

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 SAPIENT ENERGY CORP. FOR) CASE NO. 12,587
AN UNORTHODOX WELL LOCATION AND (i) TWO)
NONSTANDARD 160-ACRE SPACING UNITS, OR)
IN THE ALTERNATIVE (ii) ONE NONSTANDARD)
160-ACRE SPACING AND PRORATION UNIT, LEA)
COUNTY, NEW MEXICO)

APPLICATION OF SAPIENT ENERGY CORP.) CASE NO. 12,605
FOR SPECIAL POOL RULES, LEA COUNTY,)
NEW MEXICO)
(Consolidated)

OIL CONSERVATION DIV.
12 MAR 14 PM 3:44

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 1st, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 1st, 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.

* * *

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12587 Exhibit No. — 7
Submitted By:
Sapient Energy Corp.
Hearing Date: October 4, 2001

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

CONOCO WITNESSES (Continued):

BRUCE H. WILEY (Geologist)

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ROBERT J. LOWE (Engineer)

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TIM R. DENNY (Geologist)

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ABEL LOVATO (Engineer)

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* * *

1 directly across.

2 In Section 5, more than likely with the activity,
3 Marathon would probably want to protect its correlative
4 rights by drilling an offset, a nonstandard offset, in
5 Section 5. And not knowing the condition here of this --
6 on this map that's labeled as Barber AD 1 -- I believe
7 that's a Sapient well -- I'm not sure whether it's shut in
8 or what the case of the wellbore integrity is, but if it's
9 not good, then they would be required to drill another
10 well, as indicated by the small circle there.

11 What we see is a large amount of overlap,
12 indicating the fact that there would be a competition or
13 interference here, an acceleration of the reserves, that a
14 good portion of these reserves could be accumulated by just
15 pretty much a couple existing wells of Chevron and Sapient.

16 Q. In your opinion, would adoption of 80-acre
17 spacing result in a development pattern that would be
18 excessive for this reservoir?

19 A. Yes, I do.

20 Q. What are your recommendations concerning
21 Sapient's Application?

22 A. That there be a standard square 160-acre spacing
23 and that the petition for the nonstandard be rejected.

24 Q. In your opinion, if that occurred, there would
25 have to be some sort of a make-up of the production, would

1 there not?

2 A. Yes, that's right.

3 Q. And how would you recommend that that be handled?

4 A. I think Conoco and its partners and interests,
5 royalty interests, would want to be flexible. It would be
6 perhaps from a point forward, perhaps with the gas-
7 balancing process at that point in time. We would not be
8 expected to be paid in cash or check.

9 Q. Mr. Lowe, were Exhibits 3 through 6 prepared by
10 you?

11 A. Yes, they were.

12 MR. CARR: Mr. Stogner, at this time we move the
13 admission into evidence of Conoco Exhibits 3 through 6.

14 EXAMINER STOGNER: Exhibits 3 through 6 will be
15 admitted into evidence.

16 MR. CARR: That concludes my direct examination
17 of Mr. Lowe.

18 EXAMINER STOGNER: Mr. Kellahin, your witness.

19 MR. KELLAHIN: Thank you, Mr. Stogner.

20 CROSS-EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Lowe, let's go back to your Exhibit Number 3.
23 You've constructed a production decline curve --

24 A. Yes, sir.

25 Q. -- give you an estimated ultimate recovery for

EXAMINATION

BY EXAMINER STOGNER:

Q. Let's see, if I understand what you're talking --
If I understand right, you've mentioned something about
forming a standard 160-acre comprising the northeast
quarter. And how would that -- Would it be a penalty, or
you said that Conoco would --

A. No, sir.

Q. -- accept the production and allocation how?

A. Just from the gas balancing, such that, you know,
a percentage of whatever the allotted amount we identified
that would be reserves in our acreage that we feel that may
have been affected as of -- through the production to date,
would be over time added as we would then go through the
payment or gas balancing, until such time everything was
made up, and then we'd go with a straight heads-up
agreement.

We're not asking for, I don't think, a cash
settlement or anything retroactive prior to day one. We
feel that we would -- We try to work with Sapient here on
working out a mutual benefit deal, benefit from the
standpoint that they wouldn't have to pay everything up
front, but it would be over time.

Q. Do you have that formula?

A. No, sir.