

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 CROSS TIMBERS OIL COMPANY) CASE NOS. 12142
 FOR COMPULSORY POOLING AND AN UNORTHODOX)
 OIL WELL LOCATION, SAN JUAN COUNTY,)
 NEW MEXICO)
)
 APPLICATION OF CROSS TIMBERS OIL COMPANY) and 12, 143
 FOR COMPULSORY POOLING AND AN UNORTHODOX)
 OIL WELL LOCATION, SAN JUAN COUNTY,)
 NEW MEXICO)
) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 1st, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 1st, 1999, 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

April 1st, 1999
Examiner Hearing
CASE NOS. 12,142 and 12,143 (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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* * *

1 WHEREUPON, the following proceedings were had at
2 11:15 a.m.:

3
4
5
6 EXAMINER ASHLEY: The Division now calls Case
7 12,142.

8 MR. CARROLL: Application of Cross Timbers Oil
9 Company for compulsory pooling and an unorthodox oil well
10 location, San Juan County, New Mexico.

11 EXAMINER ASHLEY: Call for appearances.

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
13 representing the Applicant.

14 I have three witnesses.

15 And I would also ask at this time that this
16 matter be consolidated with the next case, 12,143, because
17 they involve the same area, and the same people are
18 involved in the pooling of these two wells.

19 EXAMINER ASHLEY: The Division calls Case 12,143.

20 MR. CARROLL: Application of Cross Timbers Oil
21 Company for compulsory pooling and an unorthodox oil well
22 location, San Juan County, New Mexico.

23 EXAMINER ASHLEY: Any additional appearances?

24 Will the witnesses please stand and be sworn in?

25 (Thereupon, the witnesses were sworn.)

1 GEORGE A. COX,
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. Would you please state your name and city of
7 residence?

8 A. My name is George A. Cox. I live in Fort Worth,
9 Texas.

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

11 A. I work for Cross Timbers Oil Company. I'm a
12 landman.

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

15 A. No, I haven't.

16 Q. Would you please summarize your educational and
17 work background?

18 A. I have a BBA from Washburn University in Topeka,
19 Kansas. I have been employed as a landman for
20 approximately 21 years and have worked for Cross Timbers
21 for almost the last two years.

22 Q. Does your area of responsibility at Cross Timbers
23 include the San Juan Basin?

24 A. Yes, it does.

25 Q. And are you familiar with the land matters

1 involved in these two cases?

2 A. Yes, I am.

3 MR. BRUCE: Mr. Examiner, I would tender Mr. Cox
4 as an expert petroleum landman.

5 EXAMINER ASHLEY: Mr. Cox is so qualified.

6 Q. (By Mr. Bruce) Mr. Cox, what is it that Cross
7 Timbers seeks in these two cases?

8 A. We seek an order to pool the west half of Section
9 21 and the west half of Section 32 for all pools and
10 formations spaced on 320 acres, and the northwest quarter
11 of Section 21 for all pools and formations spaced on 160
12 acres, and the northwest northwest of Section 21 for all
13 pools and formations spaced on 40 acres, as well as in
14 Section 32, the northwest quarter for all formations spaced
15 on 160 and the northwest northwest of Section 32 for all
16 pools and formations spaced on 40 acres.

17 Q. That's the actually the southwest of the
18 northwest; is that correct?

19 A. That's correct.

20 Q. Yes.

21 EXAMINER ASHLEY: Of Section 32?

22 MR. BRUCE: Yeah --

23 THE WITNESS: Yes.

24 MR. BRUCE: -- of 32, yes.

25 EXAMINER ASHLEY: The southwest of the northwest?

1 MR. BRUCE: The southwest of the northwest. It
2 had been the northwest of the northwest, Mr. Examiner, but
3 due to BLM requiring the well to be moved, it was moved
4 south to the next proration unit.

5 Q. (By Mr. Bruce) What depths do you seek to pool
6 in both cases?

7 A. We seek to pool only the depths from the base of
8 the Pictured Cliffs formations to the base of the Dakota
9 formation. Both wells will be drilled to test the Dakota
10 formation.

11 Q. Could you go to Exhibit 1 and identify that for
12 the Examiner?

13 A. Exhibit 1 is a land plat that shows both of the
14 wells in Section 21 and in Section 32 and their location.
15 The Kutz Federal 12 B in Section 21 is at an unorthodox gas
16 location 970 feet from the north line and 1000 feet from
17 the west line, while the Federal A in Section 32 is an
18 unorthodox gas well location at 1535 feet from the north
19 line and 1055 feet from the west line of the section.

20 And both wells are unorthodox for an oil well
21 because they're less than 330 feet from the quarter quarter
22 section line.

23 Q. What is the leasehold ownership of the west half
24 of Section 21 and the west half of Section 32? And I would
25 refer you to your Exhibits 2A and 2B, Mr. Cox.

1 A. We own approximately the same in both locations.
2 From the base of the Pictured Cliffs to the top of the
3 Dakota we have 50 percent interest, and in the Dakota
4 formation we have 56 2/3 interest.

5 Q. Which interest owners do you seek to pool in
6 these wells?

7 A. I would like to dismiss a couple of them that we
8 have listed here.

9 Q. Okay. We had notified a number of parties of the
10 pooling; is that correct?

11 A. That's correct.

12 Q. Which ones had we notified, and which ones --
13 Actually, at this point, which are the only parties you
14 seek to pool?

15 A. The only parties we seek to pool in both of these
16 hearings at this point is Richard P. Shooshan, Trustee;
17 Rita Floyd, and trustees of the Mathias Family Trust.

18 Q. Okay. Let's get to those dismissals a little bit
19 later, Mr. Cox.

20 A. Okay.

21 Q. And their interests are approximately equivalent
22 in each well, are they not?

23 A. Yes, sir.

24 Q. Now, let's discuss your efforts to obtain the
25 voluntary approval, or voluntary joinder, of these interest

1 owners. I've marked two exhibits, 3A and 3B, Mr. Cox. 3A
2 is with respect to the west half of Section 32, 3B is with
3 respect to the west half of Section 21. Can you go through
4 that correspondence briefly and tell the Examiner about it?

5 A. Yes, the correspondence is basically identical.
6 The initial wells were proposed a few days apart, but
7 basically they were proposed, on December the 18th and the
8 other on December the 9th. And they were then followed up
9 with letters on January the 21st and February the 9th and
10 March the 4th to those parties that had not previously
11 responded.

12 Q. When you sent out those letters, you did enclose
13 copies of the AFEs for the wells and ask the parties to
14 voluntarily join in the wells?

15 A. That's correct.

16 Q. Now, going through the correspondence, I notice
17 that certain interest owners -- like looking at Exhibit 3A,
18 Mr. Cox, there's Richard Shooshan, or however you pronounce
19 that --

20 A. Uh-huh.

21 Q. -- who you seek to pool. There's Hugoton Energy
22 Corporation. Do you seek to pool them at this time?

23 A. No, I do not. They were merged with Chesapeake,
24 and I would like to dismiss Chesapeake.

25 Q. Okay. And then the Mathias Family Trust you do

1 still seek to pool?

2 A. Yes, I do.

3 Q. And then going down to the January 7th letter,
4 you again sent that out to a number of working interest
5 owners, did you not?

6 A. Yes, I did.

7 Q. And again, the only ones you are concerned with
8 at this point are Rita Floyd, the Mathias Family Trust and
9 Richard Shooshan, Trustee?

10 A. That is correct.

11 Q. And all of the others, even though they may have
12 been notified, or certain of them have been notified of the
13 pooling Applications, are not being pooled?

14 A. That is correct.

15 Q. Okay. Did some of these parties join, or did
16 Cross Timbers purchase their interest?

17 A. No, we had approximately 11 people that we've
18 proposed to, and eight of the parties elected to join. Two
19 of the parties just have given no response whatsoever, and
20 one of the parties said they did not want to join and
21 wanted to take the nonconsent.

22 Q. Besides the correspondence reflected in Exhibits
23 3A and 3B, did you also have phone conversations with
24 certain of these interest owners?

25 A. Yes, I have. Yes, I have.

1 Q. In your opinion, has Cross Timbers made a good-
2 faith effort to obtain the voluntary joinder of all
3 interest owners in these wells?

4 A. Yes, we have.

5 Q. Who does Cross Timbers request be designated the
6 operator of the wells?

7 A. Cross Timbers Operating Company.

8 Q. That is an affiliated company, obviously?

9 A. Yes, sir.

10 Q. And it handles the operations for Cross Timbers
11 Oil Company?

12 A. Yes, it does.

13 Q. If pooling is granted, do you have a
14 recommendation for the amounts which Cross-Timbers should
15 be paid for supervision and administrative expenses?

16 A. Yes, sir, we would request \$5000 a month be
17 allowed for drilling and \$350 a month be allowed for
18 producing well cost.

19 Q. And are these amounts equivalent to those
20 normally charged by Cross Timbers and other operators in
21 this area for wells of this depth?

22 A. Yes, sir.

23 Q. Were the nonconsenting interest owners notified
24 of this hearing?

25 A. Yes, they were.

1 Q. And is Exhibit 5 my affidavit of notice regarding
2 these cases?

3 A. Yes, it is.

4 MR. BRUCE: Now, Mr. Examiner, on Exhibit 5,
5 attached as Exhibit A, is the original notice letter sent
6 out regarding the west half of Section 32. That location
7 was subsequently amended, and Exhibit B attached to the
8 notice affidavit is the notice sent out regarding the
9 amended Application. Exhibit C is the original notice sent
10 out regarding the west half of Section 21 Application.

11 As you go through the certified return receipts,
12 you will notice that a couple of the notices sent to Rita
13 Floyd came back as unclaimed or undeliverable. One of them
14 gave a new address in San Francisco, and Exhibit D is the
15 final notice sent out to Rita Floyd at the San Francisco
16 address.

17 Q. (By Mr. Bruce) Mr. Cox, with respect to Ms.
18 Floyd, did you have discussions with her or her
19 representatives about these wells?

20 A. Yes, her attorney had contacted me wanting to
21 know what exposure she would have in this well, and I wrote
22 him back a letter and advised him of what her interest was
23 and how much it would cost.

24 Q. So even though some of these letters came back
25 unreturned, as of some time in February or March she had

1 notice --

2 A. Yes.

3 Q. -- even before these letters were returned?

4 A. That's correct.

5 Q. So somehow she got notice?

6 A. Somehow she received notice.

7 Her brother, I might add, is in this well, and he
8 has elected to join. So he has been in touch with her, he
9 told me over the phone.

10 Q. Okay.

11 A. So she was fully aware of it.

12 Q. Now, regrading -- This is notice of the pooling
13 Application.

14 Regarding notice of the unorthodox oil well
15 locations, if you could look at Exhibit 1 again, Mr. Cox,
16 both of the wells are in the northwest quarter of each
17 section. Looking at Section 21, the northwest quarter of
18 that section is one entire -- is one federal lease, is it
19 not?

20 A. Yes, sir.

21 Q. And so the well is only moving toward the
22 interior of that one federal lease; is that correct?

23 A. That's correct.

24 Q. So no notice was required to be given?

25 A. That is correct.

1 Q. With respect to Section 32, the entire west half
2 of 32 is one federal lease, correct?

3 A. Yes, sir.

4 Q. And again, the well is only moving toward the
5 interior of the lease?

6 A. Yes, sir.

7 Q. And so no one is affected by the location?

8 A. That is correct.

9 Q. In your exhibit packets there's also Exhibits 4A
10 and 4B. Will the engineer discuss the AFEs later?

11 A. Yes, he will.

12 Q. Mr. Cox, were Exhibits 1, 2, 3 and 5 prepared by
13 you or under your direction?

14 A. Yes, they were.

15 Q. And in your opinion, is the granting of both
16 Applications in the interest of conservation and the
17 prevention of waste?

18 A. Yes, sir.

19 MR. BRUCE: Mr. Examiner, at this time I would
20 move the admission of Exhibits 1, 2A, 2B, 3A, 3B and 5.

21 EXAMINER ASHLEY: Exhibits 1, 2A, 2B, 3A, 3B and
22 5 will be admitted as evidence at this time.

23 EXAMINATION

24 BY EXAMINER ASHLEY:

25 Q. Mr. Cox, did you stay there were still some

1 interest owners that could not been notified, that was
2 returned --

3 A. No, sir, there's -- Everybody has been notified,
4 there's just two parties that have not responded to any of
5 my correspondence.

6 Q. Okay. And that is Rita Floyd and --

7 A. -- Mathias Trust.

8 Q. Okay.

9 A. Those two parties have not responded directly.
10 Rita has responded through her attorney, but I still -- You
11 know, they haven't said whether they would join or not
12 join.

13 Q. And what's the status of the Chesapeake interest?

14 A. Chesapeake has joined.

15 Q. They've joined, okay.

16 A. Yes. Originally, we had them listed as Hugoton,
17 which they had merged with Hugoton, but they had not -- we
18 didn't pick that up in the records.

19 And then they notified us that they had that
20 interest, and we sent them all the documentation, and they
21 signed the JOA and joined.

22 EXAMINER ASHLEY: Okay. I have no further
23 questions. Thank you, Mr. Cox.

24 THE WITNESS: Thank you.

25 GARY BURCH,

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

3 DIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. Would you please state your name?

6 A. My name is Gary Burch.

7 Q. Where do you reside?

8 A. I reside in Arlington, Texas.

9 Q. What is your occupation?

10 A. Geologist.

11 Q. And who do you work for?

12 A. For Cross Timbers Oil Company.

13 Q. Have you previously testified before the Division
14 as a geologist?

15 A. Yes, I have.

16 Q. And were your credentials as an expert accepted
17 as a matter of record?

18 A. Yes.

19 Q. And does your area of responsibility include the
20 San Juan Basin?

21 A. Yes, it does.

22 Q. And are you familiar with the geology involved in
23 these two Applications?

24 A. Yes, I am.

25 MR. BRUCE: Mr. Examiner, I would tender Mr.

1 Burch as an expert petroleum geologist.

2 EXAMINER ASHLEY: Mr. Burch is so qualified.

3 Q. (By Mr. Bruce) Mr. Burch, what is the primary
4 zone of interest in these wells?

5 A. It would be the Dakota formation.

6 Q. What is Exhibit 6, Mr. Burch?

7 A. This is a production map prepared by our
8 engineer. It lists the current operator above each well,
9 and the well name. The upper left-hand number is the
10 cumulative production of oil, the upper right-hand number
11 is the cumulative production of gas. The lower left-hand
12 number is the current rate in barrels per day of oil, the
13 lower right-hand number is the current MCF per day of gas.
14 And below the well symbol is the start date of production
15 and the last reported date of production, and at the very
16 bottom of each well symbol is the current producing
17 formation.

18 Q. The engineer will discuss this a little bit more
19 when he comes up.

20 Let's move on to the structure of the Dakota in
21 this area, and what I've done, Mr. Burch, is -- Mr.
22 Examiner, Mr. Burch had prepared a structure map for each
23 well, and I've taken those structure maps, stapled them
24 together and just marked them as one exhibits.

25 Mr. Burch, Exhibit 7 is the combined structure

1 map for the Dakota in this area. Could you discuss that
2 briefly for the Examiner?

3 A. Okay, this is a subsea structure map on the top
4 of the Dakota formation on 20-foot contour intervals.
5 Regional dip in this area on both maps is in a northerly
6 direction, with some minor local variations. Overall,
7 though, structure does not play a significant role in these
8 two wells.

9 Q. Okay. Mr. Burch, to talk about the -- Maybe it
10 would be best to go to the type log, which marked Exhibit
11 11, the last exhibit in this package, and perhaps discuss
12 what zones Cross Timbers is hoping to hit in these wells.

13 A. Okay, the type log shows the Dakota formation
14 from the top where it underlies the Graneros shale, down to
15 the bottom where it unconformably overlies the Burro Canyon
16 sandstone.

17 Our objective for this well is all of the Dakota
18 sands. It's dominated by one sand I refer to as the main-
19 pay sandstone, but there are other sandstones developed as
20 well. There's two above it labeled the first sandstone and
21 the second sandstone, and there's two to three sandstones
22 below the main-pay sandstone, which I call the fourth and
23 fifth sandstones.

24 Q. Could all of these potentially contribute to
25 production from the Dakota?

1 A. Yes, they could.

2 Q. Okay. Well, let's discuss several of these.

3 I've marked the combined isopach for the first Dakota
4 sandstone Exhibit 8, Mr. Burch, and then Exhibit 9 is the
5 second Dakota sandstone isopach, and then Exhibit 10 is the
6 main Dakota sandstone isopach. If you could just go
7 through those, tell the Examiner a little bit about the
8 Dakota in this area.

9 A. Okay, the first Dakota sandstone, as you can see
10 by the type log and by the isopach maps, is typically a
11 very thin sandstone about -- It's expected to occur in both
12 proposed wells. In the Federal A 1E in Section 32, we're
13 expecting between five and ten feet of pay in this sand.
14 And in the Kutz Federal 12 B, we're expecting between zero
15 and five feet of pay in this sand.

16 Q. What about the second sandstone?

17 A. Okay, the second sandstone occurs about 15 feet
18 below the first sandstone. Again, it's generally thin but
19 has good porosity and is laterally continuous across the
20 whole area.

21 Again, the Federal A 1E well in Section 32, we're
22 expecting six to eight feet of pay in this sandstone. And
23 in the Kutz Federal 12E well in Section 21, we're expecting
24 around ten feet of pay in this sandstone.

25 Q. And finally the main sandstone?

1 A. Okay, the main-pay sandstone, which is the
2 primary contributor to production in this area, it's quite
3 variable in thickness across the area, ranging from
4 anywhere from 25 up to 85 feet in gross thickness.

5 In the Federal A 1E well in Section 32, we're
6 expecting approximately 55 feet of sandstone. And in the
7 Kutz Federal 12E well in Section 21, we're expecting around
8 50 feet of sandstone.

9 Q. Now, looking at these maps, both wells are at
10 geologically favorable locations, are they?

11 A. Yes, they are.

12 Q. These are both infill Dakota wells on these well
13 units?

14 A. Yes, that's right.

15 Q. And they are more or less equally spaced apart
16 from other Dakota wells in this area?

17 A. Yes, as equally spaced as we could get.

18 Q. And the engineer will discuss the reasons for
19 that?

20 A. Yes.

21 Q. Has topography or the regulations of the Bureau
22 of Land Management also dictated well locations in this
23 area?

24 A. Yes, they have.

25 Q. They more or less dictate where you're going to

1 put the wells in this area?

2 A. Yes, we -- Generally what we do is, we call out
3 to our Midland office where we want the proposed location
4 to be, and they go out with the BLM and find a suitable
5 spot closest to the location that we've recommended. And
6 then we okay that.

7 So that's how the locations wound up where they
8 are.

9 Q. And the next witness, the engineer, will discuss
10 the penalty proposal for the well?

11 A. Okay.

12 Q. Mr. Burch, in your opinion is the granting of
13 these two Applications -- are the granting of these two
14 Applications in the interest of conservation and the
15 prevention of waste?

16 A. Yes.

17 Q. And were Exhibits 6 through 11 prepared by you or
18 under your direction or compiled from company records?

19 A. All except for Exhibit 6 --

20 Q. Okay.

21 A. -- which was prepare by our engineer.

22 MR. BRUCE: Okay. Mr. Examiner, then at this
23 time I would move the admission of Exhibits 7 through 11.

24 EXAMINER ASHLEY: Exhibits 7 through 11 will be
25 admitted as evidence.

EXAMINATION

BY EXAMINER ASHLEY:

Q. Could you tell me again why you chose these particular locations as being unorthodox locations?

A. Again, the BLM had the final say.

Q. So they're the ones that moved it to a nonstandard location?

A. Yes, for -- I'm not sure which formation it's unorthodox for, but yes, if that's the reason they were moved to the current location.

MR. BRUCE: They're unorthodox as to oil zones, Mr. Examiner.

EXAMINER ASHLEY: Right, okay.

THE WITNESS: There's potentially oil-producing zones uphole in the Gallup, but the Dakota is primarily gas here.

EXAMINER ASHLEY: I have no further questions. Thank you, Mr. Burch.

BARRY VOIGT,

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. Barry Voigt.

1 Q. Where do you reside?

2 A. In Euless, Texas.

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

4 A. Cross Timbers Oil Company, and I'm a reservoir
5 engineer.

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

8 A. Yes, I have.

9 Q. And were your credentials as an expert recognized
10 as a matter of record?

11 A. Yes.

12 Q. And are you familiar with engineering matters
13 related to these Applications?

14 A. Yes, I am.

15 MR. BRUCE: Mr. Examiner, I tender Mr. Voigt as
16 an expert petroleum engineer.

17 EXAMINER ASHLEY: Mr. Voigt is so qualified.

18 Q. (By Mr. Bruce) First, let's go over the AFEs
19 marked Exhibits 4A and 4B. Mr. Voigt, are those -- Well,
20 could you identify them briefly and discuss the costs of
21 the wells?

22 A. Yes, Exhibit 4A is the AFE for the Federal A 1E.
23 Total cost is estimated at \$363,500.

24 And Exhibit 4B is the AFE for the Kutz Federal
25 12E. Estimated cost is \$364,100.

1 Q. Are these costs in line with the costs of other
2 well drilled to this depth in this area of New Mexico?

3 A. Yes, we recently drilled some wells that were
4 about 500 feet shallower to the south of here, and total
5 cost came in on those around \$340,000. So these wells
6 being deeper actually have a little bit more cost added to
7 them.

8 Q. What is the approximate depth of these two wells?

9 A. The Federal A 1E is 6700 foot, and the Kutz
10 Federal 12E is 6800 foot.

11 Q. Now, let's discuss the risk involved in drilling
12 the wells. Would you refer to Exhibit 6, the production
13 plat, and maybe go into a little bit more detail on what
14 Cross Timbers hopes to recover here and what the risks are.

15 A. If you look at the two exhibits and you look at
16 the start dates of the wells, the majority of these wells,
17 of course, the original wells were drilled in the Sixties,
18 the infills in the Eighties, and there hasn't been any
19 recent drilling since then.

20 Most of the original wells were shot in the third
21 sand or the main-pay sand only, and the subsequent wells
22 were shot in additional sands, the upper and the lower. So
23 there could be some partial pressure depletion in the main
24 sand, more so than the other sands. So there is a little
25 bit of risk involved.

1 Q. Now looking at the exhibits with respect to
2 Sections 21 and 32, it appears that those well locations
3 were selected to try to maybe center those wells?

4 A. Among the surrounding wells, yes.

5 Q. Yes.

6 Q. To minimize drainage effects, pressure depletion.

7 Q. In your opinion, if these Applications are
8 granted, should the maximum cost-plus-200-percent penalty
9 be assessed against the nonconsenting interest owners?

10 A. Yes.

11 Q. Were Exhibits 4A, 4B and 6 prepared by you or
12 compiled from company business records?

13 A. Yes, they were.

14 Q. And in your opinion, is the granting of both
15 Applications in the interests of conservation and the
16 prevention of waste?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I'd move the admission
19 of Cross Timbers Exhibits 4A, 4B and 6.

20 EXAMINER ASHLEY: Exhibits 4A, 4B and 6 will be
21 admitted as evidence.

22 EXAMINATION

23 BY EXAMINER ASHLEY:

24 Q. Could you again summarize for me the reason for
25 your cost-plus-200-percent penalty?

1 A. I'd probably refer that to my landman. I think
2 that's typical in the area out here, if I recall.

3 MR. BRUCE: Well, he's asking you about the
4 engineering reason, the engineering risk involved.

5 THE WITNESS: Oh, yes. Because of the fact,
6 since we are expecting some depletion in that third main
7 pay, or that third -- the main-pay sand, there is some risk
8 involved that the economics won't be as high as expected.

9 EXAMINER ASHLEY: I have no further questions.
10 Thank you.

11 MR. BRUCE: I have nothing further in this case,
12 Mr. Examiner.

13 EXAMINER ASHLEY: There being nothing further in
14 this case, Case 12,142 and Case 12,143 will be taken under
15 advisement.

16 (Thereupon, these proceedings were concluded at
17 11:52 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 12142, 12143
23 heard by me on 4-1 1997.
24 Mark Bahling, Examiner
25 Oil 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 April 5th, 1999.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002