

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 POGO PRODUCING COMPANY )  
FOR COMPULSORY POOLING, EDDY COUNTY, )  
NEW MEXICO )

CASE NO. 12,308

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 16th, 1999

Santa Fe, New Mexico

00 JAN -6 PM 9:48

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 16th, 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.

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December 16th, 1999  
 Examiner Hearing  
 CASE NO. 12,308

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\* \* \*

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

## FOR THE DIVISION:

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## FOR NEARBURG EXPLORATION COMPANY:

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 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 9:00 a.m.:

3           EXAMINER CATANACH: At this time we'll call Case  
4 12,308.

5           MR. CARROLL: Application of Pogo Producing  
6 Company for compulsory pooling, Eddy County, New Mexico.

7           EXAMINER CATANACH: Call for appearances.

8           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe  
9 representing the Applicant. I have three witnesses.

10          EXAMINER CATANACH: Call for additional  
11 appearances.

12          Will the witnesses please stand to be sworn in?

13          (Thereupon, the witnesses were sworn.)

14                           GARY LANG,

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

17                           DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20           A. Gary Lang, L-a-n-g.

21           Q. Where do you reside?

22           A. In Midland, Texas.

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

24           A. I work for Pogo Producing Company. I'm a  
25 consulting landman.

1 Q. Have you previously testified before the  
2 Division?

3 A. No, I haven't.

4 Q. Would you please summarize your educational and  
5 employment background for the Examiner?

6 A. I graduated from Texas Christian University in  
7 1976 with a bachelor of business administration degree.  
8 Since that time, for the last 23 years, I've been actively  
9 involved in the land business as an independent consulting  
10 landman, and also as a company landman for several  
11 independents. The last company I worked for was Pioneer  
12 Natural Resources. I worked for them.

13 Q. And how long have you been at Pogo?

14 A. For about 13 months.

15 Q. And are you familiar with the land matters  
16 involved in this case?

17 A. Yes, I am.

18 Q. And at Pogo does part of your area of  
19 responsibility include the Permian Basin in southeast New  
20 Mexico?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I tender Mr. Lang as an  
23 expert petroleum landman.

24 EXAMINER CATANACH: Mr. Lang is so qualified.

25 Q. (By Mr. Bruce) Mr. Lang, what does Pogo seek in

1 this case?

2 A. We seek an order to pool the south half of  
3 Section 18, Township 20 South, Range 25 East, to the base  
4 of the Cisco/Canyon formation and for all pools and  
5 formations spaced on 160 and 320 acres.

6 Q. What is Exhibit 1?

7 A. Exhibit 1 is a land plat outlining the proposed  
8 well unit, the south half of 18. The well marked in the  
9 northwest-southeast quarter is at an orthodox location 1830  
10 feet from the south line and 1980 feet from the west line.  
11 And this is an existing well, which Pogo plans to re-enter.

12 Q. What is the leasehold ownership in the well unit?  
13 And I refer you to Exhibit 2.

14 A. Exhibit 2 shows all the working interest and  
15 mineral interest owners owning an interest in the south  
16 half of 18.

17 Q. Okay. Going down this list, which ones -- there  
18 are -- Certain of these are unleased mineral interest  
19 owners; is that correct?

20 A. Yes.

21 Q. Maybe just point out the ones that are lessees,  
22 and then the other ones will just be the unleased interest  
23 owners.

24 A. Okay, unleased mineral owners are James -- Huh?

25 Q. Go ahead, go ahead.

1           A.    James Jennings, the Loneta Curtis Trust, Devon.  
2    Those are the unleased mineral owners --

3           Q.    Okay.

4           A.    -- as of this time.

5           Q.    Now, you set out interest ownership by tract and  
6    then a total working interest. Does interest ownership  
7    vary between just a southeast-quarter well unit and a  
8    south-half well unit, or is it the same regardless of well  
9    unit?

10          A.    Well, if it's the south half, the interest in the  
11   unit would be less than it would be in the southeast  
12   quarter.

13          Q.    Well, no, what I'm saying is, looking, for  
14   instance, at Mr. Jennings' unit working interest --

15          A.    Uh-huh.

16          Q.    -- that will remain the same whether it's a  
17   southeast quarter well unit or a south-half well unit; is  
18   that correct?

19          A.    Yes, yes, uh-huh. Yeah.

20          Q.    And just for the Examiner, Pogo is the sole  
21   lessee of the west half of the southwest and the east half  
22   of the southeast; is that correct?

23          A.    Correct, we own 100 percent.

24          Q.    And then there's a separate tract in the middle  
25   of this well unit, the west half of the south -- I mean,

1 excuse me, the west half of the southeast and the east half  
2 of the southwest?

3 A. Yes, sir.

4 Q. Okay. And that's where all these other parties  
5 come in?

6 A. That's true.

7 Q. Now, of these interest owners listed, are there  
8 any that you do not seek to pool at this time?

9 A. At this time, Ralph Nix Partnership has granted  
10 an oil and gas lease to Pogo. Therefore, we do want to  
11 release him.

12 Q. Okay, so you do not need to pool --

13 A. We don't need --

14 Q. -- Ralph Nix?

15 A. -- to pool Ralph Nix.

16 Q. Okay. Now, let's discuss Pogo's efforts to  
17 obtain the voluntary joinder of interest owners in the  
18 well. Could you identify Exhibit 3 for the Examiner?

19 A. Exhibit 3 are letters that were sent out to all  
20 the owners. The first letter was -- We've got them in  
21 order from the most recent back to the earlier, but the  
22 earliest letter was on September 22nd. We sent that letter  
23 to the unleased mineral interest owners, requesting that  
24 they either join or lease their interest to Pogo.

25 There was another letter sent out on 9-27-99, a

1 certified letter, to three of the leasehold owners, Roberts  
2 and Koch and Jack Cartwright and W.W. Buchanan, asking them  
3 to either participate in the well or farm out their  
4 interest or sell their interest to Pogo.

5 The third letter was certified, it's dated  
6 October 1st. It was sent to three more of the leasehold  
7 owners: Kirby Minerals, Gene F. Lang and Company and David  
8 Holt, and they were also asked to participate or farm out  
9 or sell their interest.

10 On 11-23 there was a certified letter sent to  
11 Nearburg Exploration, asking them to do the same thing,  
12 either join or farm out or sell their interest.

13 And then the last letter that we sent out was a  
14 follow-up letter on 12-6, December the 6th. It was sent to  
15 all the owners, informing them that we had also re-oriented  
16 the spacing to the south half of 18.

17 Q. This was originally proposed as an east-half well  
18 unit?

19 A. Correct.

20 Q. Before we get into a little bit more of your  
21 negotiations, why was it reoriented to the south half?

22 A. Well, we reoriented it because several of the  
23 working interest owners wanted it to be the south half  
24 instead of the east half. They wanted a larger interest.

25 Q. So you reoriented it at the request of some

1 other --

2 A. Yes.

3 Q. -- lessees?

4 A. Uh-huh.

5 Q. And the purpose was, they wanted a larger  
6 interest?

7 A. True.

8 Q. When you're looking at an east-half unit as  
9 compared to a south-half unit, are the owners exactly the  
10 same?

11 A. Yes.

12 Q. Okay. Now, in addition to these letters, did  
13 Pogo call the interest owners?

14 A. Yes, we've contacted each one at least twice by  
15 telephone and talked to them.

16 Q. Okay. What is the current status of your  
17 negotiations with the interest owners? And maybe just  
18 refer to Exhibit 2 and briefly go down that list.

19 A. Okay. Well, starting with Nearburg, we've got an  
20 agreement with Nearburg. They're going to assign us their  
21 interest in the leasehold. But we don't have a signed  
22 assignment or a signed letter yet, we just reached that  
23 agreement with them. But they have agreed to assign us  
24 their interest in that.

25 James Jennings has indicated he wants to

1 participate. He has an AFE, he hasn't returned it yet. He  
2 also hasn't executed an operating agreement.

3 Q. Has not executed --

4 A. Has not executed an operating agreement.

5 The Loneta Curtis Trust, they're an unleased  
6 mineral owner. We're negotiating with them on an oil and  
7 gas lease. Some of the provisions on their oil and gas  
8 lease are unacceptable to Pogo, so we're currently trying  
9 to renegotiate those.

10 Of course Ralph Nix, he leased to Pogo.

11 Devon Energy is an unleased mineral owner. I've  
12 talked to them twice, and they haven't returned -- They  
13 said they're working on it, but they haven't returned my  
14 phone calls or given me an answer.

15 And then Roberts and Koch, Jack Cartwright, W.W.  
16 Buchanan, Gene Lang, David Hold, they've all indicated they  
17 want to participate, but again we don't have signed AFEs or  
18 a signed operating agreement with them.

19 And Kirby Minerals, they've been contacted twice  
20 by phone, and I've left messages, and they just haven't got  
21 back to me.

22 So that's the current status.

23 Q. As you come to terms with any of these people,  
24 will you notify the Division so that they are not subject  
25 to the pooling order?

1 A. Yes.

2 Q. Okay. And will you continue to negotiate with  
3 these interest owners after the hearing?

4 A. Yes, we will.

5 Q. In your opinion, has Pogo made a good-faith  
6 effort to obtain the voluntary joinder of the interest  
7 owners in the well?

8 A. Yes, we have.

9 Q. Does Pogo request that it be designated operator  
10 of the well?

11 A. Yes.

12 Q. And do you have a recommendation for the amounts  
13 which Pogo should pay for supervision and administrative  
14 expenses?

15 A. Yes, for the drilling well rate it's \$4250 a  
16 month, and on the monthly producing well rate, \$425.

17 Q. And are these amounts equivalent to those  
18 normally charged by operators in this area for wells at  
19 this depth?

20 A. Yes.

21 Q. And finally, were the interest owners in the well  
22 unit notified of this hearing?

23 A. Yes, they were.

24 Q. And is Exhibit 4 my affidavit of notice?

25 A. Yes.

1 Q. Were Exhibits 1 through 4 prepared by you or  
2 under your supervision or compiled from company business  
3 records?

4 A. Yes, they were.

5 Q. And in your opinion, is the granting of Pogo's  
6 Application in the interests of conservation and the  
7 prevention of waste?

8 A. Yes, it is.

9 MR. BRUCE: Mr. Examiner, I move the admission of  
10 Pogo's Exhibits 1 through 4.

11 EXAMINER CATANACH: Exhibits 1 through 4 will be  
12 admitted as evidence.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Lang, did you say the Osage Well Number 1 was  
16 at an orthodox or unorthodox location?

17 A. An orthodox.

18 Q. Orthodox, okay.

19 When in the point of negotiations did you change  
20 from an east half to a south half?

21 A. It was around the -- about the 23rd of November,  
22 was when we applied for that change.

23 Q. Is that in a letter somewhere or --

24 A. Well, it's the December 6th letter that I had  
25 sent. It's on Exhibit 3. I just referred to the prior

1 letters that were sent by Pogo informing them that we  
2 wanted -- The prior letter stated the east half. This  
3 December 6th letter that I had sent to them describes the  
4 south half.

5 But they did receive notice probably around the  
6 25th of November, received notice from our attorney that  
7 filed the reorientation, refiled that Application. That's  
8 their first notice, was that they got a copy of the  
9 hearing.

10 They didn't receive a letter from me until  
11 December 7th or 8th. My letter was dated the 6th of  
12 December. But they had already received the notice from  
13 Jim telling them that we were changing -- amending our  
14 order to the south half of 18.

15 Q. Well, so let me get this straight. You negotiate  
16 with all the parties for several months telling them that  
17 it's going to be an east-half dedication, and then suddenly  
18 they get a letter from your attorney who says it's going to  
19 be a south-half dedication?

20 A. On the Application, uh-huh. They got the amended  
21 Application.

22 Now, there were several owners -- I guess Roberts  
23 and Koch and Jack Cartwright and W.W. Buchanan were all  
24 aware that we were going to change that back in November,  
25 because that's -- They were three of the parties that

1 wanted that south half instead of the east half. So in the  
2 negotiations there, they were aware that we were going to  
3 change that to the south half back in November 23rd.

4 The other parties -- Now, Nearburg got their  
5 letter on November 23rd, and their letter was the south  
6 half. The original owners -- Let's see, James Jennings and  
7 the Curtis Trust and Ralph Nix, they weren't aware of the  
8 change until they got this new notice on -- probably around  
9 the 25th, 26th of November, on the amended order. But they  
10 weren't contacted prior to January -- or prior to 12-6 by  
11 letter or by contact saying that we had changed it to the  
12 south half.

13 Q. Well, let me ask you this: When you changed it  
14 from an east half to a south half, did that change some of  
15 these interest owners' percentage in that unit?

16 A. Yes, it would have made their interest larger,  
17 just because if we wouldn't have had an east-half  
18 orientation then just the half of their interest -- or a  
19 quarter of their interest would have been in the unit. And  
20 this way, half their interest is in the unit. So basically  
21 it doubled their interest by changing the...

22 Q. It doubled every one of these interest owners'  
23 interest?

24 A. Yes, because a quarter -- The west half of the  
25 southeast would have been in the east half, and that would

1 comprise a quarter of the unit. This way, the east half,  
2 southwest, and west half, southeast, makes their interest,  
3 you know, twice as much acreage.

4 But like I said, the reason we did reorient it is  
5 because several of the working interest owners wanted more  
6 interest in the well, and that's the reason we changed it.

7 Q. But several of the interest owners were not aware  
8 of this change until they received notice of the compulsory  
9 pooling application; is that correct?

10 A. On the amended one, on the reorientation?

11 Q. So have you conducted negotiations with these  
12 parties with regards to the new orientation, with all of  
13 these parties?

14 A. Yes, uh-huh. Since the December 6th letter?

15 Q. Yes, sir.

16 A. Since I sent out the December 6th letter, I've --  
17 That's basically where we've made all the agreements since  
18 then.

19 Q. Have any of these interest owners expressed any  
20 concern to you about changing the orientation of the  
21 spacing unit or not having enough time to evaluate this new  
22 proposal?

23 A. No, huh-uh.

24 MR. CARROLL: When was the original application  
25 filed? The amended Application was filed November 23rd.

1 MR. BRUCE: Mr. Carroll, it was filed November  
2 9th.

3 EXAMINER CATANACH: I don't have any further  
4 questions of this witness, Mr. Bruce.

5 MR. CARR: May it please the Examiner, I was out  
6 of the room when the case was called, and I would like to  
7 enter my appearance in this case. I'm William F. Carr with  
8 the Santa Fe law firm Campbell, Carr, Berge and Sheridan.  
9 I'd like to enter an appearance for Nearburg Exploration  
10 Company. I have no witnesses.

11 WILLIAM E. HARDIE,  
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 Bill Hardie.

18 Q. And where do you reside?

19 A. I reside in Midland, Texas.

20 Q. Who do you work for?

21 A. I work for Pogo Producing Company.

22 Q. And what's your position with Pogo?

23 A. I'm a senior geologist.

24 Q. Have you previously testified before the Division  
25 as a geologist?

1           A.    Yes, I have.

2           Q.    And were your credentials as an expert accepted  
3 as a matter of record?

4           A.    Yes, they were.

5           Q.    And are you familiar with the geologic matters  
6 involved in this Application?

7           A.    I am.

8           MR. BRUCE:  Mr. Examiner, I would tender Mr.  
9 Hardie as an expert petroleum geologist.

10           EXAMINER CATANACH:  Mr. Hardie is so qualified.

11           Q.    (By Mr. Bruce)  Mr. Hardie, could you refer to  
12 your -- well, why not refer to them together, Exhibits 5  
13 and 6 -- and discuss the prospective Cisco/Canyon zone in  
14 this area?

15           A.    Mr. Examiner, I think it would be useful to lay  
16 them both out at the same time, because I'll probably want  
17 to refer back and forth to each of the exhibits.  I'll  
18 start with Exhibit Number 5.  There's a lot of information  
19 on here, so I'll first explain what all has been placed on  
20 the map.

21                       We're in Eddy County and we're straddling two of  
22 the townships, 20 South, 24 East and 25 East, which is in  
23 the vicinity of the South Dagger Draw field.  It produces  
24 from the upper Pennsylvanian.  I've labeled the South  
25 Dagger Draw field, which is on the western portion of your map.

1 I've also labeled the location of the cross-  
2 section, which is Exhibit 6. On the map itself I've  
3 labeled the Osage Number 1 well in Section 18 of 20 South,  
4 25 East, and I've also labeled the proposed south-half  
5 proration unit for that, that that well would be dedicated  
6 to.

7 The heavy black contours are a structural map on  
8 top of the Cisco "A" formation, which is the top of the  
9 Cisco formation. It dips from west to east such that the  
10 western side of your map is highest, the eastern side is  
11 lowest. Across South Dagger Draw the dip is pretty uniform  
12 and regional.

13 And then as we move to the east, into the Osage  
14 well are, you see we pass through a saddle, and then I've  
15 labeled on the structural contours the word "high", on two  
16 of the closed contours. That's a structural trend that  
17 runs approximately north-south underneath our prospect  
18 area. If you're familiar with the area, that's the  
19 structural element that is responsible for the Cemetery-  
20 Morrow field, and the Cisco which lies above that is  
21 essentially draped over that deeper-seated structure. So  
22 that's one of the components of our Osage prospect.

23 The other component on the map is the color-fill  
24 contour. I've used a grading blue color to indicate the  
25 gross thickness of the Cisco "A" zone, which is the

1 uppermost zone in the Cisco formation. And this is an  
2 isopach on just the clean carbonate. Be it limestone or  
3 dolomite, that's not relevant; it's just clean carbonate.  
4 And that ranges in thickness from on the outer edges of  
5 about 40 feet to, at the core, in the darker blue colors,  
6 thicknesses in excess of 140 feet in thickness.

7 South Dagger Draw field I've labeled on the  
8 cross-section, which is on Exhibit 6, and this helps us to  
9 understand the relationship stratigraphically between South  
10 Dagger Draw and the Osage prospect.

11 On the cross-section itself, the lithologies are  
12 indicated by colors. Dolomite is purple, limestone is  
13 indicated with the blue color, and shale with the light  
14 brown colors.

15 If you look also on the cross-section, you can  
16 see I've labeled the main cycles that comprise the upper  
17 Penn, which is the uppermost, the "A" zone, and then a  
18 middle zone, which is the Cisco "B", and then below that  
19 the Cisco "C". These are the three primary producing  
20 cycles within this entire Dagger Draw/Indian Basin trend.

21 In South Dagger Draw, which I've labeled on the  
22 cross-section -- it's on the left side of the western  
23 half -- you can see that the perforations, which are  
24 indicated by the red bars, are virtually all within the  
25 dolomite and the Cisco "B" and the Cisco "C" intervals, the

1 lower part of the Cisco.

2 The upper part of the Cisco in South Dagger Draw  
3 is not well developed. It doesn't become developed until  
4 you move back to the east.

5 In North Dagger Draw, all three of these zones  
6 stack, all three are productive.

7 And south of this mapped area in Indian Basin,  
8 all three, the "A", the "B" and the "C", stack one on top  
9 of the other and are all three productive. Unfortunately,  
10 in South Dagger Draw the "A" zone diverges from the "B" and  
11 the "C" so that it's now lying to the east of those other  
12 two productive trends.

13 And also unfortunately, the "A" zone, when it  
14 diverges from those three, is no longer dolomitized. It's  
15 dominantly a limestone, which, as I think you've probably  
16 heard in testimony before, limestone is not generally  
17 considered productive in this trend because it doesn't have  
18 sufficient permeability; it must be dolomitized.

19 So our prospect is based on this thickened "A"  
20 sequence that is kind of in an outboard position from South  
21 Dagger Draw. I've labeled the Osage Number 1 well on the  
22 right side of your cross-section, so you can see how the  
23 "A" zone is developed thicker in that well.

24 The reason we believe that is prospective is that  
25 there's an indication on this older Osage log -- this well

1 was drilled in 1975, which predates modern logging  
2 technology -- we think there's an indication that this zone  
3 may be dolomitized at this prospect location.

4           The Osage Number 1 was logged with an acoustic  
5 velocity and neutron log combination, which was kind of a  
6 precursor to the neutron density log and is very similar to  
7 the neutron density, although not nearly as accurate, in  
8 that when you encounter a limestone, the acoustic velocity  
9 curve and the neutron curve stack one on top of the other.  
10 When you encounter a dolomite they split, with the neutron  
11 curve being to the left of the acoustic velocity curve.  
12 And if you look at the "A" zone in that well, you can see  
13 that those curves are separated, as they would be when you  
14 encountered a dolomite.

15           The inherent risk in this idea is that this log  
16 is notoriously inaccurate. The old neutron tool was  
17 subject to a lot of error due to hole conditions. So this  
18 may not be entirely accurate, but it's a subtle hint that  
19 there may be some dolomite in this well.

20           Unfortunately, the well was not mudlogged, there  
21 are no samples available. I've contacted all the people  
22 who worked with the well, who might have been present when  
23 they drilled through this interval, and no one remembered  
24 encountering or that there was anybody present when they  
25 drilled through this interval.

1           It's also important to remember that this well  
2 was drilled several years prior to discovery of the South  
3 Dagger Draw, so that the operator wouldn't have known of  
4 the significance of the zone at the time.

5           So that's essentially the prospect idea.  
6 Attempts have been made in the past along this trend to  
7 complete in the thickened limestone interval, and all of  
8 these attempts have resulted in economic failures.

9           We think we might succeed in this case because of  
10 the addition of the structural element. This is an  
11 unusually high area along that thickened "A" zone, and if  
12 you look back on Exhibit 5 in Section 18, you can see that  
13 the existing wellbore is positioned about halfway between  
14 the structural high and the stratigraphic thick of the "A"  
15 zone, which could put it in an optimal position for  
16 productivity if it were to occur.

17           If I could, I'd like to go over the attempts  
18 along this trend to complete in the "A" zone, just to give  
19 you a little reference as to what has been tried.

20           If you look up in Section 5 of 20 South, 25 East,  
21 in the northeast quarter of that section there's an oil  
22 well indicated there. That was a recent attempt, in 1998,  
23 by Mewbourne and Nearburg to -- They drilled a new well in  
24 an attempt to exploit this trend. They expected, I  
25 believe, to encounter dolomite there, and instead found

1 that it was all limestone.

2 They did attempt a completion. I think the well  
3 is productive, but it's not commercial. It's probably  
4 producing less than 10 barrels of oil per day.

5 If you look south of that Section 5, in Section  
6 7, in the southwest corner of Section 7 there's a dryhole  
7 there. There was an attempt made on that well, but that  
8 well did DST oil in the Cisco. No attempt was made on a  
9 completion there.

10 And then if you look in Section 19, moving  
11 further south in 20 South, 25 East, in the south half of  
12 that section there's a gas well indicated. That's a well  
13 that drill stem tested gas to the surface in this same  
14 Cisco formation. An attempt was made to complete in the  
15 "A" zone, and it was noncommercial, and they abandoned that  
16 and completed in some other zones, I'm not exactly sure  
17 where.

18 And then in Section 29, in the south half of that  
19 section, there's a gas well there, and that well drill stem  
20 tested the Cisco "A" zone, and it tested a show, a gas  
21 show, with mostly water recovery.

22 So as you can see, there have been several  
23 attempts. We think this is a risky venture, but it's  
24 unique in the sense that the wellbore exists, although  
25 we're not certain about the condition of the wellbore.

1 That does mitigate some of the costs associated with trying  
2 to drill this prospect.

3 Q. Based on your testimony, Mr. Hardie, would you  
4 recommend the maximum cost-plus-200-percent risk penalty be  
5 assessed in the event any working interest owner does not  
6 voluntarily commit its interest to the well?

7 A. Yes, I would. I think the existing attempts to  
8 complete wells in this trend attest to the excessive risk.

9 Q. In your opinion, is the granting of this  
10 Application in the interests of conservation and the  
11 prevention of waste?

12 A. Yes, it is.

13 Q. And were Exhibits 5 and 6 prepared by you or  
14 under your direction?

15 A. They were prepared by me.

16 MR. BRUCE: Mr. Examiner, I would move the  
17 admission of Pogo Exhibits 5 and 6.

18 EXAMINER CATANACH: Exhibits 5 and 6 will be  
19 admitted as evidence.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Hardie, for some reason the well named the  
23 Osage Well Number 1 is very familiar to me. Do you know  
24 the history of this well?

25 A. I've spoken with a lot of the men who are

1 involved in the prospect. I'm not sure who developed it,  
2 but it was in 1975, and the prospect, I believe, was sold  
3 to W.W. Buchanan, who now works in San Antonio.

4 It was a Morrow test, it was drilled to the  
5 Morrow. The original well name was the Osage Com Number 1.  
6 There were several partners, many of whom are currently  
7 participating in the attempt to re-enter it, that were  
8 involved in the original well.

9 It was completed in the Morrow at a moderate rate  
10 of -- with an initial flow rate, I believe, somewhere in  
11 the neighborhood of just over a million cubic feet a day.  
12 Quickly depleted.

13 And an attempt was then made to complete the well  
14 in the Wolfcamp above the Cisco. And that attempt also  
15 very quickly depleted and produced at very noncommercial  
16 rates until this well was plugged in 1980. The casing was  
17 cut off and the well was plugged, as per the OCD's  
18 requirements.

19 Q. So it was never tested in the Cisco/Canyon?

20 A. It was never tested in the Cisco, it was never  
21 mudlogged in the Cisco, and no samples were taken. And  
22 that's understandable, because no one knew about the giant  
23 field that was lying just next door to this well. The  
24 prevailing thought at that time was that the Cisco did give  
25 you oil and gas shows but that it made so much water that

1 it was noncommercial.

2 EXAMINER CATANACH: Okay, I have nothing further.

3 RON GASSER,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you state your name and city of residence  
9 for the record?

10 A. My name is Ron Gasser, and I live in Midland,  
11 Texas.

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

13 A. I work for Pogo Producing Company as the division  
14 petroleum engineering manager.

15 Q. Have you previously testified before the  
16 Division?

17 A. Yes, I have.

18 Q. And were your credentials as an expert petroleum  
19 engineer accepted as a matter of record?

20 A. Yes.

21 Q. Does your area of responsibility include  
22 southeast New Mexico?

23 A. Yes, it does.

24 Q. And are you familiar with the engineering matters  
25 related to this proposed well?

1           A.    Yes, I am.

2           MR. BRUCE:  Mr. Examiner, I'd tender Mr. Gasser  
3 as an expert petroleum engineer.

4           EXAMINER CATANACH:  He is so qualified.

5           Q.    (By Mr. Bruce)  Mr. Gasser, could you identify  
6 Exhibit 7 for the Examiner?

7           A.    Exhibit 7 is a wellbore schematic of the Osage  
8 Number 1 in its current state, after it was plugged and  
9 abandoned in 1980.

10           You can see that there currently exist cement  
11 plugs within the wellbore.  Below the 3100-foot marker is  
12 open hole, down to the top of the 4-1/2-inch casing with  
13 cement behind it at approximately 5700 feet.

14           Q.    And how do you plan to re-enter the well?  And I  
15 refer you to Exhibit Number 8.

16           A.    Exhibit Number 8 is our expected procedure to re-  
17 enter the well, where we will locate it, weld on a head,  
18 move in and try to drill out the cement plugs, dress over  
19 the top of the 4-1/2-inch casing and attempt to latch onto  
20 it, and then pull on it to ensure integrity, circulate  
21 cement behind the 4-1/2-inch after we latch onto it, and  
22 then set back down, and then drill out the plug at 7000  
23 feet, ensure mechanical integrity by pressure test, and  
24 then attempt recompletion into the Cisco/Canyon formation.

25           Q.    What is the cost of your proposed operation?  And

1 I refer you to Exhibit Number 9.

2 A. Exhibit Number 9 is a copy of the AFE for our  
3 expected cost to perform this work. Total estimated costs  
4 are estimated to be \$358,505.

5 Q. Is that proposed well cost in line with the cost  
6 of other re-entries for wells of this depth in southeast  
7 New Mexico?

8 A. Yes, it is.

9 Q. Do you believe this is a reasonable cost?

10 A. Yes, it's a fair cost estimate, assuming that we  
11 can follow the procedure shown on Exhibit 8, which does not  
12 really include any major problems.

13 Q. Is there a chance that you could encounter  
14 problems in re-entering this wellbore?

15 A. Yeah, there is. There's always a chance when you  
16 re-enter a 20-year-old plugged well. The main problem I  
17 could see is if you latch onto the 4-1/2-inch casing and it  
18 parts as you pull on it to ensure integrity, and then you  
19 would have to go back and redress again and latch onto it  
20 again until you can ensure integrity of the wellbore.

21 Q. And that could increase the proposed well cost?

22 A. Yes, it could.

23 Q. In your opinion, is a cost-plus-200-percent  
24 penalty against any nonconsenting interest owners fair and  
25 reasonable?

1 A. Yes, it is.

2 Q. And were Exhibits 7, 8 and 9 prepared by you,  
3 under your direction, or compiled from company business  
4 records?

5 A. Yes, they were.

6 Q. And in your opinion, is the granting of this  
7 Application in the interest of conservation and the  
8 prevention of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, at this time I'd move  
11 the admission of Pogo's Exhibits 7, 8 and 9.

12 EXAMINER CATANACH: Exhibits 7, 8 and 9 will be  
13 admitted as evidence.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Gasser, these are the only well costs that  
17 are going to be charged against the interest owners in this  
18 unit; is that right?

19 A. Yes.

20 Q. There are no plans to charge anything for the  
21 value of the existing wellbore --

22 A. No.

23 Q. -- or anything like that?

24 A. No.

25 EXAMINER CATANACH: Okay. That's all I have of

1 this witness.

2 MR. BRUCE: That's all I have in this case, Mr.  
3 Examiner.

4 EXAMINER CATANACH: Mr. Bruce, this case was kind  
5 of unusual in the negotiations --

6 MR. BRUCE: Yes, sir.

7 EXAMINER CATANACH: -- phase of this. I'm going  
8 to continue this case till the January 6th hearing, to  
9 provide for additional negotiation time with some of these  
10 parties.

11 MR. BRUCE: That's fine.

12 EXAMINER CATANACH: And we'll -- I would hope --

13 MR. BRUCE: Would you like a report on the 6th,  
14 by affidavit or otherwise, as to the status of the  
15 negotiations?

16 EXAMINER CATANACH: That would be good, if you  
17 could provide that at the January 6th hearing, and if we  
18 feel it's been adequate we'll take it under advisement at  
19 that time.

20 MR. BRUCE: Thank you, Mr. Examiner.

21 (Thereupon, these proceedings were concluded at  
22 9:40 a.m.)

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
\*the Examiner hearing of Case No. 12308  
heard by me on December 16 1999

David R. Catanach, Examiner  
Investigation Division

25

## 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 December 20th, 1999.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002