

## NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MARCH 5, 1998 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
FRANK FOSTER	CHEMIST	MIDLAND
Gregory Roberts	CHEMIST	MIDLAND
Mike Brown	MANZANO	Roswell
TONY KRANAUER	MANZANO	"
Tom Lewis	MONTICELLO	Midland
JOHN KLOOSTERMAN	MANZANO	MIDLAND
James Bruce	-	Santa Fe

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

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

APPLICATIONS OF CHEVRON U.S.A. PRODUC- )  
TION COMPANY FOR REINSTATEMENT OF UNDER- )  
PRODUCTION FOR ITS FEDERAL COM "33" WELL )  
NOS. 1 AND 2 GAS PRORATION UNIT; ITS )  
BOGEL FLATS UNIT WELL NOS. 5 AND 18 GAS )  
PRORATION UNIT; ITS BOGEL FLATS UNIT )  
NOS. 3 AND 17 GAS PRORATION UNIT; AND )  
ITS BOGEL FLATS UNIT COM WELL NOS. )  
1 AND 10 GAS PRORATION UNIT, INDIAN )  
BASIN-UPPER PENNSYLVANIAN GAS POOL, )  
EDDY COUNTY, NEW MEXICO )

CASE NOS. 11,935  
11,936  
11,937  
and 11,938  
(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 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, March 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.

\* \* \*

## I N D E X

March 5th, 1998  
 Examiner Hearing  
 CASE NOS. 11,935, 11,936, 11,937 and 11,938 (Consolidated)

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## A P P E A R A N C E S

## FOR THE DIVISION:

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## FOR THE APPLICANT:

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By: WILLIAM F. CARR

## FOR MARATHON OIL COMPANY:

THOMAS C. LOWRY, Esq.  
Marathon Oil Company  
P.O. Box 552  
Midland, Texas 79702

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:23 a.m.:

3           EXAMINER CATANACH: All right, at this time we'll  
4   call Case 11,935.

5           MR. CARROLL: Application of Chevron U.S.A.  
6   Production Company for reinstatement of underproduction for  
7   its Federal Com "33" Well Nos. 1 and 2 gas proration unit,  
8   Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New  
9   Mexico.

10          EXAMINER CATANACH: Call for appearances in this  
11   case.

12          MR. CARR: May it please the Examiner, my name is  
13   William F. Carr with the Santa Fe law firm Campbell, Carr,  
14   Berge and Sheridan. We represent Chevron U.S.A. Production  
15   Company in this matter, and I have one witness.

16          Mr. Catanach, at this time we would request that  
17   you also call Case 11,936, 11,937 and 11,938 and  
18   consolidate the cases for the purposes of hearing.

19          The Applications each address reinstatement of  
20   underproduction in particular gas production units. They  
21   are in the same area. The testimony will be virtually  
22   identical, and consolidation for the purpose of testimony  
23   will substantially shorten the hearing.

24          EXAMINER CATANACH: All right, at this time we'll  
25   call Cases 11,936, 11,937 and 11,938.

1 MR. CARROLL: Applications of Chevron U.S.A.  
2 Production Company for reinstatement of underproduction for  
3 its Bogel Flats Unit Well Numbers 5 and 18 gas proration  
4 unit, Bogel Flats Unit Numbers 3 and 17 gas proration unit,  
5 and Bogel Flats Unit Com Well Nos. 1 and 10 gas proration  
6 unit, all in the Indian Basin-Upper Pennsylvanian Gas Pool,  
7 Eddy County, New Mexico.

8 EXAMINER CATANACH: At this time I'll call for  
9 appearances in any of these cases.

10 MR. LOWRY: Mr. Examiner, I'm Thomas Lowry, in-  
11 house counsel with Marathon Oil out of Midland. I'm a  
12 Texas attorney but not licensed in New Mexico. With your  
13 permission, I'd like to make an appearance on behalf of  
14 Marathon in association with Santa Fe attorney Tom  
15 Kellahin, who has already filed a written appearance in all  
16 four of these cases.

17 EXAMINER CATANACH: You don't have any witnesses,  
18 Mr. Lowry?

19 MR. LOWRY: I'm not planning on putting on any  
20 witnesses.

21 EXAMINER CATANACH: Okay. Are you going to make  
22 a statement, or do you just want to make an appearance?

23 MR. LOWRY: At the most, we would make a  
24 statement at the end of Chevron's case.

25 EXAMINER CATANACH: Okay.

1 MR. CARROLL: You're not going to cross-examine?

2 MR. LOWRY: I don't intend at this time. We do  
3 have a stipulation between the companies that Mr. Carr is  
4 going to enter into evidence.

5 EXAMINER CATANACH: Okay, will the witness please  
6 stand and be sworn in?

7 (Thereupon, the witness was sworn.)

8 GREGORY ROBERTS,

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

11 DIRECT EXAMINATION

12 BY MR. CARR:

13 Q. Will you state your name for the record please?

14 A. My name is Gregory Roberts.

15 Q. Mr. Roberts, where do you reside?

16 A. I reside in Midland, Texas.

17 Q. By whom are you employed?

18 A. I'm employed by Chevron U.S.A.

19 Q. What is your current position with Chevron?

20 A. I'm a petroleum engineer with the New Mexico  
21 team. I'm over at the Indian Basin and Whites City fields  
22 for Chevron.

23 Q. Have you previously testified before the New  
24 Mexico Oil Conservation Division?

25 A. No, I have not.

1 Q. Could you briefly summarize your educational  
2 background for Mr. Catanach?

3 A. Okay, I graduated from Texas Tech University with  
4 a bachelor of science in petroleum engineering in 1982.

5 Q. And following graduation, for whom have you  
6 worked?

7 A. In 1982 I went to work for Gulf Oil Corporation,  
8 in 1985 in the Chevron-Gulf merger I joined Chevron. Since  
9 1982 I've worked in various engineering capacities, both  
10 production engineering, reservoir engineering, operational  
11 positions, both field engineering and management.

12 That brings me to my current position as a  
13 petroleum engineer over at the Indian Basin and Whites City  
14 fields.

15 Q. Are you familiar with the Applications filed on  
16 behalf of Chevron in each of these cases?

17 A. Yes, I am.

18 Q. Have you studied the allowables in the Indian  
19 Basin-Upper Pennsylvanian Gas Pool and the allowable status  
20 of each of the proration units which are the subject of  
21 these consolidated Applications?

22 A. Yes, I have.

23 Q. Are you prepared to share the results of that  
24 study with the Examiner?

25 A. Yes, I am.

1 MR. CARR: Mr. Catanach, at this time we tender  
2 Mr. Roberts as an expert witness in petroleum engineering.

3 EXAMINER CATANACH: Mr. Roberts is so qualified.

4 Q. (By Mr. Carr) Would you briefly summarize for  
5 the Examiner what it is that Chevron seeks in each of these  
6 cases?

7 A. Okay, we're seeking an order for the  
8 reclassification to non-marginal status of all four of  
9 these gas proration units. In addition, we're seeking  
10 reinstatement of underproduction for the prior period to  
11 when these GPUs should have been reclassified to non-  
12 marginal.

13 Q. So you're seeking reinstatement of allowable for  
14 the period when the well should have reclassified and also  
15 for the prior period; is that correct?

16 A. That is correct.

17 Q. Okay. Let's refer to what has been marked as  
18 Chevron Exhibit Number 1, and I'd ask you simply to  
19 identify what that is.

20 A. Okay, that's the OCD Rules and Regulations for  
21 Prorated Gas Pools in New Mexico.

22 Q. How are each of the subject gas proration units  
23 classified by the Division at this time?

24 A. Okay, each of the GPUs are classified as  
25 marginal.

1 Q. And how are marginal gas production units defined  
2 in the prorationing rules, Exhibit 1?

3 A. Okay, from Exhibit 1, "A proration unit which is  
4 incapable of producing or has not produced the non-marginal  
5 allowable based on pool allocation factors. Marginal GPUs  
6 do not accrue over- or underproduction."

7 Q. Are each of the four gas production units that  
8 we're talking about today capable of producing and, in  
9 fact, have they each recently produced the non-marginal  
10 allowable assigned to them?

11 A. Yes, all four units have.

12 Q. They have not been reclassified to marginal?

13 A. That is correct.

14 Q. And why is each able now to produce its  
15 allowable?

16 A. Part of our development programs, we have added a  
17 second well to each of these proration units, increasing  
18 capacity to allowable.

19 Q. And under the Division rules, should each of  
20 these gas production units have been reclassified to non-  
21 marginal?

22 A. Yeah, each should have been classified to non-  
23 marginal pursuant to Rule 14(a).

24 Q. And basically, what does that rule provide?

25 A. Okay, from the rules, 14(a) just says, "If, at

1 the end of any classification period, a marginal GPU has  
2 produced more gas during the proration period to that time  
3 than its shadow allowable for the same period, the GPU  
4 shall be reclassified as a non-marginal GPU."

5 Q. And each of these units qualified but none of  
6 them were classified; is that correct?

7 A. That is correct.

8 Q. Upon reclassification to non-marginal, under Rule  
9 14(a), what allowable should be assigned to that GPU?

10 A. That will be governed by Rule 14(b) in the rules,  
11 and that rule states that "A GPU reclassified to non-  
12 marginal under provisions of Rule 14(a) shall have  
13 reinstated to it all underproduction which accrued or would  
14 have accrued as a non-marginal GPU from the current  
15 production period," and then also "underproduction from the  
16 prior proration period may be reinstated after notice and  
17 hearing."

18 Q. So what production periods is Chevron seeking  
19 reinstatement?

20 A. In these consolidated cases, Chevron is seeking  
21 the reinstatement of the gas balance for the proration  
22 period during which each of these should have been  
23 qualified for reclassification under Rule 14(a), and also  
24 Chevron is seeking the reinstatement of underproduction for  
25 the prior period after notice and hearing, as provided in

1 Rule 14(b).

2 Q. Now, if these Applications are granted, will  
3 these gas production units be treated differently than  
4 other non-marginal units?

5 A. No, they will not. They'll be treated as any  
6 other non-marginal GPU. Any underproduction will be  
7 governed by Rule 10(a).

8 Q. And so in essence, under Rule 10(a) -- Well, what  
9 does 10(a) generally provide?

10 A. 10(a) states that "Any non-marginal GPU which has  
11 an underproduced status at the end of a gas proration  
12 period shall be allowed to carry such underproduction  
13 forward" into "the next gas proration period and may  
14 produce" that "underproduction in addition to" its  
15 "allowable..." Okay, "Any underproduction" which was  
16 "carried forward into the succeeding gas proration period  
17 and" remains "unproduced at the end of" that "period shall  
18 be cancelled."

19 Q. And is it Chevron's position that Rule 10(a)  
20 would apply to each of these units as it relates to the  
21 cancellation of production that isn't made up or produced  
22 during the succeeding period?

23 A. That is correct.

24 Q. Is the Indian Basin-Upper Pennsylvanian Gas Pool  
25 governed by special pool rules and regulations?

1 A. Yes, they are.

2 Q. Do these rules provide for 640-acre spacing  
3 units?

4 A. That is correct.

5 Q. And it also authorizes second wells on these  
6 spacing or proration units; is that correct?

7 A. That is correct.

8 Q. This is also a prorated pool, is it not?

9 A. Yes, it is.

10 Q. What has been the approved allowable limit during  
11 the relevant time period?

12 A. For a 640-acre GPU, 200,000 MCF a month is the  
13 allowable.

14 Q. Now, as we look at the following exhibits, there  
15 are going to be instances where the number may be slightly  
16 above 200,000, as reflected in your table; is that right?

17 A. That's correct.

18 Q. And why is that?

19 A. The proration unit in particular has more than  
20 640 acres.

21 Q. But the established allowable limit during the  
22 entire time period that we're going to be discussing today  
23 was 200,000 MCF per month for 640?

24 A. That's correct.

25 Q. Okay. Let's go to what has been marked as

1 Chevron Exhibit Number 2. Would you identify and review  
2 that for Mr. Catanach?

3 A. Okay, we're looking at a surface plat, and you'll  
4 notice in yellow Chevron's operated position at Indian  
5 Basin. The wells are marked -- The gas wells are marked  
6 with a circle and the hachures around it.

7 Indian Basin reservoir is a hydrodynamic  
8 reservoir, predominantly producing from a dolomite facies.  
9 You'll notice to the west a dotted line, and we'll  
10 characterize -- There's a fault on the western side which  
11 ends the productive limits of Indian Basin. To the south,  
12 the reservoir pinches out, ending the productive limits.  
13 And then to the north and to the east the reservoir dips  
14 steeply.

15 As a hydrodynamic reservoir, water encroachment  
16 has been a problem and a long-dealt-with problem, both from  
17 the east and from the west. You'll notice our Section 8,  
18 which is our furthestmost west section, the encroachment  
19 has within the last year watered out both of those wells.  
20 And to this date we have been unable to re-establish either  
21 well.

22 In addition, we've monitored water encroachment  
23 from the east, and it's proceeded to within the adjacent  
24 section to our easternmost proration units.

25 In addition, in 1994, Chevron conducted reservoir

1 simulation, and one of the hopes in this simulation was to  
2 predict the encroachment. And as part of that simulation  
3 the Bogel Flats Number 1, which is located in Section 3, is  
4 predicted to water out this year, just giving an idea of  
5 what the encroachment -- how it's proceeding.

6 Q. Mr. Roberts, this exhibit shows the offsetting  
7 operators in the pool; is that right?

8 A. Yes, that's correct.

9 Q. The subject spacing units or gas production  
10 units, the ones we're talking about here today, can you  
11 identify those four for us, please?

12 A. Sure, the northernmost section, Section 33, is  
13 the Fed Com 1 and 2.

14 Two sections straight down you'll see Section 9.  
15 That is the Bogel Flats 3 and 17.

16 And then immediately south of Section 9 is  
17 Section 16. In Section 16 that's Bogel Flats 5 and 18.

18 And then in Section 3, which is the rightmost  
19 corner, that is the Bogel Flat Com Number 1 and 10.

20 Q. This shows the current active wells in this area?

21 A. Yes, it does, with one exception. In Section 5,  
22 I believe, one of those three Oryx wells is actually shut  
23 in. There's only -- There's not three active wells in that  
24 section.

25 Q. Chevron has been actively developing this area

1 with second wells on these units; is that correct?

2 A. That's correct.

3 Q. And you have been advising the Division of this  
4 activity, in fact, in each of the recent proration  
5 hearings?

6 A. That's correct.

7 Q. In your opinion, if the allowable relief that  
8 we're seeking today is not granted, will it result in  
9 reserves actually being drained from Chevron tracts to --  
10 by offsetting wells?

11 A. Yes, it will.

12 Q. This shows the offsetting operators to be -- the  
13 principal offset to be Marathon. It also shows Oryx and  
14 Texaco as the offset operators to each of these spacing  
15 units?

16 A. That is correct.

17 Q. All right. Let's go on to what's been marked as  
18 Chevron Exhibit Number 3, and I think it would be helpful  
19 initially if you would go through this exhibit and explain  
20 how it's organized and what it's designed to show.

21 A. Okay. I believe that's the spreadsheet; is  
22 that --

23 Q. Yes.

24 A. -- correct? Okay.

25 Q. That's the spreadsheet to the Bogel Flats 1 and

1 10.

2 A. Okay, just -- I'll go through the columns to show  
3 how I came up with the columns.

4 The first column is just the date, and it shows  
5 the month and year.

6 Moving to the next column to the right, you see  
7 "Volume", and that is merely the sales volume from the  
8 proration unit for the given month.

9 The next is the "Allowable". That is the  
10 allowable as set by the proration rules for that GPU for  
11 that given period.

12 Moving to the next column, "Over/Under", that is  
13 the differential between the volume produced and the  
14 allowable shown for that month.

15 The "OCD status", that is the status as shown by  
16 the yellow books, the proration schedules for the state.

17 "Capability status", that shows when we first  
18 became capable of producing nonmarginal status.

19 The next column, the "Proration Period Volume",  
20 that is a summation of each gas proration period's total  
21 production, totaling up April 1 of that year through March  
22 of the succeeding year. That gives you a balance of each  
23 period.

24 The next column is the "Non Marginal Cum.  
25 Balance". That is a running total of the over and under,

1 including both over- and underproduction, showing the  
2 status of the well as it would appear today if the prior  
3 period to reclassification were granted.

4 The column that states "Status w/o Hearing",  
5 should the prior period to reclassification not be granted,  
6 that would show the balance of this proration unit,  
7 beginning January 1 of this year.

8 Q. So if we look at the second to the last column,  
9 in December, 1997, if the Application is granted, Chevron  
10 would have this particular gas production unit  
11 underproduced by 331,000 MCF; is that right?

12 A. That's correct.

13 Q. And if the Application is not granted, this  
14 particular unit is overproduced by slightly over 200,000  
15 MCF?

16 A. That is correct.

17 Q. How is this particular gas production unit now  
18 classified?

19 A. It's classified as marginal.

20 Q. And I think you earlier stated that a marginal  
21 gas proration unit or production unit is one that's  
22 incapable of producing or hasn't produced the nonmarginal  
23 allowable.

24 Is this particular unit incapable of producing  
25 its allowable?

1 A. No, it has produced in excess of its allowable.

2 Q. And can you review when that occurred and why?

3 A. The Bogel Flat 10 was added to the proration unit  
4 and first came on line in March of 1997, and the second  
5 well added the capacity to exceed allowable.

6 Q. And it's been able to produce at nonmarginal  
7 rates since that time?

8 A. That is correct.

9 Q. Have you determined the volume of the  
10 underproduction which you're seeking to have reinstated as  
11 a credit for this unit?

12 A. Yes, I have.

13 Q. And what is that?

14 A. The period of 4-1-96 through March of 1997, we're  
15 seeking to have reinstated 540,717 MCF.

16 Q. That takes care of the prior period. What is the  
17 status of this well during the period when it should have  
18 been reclassified?

19 A. The current status, the well has exceeded its  
20 allowable by 209,174 MCF. And if you'll notice on the  
21 graph, the "Proration Period Volume", you'll see the  
22 540,717, and then you'll check the "Non Marginal Cum.  
23 Balance", you'll notice that we've reduced the number, and  
24 that's where we've overproduced the 209,174 MCF to get it  
25 down to 331,543.

1           A.    I believe we've cut back beginning in February.

2           Q.    Okay.  Let's now go to the exhibit which shows  
3 the status of the Bogel Flats Unit Number 3 and the Number  
4 17.  That's marked our Exhibit Number 5.  Would you review  
5 that for Mr. Catanach?

6           A.    Okay, we added the Bogel Flats Number 17, a  
7 second well, to this unit in April -- It began producing in  
8 April of 1997.

9                   And you'll see that in May of 1997 we began  
10 exceeding allowable.  And we're asking for the prior period  
11 underage, which is 593,081 MCF.

12                   And since that point we have, if you'll check the  
13 "Non Marginal Cum. Balance" column, we've reduced that  
14 underage to 452,776.

15           Q.    And again, if you don't -- If the Application is  
16 granted and you are unable to produce the accumulated  
17 underproduction, that would be canceled in April of this  
18 year?

19           A.    Right, the underage you see on the "Non Marginal  
20 Cum. Balance" column, any remaining unproduced as of April  
21 1 of this year will be canceled according to Rule 10(a).

22           Q.    And again, this is another unit that is able to  
23 produce at nonmarginal rates because of Chevron's drilling  
24 program in the Indian Basin-Upper Pennsylvanian Gas Pool;  
25 is that right?

1           A.    That is correct.

2           Q.    All right, let's go to the next exhibit on the  
3 table on the Federal Com Number 1 and Number 2 well,  
4 Exhibit Number 6. Can you review that for the Examiner,  
5 please?

6           A.    Sure. The Fed Com Number 2 was brought on line  
7 to production in July of 1996.

8                    You'll notice in the "Over/Under" column, we  
9 began overproducing at that time. It's for that period  
10 that this proration unit should have been reclassified, and  
11 we're seeking reinstatement of the 265,528 MCF, which is  
12 the prior period, to when it should have been reclassified.

13                   Subsequent to the 265,528, in the succeeding  
14 period, we overproduced 49,685 MCF. And you'll see that we  
15 did not produce all of the underage in the prior period,  
16 all of the 265,528, and so in the end of March of 1997  
17 you'll see in the nonmarginal cum balance column a zero,  
18 and that is pursuant to Rule 10(a) that in the succeeding  
19 period, not producing that underage, it was canceled.

20           Q.    Now, as to this unit you're asking that the well  
21 be reclassified when it should have been reclassified under  
22 14(a); is that right?

23           A.    That is correct.

24           Q.    And with that, the allowable for that proration  
25 period would be assigned to the well, correct?

1 A. That's correct.

2 Q. And you're seeking, pursuant to Rule 14(b), the  
3 reinstatement of the allowable for the preceding period?

4 A. That is correct.

5 Q. Is Exhibit Number 7 an affidavit confirming that  
6 notice of this Application has been provided to all parties  
7 affected by the Application pursuant to Division Rule 1207?

8 A. That is correct.

9 Q. And to whom was notice sent?

10 A. Notice was sent to all operators in the pool and  
11 leaseholders in the pool.

12 Q. Since providing notice to these offset operators,  
13 have you been contacted by any of them or had conversations  
14 with any of them?

15 A. Yes, we've had conversation with Marathon.

16 Q. And what has been the result of that  
17 conversation?

18 A. Marathon's discussion basically discussed what we  
19 were seeking to do, discussed the numbers which we showed  
20 and compared them to the numbers they had. And to my  
21 understanding, the attorneys have worked out a stipulation  
22 which shows the agreement between Chevron and Marathon of  
23 those conversations.

24 Q. And is that stipulation what has been marked as  
25 Chevron Exhibit Number 8?

1           A.    That's correct.

2                   MR. CARR:  Mr. Catanach, this stipulation was  
3 negotiated between Mr. Kellahin and myself just to be  
4 certain that both of us agreed as to how the numbers were  
5 calculated under the current prorationing rules.  I've  
6 signed on behalf of Chevron, Mr. Kellahin has signed on  
7 behalf of Marathon.  He signed on Mr. Lowry's line,  
8 actually, because he was worried about how the Lobos were  
9 going to fare this week and was under stress, but it has  
10 been executed by both of us.

11                   The purpose of it is not to tell you how the  
12 rules work, but when we had Marathon and Chevron in  
13 negotiations on this subject, we thought it was appropriate  
14 to reduce our understanding of how this allowable  
15 reinstatement worked to writing.  And so that was why we  
16 entered this stipulation.

17           Q.    (By Mr. Carr)  Mr. Roberts, have there been  
18 conversations with Texaco concerning this Application?

19           A.    It's my understanding our counsel was in contact  
20 with Texaco and there was no objection.

21           Q.    Have there been contacts from any other operators  
22 in the pool?

23           A.    I was contacted by Devon, and Devon was  
24 interested in the numbers we showed, and I shared those  
25 numbers with them, and to my knowledge there is no

1 objection.

2 Q. And Devon is the successor to Kerr-McGee in this  
3 pool?

4 A. That's correct.

5 Q. In your opinion, will approval of this  
6 Application result in the recovery of hydrocarbons that  
7 otherwise would be left in the ground?

8 A. Yes.

9 Q. Will approval of the Application otherwise be in  
10 the best interest of conservation and the protection of  
11 correlative rights?

12 A. Yes.

13 Q. Were Chevron Exhibits 1 through 7 either prepared  
14 by you or compiled at your direction?

15 A. Yes, all exhibits except the stipulation, which  
16 was prepared by counsel for Chevron and Marathon.

17 Q. And that's Exhibit 8?

18 A. That's correct.

19 MR. CARR: Mr. Catanach, at this time we would  
20 move the admission into evidence of Chevron Exhibits 1  
21 through 8.

22 EXAMINER CATANACH: Exhibits 1 through 8 will be  
23 admitted as evidence.

24 MR. CARR: And that concludes my direct  
25 examination of Mr. Roberts.

## EXAMINATION

1  
2  
3  
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BY EXAMINER CATANACH:

Q. Let's just kind of go over this on Exhibit Number 3, get a handle on exactly what's going on here.

A. Okay.

Q. Okay, in March of 1997, this proration unit became capable of nonmarginal production?

A. That's correct.

Q. Okay. So at that time it should have been reclassified to nonmarginal, and it was not?

A. Correct.

Q. Okay. Now, the 540,717 underproduction --

A. That's correct.

Q. -- that came from the proration period starting in April of 1996?

A. That's correct, April through March of 1997.

Q. So that's what the -- That was underproduction during that period?

A. That's correct.

Q. Is it your understanding that that's what the rule provides, that underproduction for that period, even though it was only a nonmarginal unit for one month during that period, that it can accrue all that underproduction for the entire proration period?

A. My understanding is that when the proration unit

1 is reclassified to nonmarginal, that the period in which  
2 it's reclassified, we can seek reinstatement during that  
3 period and also, with hearing and notice, we can seek the  
4 prior period.

5 And I believe the 540,717 is going to be the  
6 prior period that we're seeking reinstatement on.

7 Q. Prior period. That's March, 1995 -- or April,  
8 1995, through March, 1996? I'm lost here.

9 A. Okay, the proration unit became -- or exceeded  
10 its allowable beginning in March.

11 But the rule actually states that you have to  
12 exceed your shadow allowable for the entire period, and  
13 being as we just were able to exceed it in the last month  
14 of the period, we didn't actually exceed the shadow  
15 allowable.

16 So reclassification could not take place until  
17 after April 1 of 1997.

18 So that begins the new period, and that makes the  
19 1996 period the prior period to reclassification.

20 Q. So during the period from April, 1995, through  
21 March, 1996, you accrued 150,523 underproduction?

22 A. That's what's shown through marginal.

23 But because we were marginal, the rules don't  
24 provide for seeking that two periods back. That just shows  
25 how the well was producing back in time.

1 Q. Where does this 540,717 come from?

2 A. That comes from the accumulated underage from  
3 April of 1996 through March of 1997.

4 Q. Okay, that's just during that period?

5 A. That is correct.

6 Q. That doesn't include the 150,523?

7 A. That is correct.

8 If you'll notice the nonmarginal cum balance,  
9 you'll notice that in March of 1997 it corresponds to the  
10 540,717, and it shows that's the balance that was  
11 accumulated through that period.

12 Q. Okay. So for this proration unit you're --  
13 that's the volume that you're seeking to reinstate?

14 A. That's correct.

15 Q. 540,717?

16 A. That is correct.

17 Q. And that's the total volume?

18 A. That correct.

19 Q. How is this proration unit that we're currently  
20 in being handled?

21 A. It is a marginal proration unit, current status.

22 Q. But it should be nonmarginal?

23 A. That's correct.

24 Q. So during this proration period that we're  
25 currently in, you've been overproducing the well?

1 A. That is correct.

2 Q. And you've made up some of that underage?

3 A. That's correct.

4 Q. Do you still -- Even though you've made some of  
5 this up, you're still thirty- -- three thirty one under?

6 A. As of January 1 of this year, that is correct.  
7 That's through December.

8 Q. Okay. So this proration unit is underproduced at  
9 this point?

10 A. Yes.

11 Q. Okay. And on that particular unit the Number 10,  
12 did you say, was drilled in March of 1997?

13 A. We brought it on line in March of 1997.

14 Q. Okay, on the Number -- On Exhibit Number 4, for  
15 the 5 and 18, what's the volume you're seeking on that  
16 proration unit?

17 A. The 214,266 MCF. You notice that in the  
18 proration period volume column.

19 Q. Okay, and that's for the period from March, 1995,  
20 through -- or April, 1995, through March, 1996?

21 A. That's correct.

22 Q. And that unit is currently overproduced?

23 A. That's correct.

24 Q. Okay. The volume you're seeking on the 3 and the  
25 17, is it 142,103?

1 A. No, it will be the 593,081.

2 Q. That's just the underage during the period from  
3 April, 1996, to March of 1997?

4 A. That is correct.

5 Q. Okay. And that's currently underproduced?

6 A. That's correct.

7 Q. Okay. And on the last one, the Fed Com Number 1  
8 and 2, the volume you're seeking is 265,528?

9 A. That's correct.

10 Q. On the Number 5 and 18 wells, when did that well  
11 come on, the second well come on?

12 A. I believe we brought it on line in June of 1996.

13 Q. And which well was that?

14 A. That was the Bogel Flats 18.

15 Q. Okay. And you testified -- or you stated that  
16 Marathon has looked at these numbers, and they concur with  
17 what you've calculated here?

18 A. They had no objections in our conversations.

19 Q. Have you reviewed these numbers with any of the  
20 district offices?

21 A. No, I have not.

22 Q. Who were the operators notified in this case, Mr.  
23 Roberts?

24 A. I need to confer with that exhibit showing all  
25 the mailing list.

1 MR. CARR: They're set out on the third page of  
2 Exhibit 7.

3 EXAMINER CATANACH: And these are offset  
4 operators?

5 MR. CARR: They're all operators in the pool.  
6 There was one tract that did not have wells on it. The  
7 last three, Mobil --

8 THE WITNESS: Mobil, Asher and Amax.

9 MR. CARR: -- were the working interest or the  
10 leasehold owners in that section, so we added them.

11 Q. (By Examiner Catanach) So this includes all of  
12 the operators currently in the pool?

13 A. Yes, sir.

14 Q. And you've had no objection from anybody?

15 A. No objections, that's correct.

16 Q. Devon called you and asked you some questions  
17 about it?

18 A. That's correct.

19 MR. CARROLL: And Devon was the successor-in-  
20 interest to Kerr-McGee?

21 THE WITNESS: That's my understanding, yes.

22 EXAMINER CATANACH: Okay, I have nothing further  
23 of this witness.

24 He may be excused.

25 MR. CARR: That concludes our presentation in



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 March 6th, 1998.

  
\_\_\_\_\_  
STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 1998

1 Q. So what we're doing is, we're seeking  
2 reinstatement during the current period, which gives you  
3 the allowable for the current period, and you're seeking  
4 reinstatement of the prior period, which is April, 1996,  
5 through March, 1997?

6 A. That is correct.

7 Q. Now, if that production is reinstated, that would  
8 put the well at the point you show for December of 1997, of  
9 underproduced by approximately 331,000 MCF of gas, correct?

10 A. That's correct.

11 Q. If that reinstated production is not made up by  
12 April 1, 1998, what happens?

13 A. Any remaining underage on April 1st of 1998 will  
14 be canceled?

15 Q. And that's pursuant to Rule 10(a)?

16 A. That is correct.

17 Q. What will be the result if this Application is  
18 denied?

19 A. We'll have to shut in wells, we'll have lost  
20 reserves, and our correlative rights will be impaired, and  
21 we'll lose the opportunity to produce our share of these  
22 reserves.

23 Q. Let's now go to the Bogel Flats Unit Number 15  
24 [sic] and 18 Gas Production Unit, and that is set forth on  
25 Exhibit Number 4. Could you identify that and review that

1 for the Examiner?

2 A. I'm sorry, can you repeat the question for me?

3 Q. Would you just go to the exhibit that shows the  
4 Bogel Flats Unit 5 and 18 and review that for Mr. Catanach?

5 A. Sure. Looking at that spreadsheet, if you look  
6 at the proration period volume, if you look at the balances  
7 of May of 1996, there's a minus 214,266 MCF. That is the  
8 prior period underage in which we're seeking reinstatement.

9 You'll notice that the subsequent period, which  
10 is when we should have been reclassified to nonmarginal, we  
11 actually overproduced the GPU by 123,689 MCF, and if you  
12 then move to the "Non Marginal Cum. Balance" column, you'll  
13 notice that in March of 1997 that cum goes to zero. By  
14 reinstating the 214,266, we only made up 123,689 of that  
15 volume.

16 So in April 1 of 1997, the remaining underage was  
17 canceled, and the continued balance is a reflection of how  
18 we've produced the well since April 1 of 1997.

19 Q. And the well is now overproduced?

20 A. That is correct, the well is overproduced at this  
21 time.

22 Q. And the underproduction that was available to the  
23 well back in the end of March of 1997 was canceled under  
24 Rule 10. That shows the zero in the second -- That is the  
25 zero in the second to the last column?

1 A. That's correct.

2 Q. And the well should have been reclassified under  
3 Rule 14(a) from marginal to nonmarginal but was not; is  
4 that right?

5 A. That's correct.

6 Q. So you're seeking reclassification at the time it  
7 should have been reclassified, plus the underproduction  
8 from the prior period?

9 A. That's correct.

10 Q. And that's the 214,266 MCF; is that right?

11 A. Yes, that is correct.

12 Q. And again, what will be the result if this  
13 Application is not granted?

14 A. Well, we're going to have to shut in the wells,  
15 and we'll have reserves lost, and again, our correlative  
16 rights will be impaired and we'll lose the opportunity to  
17 produce those reserves.

18 Q. If -- As the well stands right now, you're still  
19 in a position where you're going to have to curtail it to  
20 get back in line with the allowable --

21 A. Yes.

22 Q. -- isn't that right?

23 A. And in fact, we have curtailed this proration  
24 unit to make up the overage.

25 Q. Since December?