

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:)

CASE NO. 12,594

APPLICATION OF MATADOR PETROLEUM)
CORPORATION FOR COMPULSORY POOLING AND)
AN UNORTHODOX SUBSURFACE WELL LOCATION,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 MAR - 8 AM 9:11

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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February 22nd, 2001
Examiner Hearing
CASE NO. 12,594

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A P P E A R A N C E S

FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:00 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case 12,594, the Application of Matador Petroleum
5 Corporation for compulsory pooling and an unorthodox
6 subsurface well location, Eddy County, New Mexico.

7 Call for appearances in this case.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have two witnesses to be
11 sworn.

12 EXAMINER CATANACH: Any additional appearances?

13 MR. CARR: May it please the Examiner, William F.
14 Carr with the Santa Fe office of the law firm Holland and
15 Hart. We represent Chevron USA Production Company. I do
16 not have a witness.

17 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
18 representing Kerr-McGee Oil and Gas Onshore, LLC. I have
19 no witnesses.

20 EXAMINER CATANACH: Any additional appearances?

21 Will the witnesses please stand to be sworn in?

22 (Thereupon, the witnesses were sworn.)

23 MR. KELLAHIN: Mr. Examiner, Matador's case, in
24 addition to the standard compulsory pooling items that
25 you're obviously aware of has some additional items I want

1 to bring to your attention.

2 I've handed you, Mr. Carr and Mr. Bruce a summary
3 sheet to show you where we are. The first page of that
4 handout is a locator map that shows you the Indian Basin-
5 Upper Pennsylvanian Gas Pool. The section we're dealing
6 with is down in the far southern end of the pool; it's in
7 Section 20. That is immediately adjacent to the Upper
8 Penn-Indian Basin Gas Pool. That's on 640-acre spacing.

9 The first item is that the surface location
10 cannot be located at the proposed bottomhole location.
11 There's a surface obstruction, so it's going to be
12 directionally drilled. We're going to ask for a drilling
13 window in the Cisco so that it is not closer to the north
14 line of Section 20 than 660 feet nor closer to the eastern
15 boundary than 660 feet.

16 In addition, as you know, the Indian Basin-Upper
17 Penn is a prorated gas pool. It has been the convention
18 and practice of the operators in unorthodox well locations
19 to discuss and to agree upon a stipulated penalty.

20 Mr. Carr and I for a number of years did those
21 cases in the Indian Basin, and the practice now is to use a
22 two-part formula. One is a presumed productive acreage
23 component, and the other one is the footage encroachment
24 component.

25 I'm here to tell you that the offsetting operator

1 towards whom this encroaches is Kerr-McGee in Section 16
2 and Chevron in Section 17, and there's an agreement as to
3 the stipulated penalty. The allowable will be 41.5
4 percent. We have a letter agreement that demonstrates
5 that.

6 In addition, while the primary target is the
7 Cisco on 640 acres, we're asking in the unlikely event
8 there's deep gas production in the wellbore, that the
9 spacing unit being pooled for the 320 gas would be the east
10 half of the section.

11 In addition, Mr. Carr and I have talked about the
12 possibility that Matador may have to extend the drilling of
13 this well beyond the normal 90-day period. And in the
14 event that occurs, we would like the order to reflect an
15 opportunity for Chevron to make its election within 90 days
16 of actually commencing the well.

17 I was surprised to find in reviewing the various
18 forms of Division compulsory pooling orders that that
19 language which I am familiar with is not always
20 consistently in the current orders, and so I will show you
21 language that I think satisfies Mr. Carr's concern on
22 behalf of Chevron and ask that it be inserted into this
23 pooling order so that they will have an election within the
24 90-day period of actually commencing the well.

25 We're dealing with two federal leases, they're

1 divided north half-south half. The only party to be pooled
2 is Chevron.

3 And with that introduction I'll call my first
4 witness.

5 EXAMINER CATANACH: You may proceed.

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. All right, Mr. Virant, sir, would you please
12 state your name and occupation?

13 A. Mark Virant, land manager for Matador Petroleum.

14 Q. On prior occasions, Mr. Virant, have you
15 testified before the Division concerning compulsory pooling
16 cases?

17 A. I have.

18 Q. As part of your duties for Matador, have you
19 become familiar with the ownership in Section 20?

20 A. Yes, sir, I am.

21 Q. In addition, are you familiar with the offset
22 operators towards whom this unorthodox well location
23 encroaches?

24 A. Yes, sir.

25 Q. Have you been dealing with the parties that would

1 participate in sharing the costs of this well?

2 A. I have.

3 Q. And it's been your responsibility to attempt to
4 reach a voluntary agreement with those parties?

5 A. That's correct.

6 MR. KELLAHIN: We tender Mr. Virant as an expert
7 petroleum landman.

8 EXAMINER CATANACH: He is so qualified.

9 Q. (By Mr. Kellahin) Mr. Virant, would you turn,
10 sir, to what is marked Exhibit Number 1 and identify that
11 for us?

12 A. Exhibit Number 1 is a plat that outlines several
13 items. The first one is the surface and bottomhole
14 location. The unit outline for the IB Federal Com Number 1
15 well will be the entirety of Section 20. It's two federal
16 leases. Chevron owns the northern half, and Matador owns
17 the southern half.

18 Q. Let's deal with the location of the well. The
19 technical people have proposed an unorthodox well location
20 660 out of the north and east sides of the section.

21 A. Correct.

22 Q. Is Matador able to locate the well at a surface
23 location that corresponds to the proposed bottomhole
24 location?

25 A. No, sir, we were not.

1 Q. And why not?

2 A. There were surface restrictions out there, there
3 was a creek that would have been necessary to cross.

4 Q. For surface use, is the proposed surface location
5 the closest surface location available in which to access
6 the proposed bottomhole location?

7 A. That's correct.

8 Q. If the well is successful in the Indian Basin-
9 Upper Penn Gas Pool, the dedication would be 640 acres to
10 that pool?

11 A. Yes, sir.

12 Q. Let's turn to your efforts to consolidate on a
13 voluntary basis the various spacing units. One spacing
14 unit would be the whole section?

15 A. Correct.

16 Q. And if there is 320-acre gas spacing, what is the
17 orientation for that?

18 A. That would be the east half of the section.

19 Q. And the parties are the same and the interests
20 are the same there?

21 A. Yes, sir.

22 Q. Summarize for us what we're looking at when we
23 look at Exhibit Number 2.

24 A. Exhibit Number 2 are the owners in the IB Federal
25 Com Number 1 well. Matador has 50 percent, we're the

1 operator and we're proceeding with this hearing. Chevron
2 would be the nonoperator with 50 percent.

3 Chevron has indicated they will not dispose of
4 any assets because of the pending merger with Texaco.
5 Chevron has advised us it will be necessary to initiate
6 force pooling proceedings in order to force a decision.

7 Q. Have you tabulated for the benefit of the
8 Examiner the various dates and kinds of discussions you've
9 had with Chevron and others concerning your well?

10 A. Yes, sir, and that's detailed on Exhibit 3.

11 Q. Without going through all the details for us, Mr.
12 Virant, have you advised Chevron of the need to
13 directionally drill this well?

14 A. We have.

15 Q. And have you provided them with a current AFE for
16 the cost of drilling this well?

17 A. They have a current AFE, yes, sir.

18 Q. And the summary here, then, shows your various
19 efforts to attempt to reach a solution or agreement with
20 Chevron?

21 A. That's correct.

22 Q. At this point, then, is there any opposition by
23 Chevron to your proposal to drill this well?

24 A. No, sir.

25 Q. All right. Have they raised any disagreement or

1 objection with you concerning the costs of the well, the
2 AFE?

3 A. No, sir.

4 Q. Do you have a proposal for the Examiner as to
5 overhead rates to charge Chevron pursuant to a compulsory
6 pooling order?

7 A. The operating agreement provides for \$7000 and
8 \$700 monthly rate.

9 Matador has no operations in the area, in the
10 immediate area. We've had a discussion with Chevron.
11 Chevron has indicated that \$6000 and \$600 is a more
12 reasonable number, and we're prepared to accept that.

13 Q. All right, sir. Let's go through the
14 correspondence then. If you'll start with Exhibit 4,
15 identify that for me.

16 A. Exhibit 4 is an October 12th, 2000, letter. It's
17 a proposal from Matador to Chevron to acquire Chevron's
18 leasehold position in the north half of Section 20 via term
19 assignment or farmout.

20 Q. All right, following the October 12th letter,
21 what did you do then?

22 A. On October 27th we proposed the current location
23 to Chevron, with an operating agreement and an AFE.

24 Q. All right. The October 27th letter, then, is the
25 formal proposal for this subject well and including an AFE?

1 A. Yes, sir.

2 Q. Okay. After that, what's the next
3 correspondence?

4 A. The December 22nd letter is a reproposal of the
5 original well, due to the fact that we had originally
6 proposed that well on a 320-acre spacing unit, and it
7 should have been 640.

8 None of the ownership changed, but it was merely
9 procedural.

10 Q. All right, sir, the next letter?

11 A. The January 30th letter is just confirmation of a
12 meeting and discussion we had with Chevron whereby we
13 advised -- we just confirmed that the bottomhole location
14 in the original proposal and the second proposal were the
15 same.

16 Q. And as of today, then, what's your understanding
17 about Chevron's position and ability to reach a voluntary
18 agreement with Matador concerning this well and your
19 proposal?

20 A. They are limited by the pending merger with
21 Texaco, to make an immediate decision.

22 Q. They've advised you that you have no alternative
23 but to have a compulsory pooling order issued?

24 A. That's correct, this is the third time we've done
25 that with Chevron.

1 Q. Let's turn to a different topic now, Mr. Virant.

2 Let's talk about the proposed unorthodox well
3 location. The well is to be 660 out of the north and east
4 sides.

5 Have you discussed with the offsetting operator
6 how to satisfy their concerns about the encroachment?

7 A. Yes, sir, and that's outlined on the February
8 16th letter, which is Exhibit 8.

9 Q. Who were you dealing with concerning this
10 correspondence in this issue?

11 A. Kerr-McGee, but Chevron and Marathon are in
12 agreement with this acreage factor.

13 Q. All right. And the stipulation, then, is that
14 the order will contain an acreage factor pursuant to the
15 prorationing system for the pool such that you will have an
16 allowable of 41 1/2 percent?

17 A. That's correct.

18 Q. All right, sir, let's turn to the AFE. Would you
19 identify and describe for us Exhibit 9?

20 A. Exhibit 9 is the AFE which was provided to
21 Chevron.

22 Q. Okay. Again, you did not receive any objection
23 as to your estimated costs?

24 A. No, sir, we've had discussions and meetings, and
25 there's been no discussion of the cost on the AFE.

1 Q. All right, to the best of your knowledge this is
2 still current and correct?

3 A. Yes, sir.

4 Q. Then finally Exhibit Number 10, would you
5 identify that for us?

6 A. Exhibit Number 10 is the joint operating
7 agreement which includes the overhead rate which I've
8 mentioned.

9 MR. KELLAHIN: All right, sir.

10 Finally, then, Mr. Examiner, Exhibit 11 is my
11 certificate of compliance with the notification
12 requirements for this proceeding. And with your
13 permission, we'll ask that you introduce Exhibits 1 through
14 11.

15 EXAMINER CATANACH: Exhibits 1 through 11 will be
16 admitted as evidence.

17 MR. KELLAHIN: That concludes my examination of
18 Mr. Virant.

19 EXAMINER CATANACH: Mr. Carr?

20 CROSS-EXAMINATION

21 BY MR. CARR:

22 Q. Mr. Virant, Matador has plans to drill additional
23 wells in this area, do they not?

24 A. We would like to. We don't have anything in
25 concrete.

1 Q. Are you planning to drill a well in Section 21?

2 A. We would like to drill a well in Section 21, but
3 at this time we don't own any acreage.

4 Q. So you don't have any definite plans at this
5 time?

6 A. That's correct.

7 Q. And so this location is not going to be proven up
8 by wells on an offsetting tract?

9 A. If we're fortunate enough to acquire the offset
10 tract, then in a perfect world we would prefer to drill in
11 Section 21 first.

12 Q. Are you trying to acquire that acreage?

13 A. Yes, we are.

14 Q. If that comes to pass and you drill a well in
15 Section 21 prior to drilling the well here, that would
16 necessitate extending this pooling order, would it not?

17 A. Most likely, yes, sir.

18 Q. If you find yourself in that situation and are
19 seeking an extension of the pooling order, would you be
20 willing to provide notice to Chevron of your request for an
21 extension of that pooling order?

22 A. We would.

23 Q. If, in fact, you drill that other well in 21, is
24 it possible that it could, in fact -- I mean, that you
25 would not go forward with the well in 20?

1 A. Possibly, depending upon the results.

2 Q. And it could impact the risk associated with the
3 wells in addition to that; is that not correct?

4 A. Yes, sir.

5 MR. CARR: That's all I have. Thank you.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Virant, is Matador going to monitor the
9 production from the well so as to make sure to comply with
10 the penalty for the allowable?

11 A. We will.

12 Q. And is there going to be any notice or any kind
13 of -- anything to Chevron to verify that or...

14 A. We'll be glad to. We haven't discussed it.

15 Q. Okay. The surface obstruction, you said, was a
16 creek?

17 A. Yes, sir.

18 Q. And is there going to be any evidence presented
19 on that, the location of that?

20 A. No, sir.

21 Q. Okay. The joint operating agreement is -- at
22 this point Matador is the only operator subject to that,
23 the interest owner?

24 A. Matador and Chevron.

25 Q. Chevron hasn't signed it?

1 A. No, sir, that's correct, that's correct.

2 Q. Do you anticipate ultimately that Chevron will
3 join in the well?

4 A. Well, I'm not sure exactly what they'll do. I
5 mean, this merger with Texaco is basically, all bets are
6 off.

7 Q. Okay. On the front of this operating agreement,
8 it says the contract area is the east half of Section 20.

9 A. Well, this was the operating agreement that we
10 sent out on the original proposal, and that will need to be
11 changed to reflect the reproposal on December 22nd.

12 Q. Okay. And your pooling Application requests
13 pooling all mineral interests from the surface to the base
14 of the Morrow formation.

15 In fact, if you obtain production in anything
16 that's spaced on less than 320, Matador would not have any
17 interest in that completion; is that correct?

18 A. That's correct.

19 EXAMINER CATANACH: That's all I have of the
20 witness, Mr. Kellahin.

21 MR. KELLAHIN: All right, sir. For your
22 information, Mr. Catanach, the advertisement qualifies that
23 first phrase by being specific as to the 640 and the 320
24 spacing units, and so would by necessity exclude any other
25 combination.

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MIKE MILLER,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. All right, sir, would you please state your name
and occupation?

A. Mike Miller, geologist.

Q. Mr. Miller, has it been your responsibility for
Matador to prepare the geology for this prospect?

A. That's correct.

Q. And have you done so?

A. Yes.

Q. Where do you reside, sir?

A. Midland, Texas.

Q. Based upon your geologic study, do you now have
an opinion as to the appropriate level of risk to associate
with this well?

A. Yes, it's high, a high level of risk.

Q. In reference to the statutory maximum, which is
cost plus 200 percent, do you have an opinion as to what
that percentage risk should be, pursuant to compulsory
pooling orders?

A. It should be the penalty as proposed.

Q. The maximum, then?

1 A. Correct.

2 Q. In addition, has it been your recommendation to
3 locate this well at an unorthodox well location?

4 A. Yes.

5 Q. Okay. Let's turn to your displays. Are all the
6 displays we're about to see your work product?

7 A. Yes.

8 MR. KELLAHIN: We tender Mr. Miller as an expert
9 geologist.

10 EXAMINER CATANACH: He is so qualified.

11 Q. (By Mr. Kellahin) Let's look at Exhibit Number
12 12, Mr. Miller. What are we seeing here?

13 A. This is a cumulative production map of the Indian
14 Basin area.

15 Q. Let me have you locate Section 20. We're simply
16 looking at half the section there?

17 A. Correct.

18 Q. In the north half of 20 there appears to have
19 been a well that penetrated to or through the Cisco?

20 A. That is correct.

21 Q. What's the status of that wellbore?

22 A. That well is plugged and abandoned.

23 Q. And why was that?

24 A. It encountered a heavy flow of water.

25 Q. With that reference display, let's turn now to

1 Exhibit 13 and have you tell us what we're looking at here.

2 A. This is a net pay isopach of the Cisco reef or
3 upper Penn reef pay.

4 Q. What's the significance of the vertical green
5 line on the left side of the display?

6 A. That is the large west-bounding fault of the
7 Indian Basin structure.

8 Q. Do you know precisely where that fault is in
9 relation to Section 20?

10 A. Not exactly.

11 Q. When we look at the southern end of Section 20,
12 there is a blue line running east to west. It's marked
13 "Dolomite-Limestone". What does that mean?

14 A. That represents the change in the Cisco pay from
15 a complete dolomite facies to a complete limestone facies.

16 Q. When we look at the color coding, explain to us
17 what the significance of the color code is.

18 A. The yellow colors represent thinning, and of
19 course the red colors represent thickening of the Cisco net
20 pay.

21 Q. Can you use this display to illustrate why you're
22 proposing a location that is approximately 660 feet out of
23 the corner, north and east corner of Section 20?

24 A. Yes, that would be to mitigate the two main risk
25 factors, which are the transition to the dolomite/limestone

1 and the main west-bounding fault of the Indian Basin
2 structure.

3 Q. Do you mitigate the risk to the extent that you
4 reduce the risk to less than the maximum 200 percent?

5 A. No.

6 Q. Are there any other geologic components that
7 affect your decision on where to locate the well?

8 A. Only hints of fracturing in or near the plugged
9 and abandoned BTA well.

10 Q. Let's look at your structure map on Exhibit 14.
11 Describe for us the relationship of the structural
12 interpretation to your well proposal.

13 A. As you move from south to north in the section,
14 you gain structural advantage.

15 Q. And is that important to you in this reservoir?

16 A. It is generally advantageous.

17 Q. And why would that generally be true?

18 A. Because overall the Indian Basin, there's a
19 transition from a water to an oil to a gas-cap structure,
20 favoring the gas cap.

21 Q. Do you have any geologic opinions as to why the
22 BTA well in Section 20 failed to produce?

23 A. There were a number of problems with the
24 operations of that well, but probably the main
25 consideration was, it was located in or near a small fault

1 or a large fracture that conducted water, large amounts of
2 water.

3 Q. When we look at the isopach, can we presume
4 that --

5 EXAMINER CATANACH: Mr. Kellahin?

6 MR. KELLAHIN: Yes, sir?

7 EXAMINER CATANACH: I don't have an isopach map.
8 I have two structure maps.

9 MR. KELLAHIN: All right, sir. We can fix that
10 right now.

11 EXAMINER CATANACH: Thank you.

12 Q. (By Mr. Kellahin) When you look at the isopach
13 map, Mr. Miller, am I correct in understanding your
14 interpretation that if you're north of the zero line, then
15 all that acreage is potential productive acreage that could
16 be applicable to this well?

17 A. Yes, north of the zero line and also north of the
18 dolomite-limestone transition.

19 Q. As you move north, then, you improve the
20 thickness and hopefully the quality of the dolomite?

21 A. Correct.

22 Q. Let's turn to the cross-section, have you
23 identify Exhibit 15, please.

24 A. The cross-section is, as you can see, on the
25 Cisco reef isopach in blue. It consists of two wells.

1 The north well on the left-hand side of your
2 isopach -- I mean on the left-hand side of your structural
3 cross-section, is the Mobil Bogle Flats Unit Number 9,
4 which was drilled in 1965.

5 And on the right-hand side of the cross-section
6 is the BTA Indian well, which was drilled in 1992, in
7 Section 20.

8 Q. And then in the north-south direction, those are
9 the closest two wells --

10 A. Correct.

11 Q. -- to your proposed location?

12 A. Correct.

13 Q. At the proposed location, then, when you look at
14 the cross-section, you are hopefully to be north of the BTA
15 well, and therefore potentially avoid this stray shale
16 problem that they encountered?

17 A. Correct.

18 Q. And to move away from any kind of fracturing
19 problem that they may have encountered that caused water to
20 move into the wellbore?

21 A. Correct.

22 MR. KELLAHIN: That concludes my examination of
23 Mr. Miller, Mr. Catanach.

24 We move the introduction of his Exhibits 12
25 through 15.

1 EXAMINER CATANACH: Exhibits 12 through 15 will
2 be admitted as evidence.

3 MR. CARR: I have no questions.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Miller, I'm sorry, they did have a frac'ing
7 problem in that well?

8 A. No, the well was actually not frac'd. Pipe was
9 run to the Cisco pay, and it was perforated after a series
10 of DSTs which had shows of gas in them.

11 MR. KELLAHIN: You're talking about fracturing of
12 the reservoir itself that may have affected that --

13 THE WITNESS: Oh, I see what you're saying, yes.
14 I thought you meant a mechanical frac. No, the -- In
15 sample examination, I did find that the reservoir, which is
16 common in this area, is fractured.

17 Q. (By Examiner Catanach) The large water
18 production, is that a result of its structural position, or
19 is it a result of the fracturing?

20 A. I surmise that it's a result of either a very
21 small fault or a fracture that is conducting water into the
22 BTA wellbore. However, there are wells on top of the
23 Indian Basin structure which produce large amounts of
24 water.

25 Q. By moving your well to the north, you hope to get

1 away from that possible fracturing problem?

2 A. Correct, to the north and east.

3 Q. But you also gain structure in that interval?

4 A. Yes, and that is advantageous, normally. But I
5 feel the critical risk is, in this case, moving away from
6 the dolomite/limestone transition and any associated faults
7 with the major west-bounding fault of the Indian Basin
8 structure.

9 Q. Is there any advantage to -- you seem -- in
10 moving north, you again would encounter a greater amount of
11 thickness in that Cisco section. Is that to your advantage
12 also?

13 A. Yes. Again, we only have a control point more
14 than two-thirds of a mile on the left-hand side of your
15 cross-section. But I would guess that, yes, you would gain
16 a greater thickness moving north, of net pay.

17 Q. Okay. What's the likelihood of obtaining
18 production below the Cisco, Mr. Miller?

19 A. Fairly remote, in that the BTA well tested the --
20 or actually logged through the Morrow interval, which is
21 the only other producing pay zone in this area.

22 Q. They didn't find anything in the Morrow?

23 A. No.

24 EXAMINER CATANACH: Okay, I think that's all the
25 questions I have.

1 Mr. Kellahin, could you supply a map, a topo map
2 that shows the location of the creek that we've been
3 talking about?

4 MR. KELLAHIN: Yes, sir, I'd be happy to do that.

5 EXAMINER CATANACH: And also I had one more
6 question of Mr. Virant if I could do that.

7 MARK A. VIRANT (Recalled),
8 the witness herein, having been previously duly sworn upon
9 his oath, was examined and testified as follows:

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Virant, I just wanted to make sure I
13 understood where the offset operators were with respect to
14 the unorthodox location. I believe you said that Kerr-
15 McGee operated the wells in Section 16?

16 A. Yes, sir, Kerr-McGee is in Section 16.

17 Q. And in Section 17 I believe it was --

18 A. -- Chevron.

19 Q. Chevron.

20 Now, there appears to be a well in Section 21.
21 Do you know who operates that well?

22 A. That's Marathon. That well is temporarily
23 abandoned.

24 Q. And with respect to the unorthodox location, was
25 Marathon notified?

1 MR. KELLAHIN: Yes, sir.

2 THE WITNESS: Yes, sir.

3 MR. KELLAHIN: It will show in Exhibit 11, I
4 think it is.

5 EXAMINER CATANACH: And that is an Indian Basin
6 well that's temporarily abandoned --

7 MR. KELLAHIN: Right, that was a nonstandard
8 proration unit for that section in the north half of 21,
9 and the well is temporarily abandoned, but it's still
10 operated by Marathon. And we sent them notice.

11 EXAMINER CATANACH: Who operates -- Is there any
12 operations in the south half?

13 MR. KELLAHIN: No, sir, it's excluded.

14 EXAMINER CATANACH: Do you know who owns it?

15 MR. KELLAHIN: No, sir.

16 Q. (By Examiner Catanach) But you said you're
17 trying to acquire the interest in Section 21; is that
18 correct?

19 A. We've been approached by Marathon about possibly
20 doing something in Section 21.

21 Q. Would that involve any interest in the south half
22 of that section, Mr. Virant?

23 A. Talking with Mr. Kellahin, we believe we could
24 drill it on the north half of 21. It would not involve the
25 south half.

1 MR. KELLAHIN: Mr. Examiner, for your
2 information, there is an order that deals with Section 21
3 in which after noticing the hearing, the Commission back in
4 1969 found that there was no productive acreage in the
5 south half of Section 21, and therefore those parties
6 should not participate in the Indian Basin-Upper Gas Pool
7 [sic] production in the north half.

8 They approved a nonstandard proration unit, they
9 approved the well at an unorthodox location. It's Order
10 Number 3737, issued in March of -- I'm sorry, April of
11 1969.

12 So based upon that order, we notified Marathon as
13 the current operator.

14 EXAMINER CATANACH: Thank you, Mr. Kellahin.
15 That's all I have.

16 Is there anything further in this case?

17 There being nothing further, Case 12,594 will be
18 taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 10:30 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 2596,
25 heard by me on February 22, 192001.

Donald H. Vester, Examiner
Oil Conservation Division

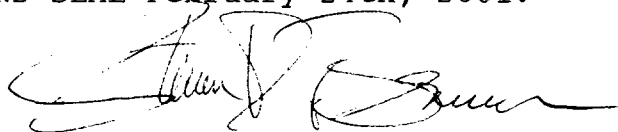
CERTIFICATE OF REPORTER

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 February 24th, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002