about all you can say about it.

5 Q. Yeah. Describe the kind of Canyon reservoir
6 we're dealing with. What is this?

7 A. Well, this is a reef, and it's got oomoldic
8 porosity in it. It's very hard. You don't pick it up on
9 sonic logs, so it's very hard to quantify how much porosity
10 each one of these wells does have.

11 Q. There is a drill stem test on the Rock Tank 4
12 well in Section 1. Has that well produced?

13 A. It has not, but it flowed 2.4 million a day on
14 the drill stem test, and that's very encouraging. So
15 that's why we think it's possibly productive.

16 Q. Let's have you reach your geologic conclusions
17 about the appropriate risk factor to be assessed if we deal
18 with a force pooling for the Canyon reservoir for a well at
19 this location. Is there still substantial risk?

20 A. There is. There's not established production in
21 the Canyon. Canyon reservoirs are typically water driven
22 and wet. And so you really need to be updip and to have
23 good porosity in them. There's a substantial risk.

24 Q. Is the Fasken well location a favorable location
25 for the development of any Canyon potential for a spacing

1 unit consisting of the west half of Section 12?

2 A. We think it's probably the best spot for that.

3 Q. Let's turn now to your Exhibit 20 and see the
4 exact stratigraphic interval that you're talking about when
5 you're mapping the Canyon. If you'll take a moment and
6 unfold Exhibit 20, let's see what that looks like.

7 Okay, identify and describe for us, Mr. Harmon,
8 the markers you're using for looking at the Canyon in terms
9 of structural position.

10 A. There are several subsea markers on the Canyon,
11 and the one I've mapped on is the upper one, and it's a hot
12 shale. It's right at the top of the Canyon.

13 As the Canyon reef gets thinner it moves below
14 that a little bit, but you can see way up on the Rock Tank
15 Well Number 4, which is the second from the right, the
16 thing is right at the very top there, it's grown all the
17 way to the top of the Canyon. That's a pretty thick well.
18 I give it 260 foot of Canyon reef in that well, and that's
19 also the one that was drill stem tested and had some gas
20 from the test.

21 Q. When you're identifying on your isopach the gross
22 Canyon interval, show us on the cross-section what you're
23 identifying and mapping.

24 A. It would be the part that I've colored in blue on
25 the cross-section, on each log.

1 Q. When we look at the Exhibit 19, the isopach
2 portion, can we conclude that there is potential gas
3 contribution from Canyon thicknesses that are less than the
4 areas shaded in blue? In other words, you've only shaded
5 the -- what? 150 foot and greater?

6 A. Yes, that's just so you can see the trend,
7 because it gets confusing when you put the isopach and the
8 structural on the same map.

9 Q. How far down on the footage isopach would you
10 think you could get gas contribution on this map out of the
11 Canyon reservoir?

12 A. Oh, maybe 4400 foot or so.

13 Q. Okay. That would --

14 A. Minus 4400.

15 Q. That would represent a reasonable point at which
16 to make some conclusions about everything above that to the
17 north and west is going to be potentially gas contributing?

18 A. It's real hard to say. It may be 4300. That's a
19 tough call. There's no production out here.

20 Q. All right.

21 A. I don't really know where it's going to be.

22 Q. So it could be below 4300?

23 A. It's hard to say.

24 Q. We just don't know yet?

25 A. We don't have any hard evidence of that at all.

1 Q. And again, back to Exhibit 13, which was the
2 lower Morrow brown sand, the area shaded in brown is not to
3 be taken as your conclusion about the potential productive
4 limits of the lower Morrow brown sand; is that right?

5 A. Right, it just helps you see the thickness trends
6 going through that map.

7 Q. Summarize for us, Mr. Harmon, why you're seeking
8 to have this particular location approved.

9 A. Fasken would like to have this approved because
10 topographically it's one of the -- it's the only spot in
11 our west half that we can drill a well. It's got
12 reasonable geologic targets at that spot. We have an
13 opportunity to get a BCF of gas out of the upper Morrow and
14 also another BCF, roughly, out of the lower Morrow, and it
15 has opportunities for other Penn zones up the hole.

16 MR. KELLAHIN: That concludes my examination of
17 Mr. Harmon.

18 We move the introduction of his Exhibits 14
19 through 20.

20 EXAMINER CATANACH: Exhibits 14 through 20 will
21 be admitted as evidence.

22 Mr. Bruce?

23 CROSS-EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Harmon, the Morrow is the primary objective?

1 A. Yes.

2 Q. The upper Morrow -- Is there a preference between
3 the upper Morrow and the lower Morrow in your mind, which
4 one is preferable or which is the primary?

5 A. Our analysis showed that we're going to get about
6 a BCF out of each one.

7 Q. So you rate the upper and lower Morrow equally?

8 A. They're about equal.

9 Q. Now, looking at your Exhibit 14, the topographic
10 map --

11 A. Okay.

12 Q. -- does geology play any factor in your well
13 location?

14 A. Yes, it does.

15 Q. So it's not purely topographical, the well
16 location?

17 A. Well, that's the only spot you can drill in that
18 west half, but that is a good geologic location.

19 Q. You know, I'm just looking at this -- There's the
20 existing Boothe "B0" Federal, and it looks like you could
21 drill at a standard location just north of that and have
22 the same type of topography as the Boothe "B0" Federal
23 location.

24 A. I think those were different days, when they
25 drilled wells back there, than what you're faced with

1 today, as far as the BLM approval of these things and
2 whatnot.

3 Q. If you could drill an orthodox location,
4 topographically would you want to be that close to the
5 Boothe "BO" Federal well?

6 A. No, that was a poor producer in the upper Morrow.

7 Q. And what about in the lower Morrow?

8 A. I think it made 5 BCF.

9 Q. So you would want to stay away from that for
10 drainage purposes in the lower Morrow?

11 A. The lower Morrow is drained everywhere out here.

12 Q. Okay. If it's drained everywhere, how come
13 you're saying you're going to get a BCF out of the lower
14 Morrow?

15 A. That's what our calculations come out.

16 And our engineer can go into how we arrived at
17 that.

18 Q. Looking at your Exhibit 16, which is your upper
19 Morrow green sand, now, this is a gross sand map, correct?

20 A. It is.

21 Q. And you stated that in your opinion all sand
22 contributes to production?

23 A. Yes.

24 Q. Well, what about the Rock Tank Unit Number 2 in
25 the southwest quarter of Section 6? You show that as

1 having 18 feet. Now, that was dry in the upper Morrow,
2 wasn't it?

3 A. It was tight.

4 Q. It was tight.

5 A. Drill stem test recovered 30 foot of mud; it's
6 tight.

7 Q. Okay. So you do have to look at things such as
8 permeability?

9 A. Yes.

10 Q. Looking at this from your well location, the fact
11 that -- Let's go over some of these wells again. The
12 Boothe "BO" Federal well in the southwest quarter of
13 Section 12, that was a poor producer in the upper Morrow,
14 in the upper Morrow green?

15 A. Yes, it made 630 million.

16 Q. Okay, relatively poor for out in this area?

17 A. Yes.

18 Q. Okay. And then the Rock Tank Number 1, which is
19 in the northwest quarter of Section 7, pretty good upper
20 Morrow producer?

21 A. Yes, 3.3 BCF.

22 Q. Now, based on those two wells and the location of
23 the fault, where will -- if you drill this well and
24 complete it in the upper Morrow, where will most of the
25 reserves come from? Which sections of land, or which half

1 sections?

2 A. The reserves are all on the south side of this
3 fault. That's where they'll come from.

4 Q. Would they come from the -- say, the southeast
5 quarter of Section 1 and the east half of Section 12, more
6 so than from the west half of Section 12?

7 A. I guess you might look at that by just doing a
8 halfway point between the Fasken Carnero well and the Rock
9 Tank Number 1 well.

10 I would think that, you know, between those two
11 wells that's where they would come.

12 The well to the north is on its last leg, and the
13 well to the south is plugged, so -- that structural area.

14 Q. In looking at -- I guess it would be 16 and 17,
15 which are both of your Morrow maps, the green sand and the
16 brown sand, based on your interpretation, there's really
17 not much difference geologically, as far as the Fasken-
18 proposed location and the Redstone-proposed location?

19 A. There's not a whole lot of difference. They
20 might be a few feet lower.

21 But, you know, sandwise, thicknesswise, they're
22 about the same.

23 Q. Now, in the Canyon, which is your Exhibit 19,
24 once again, this is a gross -- just a gross thickness?

25 A. Yes.

1 Q. Was the Boothe "BO" Federal well -- did that
2 appear to be -- would that have appeared to be commercial
3 in the -- or productive in the Cisco/Canyon?

4 A. It wasn't tested, and you can't tell from logs.

5 Q. From this map it appears that at least as to the
6 Canyon, the unorthodox location is substantially better
7 than at a legal location?

8 A. You get thicker going to the north, and you're
9 also on top of the structure, so it is.

10 Q. Where is the nearest commercial Canyon producer
11 from here, and how far away?

12 A. It's quite a distance to the north of here.

13 Q. Number of miles?

14 A. I don't have the number.

15 Q. Did this Canyon location have any -- Was that the
16 basis of your proposed unorthodox location, or was it a
17 large factor in your unorthodox location?

18 A. The biggest factor is the topography. There's
19 just really not another spot to drill.

20 Q. In the northwest quarter or the west half?

21 A. And the west half.

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

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Just a couple. Mr. Harmon, did you actually --

1 Well, has that location actually been approved by the BLM?

2 A. I don't remember. I believe it has.

3 MS. KVASNICKA: I think it has been approved.

4 THE WITNESS: I think it has been.

5 Q. (By Examiner Catanach) Did -- When you first
6 were staking the well location and trying to find a
7 location in the northwest quarter, did you actually try and
8 find a legal location, or how was that process -- how did
9 you go about doing that?

10 A. We sent our engineer out there and told him to
11 find a spot that we could drill in that west half, with the
12 surveyor. And so he came back with that.

13 Q. So you first explored the possibility of trying
14 to find a standard location?

15 A. Yes.

16 EXAMINER CATANACH: Okay, I have nothing further.

17 MR. KELLAHIN: That concludes our presentation.

18 EXAMINER CATANACH: Okay, let's take a short
19 break here.

20 (Thereupon, a recess was taken at 12:25 p.m.)

21 (The following proceedings had at 12:40 p.m.)

22 EXAMINER CATANACH: Okay, we'll turn it over to
23 Mr. Bruce at this time.

24 MR. BRUCE: First I'm going to call Joe Small to
25 the stand.

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Small, would you please state your full name
7 and city of residence?

8 A. My name is Joe E. Small, and I live in Dallas,
9 Texas.

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

11 A. I work for Redstone Oil and Gas Company. I'm
12 currently the vice president of land for Redstone.

13 Q. Have you previously testified before the Oil
14 Conservation Division?

15 A. I have not.

16 Q. Would you please give a brief outline of your
17 educational and employment background?

18 A. I received a bachelor of business degree from
19 Texas Tech University in 1975. I've been employed as a
20 landman since that time, well over 20 years. I am a
21 certified professional landman and a member of various
22 landman organizations and associations.

23 Q. Has your land work included work in Texas and New
24 Mexico?

25 A. It has.

1 Q. And how long have you been with Redstone?

2 A. Five years.

3 Q. Has your area of responsibility, including Texas,
4 included southeast New Mexico?

5 A. It has.

6 Q. And are you familiar with the land matters
7 involved in the Fasken and Redstone applications?

8 A. I am.

9 MR. BRUCE: Mr. Examiner, I'd tender Mr. Small as
10 an expert petroleum landman.

11 EXAMINER CATANACH: Any objection?

12 MR. KELLAHIN: No objection.

13 EXAMINER CATANACH: Mr. Small is so qualified.

14 Q. (By Mr. Bruce) Mr. Small, let's refer to what's
15 been marked Redstone Exhibit 1, and let's go through this.
16 Part of it's already been gone through, but what is the
17 dashed line in the middle?

18 A. The dashed line in the middle is the -- The
19 dashed line is the boundary line of the Rock Tank Unit.

20 Q. And it includes the east half of Section 12, part
21 of what we're here today for?

22 A. That is correct.

23 Q. And the orange indicates the 640-acre well unit
24 for a Morrow well in this section?

25 A. That's correct.

1 Q. Now, there's also a red line around the north
2 half. What does -- What is Redstone requesting regarding
3 the north half?

4 A. We request that any zones, other than the zones
5 spaced on 640, to be force pooled as a laydown 320, as it
6 were.

7 Q. Okay. And we'll get into that a little bit more.
8 There's also a red dot there. Is that the
9 proposed Redstone location?

10 A. It is.

11 Q. And that's, I believe, 2265 feet from the east
12 line and 515 from the north line?

13 A. I don't believe it's 515 from the north line.

14 Q. Five hundred?

15 A. I believe that is correct. Yes, that is correct.

16 Q. Now, on the north-half unit, there's a uniform
17 ownership of interest in the east half of Section 12; is
18 that correct?

19 A. Yes, there is.

20 Q. And then Fasken has the lease on the west half of
21 Section 12?

22 A. Correct.

23 Q. If it's not a laydown unit for 320-acre gas
24 spacing -- for 320-acre spaced units, then there would be a
25 difference in ownership between the Morrow and the other

1 zones, would there not?

2 A. Yes, there would.

3 Q. And so in your opinion it would just be fair to
4 have a laydown unit in the 320?

5 A. Yes.

6 Q. All interests would be unitized in that?

7 A. That's correct.

8 Q. Does Redstone request that it be named operator
9 of its proposed well?

10 A. Yes, we do.

11 Q. And why is that?

12 A. We operate the wells in the Rock Tank Unit. The
13 Rock Tank Unit boundaries include the east half of Section
14 1. It would consolidate our operations in that are, and we
15 feel like we can -- we are qualified -- maybe better
16 qualified to operate.

17 Q. Okay. Now, there's also -- and we're just going
18 to go over this very briefly, Mr. Small, but it's also come
19 up about a 1970 operating agreement on this --

20 A. That is correct.

21 Q. -- section.

22 Let me just hand out what's been marked Redstone
23 Exhibit 2, Mr. Small, which is a copy of what was
24 introduced during some motion-to-dismiss proceedings
25 between Redstone and Fasken; is that correct?

1 A. Yes.

2 Q. And this is the operating agreement that was
3 formed between various interest owners covering the Morrow
4 in Section 12?

5 A. Yes, it is.

6 Q. If you could turn to page 1, the third page from
7 the top, page 1, I've highlighted a couple of things. The
8 operator under this agreement was Gulf Oil Corporation, was
9 it not?

10 A. That is correct.

11 Q. Who was the successor to Gulf Oil Corporation?

12 A. Gulf Oil became Chevron, and we -- Redstone
13 acquired the interest of Chevron and subsequently shared
14 that interest with certain parties in Midland, Texas.

15 Q. Then going to the definitions, I've highlighted
16 the term "Unit Area".

17 Then go to the very last page of this exhibit,
18 Mr. Small, the very last page. The unit area was all of
19 Section 12, was it not?

20 A. Still is.

21 Q. Still is. And besides Gulf, David Fasken signed
22 this agreement, did he not?

23 A. He did.

24 Q. And Fasken Land and Minerals is the successor to
25 David Fasken?

1 A. I assume so.

2 Q. And it's Redstone's assertion that since it's the
3 operator under this JOA, it should operate this well?

4 A. That is our assertion, yes.

5 Q. And your other witnesses will discuss other
6 reasons why it should be operator?

7 A. Yes.

8 Q. Redstone is also the operator of the acreage
9 offsetting the proposed unorthodox locations, is it not?

10 A. It is.

11 Q. And as operator it has a duty to protect that
12 joint account?

13 A. We feel like we do.

14 Q. And that is another reason for being named
15 operator?

16 A. Yes.

17 Q. Now, I think Fasken's land witness went over
18 this. There is -- this particular operating agreement,
19 there is also -- This covers only the Morrow?

20 A. That is correct.

21 Q. There is also a Rock Tank Unit operating
22 agreement, correct?

23 A. That is correct.

24 Q. That covers all formations?

25 A. All formations.

1 Q. The -- As far as a well goes, as far at least
2 east half of Section 12, all zones are subject to one
3 operating agreement or another?

4 A. One or the other, yes, sir.

5 Q. One or the other.

6 And so could you just briefly state, under a
7 normal operating agreement, what -- how a well is proposed
8 and the timing, et cetera?

9 A. You bet. Normal operating agreements, any party
10 can propose an operation pursuant to the operating
11 agreement that they're subject to, and generally the
12 remaining parties have a 30-day period of time to make a
13 response and to be deemed a participating party or
14 nonparticipating party.

15 Q. Now, the reason we bring that up is that
16 everybody who has an interest in this well is subject to a
17 JOA of one type or another?

18 A. That is correct.

19 Q. And I think this has come out in the prior
20 testimony, Mr. Small, but Redstone has not yet sent out a
21 proposal on this particular well; is that correct?

22 A. That is correct.

23 Q. And why is that?

24 A. We feel like our proposals will be made to the
25 parties under this JOA.

1 Q. And so there's really no need to follow the
2 force-pooling procedures?

3 A. Well, that is our feeling.

4 Q. Now, if Fasken's interest in the west half of
5 Section 12 needs to be pooled, they're the only interest
6 owner that needs to be pooled?

7 A. I believe so.

8 Q. You don't need to send out force pooling notices
9 to all the interest owners in the Rock Tank Unit?

10 A. I have an agreement with those owners.

11 Q. And Redstone -- Redstone has had, I think --
12 Fasken's landman went through the letters and various phone
13 calls. There have been months of discussions between the
14 parties, have there not?

15 A. That's correct.

16 Q. To date you've been unable to reach agreement
17 regarding a well in Section 12?

18 A. That is correct.

19 Q. If Redstone is named operator, what overhead
20 rates would you propose?

21 A. I'm authorized to propose and commit to \$4500 for
22 any month during drilling operations and \$450 per month for
23 a producing.

24 Q. That would be less than probably the Rock Tank
25 Unit at this point?

1 A. It is.

2 Q. Now, let's just touch on a couple of final
3 points. There's been reference to the well location and
4 whether Redstone objected or, you know, had a dispute with
5 that location. Could you just briefly discuss Redstone's
6 point of view regarding Fasken's well location, as opposed
7 to your location?

8 A. It's always been our contention that Fasken's
9 location was under review, and we have been reviewing that
10 up to this point.

11 I think there was some discussion about Redstone
12 agreeing to this location, and I can respond that I
13 honestly don't recall myself making a statement to an
14 agreement to this location. I can't speak for other people
15 in my company or our working interest owners in Midland as
16 to what they may have said or represented about Redstone's
17 position.

18 I can also say that I think I recall some
19 conversations about this being a Cisco/Canyon location, and
20 I think that we may have had one feeling about that versus
21 a location being in the -- drilling to the Morrow.

22 Q. And once again, you did have to look out, as far
23 as an unorthodox location goes, with -- you had to consider
24 the interests of the interest owners in the Rock Tank Unit?

25 A. Yes.

1 Q. So you just couldn't -- You had to review all the
2 data before you could come to an agreement on that?

3 A. Yes.

4 Q. There's also been some talk about Mr. Olwick or
5 an Olwick corporation?

6 A. Mr. Olwick -- I'm sorry, Mr. Paul Lerwick with
7 the Olwick Corporation.

8 Q. What do you know about the status of his joinder
9 in this well?

10 A. I did understand that he did execute Fasken's AFE
11 when it was proposed and submit their -- the prepayment for
12 his share of the drilling cost.

13 I also understand from my conversations with Paul
14 that he was approaching a fiscal year end, and he felt the
15 tax need to make a prepayment at that particular time.

16 I talked to Paul yesterday and he advised me that
17 -- you know, again, he reminded me that he had paid his
18 share of the drilling costs and whatever, but he declined
19 to execute Fasken's joint operating agreement and expressed
20 to me that he would prefer to stay neutral in terms of
21 preference for operator.

22 Q. One final point. Does -- In any pooling order
23 that may be issued in these two cases, does Redstone
24 request that a casing point election be put in the order?

25 A. We definitely do.

1 Q. And why is that?

2 A. Primarily, the operating agreements that we have
3 covering this section have a casing point election, and we
4 would prefer that our partners and the other respondents to
5 our Application have them as a matter of fairness.

6 Q. Okay. Were Exhibits 1 and 2 compiled from
7 company business records?

8 A. I'm sorry? Oh, yes, they were. They were.

9 Q. And in your opinion is the granting of Redstone's
10 Application and the denial of Fasken's Application in the
11 interests of conservation, the prevention of waste and the
12 protection of correlative rights?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Redstone Exhibits 1 and 2.

16 EXAMINER CATANACH: Exhibits 1 and 2 will be
17 admitted as evidence.

18 Mr. Kellahin?

19 MR. KELLAHIN: Thank you, Mr. Examiner.

20 CROSS-EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Small, was it your responsibility on behalf
23 of Redstone to respond to the Fasken well proposal that
24 they sent out by letter dated September 9th?

25 A. I think it's a joint responsibility in our

1 company.

2 Q. Okay, who exercises that responsibility with you?

3 A. Mr. Eric Luck.

4 Q. Okay, anybody else?

5 A. Mr. Eddy Claycomb.

6 Q. Once they made a decision, would that decision be
7 communicated to Fasken through you, or by you?

8 A. Yes.

9 Q. When we look at their well proposal, you
10 commented that you were considering it to be made under a
11 joint operating agreement?

12 A. I'm sorry, I don't understand --

13 Q. All right. When Ms. Kvasnicka sent out the
14 September 9th letter to you, one of the conditions in there
15 was a reference to the joint operating agreement and a 30-
16 day election period. Did you consider that you had any
17 obligation to respond to her well proposal within the 30
18 days provided under that operating agreement?

19 A. No, I did not.

20 Q. Why not?

21 A. She made reference to the Rock Tank operating
22 agreement, and I knew that there was another one that would
23 convey -- that was covering the interest of the Morrow.

24 Q. Did you bring that to her attention?

25 A. I'm not sure I brought that to her attention

1 about the other operating agreement. I think I did bring
2 it to her attention that it was not to proposed under the
3 Rock Tank.

4 Q. Regardless of whether it's being proposed under
5 an operating agreement or not, you chose not to respond to
6 that proposal in writing until your letter of November
7 20th?

8 A. I suppose so.

9 Q. That is the only letter you sent Fasken
10 concerning this well proposal, isn't it?

11 A. I think so.

12 Q. Do you have a copy of that letter?

13 A. Not --

14 Q. Let me show it to you, it's Exhibit 8.

15 A. You bet.

16 Q. By this time Redstone has reviewed the Fasken
17 well proposal, has it not?

18 A. Yes.

19 Q. And you're responding to her proposal, right?

20 A. I'm not certain.

21 Q. The letter of November 20th is no a response to
22 her proposal for the Fasken well?

23 A. It is.

24 Q. Is there anything in that letter that tells
25 Fasken that Redstone wants to operate this well?

1 A. I don't think so.

2 Q. Your concern today is that you want to operate
3 the well?

4 A. I would like to say that in my first paragraph I
5 said in this letter we will not discuss the differences of
6 opinion relative to our JOA, which I think implies as to
7 who would operate.

8 Q. Did you point out anywhere directly in that
9 letter without that inference that you wanted to operate
10 this well?

11 A. Not in the letter.

12 Q. Okay. You were provided an opportunity to send a
13 geologist to meet with Fasken's geologist on October 21st,
14 were you not?

15 A. I suppose I was, yes.

16 Q. Is there a reason that you chose not to send a
17 geologist, other than the reason that Ms. Kvasnicka
18 testified to?

19 A. And what was that?

20 Q. That your geologist agreed with the Fasken
21 location?

22 A. I don't have firsthand knowledge of that.

23 Q. Are you proposing that the Fasken location be
24 subject to some type of production penalty?

25 A. The Fasken location?

1 Q. Yes, sir.

2 A. I'm not -- I don't understand the question.

3 Q. All right. The Fasken location is 500 feet from
4 the common boundary with Section 1.

5 A. I see.

6 Q. In your November 20th letter you said that you
7 might assert an objection to the location. Are you here
8 today to assert an objection to the Fasken location?

9 A. I think we already have.

10 Q. In what way, sir? Are you seeking to have the
11 production penalty established on that well?

12 A. I'm not certain.

13 Q. You do not know?

14 A. I do not know.

15 Q. When we look at the Redstone location, it is also
16 500 feet from the common line with the unit, right?

17 A. Yes, sir.

18 Q. Regardless of which well is drilled, either well
19 will be on a spacing unit in which the interests are
20 different than the interests of those same people in
21 Section 1, right?

22 A. That seems right.

23 Q. All right. Are you proposing that the Redstone
24 location be subject to any type of production penalty?

25 A. No.

1 Q. Your location is 125 feet east of the centerline
2 of Section 12, isn't it?

3 A. Yes.

4 Q. And the Fasken location is 375 feet west of that
5 centerline, right?

6 A. Yes.

7 Q. Are you proposing that either one of these wells
8 be subject to some type of production penalty?

9 A. No.

10 Q. If the spacing unit that Fasken is proposing is
11 reoriented for the gas that's spaced on 320 so that instead
12 of a west-half orientation they concede to a north-half
13 orientation, does that resolve your objections?

14 A. No.

15 Q. Why not?

16 A. Our location is superior, in our opinion.

17 Q. Really? They're only 500 feet apart.

18 All right. So reorienting the spacing unit and
19 approving the Fasken location doesn't satisfy Redstone?

20 A. No.

21 Q. Okay. Am I correct in understanding that despite
22 the joint operating agreements, whether you propose the
23 well under an agreement or not, Redstone could have
24 proposed the Redstone well to Fasken and the other working
25 interest owners any time prior to today?

1 A. That is correct.

2 Q. Right?

3 A. That's right.

4 Q. You could have done it back in November, you
5 could have done it in December, you could have done it in
6 January, and you still haven't done it?

7 A. That's correct.

8 Q. Do you want to tell me why? Why haven't you
9 proposed the well?

10 A. I'm not certain of that.

11 Q. I can't figure it out either.

12 When you were negotiating with Ms. Kvasnicka on
13 behalf of Redstone for an increased interest in the Fasken
14 well, were you negotiating on behalf of all the working
15 interest owners in the unit, or just negotiating for
16 Redstone?

17 A. I think I would have offered that the other
18 parties could have participated if the offer was extended
19 to the other parties.

20 Q. And, in fact, Ms. Kvasnicka testified that she
21 made that extension to all working interest owners, didn't
22 she?

23 A. I believe so.

24 Q. It's in one of her letters, isn't it?

25 A. I believe so.

1 Q. Does Redstone intend to participate in the Fasken
2 well if the Examiner enters a compulsory pooling order as
3 requested by Fasken?

4 A. I'm not sure that decision has been made.

5 Q. What factors go into making that decision?

6 A. Gas prices, other things.

7 Q. When we look at the Redstone location that's in
8 the Application, did you ever tell Ms. Kvasnicka that
9 Redstone had a different location?

10 A. I did not.

11 Q. When did Redstone develop this alternative
12 location?

13 A. Very recently.

14 Q. How recent is very recent?

15 A. I would say ten days ago or something to that
16 effect. I'm not certain.

17 Q. Are you here today on behalf of simply Redstone
18 and its interests?

19 A. I don't have any formal agreements regarding my
20 representation of other parties.

21 Q. Let me ask you this: Did you seek from the other
22 working interest owners concurrence to represent them at
23 today's hearing?

24 A. I'm not sure what the meaning of the word
25 "represent" means in this case.

1 Q. To come here and represent their interest as to
2 this well location or this pooling application.

3 A. I don't think I sought their concurrence.

4 Q. All right, sir.

5 Have you advised the other working interest
6 owners in the Rock Tank Unit of your proposed well in this
7 location?

8 A. Verbally I've talked to two parties.

9 Q. You still haven't sent that letter out?

10 A. That's correct.

11 Q. You asked the Division Examiner, if he enters a
12 pooling order in your favor, to establish some overhead
13 rates that -- I think it was \$4500 a month drilling, was it
14 not?

15 A. That is correct.

16 Q. That is lower than the rate that Fasken is
17 subject to on their agreement in the east half of Section
18 12, isn't it?

19 A. It is.

20 Q. It's \$5500 a month, or thereabout?

21 A. That is correct.

22 Q. Why the difference?

23 A. Let me also state that the overhead rates in our
24 Rock Tank Unit have escalated to seven-hundred-and-
25 something dollars, and Redstone voluntarily lowered them to

1 \$554.

2 Q. All right. So am I understanding that every
3 working interest owner, including Fasken, is now subject to
4 the same operating rates that you're proposing to the
5 Examiner in this pooling case?

6 A. They are not subject to the \$450 and the \$4500.

7 Q. Are you conceding that they should be?

8 A. No.

9 Q. But you're asking for a force pooling rate that's
10 different than the operating rates under those agreements,
11 right?

12 A. Yes, sir.

13 Q. You're familiar with the spacing that applies for
14 these various reservoirs?

15 A. Yes.

16 Q. Yeah, that the two Morrow pools in Rock Tank are
17 640 spacing?

18 A. Yes.

19 Q. And that any of the other gas production below
20 the top of the Wolfcamp is going to be 320?

21 A. That is my understanding.

22 Q. If the Division approves the west-half
23 orientation, if you will, for the shallower gas, above the
24 Morrow, are you proposing to go ahead and drill your well?

25 A. I don't think that decision has been made.

1 Q. All right. So no decision is made about whether
2 Redstone will drill a competing well either in Section 12
3 or in Section 11 if this case is approved by the Examiner?

4 A. I'm sorry, Section 11?

5 Q. I'm sorry, Section 1. Section 1 to the north.

6 A. No, those decisions have not been made.

7 Q. All right. Who's your geologist that usually
8 represents you in these activities when you discuss them
9 with other working interest owners?

10 A. Mr. Jerry Stone.

11 Q. Mr. Stone is here today?

12 A. He is.

13 Q. All right. Do you utilize the services of a
14 petroleum engineer for these kinds of activities?

15 A. Yes.

16 Q. And do you have one?

17 A. Yes.

18 Q. And who is that?

19 A. Well, for these purposes, Mr. Scott Royal.

20 Q. Is he one of your regular engineers?

21 A. He's an employee of Redstone.

22 Q. Am I correct in understanding you, Mr. Small -- I
23 don't want to misunderstand you on a point that's this
24 important. Am I understanding that Redstone is not seeking
25 to have the Fasken well subject to a production penalty? I

1 believe that's what you testified to.

2 A. That is correct.

3 MR. KELLAHIN: All right, no further questions.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Small, I think I misunderstood your earlier
7 testimony. All of the interests in the east half of
8 Section 12 are subject to -- are already subject to an
9 operating agreement. You don't feel you have to pool those
10 interests, those are already tied up?

11 A. Mr. Examiner, we feel like the entire 640 acres
12 is subject to the 1970 joint operating agreement.

13 Q. Okay, that's Exhibit Number 2?

14 A. Correct.

15 Q. You feel that under this agreement everybody is
16 effectively tied up?

17 A. Yes, sir.

18 Q. Why do you file a compulsory pooling case, then?

19 A. In the event the Commission doesn't agree with
20 me -- I'm sorry, the Division.

21 Q. So you disagree with Fasken's interpretation that
22 this disagreement doesn't cover the west half of Section
23 12?

24 A. Yes, sir, and I think the work "interpretation"
25 is an appropriate one.

EXAMINATION

BY MR. CARROLL:

Q. What caused the expiration of the west-half lease?

A. I would assume that the Gulf Federal "BO" well was the well that was holding that lease, and when it was plugged and abandoned, that leasehold expired.

Q. And when was it plugged and abandoned?

A. I heard 1971, but I think I've seen a plugging report of -- I mean, 1979. I think I've seen a plugging report of 1981. I couldn't be certain.

FURTHER EXAMINATION

BY EXAMINER CATANACH:

Q. Was that operating agreement put into effect just for the drilling of that well?

A. I don't think I could say.

Q. And it's your opinion that with the plugging of that well, that the operating agreement would remain in effect?

A. Yes, sir. And -- I believe it does.

Q. Mr. Small, is Fasken's orientation of the 320-acre proration unit, is that a point of contention with Redstone?

A. Very much so.

Q. Does Redstone, in fact, lose interest in a 320-

1 acre well -- Well, they would not have any interest at
2 all --

3 A. That is correct.

4 Q. -- in a 320-acre dedication.

5 Mr. Kellahin asked you if Fasken were to reorient
6 that to a north half, you would still not be in agreement?

7 A. That is correct.

8 Q. Because of the well location?

9 A. Primarily.

10 Q. You feel you have a superior well location?

11 A. Yes, sir.

12 Q. Now, your proposal would -- you would have a
13 north-half dedication for a 320-acre Canyon well?

14 A. That is correct.

15 Q. Which would give Fasken a good interest in that
16 well, in that formation?

17 A. It would be uniform with the Morrow, according to
18 their calculations.

19 EXAMINER CATANACH: That's all I have of this
20 witness. He may be excused.

21 MR. BRUCE: I have a couple of follow-up
22 clarification points.

23 FURTHER EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Small, I mean, you're proposing -- Redstone

1 is proposing an unorthodox location, well location,
2 correct?

3 A. That is correct.

4 Q. Now, it doesn't have any objection, so long as it
5 is a laydown 320?

6 A. I'm sorry, don't have an objection to --

7 Q. To an unorthodox location, so long as it's a
8 laydown 320?

9 A. Yes.

10 MR. KELLAHIN: Object to the question. Just
11 impeached his own witness. The man testified in response
12 to my question that, if we reoriented it, would that
13 resolve the problem? He said no.

14 I then asked him independently if he had any
15 objection to the location whatsoever. He said no.

16 And now Mr. Bruce has just impeached his own
17 witness.

18 MR. BRUCE: Let me clarify.

19 Q. (By Mr. Bruce) Does Redstone request a
20 production penalty if it's a laydown 320?

21 A. Redstone does not.

22 Q. Regarding the operating agreement, that 1970 JOA
23 specifically provides that it remains in effect, so long as
24 any lease covered by that JOA remains in effect; is that
25 correct?

1 A. That is correct.

2 Q. So even if one lease expires, the JOA remains in
3 effect?

4 A. That is our interpretation, yes.

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

6 MR. KELLAHIN: I have some redirect, Mr. Examiner
7 -- or recross.

8 EXAMINER CATANACH: Go ahead.

9 FURTHER EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Mr. Small, I want to understand your position
12 with regards to this lease. The west-half lease is expired
13 as of 1984, right?

14 A. I assume so.

15 Q. All right. On September 1st of 1993, the BLM
16 issues a new federal lease to Santa Fe Energy covering the
17 west half of 12, right?

18 A. I've been told that, yes.

19 Q. All right. If Santa Fe Energy still held the
20 west-half lease, are you contending that Santa Fe would be
21 subject to the 1970 operating agreement because all of
22 Section 12 was once in the unit area?

23 A. Santa Fe was not a signatory party. They would
24 not be.

25 Q. All right. So Santa Fe assigns their lease to

1 Fasken. Fasken stands in the shoes of Santa Fe, right?

2 A. No, sir. After a quiet document -- after a quiet
3 title.

4 I'm sorry, that's my interpretation, sir.

5 MR. KELLAHIN: All right, sir. No further
6 questions.

7 FURTHER EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Small, are you proposing that if a west-half
10 dedication for a 320-acre -- Fasken's 320-acre west-half
11 dedication be approved, are you requesting a production
12 penalty on the well in that case?

13 A. Might I ask you to repeat that, please?

14 Q. If we approve Fasken's Application, then they're
15 allowed to dedicate the west half of the Section 12 to a
16 Canyon completion, are you proposing a production penalty
17 be imposed on the well in that case?

18 A. Yes, sir. Well, let me -- Can I say, I don't
19 know.

20 Q. Okay.

21 A. And I'll also say I'm a landman, and the
22 technical aspects of that question might need to be
23 addressed by somebody else.

24 EXAMINER CATANACH: Okay, we'll leave it at that.

25 MR. BRUCE: Nothing further.

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GERALD STONE,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Gerald Stone.

Q. And where do you reside?

A. Denver.

Q. What is your profession?

A. A geologist, petroleum geologist.

Q. And what is your connection to Redstone in this case?

A. I'm working for them as a consultant and have so for almost nine years now.

Q. Okay. Have you previously testified before the Division?

A. No, I haven't.

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

A. I received a master's degree in geology from the University of Iowa in 1958 and began working in Liberal, Kansas, for Panhandle Eastern Pipeline Company.

After a couple years at Panhandle formed Anadarko Production Company, and I immediately went to work for

1 Anadarko. First seven of the 16 years I spent with the
2 Anadarko Panhandle Eastern Company was -- the first seven
3 were in Liberal where I did subsurface work, southwest
4 Kansas, Oklahoma panhandle and Texas, and I did Corporation
5 Commission work as well in Kansas and Oklahoma.

6 Then I was transferred to Denver, spent a year in
7 Denver. Transferred to Calgary, spent a couple years in
8 Calgary. Transferred back to Denver, and began a part
9 of -- the portion of my career that I spent in management.

10 I finally ended up my 16 years with Anadarko in
11 Houston as chief geologist, decided I didn't care for the
12 job, the staff work, and I took a job with Southland
13 Royalty in Denver as a division geologist -- exploration
14 manager, actually. Spent five years with them, then went
15 with Resources Investment Corporation in Denver. Spent a
16 little over three years with Resources. Went with Lear
17 Petroleum.

18 And then in 1985 I began consulting and nine
19 years ago went with Redstone, and I have worked with them
20 in various areas, southeast New Mexico, northwest Oklahoma,
21 Texas panhandle, and some in west Texas.

22 Q. And are you familiar with the geological matters
23 pertaining to this area?

24 A. Yes, I am.

25 Q. And have you qualified as an expert petroleum

1 engineer before any other state commissions?

2 Mr. Stone? Excuse me. Have you qualified as a
3 petroleum geologist before any other state commissions?

4 A. Oklahoma, Kansas and Texas.

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

7 EXAMINER CATANACH: Any objection?

8 MR. KELLAHIN: No objection.

9 EXAMINER CATANACH: Mr. Stone is so qualified.

10 Q. (By Mr. Bruce) Mr. Stone, in your opinion what
11 is the primary zone of interest in any proposed well in the
12 northern part of Section 12?

13 A. The primary interest, in my view, is what I have
14 termed the Upper Morrow "A" sandstone, which is the green
15 sandstone of Fasken.

16 Q. So we're talking about equivalent zones?

17 A. Exactly.

18 Q. What about the Canyon? Is that a secondary zone?

19 A. That's a possibility for the obvious reasons that
20 it has an excellent show of gas in the Rock Tank Number 4
21 well, Section 1, immediately north of our proposed
22 location.

23 Q. There was a DST on that well, I believe?

24 A. That is correct, and it tested -- my records
25 indicated as much as 2.9 million, and with some pretty

1 substantial pressures.

2 Q. Okay.

3 A. A bit of saltwater, but it looks very promising.

4 Q. Okay. Now, let's move on to your exhibits, first
5 of all Exhibit 3. Now, as an introductory question, when
6 did you first start looking at the geology in this
7 particular area?

8 A. I completed a report, and the maps that we're
9 going to look at here are part of what I did at that time,
10 was, I looked at a report dated August 29th, was the date,
11 of 1997, is when I completed the work that we'll look at
12 today.

13 Q. Okay. So you've been looking at it for several
14 months?

15 A. That's correct.

16 Q. Why don't you identify Exhibit 3 for the Examiner
17 and tell him what this shows?

18 A. Okay, Exhibit 3 is a structure map drawn on top
19 of the lower Morrow. And I'll introduce another exhibit in
20 a minute, show you exactly where that top is.

21 And the map illustrates the fault, northeast-
22 southwest-trending fault, through the area, upthrown to the
23 southeast.

24 And it -- I've indicated also that this -- by red
25 disks, that -- the wells that produce or have produced from

1 this Morrow "A" sand, i.e., the green sand. And I've added
2 those because I'll be focusing on that, and it's one of the
3 primary reasons why we've chosen the location that we have.

4 Q. Okay. Now, looking at the structure map, is
5 there any water in this area, any water problem?

6 A. Yes, there is. There's water downdip from
7 production, and there's also water across the fault to the
8 northwest.

9 Q. Okay.

10 A. So it is a -- definitely a structural
11 accumulation. However, particularly in the upper Morrow,
12 there's a stratigraphic overlay, i.e., porosity isn't
13 ubiquitous in all of these zones.

14 Q. Okay. Well, let's move on to your Exhibit 4, and
15 would you identify that and tell the Examiner what you've
16 marked on this exhibit.

17 A. Okay, what I've done is provided what I call log
18 panels. There's a resistivity log on the left side and a
19 porosity log on the right side, over the upper Morrow and
20 lower Morrow in three wells that are key to the location.

21 The first well is in Section 7, the Rock Tank
22 Number 1. And then I've added the logs on the well in
23 Number 1, the Rock Tank Number 4, and then the logs on the
24 well in Section 12, which is the Boothe well.

25 And in the depth column I've indicated A, B and C

1 opposite the zones that -- zonation that I've arbitrarily
2 given the upper Morrow zones that have been perforated and
3 either produced or have contributed to production in the
4 Rock Tank field, in the upper Morrow.

5 You'll also notice at the bottom, there's the
6 lower Morrow zone. And then in between I've picked a lower
7 Morrow that I've used as a top to do the structural mapping
8 on Exhibit 3.

9 Q. Now, which of these -- You've listed these upper
10 Morrow zones, A, B and C. Which is the primary zone?

11 A. The zone that I've -- after working with this,
12 that I feel is the most important, is the A zone. And I
13 feel that because it is the one that has the best porosity,
14 it has the highest percentage porosity in the wells in the
15 Rock Tank field.

16 It also -- In many cases, the contribution of any
17 one of the zones -- A, B, C -- are masked because when they
18 were perforated, if they perforated all three of them in
19 the well, they were never tested separately.

20 However, the Rock Tank Number 1 well, northwest
21 northwest of 7, which is the -- you have in front of you,
22 is the thickest zone, it has the highest porosity, and it
23 was the only well wherein the A zone only was perforated.
24 Therefore, all of the production has to come from that A
25 zone, i.e., 3.1 BCF of gas.

1 So I've chosen to focus on the A zone. I mean,
2 that would be the reason for drilling another test, in my
3 estimation, in either the Redstone location or the Fasken
4 location.

5 Q. Is the C zone -- Is there any water associated
6 with that zone?

7 A. There is a drill stem test in the well in Section
8 7, the Rock Tank Number 1, that -- over a fair interval of
9 rock. However, the only porosity that I could see
10 meaningful was in the C zone, and it tested 1360 feet of
11 saltwater.

12 It's a little low on the structure. I think we
13 might be able to come up and get production. It's a
14 possibility, getting production out of the C zone in the
15 north half of Section 12.

16 Q. Now, as -- You've said the upper Morrow is the
17 main zone. There has been excellent production from the
18 lower Morrow, has there not?

19 A. Oh, oh, yes. That's outstanding. Of course, in
20 Section 7, 15 BCF, just wonderful revenue.

21 Q. From a geological standpoint do you think that
22 primarily the lower Morrow has been fairly well drained in
23 this area?

24 A. I think it is, and I think it suffered
25 substantial pressure depletion.

1 A well, however, that would drill to test the
2 upper Morrow section should go on to test the lower Morrow
3 and get whatever reserves are available in that particular
4 location.

5 Q. Let's move on to your Exhibit 5. What does that
6 show?

7 A. Okay, that is a cumulative production plat that
8 addresses the wells that have produced from the upper
9 Morrow only and the amounts of gas that were produced from
10 the upper Morrow.

11 You'll note that I have one well that I call --
12 It isn't A, B, or C; it's uphole, still in the Morrow, and
13 I call it a stray, for lack of a better --

14 Q. That's the well in the southeast quarter of
15 Section 11?

16 A. That is correct. And what I've done on the plat
17 is put A, C, like in Section 1, indicating that the upper
18 Morrow production in Section 1 comes from both the A and
19 the C zone. And likewise, then, in Section 12 I've got A,
20 B and C. All three of the zones were perforated and have
21 contributed.

22 Q. Anything else on that exhibit?

23 A. I think that should do it. My data is to --
24 through 4 of 1997, April of 1997.

25 Q. Okay. Let's move on to your final exhibit,

1 Number 6, and perhaps specify the reason why you prefer
2 Redstone's location to Fasken's location. What does
3 Exhibit 6 show?

4 A. Okay, this, to me, is the heart of this
5 controversy about location. I think -- What I've done is
6 isopached the A, i.e., the green zone. Not in a gross
7 sense, but in a porosity sense. And using the numbers I
8 come up with the biggest well, the thickest well, the most
9 porous well and the highest-cum well is in the northwest
10 northwest of Section 7.

11 And you have, of course, the plugged-out well,
12 the Boothe, in Section 12, with 10 foot of porosity.

13 And then the well in Section -- the Number 4 Rock
14 Tank in Section 1 with 12 feet, still producing.

15 And the Number 1 in Section 7 is still producing
16 from the A zone. And in that well only the A zone has been
17 perforated, so we know that that's still productive.

18 I feel like moving towards the east from where
19 Fasken has, that you'll improve your chances of getting
20 better reservoir in the A zone, i.e., green zone, and it
21 will get you a little further away from the fault that we
22 discussed off the structure map. It will still keep you
23 high on structure, which will allow for potential from that
24 C zone that produced some water on drill stem test in the
25 well -- in the Number 1 Rock Tank, northwest northwest.

1 So I think I've got some excellent geologic
2 reasons why a well east of Fasken's location improves the
3 economics of the venture.

4 And in addition, I think that the -- in the well
5 that Redstone has proposed, still gives you an opportunity
6 to hit the Canyon/Cisco zone --

7 Q. Okay --

8 A. -- and so --

9 Q. Okay. So at your proposed location, you're
10 hoping that in the upper Morrow A zone you'll get roughly
11 15 feet of upper Morrow?

12 A. That's correct.

13 Q. It looks like at the Fasken location you could
14 get closer to five feet?

15 A. Closer to five, and you're -- To me, you know,
16 you're going from 26 feet in 7, beautiful porosity, and as
17 you go west, you're going to -- in my way of thinking,
18 you'll tend to deteriorate your porosity and permeability.
19 You're getting towards the edge of the reservoir.

20 Q. And you're getting too close to the fault, in
21 your opinion?

22 A. That's correct.

23 Q. Also, it looks like this location is fairly well
24 spaced in between the Rock Tank Unit Number 1, the Rock
25 Tank Unit Number 4 in Section 1, and then that Boothe "B0"

1 Federal; is that correct?

2 A. Could you --

3 Q. Your proposed location is pretty well spaced
4 right in the -- almost the center of those three wells you
5 have drawn on the map?

6 A. Yeah, and still not compromising the structure.

7 Q. And as far as Cisco or Canyon goes, it's still on
8 strike with that Rock Tank Number 4 well in Section 1,
9 which had a good show?

10 A. That's correct.

11 Q. Okay. Would you agree, however, with Mr. Harmon
12 that the -- when it comes to pooling, the maximum risk
13 applies to this well?

14 A. Definitely, yes.

15 Q. Were Exhibits 3, 4, 5 and 6 prepared by you or
16 under your direction, Mr. Stone?

17 A. They were prepared by me.

18 Q. And in your opinion, is the granting of
19 Redstone's Application and the denial of Fasken's
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes, it is.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Redstone Exhibits 3 through 6.

25 EXAMINER CATANACH: Exhibits 3 through 6 will be

1 admitted as evidence.

2 Mr. Kellahin?

3 MR. KELLAHIN: Thank you, Mr. Examiner.

4 CROSS-EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Stone, your study that you've presented here
7 on the A sand, it's what Mr. Harmon has used as his upper
8 Morrow green sand?

9 A. That is correct.

10 Q. All right. You have presented a structure map
11 and a net isopach on that green sand interval. The vintage
12 of it is August of 1997?

13 A. That's correct.

14 Q. Okay.

15 A. The 29th is the date I actually sent this --

16 Q. In August of 1997, then, you had this study. Was
17 it in this format? You'd actually prepared a structure map
18 and an isopach?

19 A. Pretty much. I had -- In addition, I had
20 porosity maps of the B and the C, and I had some cross-
21 sections that --

22 Q. You chose not to give us the cross-sections
23 today?

24 A. I didn't think they were germane to what we were
25 talking about.

1 Q. In August of 1997, you're a consultant, a
2 geologic consultant, for Redstone?

3 A. That's correct.

4 Q. And you had been for some years?

5 A. Yes, that's true.

6 Q. Did Redstone hire you to make this geologic
7 interpretation that resulted in the work product from
8 August of 1997?

9 A. I'm on a full-time retainer with Redstone, so I'm
10 like an employee. When they call and say take a look at
11 this --

12 Q. So in August of 1997, did you transmit any of
13 this information or your opinions to Redstone?

14 A. Yes, I did.

15 Q. So when Redstone had the Fasken well proposal,
16 just after September 9th of 1997, they could have compared
17 the Fasken well location with your geologic conclusions,
18 which had already been reached?

19 A. I would judge that to be the case, yes.

20 Q. All right. When did you first learn of the
21 Fasken well proposal?

22 A. I had heard that there was going to be -- Fasken
23 wanted to drill a well, and I can't -- To be honest with
24 you, I can't remember exactly when I was brought into this
25 to take a serious look at the geology and the pros and cons

1 of this location versus that location.

2 Q. Was it before this year?

3 A. Well, we discussed -- They told me that the
4 reason we wanted to look at this was because of the Fasken
5 location and the problems relative to that location, and
6 they needed to have some --

7 Q. Well, when did they express -- Mr. Stone, my
8 concern is that it's not until January 26th that Redstone
9 tells the world that they have a different location. And
10 yet in August of 1997, some five months earlier, they have
11 your work product, and they didn't do anything for five
12 months.

13 That's Redstone's bailiwick. I provided the maps
14 when I'm asked to provide the maps. I provide the
15 judgments. And it's up to them how they act on it.

16 Q. All right. Do you have notes or information that
17 you can give us a chronology of your contacts with
18 Redstone's employees or personnel concerning this issue?

19 A. No.

20 Q. When were you asked to prepare for testimony at
21 this hearing?

22 A. I think it was roughly a couple weeks ago.

23 Q. We have looked only at the green map, and we have
24 looked at a structure map and your net isopach, right?

25 A. That's correct.

1 Q. Okay. When we -- Have you had a chance to --

2 A. Excuse me, porosity isopach, that -- To me, to
3 evaluate this location porosity is the key.

4 Q. I will use your terminology, your porosity map.

5 Have you had a chance to look at Mr. Harmon's
6 structure map and his isopach?

7 A. I looked, certainly, at the structure, and it
8 conformed very closely. I could see very little
9 difference.

10 Q. Well, there are some differences to me. Do you
11 have a copy of his --

12 A. No, I don't.

13 Q. Let me get you one.

14 Okay. When we look at Mr. Harmon's Exhibit 16,
15 it was his opinion, in response to Mr. Catanach's question,
16 that as to all these formations he could not see a material
17 difference between either location.

18 My question to you, sir, is, when we look at his
19 structure map, there appears to be no difference in moving
20 the well 500 feet to the east. Is that not true?

21 A. Well, you're -- According to his map?

22 Q. Yes, sir.

23 A. There wouldn't be, apparently, unless you -- you
24 might be going down the -- Well, according to his map you
25 could be going down a few feet.

1 Q. When we look at your map and look at the
2 structure map, Exhibit 3, Redstone Exhibit 3, I find
3 different values.

4 A. Well, it's drawn on a different horizon.

5 Q. I understand that. Can you describe for me what
6 horizon you're mapping that's different from what Mr.
7 Harmon is doing?

8 A. I pointed out that it was just this horizon right
9 here. I believe Mr. Harmon is up here somewhere.

10 Q. When I look at your map, using your value and
11 your marker point, I cannot see a structural difference
12 between your location and Fasken's.

13 A. Well, there would be only a slight -- there could
14 be -- There would be only slight, regardless of who drew
15 the map.

16 Q. Okay. When we look at the isopachs, your
17 porosity, net-pay porosity map, you're using a -- What?
18 And eight-percent cutoff was it?

19 A. That's correct.

20 Q. Okay. If you were to prepare a gross map like
21 Mr. Harmon did on Exhibit 16 for the green sand, would you
22 be in substantial agreement with his contouring of the
23 gross sand interval?

24 A. In that I didn't do it, I couldn't categorically
25 say I would or I wouldn't. Okay?

1 Q. When you're preparing your eight-percent porosity
2 map --

3 A. Yes.

4 Q. -- do you start with a gross map?

5 A. I didn't in this case.

6 Q. No gross map for this one?

7 A. No.

8 Q. When I look at your eight-percent porosity map,
9 it appears to me that your analysis or interpretation of
10 the logs, using this cutoff, has simply shifted the
11 porosity towards the big well in Section 7?

12 A. Shifted it from where to where?

13 Q. Well, in looking at the gross map, the values on
14 Mr. Harmon's gross map are 28 -- yeah, 28 feet for the Rock
15 Tank 1, 22 for the Rock Tank 4, the old Chevron well has
16 got 24 feet.

17 And so if I'm trying to make the transition from
18 the gross map to your porosity map, it appears that you
19 have found greater porosity values for the Rock Tank 1.

20 A. I'm confused a little bit, because to me -- and
21 the reason -- and I pointed this out at the outset. You
22 don't find production from tight rock.

23 Look at -- I'd like to direct your attention to
24 Section 6, and that well has no porosity whatsoever. It
25 was drill stem tested, and it was tight. But according to

1 Fasken's map in Section 6, you've got something like 18
2 feet. Well, what's the point of mapping on gross sand?
3 The point is, they don't track together.

4 Q. Okay, let me show you a problem with your map.
5 Look at the 26 feet that you've netted out for the Rock
6 Tank 1.

7 A. Right.

8 Q. In the green sand it cum'd 3.3 BCF.

9 A. That's true.

10 Q. And yet I look in Section 1 at the Rock Tank 4
11 where you get only 12 feet of net, and that well has cum'd
12 2.7 BCF of gas.

13 A. So?

14 Q. The magnitude of difference between cums is not
15 explained by doubling the net porosity.

16 A. It never is. There's no rule that says if you've
17 got five feet of porosity that you're going to get half as
18 much as a well with 10 feet.

19 Q. Did you prepare a presentation for Redstone in
20 August of 1997 on the brown sand that Mr. Harmon has on
21 Exhibit 17?

22 A. No, I didn't. I included data on the cumulative
23 production. The structure shows the -- why the lower
24 Morrow is producing where -- why it's producing where it's
25 producing and why it's wet where it is wet.

1 As I say, as a target for another well, the lower
2 Morrow in itself is not worthy of a \$700,000 expenditure or
3 whatever it costs to drill a well to TD.

4 Q. So --

5 A. If you're going to drill to the A, the upper
6 Morrow, then to carry it on to the lower Morrow, no, to
7 answer your question --

8 Q. The answer to my question is no?

9 A. Absolutely.

10 Q. All right, sir. You did not prepare maps on the
11 lower Morrow brown sand?

12 A. No.

13 Q. Okay. My next question is, did you prepare maps
14 on the Canyon?

15 A. No, I didn't.

16 MR. KELLAHIN: No further questions, Mr.
17 Examiner.

18 THE WITNESS: Thank you.

19 EXAMINER CATANACH: Any redirect?

20 MR. BRUCE: No, I don't have any redirect.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. I'm just curious, Mr. -- Why did you not prepare
24 maps on the other intervals?

25 A. I did on -- I did an isopach on the A, which

1 you're seeing, on the B and on the C. I prepared a
2 structure map which tells you pretty much, as I mentioned,
3 what I thought we needed to know about the lower Morrow
4 sand.

5 The lower Morrow is going to be present in
6 Section 12, and it will probably be productive to some
7 degree. It will be pressure-depleted.

8 I didn't feel that it was germane to spend time
9 on thickness studies on a reservoir that's been producing
10 here all this time, and that's the reason why I didn't.

11 Q. Well, if you've got two other horizons that are
12 prospectively -- that you can prospectively produce at this
13 well location, why would you not look to see what those
14 geologic factors -- I mean, if they would influence your
15 decision on where you would put the well?

16 A. Okay, my whole point here was that I would not
17 drill a well to test the B sand, I would not drill a well
18 to test the C sand, nor would I drill one to test the lower
19 Morrow, that the primary objective and the key to this
20 whole thing -- Oddly enough, I was interested that it was
21 also Fasken's target in that they promoted and pushed the
22 green sand.

23 In other words, we're talking about the same zone
24 as being the -- that's where it's all going to take place
25 or not going to take place. Maybe we'll luck into the

1 Cisco/Canyon; that's a possibility. Lower Morrow should
2 add some reserves. Maybe we'll get the C and the B.

3 But when you're talking to somebody about
4 spending this kind of money, you'd better have some good
5 idea where you're going to get some pretty decent
6 production.

7 And if it's going to come, it's going to come
8 from the A zone, in my opinion. And I think that's been
9 corroborated pretty much by the fact that Fasken didn't
10 present maps on the B and the C either.

11 Q. We can't really effectively compare your porosity
12 map to Fasken's map?

13 A. Not really, no. No, I -- Like I say, Fasken has
14 presented nothing but gross maps, and gross maps --
15 Drilling 400 feet of tight limestone doesn't do you much
16 good.

17 Q. As far as the control points that you used on
18 your porosity map, can you tell me what points those were?
19 Was it just the three wellbores?

20 A. No, the only ones I've included in my exhibits
21 are the three wellbores. We're basically talking, each of
22 us, talking about playing off of those three wells. And I
23 provided the three wells.

24 Q. So your interpretation of that sand in Sections 6
25 and 7 and then 1 and 12 is basically based on those three

1 wells?

2 A. No, I looked at all of them. I looked at all of
3 them, but there's -- You have zeroes around here, and what
4 I've done is try to present as concisely, as simply as
5 possible, what this play is all about.

6 No, I looked at all kinds of logs around here
7 that fed into this.

8 EXAMINER CATANACH: I have nothing further of
9 this witness.

10 Mr. Bruce?

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

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

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

17 A. My name is Scott Royal.

18 Q. Where do you reside?

19 A. Dallas, Texas.

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

21 A. I work for Redstone Oil and Gas as a petroleum
22 engineer.

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

25 A. No, I haven't.

1 Q. Would you please outline your educational and
2 employment background for the Examiner?

3 A. I graduated from Texas A&M in 1974 with a
4 bachelor's of science in petroleum engineering. I've
5 worked for 23 years in the oil and gas industry. And the
6 last two years I've worked for Redstone Oil and Gas.

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

9 A. Yes, it does.

10 Q. And are you familiar with engineering matters
11 related to this case?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I'd tender Mr. Royal as
14 an expert petroleum engineer.

15 EXAMINER CATANACH: Any objection?

16 MR. KELLAHIN: No objection.

17 EXAMINER CATANACH: Mr. Royal is so qualified.

18 Q. (By Mr. Bruce) Mr. Royal, first of all, from an
19 engineering standpoint, what is the primary zone of
20 interest?

21 A. Our primary zone of interest is the upper Morrow,
22 the A sand.

23 Q. Okay. And your geologist testified about the
24 lower Morrow. Why is it that, in your opinion, the lower
25 Morrow is a secondary zone?

1 A. The bottomhole pressure in the lower Morrow is
2 significantly lower than the upper. We have bottomhole
3 pressure data that shows 2400 pounds in the upper Morrow.
4 We're approximately 500 pounds in the lower Morrow.

5 I wouldn't want to drill a well strictly for 500
6 pounds only at that depth and at that cost.

7 Q. You would agree with Mr. Stone that the lower
8 Morrow is going to be there at either proposed location?

9 A. That's correct. It is also my contention that
10 the lower Morrow can be drained efficiently from the two
11 existing wellbores in the field.

12 Q. Well, let's discuss that lower Morrow. What is
13 Exhibit 7?

14 A. Exhibit 7 is a P/Z plot which takes in data from
15 all the wells in the field, and we've projected the
16 cumulative production versus the bottomhole pressure. We
17 have produced more than 40 BCF out of the reservoir. It's
18 currently at 500 pounds. We project out maybe an
19 additional 5 more BCF.

20 Q. What do Exhibits 8 and 9 show?

21 A. Exhibit 8 is a rate-cum curve where we can
22 project the trend of a well, what the well has done over
23 its life. And what we can do off of that is look at the
24 trend and try to project the amount of gas the well has
25 still remaining that it could produce. And based on that,

1 we look at Well Number 1 and 2, and we can project easily
2 the 5 BCF to be reached from those two wellbores.

3 We would go ahead and drill a new well to the
4 lower Morrow, and we would use that wellbore only if we
5 lost one of the two present wellbores.

6 Q. But as it stands right now, the existing wells in
7 this area would drain the lower Morrow reserves?

8 A. Yes.

9 Q. In Section 12?

10 A. That's correct.

11 Q. Now, you mentioned pressures. What do Exhibits
12 10 and 11 show?

13 A. Exhibit 10 is the bottomhole pressure that we've
14 taken on lower Morrow wells, and Exhibit 11 is the
15 bottomhole pressure we took on the upper Morrow.

16 We have a bottomhole pressure on Well Number 2,
17 which is above 650 pounds. We took one in Well Number 1
18 twice over a year ago, and it was 650. And in the past
19 year we took a second one, and it's right at 550.

20 So you can see in a short time we're pulling that
21 bottomhole pressure down quite rapidly.

22 Q. So it's reduced 20 percent in a year's time?

23 A. That's correct.

24 Q. Okay. And that just buttresses the opinion that
25 the lower Morrow is strictly secondary?

1 A. That's correct.

2 Q. Now, let's talk about the well location for a
3 minute. If I could, Mr. Royal, I'll just hand you a copy
4 of what is the topographic map, which is Fasken's Exhibit
5 14. It is the first exhibit in the geologist's packet.

6 Looking at that map -- Have you been out to this
7 area?

8 A. Yes, I have.

9 Q. Topographically, is there any difference between
10 your location and Fasken's location?

11 A. No.

12 Q. There's a well road, I think, or a lease road on
13 there. Whose road is it?

14 A. That is our lease road.

15 Q. Okay, so you've been along that --

16 A. (Nods)

17 Q. -- and so, really, in that northern part of
18 Section 12 there's really no topographic bars to drilling a
19 well?

20 A. Topography wasn't considered here.

21 Q. Okay.

22 A. Or it doesn't need to be considered.

23 Q. And let's get -- I think Mr. Small has addressed
24 this question. I mean, Redstone is also proposing an
25 unorthodox well location in the Morrow. And in your

1 opinion, should an unorthodox location be penalized in the
2 Morrow?

3 A. I think it should if it was a standup 320, but no
4 on a laydown 320.

5 Q. No, no, I'm talking Morrow, on Morrow --

6 A. Okay.

7 Q. -- which is 640.

8 A. Oh, no.

9 Q. Okay. But how about Canyon or some other 320-
10 acre?

11 A. Yes, we'd be severely penalized on the vertical,
12 on a standup versus a laydown.

13 Q. Okay. So as far as a production penalty, as long
14 as it's this laydown unit, north half of Section 12, you
15 don't think a production penalty should be assessed?

16 A. No, I don't.

17 Q. The interest ownership would be pretty much the
18 same, not only in the well, but those people still have an
19 interest in the offset to the north?

20 A. Yes.

21 Q. Let's look at your Exhibit -- I lost the number
22 of it there. I believe Exhibit 12. Is that your AFE, Mr.
23 Royal?

24 A. Yes.

25 Q. Okay, did you prepare this?

1 A. Yes, I did.

2 Q. It's just dated a couple of days ago, I see.

3 A. That's correct.

4 Q. Is this the AFE that Fasken (*sic*) will be
5 proposing to the --

6 A. Redstone.

7 Q. -- interest owners?

8 A. Redstone, yes, sir.

9 Q. Excuse me, Redstone will be proposing.

10 How does this compare with Fasken's AFE?

11 A. It appears that we're over \$100,000 less than the
12 AFE.

13 Q. Okay. Just a second here, Mr. Royal.

14 I'm handing you Exhibit 13. Is that a copy of
15 the AFE that you received from --

16 A. Yes.

17 Q. -- Fasken?

18 If you could just very briefly itemize, just
19 where some of the major differences are between your AFE
20 and the Fasken AFE.

21 A. Well, for one thing we didn't put any money in
22 for a drill stem test. Our intention with this AFE is to
23 drill a well to the upper Morrow and complete in the upper
24 Morrow, and that is it.

25 We have a drill stem test in the Canyon in the

1 Well Number 4. We will have electric logs across that
2 interval, and that's sufficient, we think, to identify that
3 zone.

4 Our intention is to complete and produce an upper
5 Morrow well, and at the time of abandonment of that zone we
6 would recommend a recompletion attempt, most likely, in
7 that Canyon zone, if it looks good on the logs.

8 Q. Okay.

9 A. We're down on our mud. I don't know why there's
10 a difference there. We don't have any stimulation costs.
11 Our impression is, the best way to complete a Morrow well
12 is naturally.

13 And then there's a lot of miscellaneous numbers
14 that are different.

15 Q. Okay. What about frac'ing the well?

16 A. We have a good record of frac'ing Morrows, not
17 only in this particular area but all through southeast New
18 Mexico, and we did frac the Number 2 in the spring of 1997,
19 and the well is producing approximately 600 MCF a day.

20 Q. What was it producing before the frac?

21 A. It was shut in, it would not flow.

22 Q. It would not flow.

23 Was that frac'ing job proposed under one of the
24 JOA's?

25 A. It was a proposal in the JOA. Everybody

1 participated but Fasken.

2 Q. And it was successful?

3 A. Yes, it was, it paid out in less than a year.

4 Q. What are the current producing rates of the wells
5 in the unit?

6 A. The Well Number 2, which was frac'd, is producing
7 approximately 600 MCF and 20 barrels of water.

8 The Well Number 4, which is an upper Morrow well,
9 is loaded up, and it will make 40 MCF on a good day.

10 The Well Number 1 is producing from the upper and
11 lower. The upper Morrow is producing a half a million a
12 day, with very little water. The lower Morrow is producing
13 anywhere from 1 to 1.5 million a day, with about 20 barrels
14 of water.

15 Q. Okay. Do you have any opinion -- I think the
16 question has been asked about the Number 4 well, which is
17 in the southeast quarter of Section 1. Why is that a poor
18 producer?

19 A. We feel that there are some wellbore problems
20 here, and this might help with the issue that Fasken had
21 with our mapping on the upper Morrow.

22 The Well Number 4 was drilled originally to the
23 Devonian, which is, I think 1000 -- roughly 1000 feet
24 deeper than the Morrow. When they set pipe, they did not
25 set down through the Devonian, so they hung their casing

1 high, and we believe there was a very poor casing cement
2 job.

3 If I could get you to look back over at Exhibit
4 8, the third rate-cum curve shows the Number 4 when it was
5 in the lower zone, and that is an abnormal trend, when the
6 well goes from millions a day to nothing. That well
7 watered out. It's upstructure to the Number 1. We find it
8 hard to believe that a well upstructure to a producer can
9 water out. So we believe we have wellbore problems in that
10 particular well.

11 If you'll look at Exhibit 9, the rate-cum curve
12 on the 4, Well Number 4 in the upper Morrow, we're having
13 problems keeping that well producing. And we believe again
14 we have a wellbore problem, and maybe that's why that well
15 hasn't produced as well as the Number 1.

16 Because of that, we are considering recompleting
17 the well up the hole.

18 Q. Okay. Mr. Royal, are your proposed AFE costs in
19 line with costs of other wells drilled to this depth --

20 A. Yes.

21 Q. -- in this area of the county?

22 Just a couple of final things, Mr. Royal. Fasken
23 and Redstone have been in discussions about this since
24 what? Early 1996?

25 A. That's correct.

1 Q. And did you attend any of those meetings?

2 A. We attended a meeting in the spring of 1996. At
3 that time Fasken proposed a well in this section, and they
4 proposed it from the standpoint of a Canyon/Cisco, and this
5 has been our bone of contention with their present
6 location, is the fact that they have now switched that to
7 become a Morrow producer. With it stuck very close in the
8 corner, we feel that is an unfair advantage to their
9 interest to drill a Morrow well.

10 I personally thought the JOA would handle this
11 situation, and that's why we have not moved at a faster
12 pace.

13 Q. Okay. Now, throughout these meetings, has the
14 main issue been operatorship of the well?

15 A. That's been a big part of it.

16 Q. The parties could just never come to terms?

17 A. One of the problems we had with our negotiations
18 is, it never was just the issue of this wellbore. There
19 was always other negotiations brought in or other aspects
20 that did not apply to this well, and it was ideas that we
21 could not swallow.

22 So our negotiations never was straight up the
23 wellbore.

24 Q. Were Exhibits 7 through 13 prepared by you or
25 compiled from company business records?

1 A. Yes, sir.

2 Q. And in your opinion is the granting of Redstone's
3 Application and the denial of Fasken's Application in the
4 interest of conservation and the prevention of waste?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I'd tender Redstone
7 Exhibits 7 through 13.

8 EXAMINER CATANACH: Exhibits 7 through 13 will be
9 admitted as evidence.

10 Mr. Kellahin?

11 MR. KELLAHIN: Thank you, Mr. Examiner.

12 CROSS-EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Royal, I'm looking at the AFE, your Redstone
15 AFE. You're going to stop at 10,500?

16 A. Yes, sir.

17 Q. And that's going to take you through this upper
18 Morrow, and then you're going to stop?

19 A. It's going to take us through the lower Morrow.

20 Q. Through the lower Morrow?

21 A. Yes, sir.

22 Q. All right. Your plan, then, is to drill through
23 the lower Morrow, but you would come back and test and try
24 to complete in the upper Morrow?

25 A. That's correct.

1 Q. When we look at the remaining opportunity in the
2 lower Morrow, have you attempted to calculate the original
3 gas in place that was underlying Sections 1, 7 and 12?

4 A. We looked at it from the standpoint of the
5 reservoir, regardless of what section it was under, and we
6 used P/Z data, and we produced more than 40 BCF. We expect
7 to produce around 47 BCF out of the lower.

8 Q. Yes, sir. My question for you was, have you
9 calculated original gas in place?

10 A. No.

11 Q. When we look at the wells that you've examined on
12 P/Z, you have looked at Unit Well 1, 4, and I guess the old
13 Chevron well?

14 A. The Boothe well?

15 Q. Yes, sir.

16 A. Yes.

17 Q. And from those three wells, using P/Z, you --

18 A. We used -- Yeah, every well that penetrated the
19 lower Morrow, we used their reserves.

20 Q. All right. So it's the sum total of all those
21 wells that get us a current recovery of 40 BCF?

22 A. Somewhere north of that, I believe.

23 Q. And out of that, with 500 pounds left in the
24 reservoir, you expect that the Well 1 and 4 will produce an
25 additional 5 BCF of gas?

1 A. That's correct. If you look at our rate-cum
2 curves -- and that's at P/Z -- that's what we're saying.

3 Q. Have you estimated what volume of recoverable gas
4 has been drained from Section 12?

5 A. No, I have not.

6 Q. When we look at --

7 A. I don't think you can look at one reservoir and
8 try to calculate by section. You have to look at it as a
9 full reservoir.

10 Q. You haven't calculated original gas in place for
11 Section 12?

12 A. No.

13 Q. Okay. So we don't know how much, under your
14 analysis of the gas that's recovered, has come from Section
15 12?

16 A. I don't think anybody can do that.

17 Q. All right. But there's no doubt that some of the
18 gas produced by the 1 and the 4 has been draining, and will
19 drain, Section 12?

20 A. I can't say one way or the other.

21 Q. Do you see any elements in the reservoir that
22 preclude the gas that's in the lower Morrow underlying
23 Section 12 from moving to either the Number 4 or the Number
24 1 well?

25 A. I don't think I can say one way or the other.

1 Q. Okay. In the absence of taking this well down to
2 the lower Morrow, though, any remaining recoverable gas
3 attributed to Section 12 is going to be produced by the
4 offsetting wells?

5 A. I believe so.

6 Q. When we look at the upper Morrow -- When we look
7 at the upper Morrow, have you made any estimates of the
8 original gas in place for the upper Morrow?

9 A. No.

10 Q. Can you estimate for us what is the estimated
11 current cumulative recovery from the upper Morrow by the
12 wells that have produced in this reservoir?

13 A. Yes, sir, if you look at the rate-cum curves, I
14 think we can project ultimate recovery for all the wells.
15 Of course, the Boothe well is already plugged, and it's
16 recovered 5 BCF out of Section 12.

17 Q. Yes, sir. My question was, what is the current
18 cumulative production from all those wells?

19 A. Do you want the individually or from total? I
20 think we've already established that --

21 Q. Well, let me ask you this question: What is the
22 remaining recoverable gas yet to be produced in the upper
23 Morrow by the existing wells?

24 A. I would venture to say off of our rate-cum
25 projections we can probably get, oh, two to four BCF. I

1 can't get any more accurate than that. I mean, there's a
2 lot of interpretation to these projections.

3 Of course, we are losing Well Number 4, so we'll
4 only have one wellbore left in the upper Morrow, and that
5 would be the Number 1.

6 Q. Okay, the upper Morrow, Well 4 got 2.7-plus?

7 A. That's correct.

8 Q. Have you made any estimates of what volume of
9 recoverable gas that was under Section 12 has been drained
10 by the Rock Tank 1 and 4 wells?

11 A. No, I haven't broken it up by section, just got a
12 look at it from reservoir standpoint.

13 Q. Okay. So you don't know how much of the
14 remaining recoverable gas left in the upper Morrow is
15 attributable to Section 12?

16 A. I don't believe I can say that.

17 Q. Okay. You commented a while ago in your
18 statements that Fasken had linked together their proposal
19 for this well with other issues that were not directly
20 related to the well proposal. Was that not your --

21 A. That's correct.

22 Q. That's a fair characterization of your testimony?

23 A. Yes.

24 Q. Did you realize that on November 26th, 1997,
25 Fasken wrote a letter to Redstone, to Mr. Small, and

1 offered to divorce and remove any other issue but issues
2 concerning this wellbore from discussion?

3 A. I'm not aware of that.

4 Q. Okay. Have you read the letter?

5 A. No.

6 MR. KELLAHIN: It's in the record. Thank you,
7 Mr. Examiner.

8 THE WITNESS: For six months it wasn't.

9 MR. KELLAHIN: Yes, sir.

10 EXAMINER CATANACH: Anything?

11 MR. BRUCE: Just one follow-up question, Mr.
12 Royal.

13 REDIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Regarding the lower Morrow, all of the interest
16 owners in either of the proposed wells we're here for today
17 also own an interest in the current production in the lower
18 Morrow; is that correct?

19 A. That's correct.

20 MR. BRUCE: Thank you.

21 EXAMINER CATANACH: I have just a couple of
22 questions.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. What are your plans for completing this well?

1 Are you going to simply complete it in the upper Morrow
2 interval --

3 A. Yes, sir.

4 Q. -- primarily produce that interval until
5 completion or --

6 A. That's where we feel like the significant
7 reserves are.

8 Q. Are you going to attempt a lower Morrow
9 completion at all?

10 A. I will not attempt the lower Morrow unless I lose
11 one of the two current wells, which is the 1 and the 4,
12 which is in Section 7 and 1.

13 Q. Okay. I thought the 4 was going to be
14 recompleted.

15 A. Yes, sir. I'm sorry, it's the 2 and the 4 -- 2
16 and the 1. That's in Section 6 and Section 7. Those are
17 two active lower Morrow producers.

18 Q. Okay, so you don't have any plans to complete the
19 lower Morrow interval?

20 A. No, I do not. Low pressures -- We've already got
21 a well that cum'd 5 BCF in that section. It's a poor
22 location for lower Morrow.

23 Q. How about the Canyon?

24 A. Since we don't have any established production
25 it's always a secondary target.

1 I'll go after the upper Morrow first, and then I
2 will -- Depending on the logs, we'll probably shoot it
3 anyway, but only after we've produced and depleted the
4 upper Morrow.

5 I might add that if we do recomplete the Number 4
6 up in the Cisco/Canyon, then that's going to give us a good
7 idea of what we want to do with that new wellbore.

8 Q. What in your opinion is an appropriate spacing
9 unit for a Canyon interval completion?

10 A. Oh, probably 320s or 160s. I'm not that familiar
11 with the Canyon in this area.

12 Q. Okay, I'm suggesting what orientation in this
13 particular section would be appropriate --

14 A. Definite laydown.

15 Q. -- with the information you have?

16 A. Definite laydown.

17 Q. Why is that?

18 A. I think it's fair and equitable to all parties
19 involved.

20 Q. You have not developed -- or have you looked at
21 any geology that has been developed by Redstone with
22 regards to the Canyon interval?

23 A. No, we haven't. I still think it's pretty --
24 It's not very established at this point.

25 Q. So on what basis are you relying on your

1 estimation that a laydown would be more fair?

2 A. I think a laydown would be more fair just from
3 the working interest standpoint. I mean, if it's a
4 standup, we're out of the well.

5 Q. Now, I think there's been some earlier testimony
6 that if it's a laydown proration unit for the Canyon, that
7 you wouldn't propose any production penalty?

8 A. No, that's correct.

9 Q. Well, that's not what Fasken is proposing. If
10 Fasken ultimately wins this case and is able to dedicate
11 the west half to the Canyon, are you guys proposing any
12 production penalty?

13 A. Yes.

14 Q. And what might that be?

15 MR. BRUCE: Mr. Examiner, I could do a few
16 follow-up questions, I mean -- if you'd like, on that
17 issue.

18 We thought the only fair way to go was for a
19 laydown unit. But if you want me to address a couple of
20 questions, I certainly can.

21 EXAMINER CATANACH: Well, Mr. Bruce, I'm not sure
22 Mr. Kellahin wants to change his spacing unit orientation,
23 if that's what they're proposing --

24 MR. BRUCE: Okay.

25 EXAMINER CATANACH: -- if they ultimately win

1 this case.

2 MR. KELLAHIN: I offered to do it, Mr. Examiner.
3 Mr. Small said no.

4 MR. BRUCE: I don't -- I never heard that.

5 MR. KELLAHIN: I asked Mr. Small if we changed it
6 to --

7 THE WITNESS: If he did it, he didn't --

8 MR. KELLAHIN: -- a north-half spacing unit --

9 EXAMINER CATANACH: Hold on, one at a time.

10 MR. KELLAHIN: I asked Mr. Small on cross-
11 examination if we change this to a north-half spacing unit,
12 if that would satisfy their objection, and would they
13 withdraw the objection, and he said no.

14 THE WITNESS: No, because we still don't approve
15 of them as operator.

16 MR. BRUCE: Are we just talking unorthodox
17 location, or the whole ball of wax? That's what Mr. Small
18 was addressing.

19 MR. KELLAHIN: When I asked him about the
20 penalty, Mr. Small said -- I said, It's a west-half spacing
21 unit for a 320; do you have any objection and do you want
22 it penalized for any formation? He said no. Now they're
23 changing their story.

24 EXAMINER CATANACH: Well, let's let the engineer
25 testify as to the penalty. I'm not sure the landman is the

1 appropriate person anyway.

2 Q. (By Examiner Catanach) Are you proposing a
3 production penalty?

4 MR. BRUCE: If their Application is granted.

5 THE WITNESS: Yes.

6 MR. BRUCE: Yes.

7 EXAMINER CATANACH: Are you going to propose a
8 penalty, Mr. Bruce?

9 MR. BRUCE: We can. And if you give me a couple
10 of questions with Mr. Royal, we can establish what that
11 would be.

12 EXAMINER CATANACH: Okay.

13 FURTHER EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Royal, you know, looking at just any of the
16 maps, the orientation of the fault, the existing Boothe
17 Federal -- First of all, if this was a standup unit, that
18 well, in order to be standard, would have to be 1650 feet
19 off the north line of the section, would it not?

20 A. Yes.

21 Q. But it's tucked up there in the corner, isn't it?

22 A. That's correct.

23 Q. From an engineering standpoint, where would the
24 bulk of the production from a Canyon or a Strawn or any
25 other completion -- Actually, from a Morrow completion,

1 where is that production going to come from?

2 A. It will come back from -- back to the east and
3 northeast.

4 Q. Okay.

5 A. Now, in the Number 4 we've established that there
6 is Canyon because we have drill stem tests that produced
7 2.9 million per day. So I would think that the reservoir
8 is on a northeast-southwest trend.

9 Q. Would it be fair to say that, you know, based on
10 the drainage from Section 1 and Section 12, somewhere on
11 the order of 70, 75 percent of the production would come
12 from the Rock Tank Unit acreage?

13 A. I would have to think so. The Boothe well did
14 not complete in it, so we don't have a producer to the
15 south, and we have a drill stem test to the north.

16 So I would have to say, based on the facts we
17 have, that most of your reservoir is to the northwest -- to
18 the northeast, I'm sorry.

19 Q. Now, if you just based it on a footage location,
20 you could ask for a penalty of around 70 percent, just
21 dividing -- or say 25 percent allowable, just dividing the
22 500 by 1650?

23 A. That sounds good.

24 Q. And looking at production, you get the same
25 thing. You get around an allowable of 25 percent or so,

1 because 70, 75 percent of the production would be coming
2 from the Rock Tank Unit; is that correct?

3 A. I would agree with that.

4 Q. And would that be a fair penalty in your
5 estimation?

6 A. Yes, sir.

7 MR. BRUCE: That's what we would propose, Mr.
8 Examiner.

9 EXAMINER CATANACH: Seventy to 75 percent, Mr.
10 Bruce?

11 MR. BRUCE: Penalty, yes.

12 EXAMINER CATANACH: Only applicable to the Canyon
13 interval?

14 MR. BRUCE: Well, applicable to the Canyon or any
15 other zone that is spaced on 320. Clearly on 640, it
16 doesn't need to be --

17 THE WITNESS: Yes.

18 MR. KELLAHIN: May I ask Mr. Royal some
19 questions?

20 EXAMINER CATANACH: Sure.

21 FURTHER EXAMINATION

22 BY MR. KELLAHIN:

23 Q. Mr. Royal, have you looked at the Cisco geology?

24 A. No, I have not. I'm not a geologist.

25 Q. All right, sir. In terms of reservoir

1 engineering, have you looked at Canyon geology to see where
2 the position of wells would be in this area and how they
3 might compete with each other?

4 A. No, I haven't.

5 Q. Do you have any idea of what the gas in place
6 might be for the Canyon?

7 A. No, I don't.

8 Q. What you have is a data point for the Rock Tank 4
9 well that shows a drill stem test flowing 2.5 million,
10 right?

11 A. Yes.

12 Q. Do you propose, now that this well is virtually
13 ready to be abandoned in the Morrow, that you'll recomplete
14 in the Canyon?

15 A. That is our intention.

16 Q. What's the timing for your recompletion into the
17 Canyon?

18 A. Based on our management, whenever they give us
19 approval. We have worked up numbers.

20 Q. Has it been budgeted to --

21 A. Yes, it has.

22 Q. All right.

23 A. It's on Eric's list.

24 Q. Can we plan -- There's letters from Redstone back
25 in November indicating that they were ready to abandon the

1 Morrow and recomplete the well in the Canyon. Can we
2 assume that in three months you could be ready to do that?

3 A. I can assume that we'll do it whenever my
4 management allows me to.

5 Q. Okay. If we take, for example, Mr. Harmon's
6 Canyon map, Exhibit 19, which is the only map that
7 anybody's got on the Canyon, and if we make the assumption
8 that his interpretation of the structure and the position
9 of the reservoir is accurate, and if we take the next step
10 and have you start withdrawing Canyon gas in the Rock Tank
11 4 well, it will be the only well in this reservoir that is
12 taking gas, right?

13 A. Yes.

14 Q. Everything west of the fault has not been
15 successful in attempting to produce from the Canyon,
16 correct?

17 A. In this near vicinity, yeah.

18 Q. All right. When we look at the proposed Fasken
19 location, if that well is approved at that location and if
20 it produces Canyon gas, those wells are going to be
21 competing with each other for that gas; is that not true?

22 A. Yes.

23 Q. It doesn't appear on this map that there's any
24 other well at an existing location that can compete for the
25 Canyon gas, right?

1 A. I don't believe so.

2 Q. It's going to be those two wells?

3 A. (Nods)

4 Q. Can we assume that there will be a no-flow
5 boundary at some point between those -- the Fasken location
6 and the Rock Tank 4 well?

7 A. I can't say that.

8 Q. When you take gas out of the reservoir at two
9 points, won't there be boundaries established between those
10 two wells?

11 A. I'm not sure I understand what you're saying.

12 Q. Do you understand the concept of no-flow
13 boundaries?

14 A. Not the way you're describing it.

15 Q. All right. If the Rock Tank 4 well is the only
16 well taking gas out of the reservoir, the drainage effect,
17 if you will, is going to be a function of how soon it hits
18 various boundaries, right?

19 A. It's going to be a function of porosity,
20 permeability, pressure --

21 Q. Which effect rate, but as that rate is
22 established, we're going to find the drainage area is
23 influenced by boundaries, right?

24 A. Yes, sir.

25 Q. And until that wellbore hits a boundary, we can

1 presume that it's going to drain in a circular fashion,
2 with all else being --

3 A. I can't assume anything, I can't assume that. We
4 don't know enough about it. And from what we have here, I
5 don't think we can say that.

6 Q. All right.

7 A. I mean, this is geological. You're asking me
8 reservoir questions, and we don't have the data.

9 Q. Okay. When you make calculations of drainage
10 areas -- Have you done that?

11 A. Yes.

12 Q. -- you make certain assumptions about the data
13 you have to make those calculations, don't you?

14 A. Yes, sir.

15 Q. You assume a certain uniform thickness and
16 certain values, based upon the data you have, right?

17 A. (Nods)

18 Q. Okay. Make the assumption with me. If those two
19 wells are the only wells competing for the gas in the
20 Canyon, that competition is going to be somewhere equal
21 distance between them, is it not, if all --

22 A. Theoretically.

23 Q. All right. Have you calculated what the area is
24 within Section 1 that will be taken by the Fasken well?

25 A. Has anybody?

1 Q. No, sir, I'm asking you.

2 A. No, I have not. We don't have the data to do
3 that.

4 Q. Okay. If you presume, theoretically --

5 A. Yes, I can -- I can cook some numbers up.

6 Q. All right, if you presume theoretically that you
7 have the values to make this calculation based upon known
8 information, then you could assume that the drainage area
9 is going to be equal distance between the two wellbores,
10 right?

11 A. I choose not to answer that, because I really
12 don't know where you're going with it, and I don't know
13 what you're saying.

14 Q. Well, you don't have to know where I'm going with
15 it; you just have to be responsive --

16 A. I don't know what you're saying --

17 Q. -- to my question, Mr. Royal.

18 A. -- and I refuse to answer.

19 MR. KELLAHIN: Would you ask the witness to
20 respond to my question?

21 THE WITNESS: I do not know, is my answer. I do
22 not know. And you don't either.

23 Q. (By Mr. Kellahin) Now, do you want to explain to
24 me where you get the support for a 70-percent penalty on
25 the Fasken location?

1 A. If you just look at it from an acreage
2 standpoint, we could go with that.

3 Q. That's what you're suggesting, a footage-
4 encroachment-based penalty?

5 A. That sounds like as good as anything.

6 MR. KELLAHIN: All right, thank you.

7 EXAMINER CATANACH: Anything further?

8 MR. BRUCE: Oh, sure, I would just like to point
9 out that --

10 FURTHER EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Royal, the Rock Tank Number 4 in Section 1,
13 that's 1650 feet from the south line, is it not?

14 A. Which one was that?

15 Q. The Rock Tank Unit Number 4 well?

16 A. Yes.

17 Q. So that's at an orthodox location --

18 A. Yes, it is.

19 Q. -- with respect -- for any gas --

20 A. That's correct.

21 Q. -- pool?

22 And once again, the proposed Fasken well or, for
23 that matter, the proposed Redstone well is 1150 feet closer
24 to the section line than allowed by statewide rules; is
25 that correct?

1 A. Yes.

2 MR. BRUCE: Thank you.

3 EXAMINER CATANACH: Anything further, Mr. Bruce?

4 MR. BRUCE: I think that will do.

5 EXAMINER CATANACH: Okay. I don't know, do you
6 guys want to give closing statements? Brief, if any?

7 MR. BRUCE: Brief.

8 MR. KELLAHIN: Mr. Bruce, go ahead.

9 MR. BRUCE: Mr. Examiner, I will try to be very
10 short. We can say that since Bill Carr is not here today.

11 I'll just outline a few of the factors that have
12 been considered recently by the Division in competing force
13 pooling cases, which we essentially have here.

14 Number one, most important one, geology. We
15 believe the primary zone is the upper Morrow, because the
16 lower Morrow is depleted, and we think that Mr. Stone's
17 geology has shown that the best location in the upper
18 Morrow is at Redstone's location.

19 As to the Canyon, nobody's completed out here.
20 It's pretty speculative. Even so, the Redstone location is
21 on strike with the Rock Tank Unit Well Number 4 in Section
22 1, which has a DST which was pretty good in the Canyon. We
23 think the geology in this case favors Redstone.

24 Now, the interest ownership. Fasken claims the
25 largest single interest in the proposed well unit. We

1 would point out, however, that Redstone is the operator of
2 100 percent of the interests in the offsetting Rock Tank
3 Unit, and I don't think it's disputed that the bulk of the
4 production from the -- either proposed well will come from
5 the Rock Tank Unit acreage.

6 Redstone is the operator of the Rock Tank Unit,
7 has the biggest interest to protect, the 100 percent of the
8 working interest owners in the Rock Tank Unit, and we think
9 this factor favors Redstone.

10 As you know, one of the other factors is who made
11 the first proposal. Clearly, with the correspondence
12 today, that was Fasken.

13 We would point out, however, that Redstone bought
14 its interest in the Rock Tank Unit in the summer of 1996
15 and in the last year and a half has actively worked the
16 unit wells to increase production, increased production on
17 one well from zero to 600,000 MCF a day, brought production
18 up on another well from a million to two million a day.
19 It's done a darn good job out here. We think these factors
20 even out, and there's really no advantage.

21 As we pointed out before, we also contend that
22 under the 1970 JOA, which Fasken unquestionably is a party
23 to, Redstone is the operator and should be allowed to
24 operate.

25 Once again, I'd point out that if that operating

1 agreement didn't apply, why is Fasken asking Redstone and
2 the other interest owners in the Rock Tank Unit to sign a
3 new JOA that expressly revokes the 1970 JOA? We think that
4 what matters in this case is who is subject to the JOA, not
5 where the well is located or the fact that one of the
6 leases in this Section 12 expired.

7 Again, in closing, we think that because the Rock
8 Tank Unit acreage will contribute the bulk of production,
9 we think the equities favor Redstone in this case, and that
10 it should be named operator, and that its Application
11 should be granted.

12 Furthermore, we think that based on the well
13 units in this area and the well spacing, it's imperative
14 that a north-half Section 12 unit be formed for 320-acre
15 gas units. We think it's imperative, because that will
16 make the interests uniform in the north half of Section 12,
17 as well as for the Morrow covering all of Section 12.

18 We think that without that north-half unit, then
19 a substantial production penalty should be applied as to
20 320-acre gas well units. That's the only fair thing to do.

21 Thank you.

22 EXAMINER CATANACH: Thank you, Mr. Bruce.

23 Mr. Kellahin?

24 MR. KELLAHIN: Mr. Examiner, Redstone has not
25 dealt fairly with us in this matter. They're doing

1 everything they can to figure out ways to violate Fasken's
2 correlative rights.

3 You have ruled last month that this argument
4 about the joint operating agreement applying to the west
5 half of Section 12. Their position is wrong, you have
6 recognized its wrong, and you have made the decision that
7 that is not the issue.

8 And yet again, here we are today to hear some
9 nonsense about after acquired title making the Fasken lease
10 in the west half of 12 subject to this 1970 operating
11 agreement, despite the fact that they acquired it from
12 Santa Fe Energy.

13 What Mr. Bruce fails to tell you, and what
14 Redstone fails to recognize, is, there are specific
15 provisions in the joint operating agreement that deal with
16 acquiring leases within a specific period of time after
17 they expire. None of the working interest owners chose to
18 do that.

19 Let me tell you why they're doing everything to
20 violate Fasken's correlative rights. Because Fasken has a
21 substantially greater interest in the spacing unit. They
22 have a 60-percent interest in Section 12.

23 And you see the game they're doing? Look what
24 they want to do. They want to preclude this well from
25 being drilled to the lower Morrow. You know why? Because

1 there's unit wells that currently exist in which they have
2 a bigger interest that is going to take the remaining gas
3 from the lower Morrow.

4 Look what they want to do with the Cisco. They
5 have a well that if they can avoid Fasken from getting to
6 the Canyon, they have a Canyon well that's going to take
7 all that gas. You look at Mr. Harmon's Exhibit 19, it's
8 right there to see.

9 They have told us back in November that they're
10 going to abandon the Morrow, both the upper and the lower,
11 in the Rock Tank 4.

12 Their strategy is to come up and get it out of
13 the Canyon. And the longer they delay a Canyon well in
14 Section 12, the more of the Canyon gas that belongs to
15 Fasken gets drained by the unit. If they somehow convince
16 you to move this location.

17 Where was this argument six months ago? We've
18 been talking about this since September. Mr. Stone has had
19 the geology since August. They have sat on their rights,
20 and it's now too late to do this kind of gamesmanship.

21 If they cared about our location, why didn't they
22 tell us before January 26th? If they truly wanted to
23 operate, why didn't they propose their own well? Why
24 didn't they respond to any of our correspondence and tell
25 us that they wanted to operate?

1 They're simply doing whatever they can to keep us
2 from having a well in Section 12. It's not fair, it's not
3 appropriate, it violates our correlative rights.

4 This is not a competing pooling case. Those are
5 circumstances in which both working interest owners, in a
6 reasonably close period of time, make competing proposals.
7 These are not competing pooling cases, because Redstone
8 never made a proposal. They haven't yet made it today.
9 It's a gamesmanship that you should not tolerate. Their
10 Application for compulsory pooling is deniable now,
11 tomorrow, next week, next month.

12 There's a litany of cases before you where you
13 and Mr. Stogner have precluded force pooling applications
14 from even being docketed for hearing if they predate the
15 well proposal. They're out of the game.

16 Look at the geology. Can you believe that 500
17 feet is going to matter? It cannot matter.

18 Look at the expert that was before you. Dexter
19 Harmon has spent a great deal of time and effort on his
20 displays to show you in his conclusion, honestly, it does
21 not matter. He has presented to you some geologic
22 conclusions that support his Application.

23 Where's the Redstone geologic displays on the
24 lower Morrow? Where are their geologic displays on the
25 Canyon? Their case is incomplete, it's inadequate, and we

1 should not be allowed to suffer a defeat in this matter
2 over the gamesmanship they've played and, in doing so, will
3 continue to violate our correlative rights.

4 It's timely for us to have a compulsory pooling
5 order. We've been at this for more than five months. It's
6 our turn. They've lost the chance to propose a well.

7 We ask that you issue an order in our favor. And
8 that order should not penalize any of the locations for any
9 reservoir.

10 Mr. Small sat here and unequivocally admitted
11 that there should be no penalty. I take that as an
12 admission by his company. It was clearly asked to him, and
13 there should be no penalty. That issue disappears.

14 Thank you, Mr. Examiner.

15 EXAMINER CATANACH: Thank you, Mr. Kellahin.

16 I guess what we'll do is, we'll continue the
17 Fasken case until the February 19th hearing, Mr. Kellahin.
18 And -- I think that's the best thing to do, and then --
19 That's when your case is docketed, right?

20 MR. BRUCE: Yes.

21 EXAMINER CATANACH: And you don't plan on putting
22 any additional evidence and testimony on at that time?

23 MR. BRUCE: No, I would probably merely submit,
24 or do an affidavit if necessary, the proposal letter sent
25 out by Redstone, and then my notice affidavit, if that's --

1 MR. KELLAHIN: Mr. Examiner, Mr. Bruce asked to
2 put on all his evidence today. Over my objection we have
3 done that.

4 I think this case is over with. You can
5 advertise it if you choose. I think the stipulation here
6 by your decision is, there's no further testimony. This
7 case is done.

8 MR. BRUCE: The cases were not consolidated for
9 hearing, and therefore my case is still open.

10 EXAMINER CATANACH: That's correct. I believe
11 that if he wants to put those two items in the record on
12 February 19th, I think we will allow him to do that.

13 MR. KELLAHIN: If my case is to be continued, I
14 would like the option to have you consider an alternative
15 whereby we will -- we're agreeable to amending the
16 orientation of our spacing unit.

17 I need to get my client approval. I asked Mr.
18 Small about that. He rejected it as a solution. But I
19 want to retain it as an option, and I will advise you
20 accordingly.

21 EXAMINER CATANACH: That will -- That may require
22 readvertisement of the case.

23 MR. KELLAHIN: I understand it may, and I will
24 advise you tomorrow as to that decision.

25 EXAMINER CATANACH: Okay. Start thinking about

1 draft orders in this case, gentlemen. I don't have any
2 timetable that you have to submit them, but they will be
3 required.

4 So with that, we'll adjourn this hearing.

5 (Thereupon, these proceedings were concluded at
6 2:35 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11877,
heard by me on 2/5 1998.
David R. Gittman, Examiner
Off Conservation Division

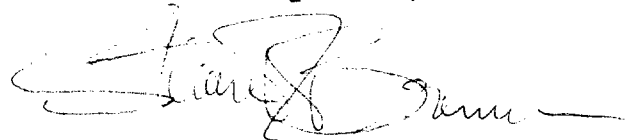
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL February 11th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998