

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:)
)
APPLICATION OF HALLWOOD PETROLEUM, INC.,) CASE NOS. 12,055
FOR AN ORDER ALLOWING DRILLING IN THE)
POTASH AREA, LEA COUNTY, NEW MEXICO)
)
APPLICATION OF HALLWOOD PETROLEUM, INC.,) and 12,056
FOR AN ORDER ALLOWING DRILLING IN THE)
POTASH AREA, LEA COUNTY, NEW MEXICO) (Consolidated)
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 5th, 1998

Santa Fe, New Mexico

OIL CONSERVATION DIV.
98 NOV 19 PM 2:46

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 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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November 5th, 1998
Examiner Hearing
CASE NOS. 12,055 and 12,056 (Consolidated)

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A P P E A R A N C E S

FOR THE DIVISION:

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 Legal Counsel to the Division
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FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY, L.L.P.
 400 Penn Plaza, Suite 700
 P.O. Box 10
 Roswell, New Mexico 88202
 By: JAMES A. GILLESPIE

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 12:15 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,055.

5 MR. CARROLL: Application of Hallwood Petroleum,
6 Inc., for an order allowing drilling in the potash area,
7 Lea County, New Mexico.

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

10 MR. GILLESPIE: If it please the Examiner, my
11 name is James A. Gillespie, with the firm of Hinkle, Cox,
12 Eaton, Coffield and Hensley, on behalf of the Applicant,
13 Hallwood Petroleum, Inc.

14 EXAMINER CATANACH: Okay, additional appearances?
15 Okay, Mr. Gillespie?

16 MR. GILLESPIE: If I might --

17 EXAMINER CATANACH: Let me swear in the witness.

18 MR. GILLESPIE: We have two witnesses.

19 EXAMINER CATANACH: Swear in the witnesses.

20 MR. CARROLL: In both cases?

21 MR. GILLESPIE: Yes.

22 EXAMINER CATANACH: Did we want to consolidate
23 these?

24 MR. GILLESPIE: Yes, I was going to ask if we
25 could call the second case as well.

1 EXAMINER CATANACH: Let's do that.

2 Call Case 12,056.

3 MR. CARROLL: Application of Hallwood Petroleum,
4 Inc., for an order allowing drilling in the potash area,
5 Lea County, New Mexico.

6 EXAMINER CATANACH: Again, I'll call for
7 appearances in this -- in either of these cases.

8 MR. GILLESPIE: On behalf of Hallwood Petroleum,
9 Inc., James A. Gillespie of the firm of Hinkle, Cox, Eaton,
10 Coffield and Hensley.

11 EXAMINER CATANACH: Okay. No other additional
12 appearances?

13 Will the witnesses please stand to be sworn?

14 (Thereupon, the witnesses were sworn.)

15 MR. GILLESPIE: Mr. Examiner, I might briefly for
16 the record review the procedure and why we're here on this
17 matter.

18 The cases were -- These proposed wells were
19 originally objected to by Mississippi Potash, Inc., and the
20 case was continued from an earlier docket at their request.
21 And with my consent, a subpoena was issued for the
22 production of documents to Mississippi, to which they filed
23 a motion to quash.

24 We have responded to the motion to quash, and
25 that was set for a hearing on Friday of last week.

1 Shortly before the hearing, I was informed by
2 Mississippi Potash, Inc.'s, counsel that they would be
3 withdrawing their objections to these wells, and a message
4 was left to that effect, I believe, on your voice mail.

5 To date, we have not received a written
6 confirmation of that withdrawal of objections, and we would
7 propose to make a short presentation to establish
8 Hallwood's right to approval of these APDs.

9 EXAMINER CATANACH: Okay.

10 LOIS DODDS,
11 the witness herein, after having been first duly sworn upon
12 her oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. GILLESPIE:

15 Q. Would you please state your name and city of
16 residence?

17 A. My name is Lois Dodds, D-o-d-d-s, and I reside in
18 Parker, Colorado.

19 Q. And what is your occupation and who are you
20 employed by?

21 A. I'm a landman currently employed by Hallwood
22 Petroleum, Inc.

23 Q. And have you previously testified before the OCD
24 as a landman?

25 A. No, I have not.

1 Q. Okay, could you briefly state your educational
2 and employment background?

3 A. I graduated from Middleton Business College in
4 Omaha, Nebraska, in 1968. I hold the Certified
5 Professional Landman designation from the American
6 Association of Professional Landmen.

7 From 1978 to 1986 I worked with Ladd Petroleum
8 Corporation, Williams Brothers Exploration and Geodyne
9 Resources. When I was with Ladd and with Geodyne I worked
10 the mid-continent region, with Williams I worked Rocky
11 Mountain.

12 From 1988 to May of 1998 I was the hard rock
13 mineral landman, worked with Pegasus Gold Corporation and
14 Echo Bay Mines, working all over the western states.

15 And since June of this year I have been employed
16 by Hallwood Petroleum as landman for Rocky Mountain and
17 Southwestern U.S.

18 Q. And are you a member of any professional
19 organizations?

20 A. Yes, I'm a member of the American Association of
21 Professional Landmen, the Denver Association of Petroleum
22 Landmen, Rocky Mountain Mineral Landmans Association and
23 Nevada Landmans Association.

24 Q. And have you maintained your certification and
25 membership in those organizations?

1 A. Yes, I have.

2 Q. And have you testified on petroleum land matters
3 before other governing agencies or states?

4 A. Yes, when I was with Ladd Petroleum working mid-
5 continent, I was qualified for and testified several times
6 before the Oklahoma Corporation Commission, from 1980 to
7 1985.

8 Q. And are you familiar with the land matters
9 involved in Cases 12,055 and 12,056 currently before the
10 Examiner?

11 A. Yes, I am.

12 MR. GILLESPIE: I would move that Lois Dodds be
13 recognized by the Examiner as an expert on petroleum land
14 matters.

15 EXAMINER CATANACH: She is so qualified.

16 Q. (By Mr. Gillespie) Would you please explain what
17 Hallwood seeks in these cases?

18 A. Yes, Hallwood is seeking approval to exercise its
19 rights to develop fee minerals in the southwest quarter of
20 Section 30, 20 South, 33 East, in Lea County. We propose
21 drilling two wells to test the Delaware formation at
22 approximately 88- -- or 8300 feet, total depth.

23 Both wells would be drilled at legal locations,
24 and they would be dedicated to standard 40-acre spacing
25 units.

1 Q. Referring to Exhibit 1, could you describe it
2 briefly for the Examiner?

3 A. Yes, Exhibit 1 is a land status plat showing our
4 proposed locations. It also shows the oil and gas
5 leasehold in Section 30, which Hallwood operates, and it
6 shows existing oil and gas wells. It also indicates the
7 current potash leases that are within a mile of our
8 proposed locations.

9 Q. And Exhibit 2?

10 A. Exhibit 2 shows the outline of the Hat Mesa-
11 Delaware Pool boundary as it exists presently. Our two
12 proposed locations would extend the boundary to the south
13 and west.

14 Q. And could you describe Exhibits 3 and 4?

15 A. Yes, Exhibits 3 and 4 are the APDs and the
16 acreage dedication plats which we filed.

17 Exhibit 3 is the APD and plat for the Bass Number
18 5 in Case Number 12,056.

19 Exhibit 4 is the APD and plat for Number 6 in
20 Case 12,055.

21 Q. Okay, and Exhibit 5, could you describe that,
22 please?

23 A. Exhibit 5 is the letter which Hallwood mailed to
24 Mississippi Potash under R-111-P. Mississippi Potash is
25 the only potash lessee within a mile of our proposed

1 locations.

2 Q. And the date of that letter is June 30th, 1998?

3 A. That's right.

4 Q. And could you identify Exhibit 6, please?

5 A. Exhibit 6 is a copy of a letter Mississippi
6 Potash sent to the Division District Office, objecting to
7 our proposed locations.

8 Q. And Exhibit 7?

9 A. Exhibit 7 is a copy of the letter we received
10 from the Division Field Office, noticing us that they had
11 received Mississippi Potash's objection and that we should
12 file for a hearing.

13 Q. All right. And are these wells proposed on fee
14 mineral lands, unleased for potash?

15 A. That's right, they're fee lands, leased oil and
16 gas, and they're on the potash, existing potash leases.

17 Q. Have you contacted any of the mineral interest
18 owners regarding these matters?

19 A. Yes, we've contacted all of them. We sent
20 letters to them asking for their support.

21 Q. And could you describe -- First of all, have you
22 received any negative responses from the mineral interest
23 owners?

24 A. No, we have not. We have received several
25 letters of support from mineral interest owners, as well as

1 an affidavit from one supporting our development of oil and
2 gas here, and also we've received several letters from
3 lessees who would be participating in the wells.

4 Q. Are there any potash entities or individuals
5 whose property interest will be affected by these
6 Applications?

7 A. No, there are no potash leases on the southwest
8 quarter at all.

9 Q. Has notice of this hearing been given to
10 Mississippi Potash?

11 A. Yes, it has. It's shown in my affidavit
12 regarding notice which was filed in these cases.

13 Q. In your opinion, will the granting of the APDs in
14 these cases be in the interest of conservation, the
15 prevention of waste and the protection of correlative
16 rights?

17 A. Yes, it will.

18 Q. Were Exhibits 1 through 8 prepared by you or
19 under your direction and compiled from company records?

20 A. Yes, they were.

21 MR. GILLESPIE: We'd move for the admission of
22 Exhibits 1 through 8.

23 EXAMINER CATANACH: Exhibits 1 through 8 will be
24 admitted in this case.

25 MR. GILLESPIE: That concludes my direct

1 examination of Ms. Dodds.

2 EXAMINER CATANACH: We have no questions of this
3 witness.

4 MR. GILLESPIE: Call Mr. Dommer.

5 CHUCK DOMMER,

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

8 DIRECT EXAMINATION

9 BY MR. GILLESPIE:

10 Q. Please state your name and the city of residence.

11 A. My name is Chuck Dommer, spelled D-o-m-m-e-r, and
12 I live in Aurora, Colorado.

13 Q. And who are you employed by and in what capacity?

14 A. I'm employed by Hallwood Petroleum, Inc., as a
15 senior exploration geologist.

16 Q. And have you previously testified before the OCD
17 as a geologist?

18 A. No, I haven't.

19 Q. Please briefly state your educational and
20 employment background.

21 A. I have a bachelor of science degree from Arizona
22 State, geology.

23 After graduation I was employed by Century
24 Geophysical as a wireline engineer. Then I was hired by
25 Acquitaine Mining Corporation, a subsidiary of Acquitaine,

1 as a mine geologist, and then I worked 11 years for
2 Phillips Petroleum and about seven years as a consultant
3 for various major companies in the former Soviet Union, and
4 I was hired by Hallwood Petroleum last -- or May of this
5 year.

6 Q. And are you a member of any professional
7 organizations?

8 A. Yes, I'm a member of the American Association of
9 Petroleum Geologists and the Society of Petroleum Engineers
10 and the Rocky Mountain Association of Geologists.

11 Q. And have you maintained your certification and
12 membership with those organizations?

13 A. Yes, I have.

14 Q. Have you testified on petroleum geology matters
15 before governing agencies in other states?

16 A. Yes, I've testified before the Texas Railroad
17 Commission in Austin, Texas.

18 Q. And please briefly explain your experience with
19 petroleum geology matters in southeastern New Mexico.

20 A. With my employment with Phillips Petroleum and
21 with Hallwood, I've been concerned with matters related to
22 the Permian-Delaware-Wolfcamp and the Pennsylvanian-Morrow
23 on company-operated properties.

24 Q. And are you familiar with the geological matters
25 related to the proposed Bass Number 5 and Number 6 wells in

1 these cases?

2 A. Yes, I am.

3 MR. GILLESPIE: We would tender Mr. Dommer to be
4 recognized by the Examiner as an expert in petroleum
5 geology.

6 EXAMINER CATANACH: He is so qualified.

7 Q. (By Mr. Gillespie) Please describe Exhibits 9
8 through 16.

9 A. These are structure-isopach maps, showing the
10 sandbody configuration of the middle and lower Brushy
11 Canyon reservoirs of the Delaware formation, in the area
12 around and in Section 30.

13 Q. And the last two exhibits, 15 and 16?

14 A. Okay, 15 and 16 are two cross-sections through
15 the area, including the location of the proposed Bass
16 Number 5 and 6.

17 Q. In your professional opinion, is the area
18 underlying the two proposed wells prospective for oil and
19 gas in the Delaware formation?

20 A. Yes, they are.

21 Q. Which of these two wells do you intend to drill
22 first?

23 A. We would like to drill Well Number 5 first.

24 Q. And what would you request as to the timing of
25 the two APDs?

1 A. We request that the Division allow Hallwood to
2 stage its development of the southwest quarter of Section
3 30 such that the first well will be drilled and the
4 expiration time for the second APD would not begin to run
5 until the first well has been completed and put on
6 production or has been plugged and abandoned.

7 Q. Were Exhibits 9 through 16 prepared by you, under
8 your direction, or from company business records?

9 A. Yes, they were.

10 Q. And in your opinion, is the granting of these
11 Applications in the interests of conservation, the
12 protection of correlative rights and the prevention of
13 waste?

14 A. Yes.

15 MR. GILLESPIE: We'd move for the admission of
16 Exhibits 9 through 16.

17 EXAMINER CATANACH: Exhibits 9 through 16 will be
18 admitted as evidence.

19 MR. GILLESPIE: And that concludes my examination
20 of Mr. Dommer.

21 EXAMINER CATANACH: We have no questions of this
22 witness.

23 Anything --

24 MR. GILLESPIE: That concludes our --

25 EXAMINER CATANACH: -- further?

1 MR. GILLESPIE: That concludes our presentation.

2 EXAMINER CATANACH: There being nothing further,

3 Cases 12,055 and 12,056 will be taken under advisement.

4 And this hearing is adjourned.

5 (Thereupon, these proceedings were concluded at

6 12:30 p.m.)

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I do hereby certify that the foregoing is
a true and correct copy of the proceedings in
the Examiner hearing of Cases No. 12,055, 12,056
heard by me on 4/15/98
David K. Catnach, Examiner
OH Conservation Division

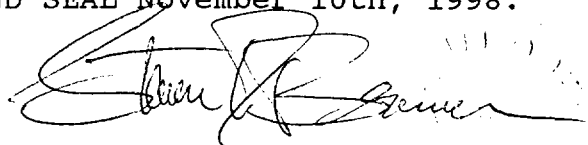
CERTIFICATE OF REPORTER

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 November 10th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002