

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)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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.

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March 1st, 2001
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* * *

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

3 EXAMINER STOGNER: This hearing will come to
4 order for Docket Number 7-01. This is a Special Examiner
5 Hearing today, Thursday, March 1st. I'm Michael Stogner,
6 appointed the Hearing Officer for today's cases.

7 At this time I will call Cases -- and I assume
8 they will be consolidated; is that correct?

9 MR. KELLAHIN: Yes, Mr. Examiner.

10 EXAMINER STOGNER: Case Number 12,587, which is
11 the amended Application, or the Application, of Sapient
12 Energy Corporation for an unorthodox well location and (i)
13 for two nonstandard 160-acre spacing units, or in the
14 alternative (ii) one nonstandard 160-acre spacing and
15 proration unit in Lea County.

16 In Case Number 12,605, an Application of Sapient
17 Energy Corporation for special pool rules, Lea County, New
18 Mexico.

19 At this time I will call for appearances.

20 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
21 the Santa Fe law firm of Kellahin and Kellahin, appearing
22 on behalf of Sapient Energy Corporation.

23 MR. CARR: May it please the Examiner, my name is
24 William F. Carr with the Santa Fe office of the law firm
25 Holland and Hart, L.L.P. We represent Chevron USA

1 Production Company and Conoco, Inc.

2 EXAMINER STOGNER: Let me get this straight, Mr.
3 Carr. You're representing Chevron and Conoco?

4 MR. CARR: Yes, sir.

5 EXAMINER STOGNER: And you're representing
6 Sapient.

7 MR. KELLAHIN: Yes, sir.

8 EXAMINER STOGNER: Are there any other
9 appearances besides these three companies?

10 MR. KELLAHIN: We would ask that you call Case
11 12,605 and consolidate the two matters for presentation to
12 you this morning, Mr. Stogner.

13 EXAMINER STOGNER: Okay, let the record show that
14 that case, 12,605 has been called, and that Cases 12,587
15 and 12,605 will be consolidated for purposes of hearing and
16 issuance of an order in this case.

17 Before we get started, a couple of matters.

18 Mr. Harry Nutter, do you want to come up here and
19 take a seat?

20 Mr. Harry Nutter is our new legal counsel for the
21 Division. He lived in Santa Fe for a while and was down in
22 Midland, and now he's rejoined us, or I should say joined
23 us. When he was here in Santa Fe, he was working for
24 another company, or another law firm, I should say.

25 So Harry, welcome.

1 MR. NUTTER: Thank you.

2 EXAMINER STOGNER: Also, just for the record, in
3 this particular case I believe the Hobbs OCD overlooked a
4 nonstandard proration unit in an unprorated pool that has
5 produced for some time, and Chevron had applied for an
6 unorthodox location administratively, which led to the
7 discovery of this from this Office, and had come up with an
8 alternate solution, or a solution, in which I understand
9 there is some objection to.

10 So we're here to agree or disagree over an
11 alternate solution or hear some alternate terms. Is that
12 it, in a nutshell, gentlemen?

13 MR. KELLAHIN: Yes, sir.

14 EXAMINER STOGNER: Mr. Carr?

15 MR. CARR: I believe that's correct, Mr. Stogner.

16 EXAMINER STOGNER: And for the record, what is
17 the administrative order that was issued to Chevron in this
18 pool for an unorthodox location? You're probably going to
19 present that later, but I just kind of want this on the
20 docket to kind of set the --

21 MR. KELLAHIN: I'm going to present that to you,
22 Mr. Stogner. We have that in our presentation.

23 EXAMINER STOGNER: Just as reference at this
24 point.

25 MR. CARR: It's Administrative Order NSL-3752-A.

1 EXAMINER STOGNER: 3752-A.

2 MR. CARR: Yes, sir.

3 EXAMINER STOGNER: And it was dated when?

4 MR. CARR: January 24th, 2000.

5 EXAMINER STOGNER: Okay. With that, is there any
6 other need for an opening statement, Mr. Carr or Mr.
7 Kellahin?

8 MR. KELLAHIN: Mr. Stogner, I'd like to summarize
9 for us, for you and for the participants, Sapient's
10 position in this matter, and to do so, let me distribute
11 some of our exhibits to you so that you at least have the
12 plat that orients you.

13 Mr. Examiner, if you'll refer to what is marked
14 as Sapient Exhibit Number 1, it's color-coded. The color
15 code in Section 7, in yellow, represents the Sapient
16 acreage. The color code in the display in Section 7
17 represents in the light green the acreage that's shared
18 with Conoco and Chevron. Our understanding is that Chevron
19 has a 50-percent interest in the west half of the east half
20 and that Conoco has a 12-1/2-percent interest.

21 Our information is, in the southeast quarter of 6
22 Chevron has 100-percent interest, in the southeast quarter.
23 The well in question is the Barbara [sic] 12 well. Do you
24 see that? It's up in Unit Letter A of Section 7.

25 The Chevron well that you referred to a while ago

1 is the Matthews 12 well. And while it's not identified
2 specifically on the display, you can see that it is the
3 northwest diagonal offset to the Barbara 12 well. It has a
4 gas well symbol on it, and it is an existing oil well
5 that's 330 from the south line of Section 6, and it is the
6 well that you have approved administratively for Chevron to
7 re-enter and deepen to the Tubb gas formation. The Barbara
8 12 well is 330 feet from the north line of Section 7.

9 The east half of 7, while divided vertically into
10 the east half, east half, and into the west half, east
11 half, are two fee tracts. We're dealing with fee acreage,
12 so that the west half of the east half is one base fee
13 ownership group. And the east half of the east half is one
14 base fee ownership group, concerning the Tubb formation.

15 You can see from the legend that we're in Lea
16 County, New Mexico. This is the Monument area. As you
17 know, it's one of the old producing areas in New Mexico.
18 It's an area in which Conoco and Chevron have operated for
19 decades.

20 And back in September of 1999, Cross Timbers
21 asked the Division District Office in Hobbs for permission
22 to re-enter the Barbara 12 well and to deepen it to the
23 Tubb. They obtained a District approval of their sundry
24 notice to do that. And in doing so they filed a proposed
25 acreage dedication that declared 160 acres, constituting

1 the east half of the east half of 7, to be dedicated to the
2 well in the event it produced gas from the Tubb.

3 They engage in that action and, amazingly, they
4 discover what turns out to be a new Tubb gas pool. They
5 got permission to do that and disclose in the paperwork to
6 the Division District Office that the re-entry of the old
7 oil well was going to be at a location 330 from the north
8 line. And they disclosed the acreage, being the east half
9 of the east half of 7.

10 The District Office approved that, and when Cross
11 Timbers went back in, in September of 1999, to ask for
12 permission to produce the gas well, the District Office
13 granted that approval. The gas well was produced.

14 In addition, the District Office in Hobbs
15 approved the creation of a new gas pool, and they called it
16 the West Monument-Tubb Gas Pool. This is the only well in
17 that gas pool.

18 In addition, the District Office asked the
19 Division here in Santa Fe to enter an order approving the
20 creation of this pool, and the initial acreage dedicated to
21 the pool is the east half of Section 7.

22 But here's the problem. The problem was created
23 by Cross Timbers and by the Oil Conservation Division in
24 Hobbs, and it was overlooked for more than a year. Conoco,
25 as an operator in the area, working interest owner, didn't

1 catch the problem, Chevron didn't catch the problem, OCD
2 Hobbs didn't catch the problem. And Cross Timbers is not
3 here today to resolve the problem.

4 After they complete the well, Cross Timbers
5 assigned this well and a number of other properties to
6 Falcon Creek. This is in April, 2000. The well commenced
7 producing in September of 1999.

8 In July of 2000, Falcon Creek was merged with
9 Sapient, and Sapient assumed operation of the well. And in
10 doing so, Sapient had no knowledge that there was a failure
11 on Cross Timbers' part to obtain an exception from Rule 104
12 for the location of the Tubb gas, that Cross Timbers failed
13 to get Division approval for an exception from Rule 104 for
14 the nonstandard proration.

15 Now, who's Sapient? Sapient is a company in
16 Oklahoma. This acquisition and merger with Falcon
17 represents the first occasion in which Sapient is an
18 operator in New Mexico.

19 They had no idea that the well they acquired in
20 this merger acquisition, along with other New Mexico
21 properties, and a well that they acquired for big bucks
22 from Cross Timbers and then through Falcon Creek, had not
23 complied with Division Rule 104.

24 They had no idea that this existed until October
25 of year 2000, more than a year, more than a year, after

1 this well commenced producing. They had no idea that this
2 problem existed until Chevron filed an application for an
3 unorthodox well location for their Matthews Number 12 well
4 that's shown on the plat.

5 Chevron declares that they want to compete in the
6 Tubb Gas Pool with the old Cross Timbers well.

7 Up to this point, Chevron did not complain about
8 the Cross Timbers location, did not complain about the
9 unorthodox location or the nonstandard proration unit.
10 Chevron is the offset operator in both directions, and they
11 don't complain. All they seek to do is to have a well
12 north of what now is the Sapient well.

13 In processing the information from Chevron as to
14 their location, Sapient contacted me. And Sapient, then,
15 came forward and filed an Application to resolve the
16 problem of the fact that Cross Timbers didn't get all of
17 the necessary approvals.

18 And we're asking you to come forward, hear this
19 case and to issue those additional approvals for this well.

20 To the best of my knowledge and experience, this
21 kind of issue seldom arises. This is the kind of clerical
22 thing that is routinely, routinely, captured, disclosed and
23 dealt with at the District level. It is incredibly
24 unusual, even with unsophisticated operators, for the
25 District Office not to catch the fact, before they issue

1 the producing allowable, that the well is at an unorthodox
2 location and that it has an acreage dedication different
3 from the standard rule.

4 It is invariably caught at that point,
5 unfortunately, to everyone's deep regret, particularly
6 Sapient, who has purchased a well they thought was properly
7 permitted, that they spent hundreds of thousands of dollars
8 for, and have disbursed hundreds of thousands of dollars
9 on, that now this is a problem.

10 We're asking you to resolve it. We think the
11 only way to resolve it is to give you all the possible
12 options for that resolution. We are not experts in this
13 area, Sapient's not coming forward to tell you how to fix
14 this. They don't know, they're new in New Mexico.

15 We're going to give you the information that we
16 have, we're going to give you the technical data we have,
17 and we're going to defer to you and your expertise to tell
18 us how we solve a unique, unusual problem.

19 And in doing so, based upon the prehearing
20 conference we had back in January, I have filed an Amended
21 Application that gives you various options for resolution.

22 The one we prefer is to simply continue with the
23 status quo of what was created by Cross Timbers, and that
24 would be the approval of a 160-acre nonstandard proration
25 unit for the Sapient well in the east half of the east

1 half, and to avoid a proliferation of nonstandard proration
2 units, then to have you declare available for the interest
3 owners in the west half of the east half a similar
4 nonstandard proration unit, and the problem stops there.

5 We ask that you approve this location. You've
6 already approved one for Chevron, and so the competition
7 will continue in the pool with those wells, and that
8 Chevron and Conoco will have an opportunity to drill the
9 third well if they choose to do so. Then the problem stops
10 there.

11 In addition, should you decide that there's
12 sufficient data, we have provided you the opportunity to
13 create special rules for the pool, including a provision
14 for 80-acre spacing. We believe there's sufficient data to
15 justify doing that, and will show it to you.

16 If you choose to accept our position, then you
17 have an alternative solution, which will be declare 80-acre
18 spacing in this pool, and therein lies a solution. That
19 solution would be that Sapient would declare the east half
20 of the northeast quarter as the 80-acre spacing unit for
21 that well. It leaves available, then, the west half of the
22 northeast for Conoco and Chevron to drill their well. And
23 that leaves available for Chevron in the southeast quarter
24 of Section 6 the opportunity to declare out of the
25 southeast quarter an 80-acre spacing unit for the well

1 they're re-entering, which is the Matthews Number 12.

2 In addition, while this advertisement does not
3 indicate that, we have discussed, and you're certainly
4 welcome to determine whether it's suitable to prorate this
5 pool. I will tell you, my witnesses have no experience in
6 prorationing. They will not be able to respond to your
7 technical questions, and we'll simply defer to you to
8 decide if you think that is the fix.

9 We're suggesting that the solution that we
10 advance is to make additional approvals for the Sapient
11 well retroactive to the date of first production, which is
12 September 9th, 1999. And in doing so, you continue to
13 maintain the equities that have already been disbursed. To
14 do otherwise disrupts the equities involved and will be a
15 serious detriment to Sapient.

16 So we're here today to show you what the problem
17 is and ask for your guidance and solution on how to resolve
18 this.

19 EXAMINER STOGNER: Thank you, Mr. Kellahin.

20 Mr. Carr?

21 MR. CARR: May it please the Examiner, as Mr.
22 Kellahin has pointed out, Sapient is the operator of the
23 Bertha J. Barber Well Number 12. It is a gas well in a gas
24 pool. And the problem we're here to deal with is the fact
25 that it is at an unorthodox well location, and dedicated to

1 it is a nonstandard proration unit.

2 Initially, I would like to make it clear that
3 neither Chevron nor Conoco are here today to oppose your
4 approval of an unorthodox well location. That will not be
5 an issue that we will raise in this case.

6 The problem that we have is that neither the
7 unorthodox well location, when the well was drilled to the
8 Tubb, nor the nonstandard proration unit were properly
9 approved. And we do not submit that it is the role of the
10 Oil Conservation Division to look for errors, to check
11 everything. We don't believe that the OCD is wrong.

12 We believe incorrect procedures were followed by
13 Cross Timbers. They did not file a proper application,
14 they did not give the notice that was required, and the
15 result is a well at an unorthodox location in a nonstandard
16 unit, neither of which have been approved.

17 The problem is that this well -- and the evidence
18 will show -- that this well isn't just draining the acreage
19 dedicated to it, and therein lies the problem. In fact, it
20 could not drain the acreage dedicated to it.

21 The evidence will show that when Sapient
22 discovered this problem, and today, they could dedicate a
23 standard unit to the well, they could dedicate the
24 northeast quarter of Section 7, and we could all go home.
25 They could today, at least form a spacing or proration unit

1 under the rules.

2 But to do that, they would have to share
3 production proceeds with other interest owners in the west
4 half of the northeast quarter, and that is a problem for
5 them.

6 And it is also a problem for Conoco and Chevron,
7 because what we're dealing with is a situation with a well
8 dedicated on a standup east-half, east half unit, that is
9 in effect draining or will drain reserves from the west
10 half of the northeast quarter. What we have is a well that
11 would drain a standard spacing unit. And the fact of the
12 matter is, as it stands, this situation has an impact on
13 the rights of those other interest owners in the pool.

14 Sapient comes before you, and they propose
15 various solutions.

16 They ask you not to disrupt the equities. But we
17 submit to you that the evidence will show that the equities
18 are not equitable and that, in fact, interest owners are
19 having production drained by a well that is on a
20 nonapproved spacing unit, reserves that would be drained by
21 the well and could be drained by the well on a standard
22 unit.

23 They come forward with a number of proposals, and
24 we submit when we look at the evidence, you will find that
25 each of their plans will result in overdrilling of this

1 reservoir, waste and impairment of the rights of all
2 interest owners in the pool, and that when you get to the
3 conclusion of this case, we believe you will find that the
4 nonstandard units proposed should be denied.

5 EXAMINER STOGNER: Thank you.

6 Let's see, I believe, Mr. Kellahin -- How many
7 witnesses are you going to present today?

8 MR. KELLAHIN: I have three witnesses, Mr.
9 Examiner.

10 EXAMINER STOGNER: Mr. Carr?

11 MR. CARR: I have three -- I have five witnesses.

12 EXAMINER STOGNER: Five witnesses. I'm going to
13 ask all witnesses to please stand at this time and be
14 sworn.

15 (Thereupon, the witnesses were sworn.)

16 EXAMINER STOGNER: Mr. Kellahin?

17 MR. KELLAHIN: Thank you, Mr. Stogner, we'll call
18 our first witness, Mr. Chuck Perrin. Mr. Perrin spells his
19 last name P-e-r-r-i-n.

20 CHARLES H. PERRIN,

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

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Perrin, for the record, sir, would you please

1 state your name and occupation?

2 A. Charles H. Perrin. I'm vice president of land
3 and business development for Sapient Energy Corp.

4 Q. And where do you reside, sir?

5 A. Tulsa, Oklahoma.

6 Q. How long have you been employed by Sapient in
7 this capacity?

8 A. Since July of 1998.

9 Q. Do you have any technical degrees, Mr. Perrin?

10 A. I have a bachelor of business administration with
11 a major in petroleum land management from the University of
12 Oklahoma.

13 Q. In October of last year, whose responsibility at
14 Sapient was it to respond to Chevron's request for an
15 unorthodox well location that they had delivered and sent
16 to Cross Timbers? Who ultimately at Sapient had the
17 responsibility to address that request?

18 A. It's my responsibility to review regulatory
19 applications and to disperse them within the company.

20 Q. When did Sapient first acquire any interest in
21 producing wells in the State of New Mexico?

22 A. It was on July 14th, 2000.

23 Q. Prior to that time, did you have any experience
24 in New Mexico with the regulation of wells and production?

25 A. No.

1 Q. As of October of last year, did you have any
2 experience in dealing with regulatory matters here in New
3 Mexico?

4 A. No.

5 Q. Let me ask you to turn to Exhibit 1 and identify
6 that display for us.

7 A. Exhibit 1 is a chronology of --

8 Q. I'm sorry, I've got you on the wrong exhibit.
9 Exhibit 1 is the plat.

10 A. Exhibit 1 is simply an acreage locator plat to
11 show everyone here where our lease is located in regard to
12 Chevron's and Conoco's.

13 Q. Concerning the ownership of interests that are
14 outlined in the color code, have you asked others to
15 provide you with information as to the ownership?

16 A. Yes.

17 Q. And you are now informed as to that ownership?

18 A. Yes, I am.

19 Q. In addition, as a result of Chevron's
20 Application, how did you acquire the information concerning
21 the Cross Timbers Barbara [sic] Number 12 well? Was that
22 in your office in Tulsa at that time?

23 A. No.

24 Q. Where was it?

25 A. That was in our Denver office. We took over

1 Falcon Creek on July 14th through merger agreement,
2 acquired all of their stock, and all of that information,
3 with regard to all of the New Mexico properties we
4 acquired, was still in the Denver office at that time.

5 Q. Subsequently, you have reviewed all those
6 documents, and I have provided you with the Division
7 documents out of the Santa Fe office, have I not?

8 A. Yes, you have.

9 Q. And you've reviewed them?

10 A. Yes, I have.

11 Q. You have prepared what is marked as Exhibit 2,
12 and it's a historical summary of what you consider to be
13 information of interest to the Examiner concerning this
14 question?

15 A. Yes.

16 Q. Let's start back in October 17th, then, and
17 follow through Exhibit Number 2, so the Examiner sees what
18 you now know.

19 On October 17th of last fall, what happened?

20 A. Our Denver office received on or about October 17
21 a letter from Chevron requesting the unorthodox location
22 for the Matthews well.

23 Q. That was forwarded to you, and it became your
24 responsibility to attend to it; is that not true?

25 A. That's true.

1 Q. What did you do?

2 A. We contacted you and asked for your guidance in
3 the best way that we should proceed in this matter. We
4 didn't have much time left to respond when we finally
5 received the letter.

6 Q. Sapient, in fact, filed, then, an objection to
7 the Chevron well at that time?

8 A. That's correct.

9 Q. Sapient subsequently withdrew the objection, and
10 the permit was issued for the Chevron well; is that not
11 true?

12 A. That's true.

13 Q. All right. Let's go back now to April of last
14 year when you acquired -- I'm sorry, in April of last year
15 when Falcon Creek acquired interest in wells from Cross
16 Timbers. What happened, when you look at the records?

17 A. Well, when you look at the records, it was a
18 fairly significant acquisition covering hundreds of wells,
19 and the Falcon Creek due diligence team performed a routine
20 due diligence and examined all of the land and legal
21 records of the properties that were being acquired, and
22 there were no objections or exceptions regarding this
23 particular well. There was no evidence in the file that
24 there was anything wrong with the regulatory permits that
25 gave Cross Timbers the right to operate the well.

1 Q. Does a review of the documents disclose any
2 representation by Cross Timbers concerning regulatory
3 compliance of their wells that they're now conveying or
4 selling to Falcon Creek?

5 A. No.

6 Q. Initially, were there representations about
7 compliance that have now expired?

8 A. Yes.

9 Q. Describe for us what was found concerning the
10 representations.

11 A. There was a purchase-and-sale agreement executed
12 between Cross Timbers, the seller, and Falcon Creek, the
13 buyer, which contained certain normal representations and
14 warranties with regard to the properties, specifically one
15 of the representations that all of the properties were in
16 full compliance as to each state the properties were in
17 with all regulatory orders, permits and other requisite
18 paperwork that would be necessary to prudently, properly
19 and legally operate and produce hydrocarbons from each
20 well.

21 Q. Does your review of those documents indicate that
22 Cross Timbers disclosed in any way that there were issues
23 about inadequate compliance with regulatory rules
24 concerning the Barbara Well Number 12?

25 A. No, absolutely not.

1 Q. Is there any indication in the Falcon Creek files
2 that they were aware that the Barbara 12 well had some
3 inadequacies in the approvals for that well?

4 A. None whatsoever.

5 Q. When did Sapiient acquire Falcon Creek?

6 A. The merger was effective on July 14th of 2000.

7 Q. As a result of that merger, how many wells did
8 Sapiient acquire?

9 A. We acquired 340 wells in that particular merger.

10 Q. When we look at what was represented to you
11 concerning the working interest and the net revenue
12 interest for the Barbara 12 well, what were you led to
13 believe that you had purchased?

14 A. Well, we were certain at the time that we had
15 purchased 100-percent working interest with an 87-1/2-
16 percent net revenue, and this was one of the more valuable
17 wells in the entire purchase, and we incurred substantial
18 debt to buy these properties, and so we felt that we were
19 buying 100 percent of that well.

20 Q. After Chevron filed its application for the
21 unorthodox location, requesting permission to re-enter the
22 Matthews 12 well in the southeast quarter of Section 6,
23 what then did you do?

24 A. Since we were in a time of transition in moving
25 all of the geological and engineering well files, land and

1 legal files, from the Denver office, which we were closing,
2 to the Tulsa office, our first reaction was to ask you for
3 guidance as to how we should approach this. And we frankly
4 didn't have enough data to study the problem at that time.

5 Q. As a result of Chevron's action, did you initiate
6 a review of the Falcon Creek-Cross Timbers files concerning
7 this well?

8 A. Yes, we did.

9 Q. In addition, did you review the documents I
10 provided you from the Division office concerning the
11 Barbara Number 12 well?

12 A. Yes.

13 Q. And have you summarized for us on Exhibit Number
14 2 what those documents reflect?

15 A. Yes, I have.

16 Q. Let's set aside Exhibit 2, and let's look at the
17 documents. If you'll start with Exhibit 3, which is
18 stapled together, and the stapled documents represent
19 Exhibits 3 through 9, let's start with Exhibit Number 3.
20 What is Exhibit 3?

21 A. That's a State of New Mexico Form C-103 dated
22 August 10th, wherein Cross Timbers provides notice it
23 intended to recomplete the well in the Tubb, and it was
24 approved by the State on September 20th, 1999.

25 Q. Where do we find those approvals? If you'll look

1 at the bottom of the form, on Exhibit Number 3, there's a
2 stamp that says, "Original signed by Paul Kautz"? Do you
3 see that?

4 A. Yes.

5 Q. Do you now know that Mr. Kautz is the District
6 Geologist for the Artesia -- I'm sorry, for the Hobbs
7 office of the Oil Conservation Division?

8 A. Yes, I do.

9 Q. You've never met with him and you've never talked
10 with him, have you?

11 A. No, I have not.

12 Q. Let's turn to Exhibit 4. In reviewing the files,
13 Exhibit 4 represents what, Mr. Perrin?

14 A. That's a State Form C-105, dated September 9th,
15 1999, which gives notice that the well had been recompleted
16 as a Tubb gas well.

17 Q. All right, it discloses on the bottom of the form
18 that it, in fact, is a flowing gas well with first
19 production shown on August 21st of 1999?

20 A. That's correct.

21 Q. Following that form, there is an Exhibit 5. What
22 is that?

23 A. That's another Form C-103, dated again September
24 9th, 1999, providing notice that the well had indeed been
25 recompleted in the Tubb as a gas well, and it was approved

1 by the State on September 20th of 1999.

2 Q. All right. Now let's turn past Exhibit 5 and
3 look at Exhibit 6. What is this?

4 A. That's a Form C-102 that Cross Timbers filed,
5 dated September 9th of 1999, which reflects an unorthodox
6 Tubb gas well location 330 feet from the north line and 660
7 from the east line of Section 7, and it outlines a
8 dedication of the 160-acre standup unit described as the
9 east half, east half of the section, and I believe the
10 original plat actually drew in the standup 160.

11 Q. And you now know that that is an unorthodox well
12 location for shallow gas, Tubb gas, and you now know it's a
13 nonstandard configuration for a spacing unit?

14 A. Yes, we now know that.

15 Q. Let's look at Exhibit 7. What is this document?

16 A. It's a Form C-104 that Cross Timbers filed, which
17 was a -- requests an allowable for a wildcat Tubb gas well,
18 which was granted on September 20th of 1999.

19 Q. All right, identify for us what is marked as
20 Exhibit 8. What is this?

21 A. Exhibit 8 is the Form C-104 that Falcon Creek
22 filed --

23 Q. I'm sorry, I've confused you. Exhibit 8 I show
24 to be a C-116, the gas-oil-ratio test. Do you have that?

25 A. Oh, yes, I do. That's, exactly as you say, a

1 gas-oil-ratio test.

2 EXAMINER STOGNER: At this time, Mr. Kellahin,
3 let's make sure I've got everything.

4 MR. KELLAHIN: Okay.

5 EXAMINER STOGNER: What is Exhibit 3 again?

6 MR. KELLAHIN: All right, Exhibit 3 is the C-103
7 filed by Cross Timbers, dated by them on August 10th of
8 1999.

9 EXAMINER STOGNER: Okay, and Exhibit 4?

10 MR. KELLAHIN: Exhibit 4 is Cross Timbers' C-105,
11 dated September 9th of 1999.

12 EXAMINER STOGNER: This is only one page.

13 MR. KELLAHIN: It's just the first part of that.

14 EXAMINER STOGNER: It's the first part.

15 MR. KELLAHIN: Yes, sir. And you're certainly
16 welcome to refer to the entire well file, but this is the
17 first page.

18 EXAMINER STOGNER: Okay. Now, what's Exhibit 5?

19 MR. KELLAHIN: Exhibit is the C-103 submitted by
20 Cross Timbers, dated September 9th, showing that they did,
21 in fact, the work.

22 EXAMINER STOGNER: And Exhibit 6, the C-102?

23 MR. KELLAHIN: C-102 is Exhibit 6, and it's dated
24 by Cross Timbers and filed with the Division.

25 EXAMINER STOGNER: Okay, and Exhibit 7?

1 MR. KELLAHIN: Exhibit 7 is Cross Timbers'
2 request for an allowable for the well, which was approved
3 by the Division on September 20th of 1999.

4 EXAMINER STOGNER: And that's a Form C-104?

5 MR. KELLAHIN: Yes, sir.

6 EXAMINER STOGNER: And this is reduced copy,
7 because this is a legal size document?

8 MR. KELLAHIN: That's right, it is, I reduced it.

9 EXAMINER STOGNER: All right, now we're on
10 Exhibit 8.

11 MR. KELLAHIN: Exhibit 8 is the gas-oil-ratio
12 test --

13 EXAMINER STOGNER: Okay.

14 MR. KELLAHIN: -- which shows it's a gas well.

15 EXAMINER STOGNER: Is this what you have, Mr.
16 Carr?

17 MR. CARR: Yes, it is.

18 EXAMINER STOGNER: That's what I have, Mr.
19 Kellahin.

20 Q. (By Mr. Kellahin) And then finally Exhibit 9,
21 Mr. Perrin, would you identify what that document is?

22 A. Exhibit 9 is a Form C-104 that Falcon Creek
23 filed, notifying the change of operator from Cross Timbers
24 to Falcon Creek and requesting an allowable to produce gas
25 from the Monument-Tubb West Gas Pool.

1 Q. And this document is dated March 31st of last
2 year and approved on April 14th of last year by Chris
3 Williams, District Supervisor for the Division?

4 A. That is correct.

5 Q. All right, sir. When we look at the east half of
6 the east half of 7, have you reviewed the documents, Mr.
7 Perrin, so that you can show the Examiner how many
8 different royalty owners that Falcon Creek disbursed to,
9 that Cross Timbers disbursed to, and that now you, Sapien,
10 disbursed to?

11 A. Yes, I have.

12 Q. And how many are there?

13 A. There are 79 separate and distinct mineral owners
14 in that tract.

15 Q. Let me ask you to turn to Exhibit 10. Can you
16 identify this spreadsheet?

17 A. Exhibit 10 is a copy of Sapien's internal
18 revenue distribution deck, which identifies the names and
19 addresses of the 79 mineral owners in that tract that we
20 send checks to every month.

21 Q. Have you gone back, Mr. Perrin, and attempted
22 with the assistance of others to establish on a monthly
23 basis the volume of gas produced from inception?

24 A. Yes.

25 Q. And have you reduced that to the form of an

1 exhibit?

2 A. Yes.

3 Q. Is Exhibit 11 that exhibit?

4 A. It is.

5 Q. Let's look at it. How have you arranged the
6 spreadsheet? What information does it show?

7 A. Well, it shows the volumes of gas produced from
8 inception of the recompletion in August of 1999, and I've
9 divided it to show which company owned the well in which
10 particular months. The first half of the life of the well
11 was owned and operated by Cross Timbers, then only four
12 months by Falcon Creek, and since August 1st Sapient has
13 operated the well.

14 Q. Are the handwritten summaries at the bottom your
15 handwriting?

16 A. Yes.

17 Q. Let's look at that. For the months operated by
18 Cross Timbers, have you totaled the volume of gas --

19 A. Yes.

20 Q. -- have you totaled the volume of gas that was
21 produced from the well under the operation of Cross
22 Timbers?

23 A. Yes, I have.

24 Q. And what is that volume?

25 A. It's 187 million cubic feet of gas.

1 Q. Of the 187 million cubic feet of gas produced by
2 Cross Timbers during their time of operation, have you yet
3 determined what the value was of that production to Cross
4 Timbers and how they distributed the royalties and the
5 working interest?

6 A. Well, we don't have exact figures for any of that
7 since those records were not necessary to be transferred to
8 the buyer, Falcon Creek, of the properties. But we could
9 generalize from the volumes and just assume a dollar
10 figure. We expect Cross Timbers probably produced
11 something in the neighborhood of \$380,000 worth of cash
12 flow from the well.

13 Q. Does Sapient now have any recourse against Cross
14 Timbers for reimbursement of any of that money?

15 A. No.

16 Q. Let's look at the period of time that Falcon
17 Creek operated the well, from April through July. What is
18 the total volume of gas produced from the well during their
19 operation?

20 A. They produced about 165 million cubic feet of
21 gas.

22 Q. Have you examined records that determine the
23 value and the distribution of that value?

24 A. I have.

25 Q. And what are those numbers?

1 A. They produced a gross cash flow of \$447,879.

2 Q. And how was that distributed?

3 A. Well, they paid, as indicated, \$50,986 to the 79
4 royalty owners, and the working interest owner, who is
5 Falcon Creek wholly, earned \$356,000.

6 Q. And finally, during Sapient's operation of the
7 well, what is the volume produced under your operation?

8 A. Since Sapient acquired the well, we've produced
9 199 million cubic feet of gas.

10 Q. And how is that volume distributed in terms of
11 value?

12 A. It's a value of about a gross value of \$753,000.

13 Q. Okay. And when you add the Falcon Creek and the
14 Sapient volumes, you've distributed to the various
15 different royalty owners about \$137,000 with the revenue?

16 A. That's correct.

17 Q. Have you been able to reconstruct out of this
18 merger acquisition of the -- I believe it was, what, 340
19 wells. Have you come to any estimate of what price Sapient
20 paid for this wellbore?

21 A. No, I don't have that specific number with me.

22 Q. Is there any way to assess the economic impact of
23 this problem on Sapient concerning this well?

24 A. Yes.

25 Q. Describe for us what that is.

1 A. Well, this well was one of the top-valued wells
2 in the entire acquisition. With 100-percent working
3 interest, we ascribed quite a significant value to this
4 well -- I'm sure it's in the millions of dollars -- and we
5 incurred substantial debt to pay for the well. We
6 purchased 100 percent of the future reserves of this well
7 we've paid for already.

8 And so to have anything less than 100 percent of
9 the well now, and to give away half of our well, in
10 essence, to a company that didn't drill the well or take
11 the risk would be a significant economic hardship on us.
12 We've still got debt to service, because we paid already
13 for the future of the well.

14 Q. At this point, if the Examiner requires Sapient
15 to form a standard spacing unit, make that retroactive back
16 to the date of first production, back to September of 1999,
17 the economic consequence of doing so will be borne entirely
18 by Sapient; is that not true?

19 A. That's true.

20 Q. And you'll have no recourse against anyone else?

21 A. No.

22 MR. KELLAHIN: That concludes my examination of
23 Mr. Perrin. We move the introduction of Exhibits 1 through
24 11.

25 MR. CARR: No objection.

1 EXAMINER STOGNER: Okay, Mr. Carr, do you have
2 any objection to Mr. Perrin as a witness?

3 MR. CARR: No, I do not.

4 EXAMINER STOGNER: Okay, we neglected to do that.
5 However, I do have some questions of Mr. Perrin, to make
6 clear for the record.

7 By happenstance we have a Charles or a Charlie
8 Perrin working for the OCD in a different district, that
9 was in the Hobbs office at about this time. Now, obviously
10 you're not that person today, but are you any kin to our
11 Mr. Perrin here in New Mexico, living in Aztec, New Mexico
12 at this time?

13 THE WITNESS: No.

14 EXAMINER STOGNER: So you have no knowledge of
15 any kind of relationship to that gentleman?

16 THE WITNESS: None whatsoever.

17 EXAMINER STOGNER: Okay, then I accept Mr.
18 Perrin's qualifications, and Exhibits 1 through 11 -- is
19 that correct? --

20 MR. KELLAHIN: Yes, sir.

21 EXAMINER STOGNER: -- will be admitted into
22 evidence at this time.

23 Thank you, Mr. Perrin.

24 Mr. Carr, your witness.

25 MR. CARR: Thank you, Mr. Stogner.

CROSS-EXAMINATION

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BY MR. CARR:

Q. Mr. Perrin, Sapient acquired the property and the Barber Well Number 12 from Falcon Creek; is that correct?

A. That's correct.

Q. Was this a purchase of the assets of Falcon Creek?

A. We purchased 100 percent of the stock of the company.

Q. In that role, are you a successor to any warranty given to Falcon Creek?

A. Yes.

Q. You've testified that Cross Timbers had warranted compliance with the State rules and regulations; is that right?

A. Yes, that's right.

Q. And then you also testified that you had no recourse against Cross Timbers?

A. Yes.

Q. Was there a time limit on that warranty?

A. Yes, the representations did not survive closing.

Q. When you were purchasing the stock of Falcon Creek, was there a due diligence period during which time you were able to go out and confirm the assets of Falcon Creek whereas they were represented?

1 A. Yes, sir.

2 Q. And were you the person responsible for doing
3 that due diligence?

4 A. I didn't physically do it, but I oversaw the due
5 diligence.

6 Q. Were a number of the assets located within the
7 State of New Mexico?

8 A. Yes.

9 Q. Did you retain anyone or employ anyone to confirm
10 the status of the wells as they relate to state rules and
11 regulations?

12 A. Not specifically, no.

13 Q. Do you have any recourse against -- I guess as a
14 successor, just buying the stock, there is no recourse
15 against Falcon Creek; that would be against yourself,
16 wouldn't it?

17 A. Correct.

18 Q. In purchasing the assets, at some point did you
19 not assign some value to this well?

20 A. Certainly, we did.

21 Q. And you don't have that number available, you
22 don't know how you valued it when you acquired it?

23 A. No, I have access to that number, I just don't --
24 I didn't think to bring it with me.

25 Q. Now, when we talk about the value of the well to

1 Sapient, is it fair to say that when you acquired the well
2 you were assuming that the reserves that would be drained
3 would, in fact, be coming from acreage also owned by
4 Sapient?

5 A. Yes, we assume that on all the wells we acquire.

6 Q. And you didn't -- Did you do a geological or
7 engineering -- have that also done on the wells and the
8 properties you were acquiring?

9 A. We didn't do a geological review.

10 Q. Okay, but it's fair to say when you acquired the
11 stock you were unaware that you had an unapproved well
12 location and an unapproved spacing unit?

13 A. Yes, sir.

14 Q. And it isn't surprising to you, since you were
15 the purchaser, it wouldn't be surprising that Conoco and
16 Chevron also weren't aware of that at that time?

17 A. I'm not surprised.

18 Q. When we look at your Exhibit Number 2, you talked
19 about an objection you filed to a Chevron location 330 off
20 the north line of your spacing unit. When you filed that,
21 were you aware that that would result in Chevron having a
22 well farther from the common line than your current Bertha
23 Barber well?

24 A. Yes, that was one of the remedies that we
25 discussed internally.

1 Q. And you were aware, then, that they would be
2 farther from you than you were from them; is that fair to
3 say?

4 A. Yes, but we really filed to buy time, because we
5 didn't have information enough to study.

6 Q. And during that time you knew you had a well, a
7 good well, producing 330 off their line, did you not?

8 A. I did.

9 Q. And you've continued to produce that well to this
10 day, have you not?

11 A. We have.

12 Q. And there is no well offsetting you to offset the
13 drainage from the Bertha Barber well; isn't that right?

14 A. No, although I understand one has been approved
15 that they can drill.

16 Q. And it was approved after you withdrew your
17 objection; isn't that right?

18 A. Yes.

19 Q. And it was only withdrawn after this matter was
20 set for hearing; isn't that correct?

21 A. Yes.

22 Q. Now if we go to your Exhibit 3 -- and I guess we
23 could look at 3 through probably 9 -- This is actually the
24 well file, is it not?

25 A. Yes.

1 Q. And when you looked and reviewed the data on this
2 well, did you also consider this well file? Is this
3 information that you looked at when you were doing your due
4 diligence?

5 A. Yes. Honestly, I don't know if all of these
6 particular documents were in them, but -- Mr. Kellahin
7 obtained the ones that were not in our files for us.

8 Q. When we go through these files, look at the last
9 page, Exhibit 9. Right above the signature of the chief
10 executive office of Falcon Creek it says, "I hereby certify
11 that the rules of the Oil Conservation Division have been
12 complied with..." Do you see that language?

13 A. Yes.

14 Q. When a form like this is filed with the Oil
15 Conservation Division, isn't it fair, in your opinion, for
16 the OCD to rely on the data file?

17 A. I really don't have enough experience in New
18 Mexico to respond to that.

19 Q. Is it your testimony that we're in this mess
20 because the OCD didn't catch this?

21 A. No, not necessarily.

22 Q. It's not your testimony that it's the OCD's
23 fault, is it?

24 A. No, I'm not laying blame; I'm simply stating the
25 facts as to how we arrived at this place.

1 Q. And you're not saying that it's Chevron or
2 Conoco's fault either, are you?

3 A. No.

4 Q. If we look at your Exhibit Number 10, the list of
5 all the interest owners in the property who share in
6 production from the well on an east-half, east-half unit,
7 you've requested that if we go to -- Have you requested if
8 we go to 80-acre spacing, that we adjust the production
9 retroactive to first production?

10 A. Yes.

11 Q. So if you go to 80-acre spacing, you could make
12 the adjustment; is that right?

13 A. Yes.

14 Q. And if you were required to develop on 160-acre
15 spacing, it would be possible also to make the adjustment
16 and accurately account?

17 A. It depends on how you would describe that 160
18 acres.

19 Q. Is there a 160 acres where you couldn't
20 reallocate the production?

21 A. There is certainly one where it would be a real
22 accounting nightmare.

23 Q. And which would that be?

24 A. That would be the northeast quarter of 6.

25 Q. And why would that be more difficult than going

1 to simply 80-acre -- Is the ownership common throughout the
2 east half, east half?

3 A. Yes.

4 MR. CARR: That's all I have. Thank you, Mr.
5 Perrin.

6 EXAMINER STOGNER: Mr. Kellahin, any redirect?

7 MR. KELLAHIN: No, sir.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Mr. Perrin, your Exhibits 3 through 9 -- this is
11 the well file data, Cross Timbers -- does this represent
12 the full well file that Sapient has in their possession
13 that they got from Cross Timbers?

14 A. No, we have other documents in there that really
15 didn't relate to regulatory matters.

16 Q. Okay. Now, when Sapient took over Cross Timbers
17 properties, Falcon Creek properties, is it your practice to
18 do what kind of review on all the wells that now falls
19 under Sapient's operations?

20 A. Well, typically when we do a due diligence -- and
21 I've done due diligences on millions and millions of
22 dollars' worth of properties -- we single out the higher-
23 value wells and we do a title review to make sure that the
24 title that we are acquiring is good.

25 And we never really inspect each specific

1 regulatory document that affects all of the hundreds of
2 wellbores. We assume that if the wells are up and running
3 and have been producing for years and years, that the
4 licensed and bonded, knowledgeable operators who drilled
5 and produced them at the time secured those orders, and
6 relied on their expertise to have done so.

7 Q. Does your map on Exhibit Number 1 represent
8 approximately what percentage of Sapient's operations in
9 New Mexico? Is this a very small percentage, too small to
10 even calculate?

11 A. It's a fairly small percentage, and just wildly
12 guessing, I'd say maybe 15 percent of our operations is in
13 New Mexico, but I...

14 Q. Okay. So this would represent about 15 percent,
15 you're saying? Where are some of the other operations of
16 Sapient? Have they taken over all of Falcon Creek, or did
17 you obtain it over time?

18 A. No, we took over the whole company on July 14th,
19 and most of the operations were in the Permian Basin in
20 west Texas, and some in Lea County, New Mexico.

21 Q. Okay, so there are some other Sapient now-
22 operated for Falcon Creek that -- As far as New Mexico, is
23 it all Lea County --

24 A. Yes, sir.

25 Q. -- or are there other counties?

1 A. It's all Lea County.

2 Q. All Lea County. In the general area, or is it
3 scattered? Lea County is a pretty big county.

4 A. It's fairly scattered. We have some fields that
5 are populated with wells, but it's generally scattered.

6 Q. Do you by chance -- It's probably not your field
7 of expertise, and that's okay, but do you remember maybe
8 some of the other gas wells that Sapient operates, what
9 pools those may be in?

10 A. We operate the West Teas Unit --

11 Q. That has gas wells in it?

12 A. I have to defer to these guys.

13 Q. I understand, I'm --

14 A. But we do have other gas and oil wells in Lea
15 County.

16 EXAMINER STOGNER: Okay. I have no other
17 questions of this witness.

18 Mr. Kellahin, do you have any redirect?

19 MR. KELLAHIN: No, sir.

20 EXAMINER STOGNER: When you get back to your
21 office, you may want to look at the Bertha J. Barber Com
22 Well Number 13 Y, API Number 30-025-06027. That is in the
23 Unit F, as in foxtrot, of Section 8 next door. There may
24 be or may not be a letter in your files from me to Cross
25 Timbers, to a Mr. Edwin Ryan, dated November the 29th,

1 1999. This record probably does not exist anywhere else.
2 If it exists there, I'd be surprised, but only --

3 MR. KELLAHIN: Mr. Examiner --

4 EXAMINER STOGNER: -- my files, and it's a part
5 of this case file, because it was a part of the
6 administrative application that I pulled out, and it
7 appears that Cross Timbers filed for a nonstandard wildcat
8 Tubb gas proration unit for the west half of the northwest
9 quarter of Section 8, back on November the 5th, 1999.

10 MR. KELLAHIN: Mr. Examiner, Mr. Perrin's aware
11 of that document because I supplied it to him. We have
12 searched the Sapient records, and we can find no
13 information on that transaction with the Division and Cross
14 Timbers. Our knowledge is, that well is in inactive
15 status, I believe, and I pursued that with Mr. Perrin, and
16 he was surprised to see your letter to Cross Timbers,
17 because he was unaware of that until recently.

18 EXAMINER STOGNER: Okay, there's just some good
19 information in that of why the rules are like they are.

20 MR. KELLAHIN: He now knows that, sir.

21 EXAMINER STOGNER: Good. And for anybody else
22 here, when situations like this occur in some other pools,
23 well, that's why proration happens, Mr. Carr, Mr. Kellahin.
24 This is a good case to kind of set back and review some f
25 the things.

1 Okay, I didn't want to beat that, I just think
2 it's some important information that needs to be brought
3 up, and since that's part of the case, I made it part of
4 the case.

5 Also at this time I think it would be important
6 to take the file on NSL-3752 and NSL-3752-A --

7 MR. KELLAHIN: We have no objection.

8 EXAMINER STOGNER: -- take administrative notice
9 of those.

10 And also I'd like to take administrative notice
11 to -- and I made that a copy in here -- file and Order
12 Number R-11,304, issued in Case 12,321. Now, this is our
13 nomenclature.

14 MR. KELLAHIN: That's the pool-rule hearing case,
15 right?

16 EXAMINER STOGNER: Exactly, and that's when this
17 particular pool was created, and it's interestingly enough
18 that the east half of that whole section was given to the
19 pool.

20 Okay, thank you, Mr. Perrin.

21 Thank you, Mr. Carr and Kellahin.

22 MR. KELLAHIN: Yes, sir.

23 Mr. Examiner, at this time we'll call Mr. Bob Von
24 Rhee. Mr. Von Rhee is Sapient's geologist. He spells his
25 last name V-o-n R-h-e-e.

1 ROBERT W. VON RHEE,
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. KELLAHIN:

6 Q. Mr. Von Rhee, for the record, sir, would you
7 please state your name and occupation?

8 A. My name is Robert W. Von Rhee. I'm the chief
9 geologist at Sapiant Energy Corporation.

10 Q. Where do you reside, sir?

11 A. Tulsa, Oklahoma.

12 Q. On prior occasions have you testified before the
13 Division as a petroleum geologist?

14 A. No.

15 Q. Summarize for us your education.

16 A. I have a bachelor's degree in geology from
17 Lafayette College in Pennsylvania, a master's degree in
18 geology from the University of Illinois.

19 Q. In what years did you obtain those degrees, Mr.
20 Von Rhee?

21 A. 1975 and 1977, respectively.

22 Q. How long have you been the senior geologist for
23 Sapiant Energy Corporation?

24 A. Since October 1st, 2000.

25 Q. Have you utilized all available geologic data in

1 this vicinity to analyze what we now call the West
2 Monument-Tubb Gas Pool?

3 A. Yes, I have, all of the public data that I could
4 acquire.

5 Q. In addition, have you examined the logs of wells
6 that you believe are relevant to understanding the vertical
7 limits of the pool?

8 A. Yes, I have.

9 Q. And have you made an expert geologic opinion
10 concerning the size, shape, orientation and distribution of
11 that reservoir within the area of concern?

12 A. Yes, I have.

13 Q. As a result of your analysis and study, have you
14 prepared certain technical displays to illustrate your
15 conclusions concerning the Barbara Number 12 well, the
16 Chevron property to the north and the Conoco-Chevron
17 property to the west?

18 A. Yes.

19 MR. KELLAHIN: We tender Mr. Von Rhee as an
20 expert petroleum geologist.

21 MR. CARR: No objection.

22 EXAMINER STOGNER: Mr. Von Rhee is so qualified.

23 Q. (By Mr. Kellahin) If you'll turn, sir -- and
24 we're going to have to mark these as you go through them; I
25 neglected last night to mark these, so we're starting with

1 your Exhibit Number 12. And Exhibit 12, if you'll fill in
2 the exhibit sticker, is going to be the production plat
3 that you have prepared and provided; is that not true?

4 A. Yes.

5 Q. All right. Let's take a moment, look at Exhibit
6 12, and tell me what you call this.

7 A. This is a production plat of the nine sections
8 centered on Section 7, 20 South, 37 East. The acreage in
9 question, yellow code for Sapient Energy leasehold, the
10 green showing the Chevron and Conoco leasehold nearby, is
11 the same pattern you saw earlier on Exhibit 1, area map.

12 I have filtered the wells presented on this map
13 to be those wells that were drilled in excess of 6000 feet.

14 Q. All right, let's talk about that. When we go
15 back to Exhibit 1, we can look at Mr. Perrin's Exhibit 1,
16 he's got all the wellspots on here. And by filtering,
17 then, you've excluded any wellbore that doesn't provide
18 data to or through the Tubb so you could look at the Tubb?

19 A. That's correct.

20 Q. All right. So now when we get to Exhibit 12,
21 we've excluded wells that are not relevant to your
22 investigation?

23 A. That's correct.

24 Q. We see in the Unit Letter A of Section 7 the
25 Barbara 12 well, and you've circled that with a red circle,

1 true?

2 A. That's true.

3 Q. You've also circled some five other wells with
4 red circles. What do those represent?

5 A. The five other wells and the Barber well, if you
6 look on the right-hand side you'll see a legend. The red
7 circle indicates that those wells are wells reporting a
8 completion in the Tubb interval.

9 Q. Of these completions, how many of these are gas
10 wells?

11 A. The Barber 12 is a gas well, just one.

12 Q. The others are oil wells in the Tubb?

13 A. They appear to be.

14 Q. All right. Is there a relationship between this
15 single well in the West Monument-Tubb Gas Pool and the
16 Monument-Tubb Oil Pool?

17 A. What kind of relationship?

18 Q. A physical relationship in terms of distance.
19 Where is the Tubb Oil Pool in relation to this gas pool?

20 A. Oh, the best of my understanding is that the
21 Monument-Tubb Oil Pool lies directly east of our acreage in
22 the Barber 12.

23 Q. Okay. Using the data set for the Tubb interval,
24 have you prepared a structure map that will depict and
25 illustrate your conclusions about the Tubb structure?

1 A. Yes, I have.

2 Q. Is there an exhibit that illustrates the Tubb
3 structure that you have prepared and analyzed?

4 A. Yes, there is.

5 Q. Let's mark that as Exhibit 13 and look at your
6 structure map. Let's talk first about the conclusions, and
7 then we'll talk about the reasons that support that
8 conclusion, Mr. Von Rhee.

9 The first conclusion, were you able to make a
10 geologic conclusion concerning whether this Tubb gas well,
11 the Barbara 12, is geologically connected with the oil
12 pool?

13 A. In my opinion, the Barber 12, while it is
14 geologically correlative to the Tubb Oil Pool, appears to
15 be a separate and distinct accumulation of hydrocarbons.

16 Q. Does the data set present any indication of
17 concern by you that the Barbara 12 well is a gas well
18 producing a gas cap out of an oil pool?

19 A. No.

20 Q. Okay. You have projected through the southwest
21 corner of Section 5 a fault that's oriented northwest to
22 southeast?

23 A. That's correct.

24 Q. What is the significance of that fault to you in
25 analyzing the structure?

1 A. One significance is that the displacement across
2 the fault, while relatively small, is of an order of
3 magnitude sufficient to truncate the porosity zones that we
4 see developed in the Tubb formation and thereby segregate
5 the porosity zones on the other side of the fault.

6 Q. Can you give us a geologic summary and opinion as
7 to the type of Tubb gas reservoir you're dealing with?
8 Describe what kind of critter this is.

9 A. Based on my examination of the wells in this
10 plat, the Tubb reservoir is composed of multiple beds of
11 variable lithology, predominantly limestone and dolomite.
12 Within each bed you see porosity development that, for lack
13 of a better term, comes and goes. The development is
14 irregular, and it varies significantly from well to well.
15 The individual beds are highly correlative throughout the
16 area, but the porosity that develops within them is not
17 highly correlative nor, say, highly predictive.

18 At -- That's it.

19 Q. All right, let's talk about the methodology that
20 you have selected to analyze the distribution of the
21 reservoir when you prepared your net pay isopach of that
22 reservoir. And before we look at the displays, let's talk
23 about the concept.

24 Were you able to satisfy yourself to a geologic
25 certainty about the top and the bottom of the Tubb Pool in

1 which to isopach?

2 A. Yes.

3 Q. Within that interval, did you find discrete
4 intervals of dolomite and limestone?

5 A. Yes.

6 Q. Did you find that each of those intervals would
7 be such that they would contain recoverable hydrocarbons?

8 A. Yes.

9 Q. Were you able to analyze the log data to satisfy
10 yourself that you could make appropriate judgments about
11 the particular porosity cutoff values to use for the
12 dolomite portion of the reservoir?

13 A. Yes.

14 Q. And were you able to do so concerning the
15 limestone portion of the reservoir?

16 A. Yes.

17 Q. In taking all that data, were you able to satisfy
18 yourself within a reasonable geologic probability of what
19 is the net-pay thickness in the Barber Number 12 well?

20 A. Yes.

21 Q. Were you able to do so for the Chevron Number 6
22 well in the southeast quarter of Section 6?

23 A. Yes.

24 Q. Let's look at the isopach. If you'll turn with
25 me, let's look at what we're marking as Exhibit Number 14.

1 Let's take a moment, let's unfold Exhibit 14. This is your
2 work product on the Tubb interval, and we're looking at the
3 isopach.

4 I want to start, first of all, with the southeast
5 quarter of Section 6, which is the Chevron-operated
6 acreage. Do you see that?

7 A. Yes.

8 Q. All right. I want to look first of all at the
9 Matthews Number 6 well, which is located just below what
10 appears to be the number 8. Do you see that?

11 A. That's correct.

12 Q. All right, what does that number 8 represent?

13 A. That is a data point for the net vertical feet of
14 porosity in the stratigraphic interval that I'm mapping
15 that's in excess of the cutoffs that I developed.

16 Q. All right. So using that methodology, you have
17 calculated 8 net feet available to Chevron in the Matthews
18 Number 6 well, correct?

19 A. That's correct.

20 Q. When we go down south and look immediately north
21 of the Barbara 12 well -- it's not shown on this display --
22 the Matthews Number 12 well is the well Chevron wants to
23 re-enter, true?

24 A. That's correct.

25 Q. There is no data point yet on that well in the

1 Tubb?

2 A. That's correct.

3 Q. All right. Let's go back to the Number 6 well
4 now. You've got 8 feet. Did you use the same methodology
5 in putting net-pay values for each of the wells that have
6 data points on this map?

7 A. Yes.

8 Q. So you have consistently and accurately applied
9 the same methodology in preparing the values for those data
10 points?

11 A. Yes.

12 Q. Based upon a review of the data, Mr. Von Rhee,
13 what happened when Chevron re-entered the Matthews Number 6
14 well, deepened it to the Tubb and attempted to produce it?

15 A. Based on the information I reviewed, the outcome
16 was that the well's reservoir attributes made it tight to
17 produce, not enough fluid -- or couldn't produce enough --
18 couldn't deliver fluid to the wellbore, I don't remember
19 the exact way it was phrased.

20 Q. So when we look at the Matthews 6 well and take
21 the contour value of 10 feet on that display through that
22 southeast quarter --

23 A. Uh-huh.

24 Q. -- and look at everything north and west of the
25 10-foot line, what is your opinion about the geologic

1 probability that the Tubb reservoir would contribute gas
2 north and west of the 10-foot contour line?

3 A. My opinion is that it would be too tight to
4 produce.

5 Q. When we look at the southeast quarter of Section
6 6, the Chevron 160 acres --

7 A. Yes.

8 Q. -- how much of that 160 acres do you believe has
9 the opportunity to contribute Tubb gas to a well in the
10 southeast quarter?

11 A. I'd estimate about 40 to 50 acres.

12 Q. Okay, let's look now in the east half of the east
13 half of 7 --

14 A. Okay.

15 Q. -- and look at the Barbara 12 well. Using the
16 same methodology, what is the net-pay thickness you have
17 calculated for the Sapient well?

18 A. Thirty feet.

19 Q. When you compare the east half of the east half
20 of 7 to the southeast of 6 and look at the potential
21 productive acreage in relation to those two areas, what do
22 you conclude?

23 A. The potential productive acreage in the east
24 half, east half of 7 is -- some math -- three to four times
25 as great as in the southeast of Section 6.

1 Q. All right. Draw the geologic conclusion and
2 comparison, if you will, based upon your data and maps,
3 between the east half of the east half of 7 and the west
4 half of the east half of 7.

5 A. Based on these maps, the west half of the east
6 half of 7 should encounter thinning reservoir and
7 ultimately have less productive acreage as in the east half
8 of the east half of Section 7.

9 Q. Let's look now to validate the isopach by
10 comparing it to your structure map. If you'll take a
11 moment, let's unfold the structure map, which we're going
12 to mark as Exhibit 15 --

13 A. That's what we did. Didn't we do the structure?
14 Oh, you mean the cross-section?

15 Q. I'm sorry, the cross-section is Exhibit 15, and
16 let's compare the cross-section, Exhibit 15, to the
17 isopach.

18 I don't propose that you describe the entire
19 cross-section, Mr. Von Rhee, but I would like to direct
20 your attention to two wells. If you'll start on the far
21 left with the letter A, let's look at the log of the
22 Sapient well and describe for Mr. Stogner how you have
23 calculated the net-pay components for the Tubb gas
24 reservoir in that log for that wellbore.

25 A. The log for the Sapient Barber Number 12 on the

1 left-hand of cross-section A-A' is a neutron lithodensity
2 log, and a line has been scribed at the 4-percent porosity
3 value. The porosities are presented on this log, based on
4 a limestone matrix density. And based on the work that I
5 did in the area, the equivalent limestone and equivalent
6 dolomite porosities in excess of 4-percent cutoff on this
7 presentation would be contributing porosity. And so --

8 Q. That's on what, the limestone or the dolomite?

9 A. Well, the effect of scribing a 4-percent line on
10 this porosity log, which is calculated based on a 2.71
11 grain density, matrix density, is that you are picking
12 porosity in excess of 4 percent in the limestones, and
13 you're picking porosity in excess of about 10.3 percent in
14 the dolomite.

15 Q. As a result of that analysis, do you have
16 confidence that you have arrived at an appropriate porosity
17 cutoff value to use when you provide that information to
18 your reservoir engineer to do calculations?

19 A. Yes.

20 Q. And what number, then, did you use and provide to
21 him?

22 A. The 33 feet, wasn't it?

23 Q. Yes, sir.

24 A. Right.

25 Q. Thirty-three feet of net porosity thickness,

1 using what cutoff?

2 A. The cutoff presented on this log in cross-section
3 A-A'.

4 Q. All right. So you've appropriately adjusted the
5 information given and calculated to deal with the cutoffs
6 in the dolomite and the cutoff values in the limestone?

7 A. Yes, I have.

8 Q. And you use that consistently throughout your
9 analysis?

10 A. Yes, I have.

11 Q. Let's compare the logs of the Sapient Barber 12
12 well to the Chevron Matthews Number 6 well, up in the
13 southeast of 6, which is the next log. Make that
14 comparison for us.

15 A. Okay, the log for the Chevron Number 6 is a sonic
16 presentation. It presents microseconds per foot. Two
17 porosity cutoffs are indicated on this log. One is at 52
18 microseconds and one is at 58 1/2 microseconds. The 52
19 microseconds cutoff is the applicable cutoff in the
20 limestones, delivering porosity that I felt was
21 contributing porosity, and the 58.5 cutoff is a cutoff for
22 the dolomitic portions of the reservoir as contributing
23 porosity.

24 Q. Okay. Any indication on analyzing this that the
25 results from the Matthews 6 are anything other than the

1 fact that the Tubb is a tight reservoir at that position
2 and won't produce?

3 A. No.

4 Q. All right, let's go back to the isopach. How
5 long, Mr. Von Rhee, have you been analyzing logs and wells
6 and doing studies like you've just done on the Barbara 12
7 well? How long have you been doing it?

8 A. Over 20 years.

9 Q. Based upon your 20 years of experience and
10 judgment and expertise, have you determined that the most
11 probable orientation of the Tubb Reservoir as it moves to
12 the south of the Barbara 12 well is as you have depicted
13 it?

14 A. Yes.

15 Q. Explain for us the rationale for your judgment
16 and opinion that the reservoir has this orientation and
17 axis.

18 A. There's a very limited data set on which to base
19 this. If this reservoir were oriented northwest to
20 southeast, parallel to the distribution of the
21 distribution, you would expect, anticipate to see, I think,
22 a little more consistent porosity thicknesses as you move
23 through the data.

24 As you move through the data from the northwest
25 to the southeast, you move from thin data points into

1 thick, back into thin, for instance in Section 6, back into
2 thicker data points in 5 and 7 and the northwest of 8, back
3 into thin in the middle of 8, and thick again in the
4 southeast of 8 and thin again in the far southeast of 8.

5 So despite the restricted data points, it gives
6 the appearance of intersecting a series of porosity lobes
7 that trend from northeast to southwest or at right angles
8 to the trend of the data or some oblique angle.

9 Q. The orientation of the Tubb trend that you have
10 depicted in which the Barbara 12 well produces is
11 consistent, then, with the data available for you in the
12 area for those Tubb penetrations?

13 A. Yes, I believe so.

14 MR. KELLAHIN: Mr. Examiner, that concludes my
15 examination of Mr. Von Rhee. We move the introduction of
16 his Exhibits 12 through 15.

17 EXAMINER STOGNER: Exhibits 12, 13, 14 and 15
18 will be admitted into evidence if there's no objection.

19 MR. CARR: There are no objections.

20 EXAMINER STOGNER: Thank you, Mr. Kellahin.

21 Mr. Carr, your witness.

22 CROSS-EXAMINATION

23 BY MR. CARR:

24 Q. Mr. Von Rhee, if I understand your testimony,
25 your geological interpretation shows substantial reserves

1 under the east half of the east half of Section 7; is that
2 correct?

3 A. Yes.

4 Q. And these exhibits were prepared, it looks to me
5 like two days ago; is that correct?

6 A. That's when they were printed? When were they
7 actually prepared?

8 A. They were prepared within the last week.

9 Q. And at the time that they were prepared, you knew
10 that Sapient was coming before this agency seeking approval
11 of an east half-east half unit, did you not?

12 A. That's correct.

13 Q. And you've testified about the rationale you used
14 in applying the data. If I look at the Bertha Barber
15 Number 12 in 7, did you have any data available to you
16 south of that well on that spacing unit?

17 A. No.

18 Q. Did you have any west of that well available to
19 you, or southwest?

20 A. No.

21 Q. And so as you interpret the reservoir extending
22 off to the south and west, you're really analogizing from
23 information off to the north and the east; is that right?

24 A. That's correct.

25 MR. CARR: That's all I have, thank you.

EXAMINATION

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BY EXAMINER STOGNER:

Q. Okay, in Exhibit Number 14, drop down to the southeast quarter of Section 8, and back to the east there's an extensive Monument-Tubb Pool; is that your understanding?

A. Yes, sir.

Q. Okay, and it's an oil pool. And I guess -- and you testified that you believe this is two structures, that the West Monument-Tubb Gas Pool is not part of the Monument Pool at all, geologically speaking?

A. That's correct.

Q. Okay, if I follow that contour line, maybe a 30-foot contour line, there again on Section 14, that's to the -- that's your far eastern one. It kind of connects those two pools, the same as the 25-foot contour line. I guess I'm not catching that. I don't see why these are two separate pools.

MR. KELLAHIN: Are you looking at the isopach, Mr. Stogner?

EXAMINER STOGNER: Yeah, I'm looking at Exhibit Number 14, which is the isopach.

MR. KELLAHIN: If you compare it to the structure too -- make that comparison, Mr. Von Rhee.

THE WITNESS: The maps are incomplete to

1 sufficiently describe by the contours the conclusion that I
2 presented to you that they were separate.

3 You'll notice a thin data point in the southeast
4 of the northwest of Section 8. The porosity is thinning in
5 that direction. The data also show the porosity is
6 thinning from the northeast-northeast of 17 to the
7 southwest of the southeast of 8. We go from 34 to 19.

8 What these maps ultimately need to show is the
9 likelihood that the Tubb reservoir thins to a point that
10 effectively segregates the fluids on the southeast side of
11 Section 8.

12 In addition, there's a structural saddle in the
13 southeast of 8. It's not very apparent, based on this
14 limited data map, but on Exhibit 13 you reach a low point
15 structurally in the southeast corner of 8, and then you
16 have a well that comes back upstructure. It's minor, but
17 it's there.

18 So we have thinning reservoir, we have a
19 potential structural saddle, and the dimensions of the
20 saddle, once again, are similar to the dimensions of the
21 porosity units we're speaking of.

22 In addition, I did look at the production further
23 east in the Monument-Tubb field over about, I'd say, 20 or
24 30 wells that are immediately east of this area, and about
25 the highest cumulative GOR I saw there was about 500,000.

1 And yet it was fairly good oil produced.

2 Our well, the Barber Number 12, was almost a dry
3 gas well.

4 So looking at the geology of the faults, the
5 thinning reservoir, the structural saddle and the much
6 different fluid content of the Barber 12, I felt like it
7 was probably a separate and distinct accumulation.

8 Q. (By Examiner Stogner) Okay, I immediately,
9 whenever I saw this, thought of a gas cap through that
10 Monument-Tubb.

11 A. Excuse me?

12 Q. You're saying there's enough separation between
13 these two pools that that's not likely?

14 A. I don't think so.

15 Q. And why is that?

16 A. For the reasons I just stated. I mean, I'll run
17 through them again, I...

18 Q. Oh, there's no need of doing that, I can read --

19 A. Well, I may not have been clear.

20 Q. Okay, in referring to Exhibit Number 12, the only
21 Tubb producers are those marked in red; is that right?

22 A. To the best of my knowledge, that's correct.

23 Q. Okay, how about the wells that -- I mean, how
24 about historical. Some of these could be old producers?

25 A. This included, I think, as much as I could tell,

1 the historical completions also.

2 EXAMINER STOGNER: Thank you, Mr. Von Rhee.

3 Any other questions of this witness?

4 MR. KELLAHIN: No, sir.

5 EXAMINER STOGNER: You may be excused.

6 MR. KELLAHIN: Mr. Examiner, our last witness is
7 Mr. Kyle Travis. Mr. Travis is a petroleum engineer.

8 P. KYLE TRAVIS,

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

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. All right, sir, are you ready?

14 A. I'm ready.

15 Q. Mr. Travis, for the record, sir, would you please
16 state your name and occupation?

17 A. Paul Kyle Travis. I'm president of Sapient
18 Energy.

19 Q. Where do you reside, sir?

20 A. Tulsa, Oklahoma.

21 Q. In addition to being president of Sapient Energy
22 Corporation, do you hold any technical degrees?

23 A. Yes, I have a petroleum engineering degree from
24 the University of Oklahoma.

25 Q. In what year did you obtain that?

1 A. I graduated in 1978.

2 Q. What are your responsibilities and duties for
3 Sapient Energy Corporation?

4 A. In addition to being president, I am operations
5 manager, and so the field operations and engineers all
6 report to me.

7 Q. Have you prepared reservoir engineering
8 calculations concerning the Barbara 12 well that Sapient
9 now operates?

10 A. Yes, the Barber 12.

11 Q. I'm sorry, the Barber 12 well.

12 A. Yes, I have.

13 MR. KELLAHIN: We tender Mr. Travis as an expert
14 petroleum engineer.

15 MR. CARR: No objection.

16 EXAMINER STOGNER: Mr. Travis is so qualified.

17 Q. (By Mr. Kellahin) Mr. Travis, have you been
18 provided by Mr. Von Rhee his geologic conclusions and
19 opinions concerning geologic parameters and values?

20 A. Yes, I have.

21 Q. And have you utilized that geologic information
22 to make a volumetric calculation concerning the Barber 12
23 well?

24 A. Yes, I have.

25 Q. In addition, have you applied conventional

1 reservoir engineering methodologies and calculations to
2 arrive at an estimate of the original gas in place for that
3 well?

4 A. Yes, I have.

5 Q. Has that information been summarized in the form
6 of an exhibit?

7 A. Actually several exhibits.

8 Q. All right, let's look at Exhibit 6 [sic] first
9 and have you identify for us what we're looking at.

10 A. Okay, Exhibit 6 is entitled "Barber 12 Volumetric
11 Calculations", and I list my assumptions there. Obviously
12 we don't know acres. We're trying to get to a drainage
13 figure.

14 The average thickness I used was 30 feet, which
15 was the amount of pay encountered in the Barber 12 well.

16 Porosity, calculated an average porosity of 11.8
17 percent, calculated average water saturation 21.2 percent.

18 Then the initial pressure, I had to look at an
19 analogous well. When this well was recompleted, there was
20 a pipeline right there, so there was no shut-in time.

21 Cross Timbers did not shut the well in. As soon as they
22 completed the well, they immediately started producing it
23 to sales. There was no initial pressure.

24 So in the absence of that, I looked at *Dwight's*
25 *Data* in that area and found a virgin pressure in the Warren

1 field about ten miles away that had initial bottomhole
2 pressure of 2570 p.s.i. at about the same depth, the 6400
3 feet.

4 Q. Is it a reasonable engineering judgment to use
5 that methodology to arrive at original reservoir pressure
6 in the Tubb at this depth?

7 A. Yes, in the absence of measured data, it's the
8 best method I had available to me.

9 Q. As a result of this data, then, you are able to
10 make a conventional engineering calculation about the
11 volume of gas per acre-feet, true?

12 A. That is correct.

13 Q. You are now at the point in time of analyzing
14 this as a reservoir engineer to make some calculations so
15 that you can determine what is the probable drainage area
16 for the Barber Number 12 well?

17 A. That is correct.

18 Q. And you can use multiple different ways to do
19 that, one of which would be by decline analysis?

20 A. Correct.

21 Q. And have you done that?

22 A. Yes.

23 Q. And another one is by material balance. Have you
24 done that?

25 A. Yes, I have.

1 Q. As a result of the decline analysis, what do you
2 estimate in your professional opinion to be the drainage
3 area attributable to the Barber Number 12 well?

4 A. Okay, let's stay on Exhibit 6 first, and that
5 original recoverable gas in place that I calculate there of
6 .75 million cubic foot per acre-foot will be used later on
7 in some of these other calculations.

8 Okay, now we can move on the decline analysis.

9 Q. Before you run through the assumptions and
10 calculation, what is the conclusion under that decline-
11 analysis methodology as to the area being drained?

12 A. Approximately 107 acres drainage.

13 Q. All right. When we get to the material balance
14 calculation, we'll look through the assumptions there, but
15 the final calculation is 103 acres?

16 A. Correct.

17 Q. Using two different methodologies, then, you get
18 drainage of substantially less than 160 acres?

19 A. That is correct.

20 Q. When we look at the common division spacing of
21 40, 80s and 160 acres, what is the best fit for spacing for
22 this well?

23 A. In my opinion, 80 acres.

24 Q. Let's go back to the decline-curve analysis, and
25 lead us through the calculation by which you determined in

1 your best judgement that you're affecting 107 acres.

2 A. Okay. You can look back at Mr. Perrin's exhibit,
3 where he listed the produced gas volumes on a monthly
4 basis, and you can see the last three months of 2000 there
5 was very little decline that -- The produced volumes were
6 40.7 million, 39.1 million and 39.9 million. Just very
7 little decline had been exhibited up to that point.

8 So it's hard to extrapolate, you know, a decline
9 without a declining well. The well has --

10 Q. But there's a way to do that, isn't there, Mr.
11 Travis?

12 A. There are certainly ways to estimate that.

13 Q. And you've overcome that limitation by analyzing
14 the character and performance of the Tubb gas well as you
15 would expect it to perform, and in doing so you've
16 established a decline rate and an expected life?

17 A. That is correct. The well has actually -- That
18 table that I referred to through December was the last
19 month of actual sales.

20 We have pumper estimates that actually show in
21 January it was declining down to 38 million. The first
22 couple weeks of February, the well was producing about 1200
23 MCFD.

24 So it looks like it's crossed over and is now
25 starting to decline.

1 Q. You're getting changes in your --

2 A. -- monthly production.

3 Q. Monthly production is decreasing. And do you
4 have pressure data to show you that the pressure is
5 dropping in the well?

6 A. The flowing tubing pressure --

7 Q. The flowing tubing pressure is dropping.

8 A. -- is dropping as well. So what has happened is,
9 the well was not produced at its full capability and was
10 restricted to something in the 40- to 45-million-a-month
11 range. It looks like now that it's crossing that point
12 where it will no longer be able to do that and will start
13 declining.

14 So I then looked at -- In absence of an
15 extrapolatable decline, I said, what is a reasonable well
16 life for a well of this nature? and felt it would probably
17 produce for somewhere in the 15- to 25-year range and
18 somewhat arbitrarily used 20 years. The look-alike well in
19 -- or the well in Warren where I took the pressure, it
20 produced for 17 years. I thought 20 years was a reasonable
21 estimate. So in order to produce it at a 20-year well
22 life, it required me to decline the well at 24 percent from
23 this point forward.

24 Q. Is that within the range of reasonableness in
25 projecting a decline rate for a Tubb gas well?

1 A. Yes.

2 Q. All right. Having finished this calculation and
3 derived at 107 acres, is there an established discipline
4 for a reservoir engineer to attempt to analyze this in a
5 different way to either confirm or reject what you've done
6 by the decline analysis method?

7 A. Yes, material balance.

8 Q. All right, let's look at the material balance.
9 Exhibit 18 is the summary. It shows the conclusion of 103
10 acres.

11 A. Right.

12 Q. When you run through these assumptions and have
13 this calculation that has a close fit between 103 and 107
14 acres, what does that tell you?

15 A. Well, I feel that the methods confirm each other
16 and give a reasonable estimate of the drainage area,
17 approximately 100-plus acres.

18 Q. You said one of your responsibilities and duties
19 is the operational aspects of the well for Sapient; is that
20 not true?

21 A. Correct.

22 Q. As part of those responsibilities, have you
23 caused to be prepared an estimate of what it would cost to
24 drill and complete a new Tubb gas well in this area to
25 access the Tubb?

1 A. Yes, I did.

2 Q. Let's look at Exhibit 19 and have you tell us
3 what those numbers are.

4 A. This is an AFE provided by Gerald Lucero in our
5 office for drilling of a 6600-foot Tubb well, which is a
6 well sufficient to test the Tubb in the east half -- excuse
7 me, the west half, east half of Section 7. And it shows a
8 completed well cost of approximately \$347,000.

9 Q. Does Mr. Lucero regularly and routinely perform
10 this function under your direction and supervision?

11 A. Yes, he does.

12 Q. And do you find his work to be accurate and
13 reliable?

14 A. Yes, it is.

15 Q. And do you make expenditures based upon his
16 estimates on a regular basis?

17 A. Yes, I do.

18 Q. In your opinion, what would it cost to drill and
19 complete a Tubb gas well in this area?

20 A. \$347,000.

21 MR. KELLAHIN: That concludes my examination of
22 Mr. Travis, Mr. Stogner.

23 We move the introduction of his Exhibits 16
24 through 19.

25 MR. CARR: No objection.

1 EXAMINER STOGNER: Exhibits 16 through 19 will be
2 admitted into evidence.

3 Thank you, Mr. Kellahin.

4 Mr. Carr, your witness.

5 CROSS-EXAMINATION

6 BY MR. CARR:

7 Q. Mr. Travis, in your calculations you've set out
8 the basic assumptions you have utilized, and in each of
9 them you have utilized a thickness of 30 feet; is that
10 correct?

11 A. That is correct.

12 Q. If I look at the Bertha Barber well, have you not
13 perforated only 21 -- say 25 feet?

14 A. That is all cross -- Let me verify that. That
15 may well be, but that doesn't limit the pay.

16 Q. If you do overestimate the thickness it would, in
17 fact, result in a smaller drainage area; isn't that fair to
18 say?

19 A. Yes, but I did not overestimate the thickness.

20 Q. Even though you perforated less than 30 feet?

21 A. Right, they did not perforate all the porosity.

22 Q. And you're sure that's porosity, not shale?

23 A. Yes, I am.

24 Q. If we look at your calculations and you come up
25 with estimates of number of acres to be drained of either

1 103 or 107 acres, from -- What acres are actually going to
2 be drained? We would drain, it's fair to say, the
3 northeast-northeast of 7 where the well is located; isn't
4 that fair to say?

5 A. Let me get that map out. The northeast-northeast
6 of 7, yes.

7 Q. Okay.

8 EXAMINER STOGNER: What map are you referring to,
9 Mr. Travis?

10 THE WITNESS: I was looking at the isopach map.

11 EXAMINER STOGNER: Exhibit Number 14.

12 Q. (By Mr. Carr) So you're draining the northeast
13 of the northeast. That's 40 acres. We'd also be draining
14 with that well reserves from the southeast-southeast of
15 Section 6, will we not?

16 A. I don't believe once Chevron drills their well
17 that we will be.

18 Q. To get this 102, 103 acres, what about we look at
19 the 40 acres being the northwest of the northeast? Would
20 it drain that acreage?

21 A. I don't think so.

22 Q. Where are you putting this 102 acres, Mr. Travis?

23 A. I think it will be an elongated elliptical shape
24 that will likely encompass all of the northeast-northeast
25 of 7. Without a well in 8, and with the thickness

1 exhibited over there, I think we'll get some bleed-off into
2 there, and I think it will be, again, an elongated
3 elliptical encompassing the southeast-northeast so that the
4 east half-northeast, with a little bit into 8 and possibly
5 a little bit into the southwest-northeast of 7.

6 Q. If we look at Section 7, is it your testimony
7 that there are not producible reserves under the northwest
8 of the northeast?

9 A. That there are not producible reserves. No.

10 Q. Do you think there are, under the northwest of
11 the northeast?

12 A. Yes, I do.

13 Q. To get those reserves, Conoco and Chevron would
14 have to drill a well; isn't that correct?

15 A. That's my opinion.

16 Q. If they don't drill a well, would those reserves
17 be produced by the Barber Number 12?

18 A. Possibly, again some in the very, very south
19 portion of that 80 acres.

20 Q. In your opinion, are there no producible reserves
21 in the northwest of the northeast of 6?

22 A. You said the northwest of the northeast of 6?

23 Q. I'm saying the southwest --

24 A. Okay.

25 Q. -- southeast, I'm sorry, of 6.

1 MR. KELLAHIN: I'm confused now. Southeast-
2 southeast of 6?

3 MR. CARR: Southwest-southeast of 6.

4 MR. KELLAHIN: Okay.

5 THE WITNESS: No, I -- there may -- you're
6 starting to get into the edge there, but there probably are
7 producible reserves under there.

8 Q. (By Mr. Carr) Now, as we developed, there was a
9 well drilled in the northwest of the northeast of 7. I
10 mean, that could change the interpretation; isn't that
11 right?

12 A. That is correct.

13 Q. Aren't we creating a situation where if Conoco
14 and Chevron want to produce their reserves in the west half
15 of the east half, they're going to have to drill a well;
16 isn't that right?

17 A. Correct.

18 Q. If Chevron wants to produce the reserves
19 available to it north of there in the southeast of 6, it
20 has to drill or recomplete a well, correct?

21 A. Correct.

22 Q. If the owners of the southwest of 5 want to
23 produce the reserves they have there, they have to drill a
24 well, do they not?

25 A. Correct.

1 Q. And you, if you're going to produce reserves off
2 of the acreage being the west half of the northwest of 8,
3 you have to drill a well over there too, would you not?

4 A. Run that by me again.

5 Q. I mean, wouldn't you -- To produce reserves under
6 the west half, northwest of 8, do you have to drill another
7 well?

8 A. Yeah, I think -- Left undrilled, I think the
9 Barber 12 will get some of those reserves over there.

10 Q. Are your royalty owners the same in Section 8?

11 A. I do not know. I believe they are. Yes, they
12 are.

13 Q. But the scenario could be, you have a well that
14 will drain 107 acres. We assume it's radial. Do you think
15 that's fair to assume?

16 A. No.

17 Q. Do you think it would at least be in the area in
18 this reservoir with gas saturation, not down in the oil
19 leg?

20 A. I do not believe -- Yeah, I believe it will be in
21 the gas saturation.

22 Q. And is it your testimony that that 102 acres is
23 going to fit right into the east half, east half?

24 A. No, I believe I've already stated that I think
25 the drainage will slip over into part of the northwest of 8

1 and part of the southwest-northeast of 7, as well.

2 Q. Okay, and without the wells in, say, the
3 southwest-northeast of 7, those reserves would ultimately
4 be recovered by your well, the Number 12?

5 A. A small portion.

6 Q. And so to recover the reserves that can be
7 drained by your well, your recommendation is that Chevron
8 and Conoco spend about \$350,000 for another well?

9 A. Right. The good thing is, it certainly, I don't
10 think, could be construed as waste. If they had just a
11 fraction of the well that we do -- say they got 1 BCF
12 reserves. At today's gas prices and at those drilling-
13 completion costs, they would get about a ten to one, which
14 is hardly poor economics.

15 Q. Are they going to recover more gas with that
16 second well than could be recovered if the Bertha Barber 12
17 produced?

18 A. I believe so.

19 Q. So it's not just rate acceleration you're talking
20 about?

21 A. Right --

22 Q. And --

23 A. more reserves.

24 Q. -- it's geological interpretation of the
25 reservoir as it extends off to the south and the west of

1 your location?

2 A. Right.

3 MR. CARR: That's all I have.

4 EXAMINER STOGNER: Thank you, Mr. Carr.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. Mr. Travis, did you do a reservoir assessment of
8 the Monument-Tubb back to the east, over in 8?

9 A. I looked at it and looked at certain aspects of
10 it.

11 Q. What aspects did you look for?

12 A. One of the things I looked at were the GORs of
13 the producing wells to see if, indeed, it appeared like --
14 if we might be a gas cap to that reservoir.

15 And one of the things that I found was that
16 the -- if -- GORs in the south half of 9, which of course
17 is the section immediately east of 8, had very high GORs.
18 One well had a GOR of 594,000, another one 454,000, and
19 then the GOR fell off away from there to lower volume -- or
20 lower ratios, and some in the 7000-to-10,000 range, even as
21 low as 3000.

22 Then also I looked at the quality of wells going
23 from the meat of the field in Section 9, transversing west
24 into Section 8, and you really see the quality of wells
25 fall off when you get into those two producers in the

1 southeast of 8. One well has cum'd 1781 barrels and 8000
2 MCF, and another well, 12,000 barrels and 30 million cubic
3 feet. One location offsets the wells that cum'd 369
4 million cubic feet of gas and 197,000 cubic feet of gas.
5 So it looks like there's a quality deterioration as you
6 move west into 8.

7 And further, again, you know, there's a lot
8 happening stratigraphically here with porosity pinchouts,
9 and it looks like that's why the development stopped there
10 at 8, as you started getting low-quality reservoir and is
11 part of the reason for separating Section 7 from Section 8.

12 Part of my point there, Mr. Examiner, is, if
13 there is a gas cap associated with that, it appears more
14 likely that it's in that south half of Section 9, just
15 looking at the GORS.

16 EXAMINER STOGNER: Okay, I have no other
17 questions at this time. I may recall --

18 MR. CARR: Mr. Stogner --

19 EXAMINER STOGNER: I'm sorry.

20 MR. CARR: -- could I follow up on that?

21 EXAMINER STOGNER: Yes, please.

22 FURTHER EXAMINATION

23 BY MR. CARR:

24 Q. Just to be sure I understand you, Mr. Travis, Mr.
25 Stogner asked you some questions about, I believe,

1 Monument-Tubb Pool to the east and about wells in a gas
2 cap.

3 Do you believe that those wells and the way they
4 perform set any sort of a precedent that could be followed
5 in this case?

6 A. No, I'm not saying that.

7 Q. Okay, I just wanted to be sure. I couldn't tell
8 whether the conversation was going.

9 You would agree with me, would you not, that you
10 have frac'd the Bertha Barber Federal Number 12, and the
11 production substantially increased at that time --

12 A. Yes, it did.

13 Q. -- is that fair to say?

14 Are you aware of any of these other wells having
15 had similar fracture-stimulation treatments?

16 A. I'm not aware of the --

17 Q. All right, that's all.

18 A. -- stimulation history of those.

19 MR. CARR: I just wanted to be sure there wasn't
20 something going on that I was missing. Thank you.

21 EXAMINER STOGNER: No other questions of Mr.
22 Travis at this time. I may recall him later.

23 MR. KELLAHIN: If it's appropriate with your, Mr.
24 Examiner, might we take a short recess, and then I can
25 huddle with my experts? And I think we're about finished,

1 but I want to make sure I haven't overlooked something.

2 EXAMINER STOGNER: Okay. And in the meantime
3 I'll go visit the ghost of the Northeast Lovington-Strawn.

4 Ten-minute recess.

5 (Thereupon, a recess was taken at 10:55 a.m.)

6 (The following proceedings had at 10:22 a.m.)

7 EXAMINER STOGNER: This hearing will come to
8 order. Mr. Kellahin, is there anything further on your
9 side?

10 MR. KELLAHIN: No, Mr. Stogner, that concludes
11 our presentation on behalf of Sapient.

12 EXAMINER STOGNER: Thank you. Mr. Carr?

13 MR. CARR: May it please the --

14 EXAMINER STOGNER: Now, before we get started,
15 did all five of your witnesses stand up? I really didn't
16 pay any attention.

17 MR. CARR: I don't know.

18 EXAMINER STOGNER: Is there any additional
19 witness that was not in the room? Did all five of you get
20 sworn in?

21 Okay, I remember seeing somebody else come in
22 now.

23 Okay, then in that case, Mr. Carr?

24 MR. CARR: May it please the Examiner, at this
25 time we call Charles M. Rule to the stand.

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CHARLES M. RULE,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. Charles M. Rule.

Q. Where do you reside?

A. Midland, Texas.

Q. Mr. Rule, by whom are you employed?

A. Conoco, Inc.

Q. And what is your position with Conoco?

A. I'm a landman.

Q. Have you previously testified before this
Division and had your credentials as an expert in petroleum
land matters accepted and made a matter of record?

A. Yes, I have.

Q. Are you familiar with the Application filed in
the cases that are before the Examiner in the hearing here
today?

A. Yes, I am.

Q. And are you familiar with the status of the lands
in the area which is the subject of this hearing?

A. I am.

MR. CARR: Are Mr. Rule's qualifications

1 acceptable?

2 EXAMINER STOGNER: Mr. Kellahin, do you have any
3 objection?

4 MR. KELLAHIN: No, sir, Mr. Examiner.

5 EXAMINER STOGNER: Mr. Rule is so qualified.

6 Q. (By Mr. Carr) Mr. Rule, would you briefly state
7 what Conoco seeks in this case?

8 A. We seek a denial of the Application of Sapient
9 Energy and development of this acreage on a standard
10 proration unit.

11 Q. Conoco is not opposing the unorthodox well
12 location?

13 A. No, we're not.

14 Q. What is the current status of the acreage in the
15 area which is the subject of this hearing?

16 A. By "status" do you mean, is it currently leased
17 or --

18 Q. Are we looking at state, federal or fee tracts,
19 do you know?

20 A. Okay, yes, federal and fee. It varies from tract
21 to tract.

22 Q. Have you prepared an exhibit which shows the
23 status and the ownership of the acreage in question?

24 A. Yes, I have.

25 Q. Has that been marked Conoco Exhibit A?

1 A. Exhibit A.

2 Q. Would you just refer to that exhibit and review
3 the information on it for Mr. Stogner?

4 A. Okay, I guess starting in Section 6, the Chevron
5 tract, that's a fee tract that's owned, according to our
6 records, by Chevron 100 percent.

7 Going down into Section 7, Conoco tract, the west
8 half of the east half, is a federal lease. And this
9 ownership that I'm showing here in this west half, east
10 half, is below the base of the Blinebry only. It varies
11 from formation to formation.

12 Q. And below the base of the Blinebry, who owns in
13 the Tubb formation?

14 A. Okay, that would be as shown on the map. That's
15 Conoco with 37-plus percent, Phillips with 25, ARCO with
16 18.7, Chevron with 18.7, and then three individuals with a
17 smaller percentage after that.

18 Q. Was Conoco Exhibit A prepared by you?

19 A. Yes, it was.

20 Q. Mr. Stogner, we move the admission of Conoco
21 Exhibit A.

22 EXAMINER STOGNER: Exhibit A will be admitted
23 into evidence.

24 MR. CARR: And those are the only questions I
25 have on direct of Mr. Rule.

1 EXAMINER STOGNER: Mr. Kellahin?

2 CROSS-EXAMINATION

3 BY MR. KELLAHIN:

4 Q. Good morning, Mr. Rule.

5 Let me look at Exhibit A with you. It shows a
6 date of February 23rd --

7 A. Yes, sir.

8 Q. -- on when this thing was prepared. What is the
9 vintage of the title documents that represent this
10 distribution of interest for the west half of the east half
11 of 7?

12 A. That is based on a title report I had done about
13 a year and a half ago. And I felt it was still accurate
14 and used it to prepare this map.

15 Q. Do you know from reviewing that title opinion
16 whether this distribution of percentage interests in the
17 Tubb would be based upon documents that are of public
18 record?

19 A. I believe so, yes.

20 Q. Are there any of these percentages that are based
21 upon contracts or agreements that have not been placed of
22 record?

23 A. No, not to my knowledge.

24 Q. What are your responsibilities for Conoco, Mr.
25 Rule?

1 A. I'm a landman, and I work southeast New Mexico,
2 Lea County.

3 Q. Would that include the Monument area of Lea
4 County, New Mexico?

5 A. I believe so, yes.

6 Q. You said --

7 A. I'm not exactly sure where the Monument area
8 would be, but I believe so, yes.

9 Q. All right, but you're responsible for the land
10 matters within Lea County?

11 A. A portion of Lea County.

12 Q. All right, sir.

13 A. Basically the eastern half of Lea County. We
14 have another landman who handles the western half.

15 Q. All right, and who is that other landman?

16 A. Carl Sherrill is his name.

17 Q. All right. How long have you been employed by
18 Conoco, Mr. Rule?

19 A. A little over 11 years.

20 Q. Do you know what Conoco system is in place for
21 monitoring wells in the Monument area?

22 A. In the Monument area specifically?

23 Q. Yes, sir.

24 A. No, I do not.

25 Q. Does Conoco have operations of wells at any depth

1 within this Monument area that's been described on the
2 Sapient exhibits?

3 A. I'm not sure.

4 Q. Who at Conoco monitors the Oil Conservation
5 Division hearing docket; do you know?

6 A. It would be a combination of people. I guess Kay
7 Maddox would be primarily responsible.

8 Q. And who does that for Lea County; do you know?

9 A. I believe that would be Kay.

10 Q. When the Division declares a new pool in an area
11 where Conoco has working interests of operations, who at
12 Conoco is responsible for knowing about that activity?

13 A. I believe the initial responsibility would be
14 from Kay, and then it would filter out to the teams from
15 that point.

16 Q. All right. When did Conoco first become aware of
17 the Cross Timbers-Tubb gas well in Section 7?

18 A. I'm not sure.

19 Q. When did Conoco first become aware of Chevron's
20 request for an unorthodox well location for the Matthews
21 Number 12 well?

22 A. I don't know the exact date, but my recollection
23 is sometime last summer.

24 Q. Was that --

25 A. That's the earliest I recall, and -- I --

1 Q. Was that contact to you?

2 A. No, it was not.

3 Q. All right, how did you become aware of it?

4 A. Again, just through the -- as things filter
5 through the team.

6 Q. Would you be the land person responsible for
7 dealing with the Sapient well and the Chevron well?

8 A. To the extent that there are land issues
9 involved, yes.

10 Q. Would you be the person responsible for filing
11 any objection to the Chevron unorthodox location that moves
12 towards the northeast quarter of Section 7?

13 A. I would be involved in that effort, I would be
14 consulted; I would not actually do it.

15 Q. Do you know why Conoco did not object to the
16 Chevron unorthodox well location that encroached towards
17 the northeast of 7?

18 A. I do not.

19 Q. Did you have any conversations with Mr. Lloyd
20 Trautman of Chevron concerning either the Chevron well or
21 the Sapient well?

22 A. Not to my recollection.

23 Q. Okay. Do you know why Conoco did not file an
24 objection to the Chevron well location?

25 A. No, I do not.

1 Q. When did you first hear or become aware of the
2 Sapient Application for approval of the nonstandard
3 proration unit?

4 A. Again, it would have been some time after it was
5 filed.

6 Last summer to the fall, as I recall, is when the
7 whole thing started heating up, and we became aware of it.

8 Q. Okay, so prior to October of last fall, you were
9 not aware of the permitting inadequacies of the Sapient
10 well in terms of approval of its spacing unit?

11 A. No, I don't believe so.

12 Q. Were you aware of the issuance by the Division of
13 a discovery for this Tubb gas well and the declaration of
14 the West Monument-Tubb as a gas pool?

15 A. No.

16 Q. Is there someone at Conoco that's responsible for
17 monitoring what offset operators do?

18 A. I don't know that there's any particular
19 individual that has that responsibility. I think it kind
20 of falls on different people on the team to monitor that
21 sort of thing.

22 MR. KELLAHIN: All right, sir. No further
23 questions, Mr. Stogner. Thank you.

24 EXAMINER STOGNER: Mr. Carr, any redirect?

25 MR. CARR: No redirect.

EXAMINATION

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BY EXAMINER STOGNER:

Q. Mr. Rule, who contacted Mr. Carr to represent Conoco in this matter?

A. I believe I did.

Q. And when was that?

A. I don't remember the exact time. It would have been sometime this fall, I believe.

Q. Mr. Rule, your coverage of Lea County New Mexico, it says you cover a portion of Lea County on the eastern part; is that correct?

A. Yes, sir.

Q. Is that both oil and gas --

A. Yes, sir.

Q. -- production?

A. Yes, sir.

Q. Do the same people in Conoco monitor oil, the extension and creation of oil pools, as do the creation and extensions of the Division's gas pools?

A. I believe so.

Q. Same people.

And the USBLM, as far as the west half of the east half, they're the royalty interest owner --

A. Yes, sir.

Q. -- is what you're showing?

1 A. Uh-huh.

2 Q. Do operators still get contacted by the BLM for -
3 - what do they call it, offset drainage review or something
4 to that effect, when a gas well or an oil well is drilled
5 on maybe state or federal land, or even state or fee land
6 or even federal land, don't they go to the operator that's
7 offsetting?

8 A. I believe so, if they believe there's a reason to
9 believe that they're being drained, yes, sir.

10 Q. Okay, did Conoco -- Who's the lessee of the west
11 half of the east half on the --

12 A. The record title owner?

13 Q. Yes.

14 A. That's Conoco.

15 Q. Okay, was Conoco contacted by the BLM?

16 A. No, sir.

17 Q. Have you contacted the BLM to see if they were
18 aware of this --

19 A. No, sir.

20 Q. -- matter? You haven't talked to anybody.

21 EXAMINER STOGNER: No other questions?

22 MR. KELLAHIN: Not from me.

23 EXAMINER STOGNER: You may be excused.

24 MR. CARR: Mr. Stogner at this time I call Bruce
25 Wiley, W-i-l-e-y.

1 EXAMINER STOGNER: Mr. Carr?

2 BRUCE H. WILEY,

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

5 DIRECT EXAMINATION

6 BY MR. CARR:

7 Q. Would you state your name for the record, please?

8 A. Bruce Henry Wiley.

9 Q. Mr. Wiley, where do you reside?

10 A. Midland, Texas.

11 Q. By whom are you employed?

12 A. Conoco, Incorporated.

13 Q. And what is your position with Conoco?

14 A. I am a petroleum geologist.

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

17 A. No, sir.

18 Q. Could you briefly review your educational
19 background and work experience for Mr. Stogner?

20 A. I graduated from Middlebury College in 1972 with
21 a bachelor of arts degree and a major in geology; I
22 graduated from the University of Washington in 1979 with a
23 master of science degree in geological sciences.

24 I have worked for 25 years as a petroleum
25 geologist with four companies, Texaco, Marathon Oil

1 Company, Transco Exploration Company, and most recently,
2 the last eleven years, with Conoco, Incorporated.

3 Q. Are you familiar with what Sapient is seeking in
4 these cases?

5 A. Yes, sir.

6 Q. Have you made a geological study of the portion
7 of the West Monument-Tubb Gas Pool that's involved in this
8 case?

9 A. Yes, sir.

10 Q. And are you prepared to share the results of your
11 work with Mr. Stogner?

12 A. Yes, I am.

13 MR. CARR: We tender Mr. Wiley as an expert
14 witness in petroleum geology.

15 EXAMINER STOGNER: Mr. Wiley is so qualified.

16 Q. (By Mr. Carr) Mr. Wiley, you've prepared
17 exhibits for presentation here today?

18 A. I did.

19 Q. Let's go to what has been marked as Conoco
20 Exhibit Number 1. I'd ask you to identify this and review
21 the information on this exhibit for Mr. Stogner.

22 A. Okay, Exhibit 1 is a structure map. The map
23 datum is 135 feet below the Tubb marker. The scale is one
24 inch equals 1000 feet. The yellow coloring shows the
25 Conoco interest leasehold, the red shows what we interpret

1 to be the gas cap. The green coloring is what we interpret
2 to be the oil leg. This is all pertaining to the Tubb-
3 Monument field now, gas and oil field. The green circles
4 are Tubb oil producers, and the red circles are Tubb gas
5 producers.

6 The area that's covered hachured green and red is
7 the range of uncertainty between the possible top or base
8 of the gas-oil contact.

9 Also shown on the map is cross-section A-A',
10 which goes from the southwest, the Barber Number 1 Federal
11 well that Conoco drilled, up to the northeast, showing the
12 Barber B17 well, which is A'.

13 The first thing we'd like to show with this map
14 is that the well control clearly demonstrates that there's
15 a subsidiary closed structure on which the Barber 12 well,
16 the Sapient Barber 12 well, is drilled. The anticlinal
17 axis runs from northwest to southeast on that structure.

18 The highest point on the structure is the
19 Phillips Number 11 well, located in the northwest corner of
20 Section 6. But only slightly lower is a second, subsidiary
21 high, at the Barber 12 well, which has a high of minus 2794
22 feet on the map data.

23 The lowest closing contour on this subsidiary
24 structure is at minus 2880, and that defines the subsidiary
25 closure that we believe there is a gas cap at the crest of

1 that.

2 There are three contacts shown on this map. One
3 is the base of the -- Okay, let me back up just a second
4 now. There are six producing wells in the Tubb formation
5 shown on this map. Five of those are gas wells -- I mean,
6 five of those are oil wells, and they have gas-oil ratios,
7 which are posted next to the wellbore symbols, of less than
8 4568. That's the highest gas-oil ratio.

9 There's one gas well shown on the map, and that
10 is the Barber 12 well, and that has gas-oil ratio of
11 400,000 -- actually 406,607, and that's lifetime gas-oil
12 ratios.

13 So what we see here is that there is a two-
14 orders-of-magnitude-higher gas-oil ratio in the Barber 12
15 well than any of the other oil wells on the map. We
16 believe that demonstrates the presence of a gas cap.
17 Clearly it's a gas well by the Commission's definition of
18 greater than 100,000 GOR. We believe that the structure,
19 combined with the GORs, demonstrate that there is a gas-oil
20 contact -- or that there's a gas cap present.

21 We've attempted to estimate where the gas-oil
22 contact is and where the oil-water contacts are, and we've
23 done that by looking at the perforations in the different
24 wells.

25 The base of the perforations in the Sapient

1 Barber 12 gas well occur at minus 2854, and that's at the
2 base of the hachured green oil area.

3 The highest perfs, or the top of the perfs in the
4 highest oil well, occur in the Barber 18Y well at an
5 elevation of minus 2842.

6 So we believe that between minus 2842 and minus
7 2854 there is a gas-oil contact. The exact position in
8 that range we're not certain, but somewhere in that range
9 we think it would occur.

10 Likewise, we think that somewhere between minus
11 2911, which is the base of the perfs in the Barber 16 well,
12 and minus 2924, which is the base of the shows in the
13 Barber Federal Number 1 well, defines where the oil-water
14 contact would lie.

15 So those are the points that I think we
16 demonstrate on Exhibit 1.

17 Q. Mr. Wiley, when you prepared this exhibit what
18 information was available to you? Did you have any seismic
19 data that you integrated into this work?

20 A. No, sir, there's no seismic.

21 Q. Strictly well control?

22 A. Correct.

23 Q. Do you have data or have you utilized data that's
24 been available to you that was not available, apparently,
25 to Sapient?

1 A. Yes, sir, there's one very critical point. That
2 is the structural elevation of the Barber Number 1 well,
3 located in the -- It's point A on the cross-section that
4 we'll see in just a minute, located in the southwest
5 quarter of Section 7. And Conoco drilled that well
6 approximately 1998. I'm not certain of the exact date.

7 But they twisted off drill pipe. They did
8 penetrate through the Abo section and the Tubb section.
9 They twisted off drill pipe and were unable to get open
10 hole logs through that well, but we did get a mud log
11 through the well, and we have a fairly good correlation
12 that you'll see on the cross-section in a minute, which
13 gave us a structural point to help constrain the map to the
14 southeast, which was not available to Sapient.

15 Q. And so in terms of the geological interpretation
16 you're presenting, compared to that presented by Sapient,
17 you have an additional data point to analyze; is that
18 correct?

19 A. Yes, a critical data point.

20 Q. And because of that data point you have
21 restricted your interpretation of the reservoir as it
22 extends to the south and the west in a way that was not
23 done by Sapient?

24 A. Yes, I believe this will show that the structure
25 is oriented more northwest to southeast as opposed to

1 north-south.

2 Q. When we look at your interpretation of the
3 reservoir, do you have reservoir that should produce
4 commercial reserves under the west half -- or the west half
5 of the northeast of Section 7?

6 A. Yes, yes. If you will look at the -- again, the
7 two possible -- the range of the possible -- what I've
8 marked as highest oil or lowest gas, that clearly cuts into
9 the northwest of the northeast and even into the northeast
10 of the northwest of Section 7.

11 Q. Let's go to Exhibit Number 2, the cross-section.
12 Would you take that out and then -- I guess the trace is
13 shown on Exhibit 1, and you've then --

14 A. I'm sorry, could you repeat the question? I'm
15 busy rattling.

16 EXAMINER STOGNER: First of all, let's get
17 everything unfolded, and then we'll talk.

18 Q. (By Mr. Carr) Mr. Wiley, the trace for this
19 exhibit, for Exhibit 2, the cross-section, is shown on
20 Exhibit 1. Would you go to Exhibit 2 and review the
21 information on this exhibit for the Examiner?

22 A. Okay. Again, the mapped datum is labeled on the
23 lower left side as mapped datum. It's 135 feet below the
24 top of the Tubb marker. The Tubb marker is shown as the
25 higher connecting line. Also on the left side it's

1 labeled, and the right side.

2 You'll notice that the map horizon approximates
3 the top of the Tubb reservoir or porosity. It's based on
4 the top of the perfs being 135 feet below the top of the
5 Tubb marker in the Sapient Number 12 Bertha Barber well.

6 Now, the top of the perfs in the other three
7 wells that produce on the cross-section range from 131 to
8 155 feet below the top of the Tubb marker. So I felt that
9 the 135 feet that the perfs were below the top of the Tubb
10 marker in the Sapient Number 1 well was representative of
11 the top of the reservoir or the top of the porosity.

12 So that's what the structure map is built on in
13 Exhibit 1.

14 The next thing you'll notice is that I've colored
15 the portions of the reservoir with the same color code as I
16 did on the map. The solid red represents what we believe
17 to be the gas cap, the solid green represents what we
18 believe to be the oil leg, and the hachured red-green is
19 the uncertain area somewhere within which we believe lies
20 the gas-oil contact.

21 I've labeled across the top of each well the
22 cumulative production as of the latest date I had data,
23 which was June of 2000. I've also labeled the initial
24 potential of each of the wells, and I've labeled the
25 perforated interval of each well. I've also labeled the

1 gas-oil ratio of each of those wells.

2 So again what we think is that this cross-section
3 shows the gas cap, it shows the evidence that we've got for
4 the placing the contacts, where we've placed them, and I
5 think that shows you where we got the minus 2842 for the
6 highest oil, the minus 2854 for the lowest gas, and the
7 2911 for the base of the -- lowest known oil.

8 Q. Mr. Wiley, what conclusions can you reach from
9 your geological study of the area?

10 A. Okay, going back to the map now, it's clear to us
11 that the gas cap that we believe is present in Section 7
12 and producing in the Barber 12 well does not extend into
13 the south half of the Sapient acreage, namely the east half
14 of the east half of Section 7. We think it does clearly
15 cover the north half of -- I'm sorry, let me say it this
16 way: the northeast of the northwest quarter and the
17 northwest of the northeast quarter of Section 7. In other
18 words, Conoco leasehold.

19 It also extends into the northwest quarter of
20 Section 8 and up into Section 6 and the southwest quarter
21 of Section 5.

22 So clearly we believe, as some of our engineering
23 evidence will show, we believe that that well will drain
24 the Conoco leasehold.

25 Q. To date, has Conoco shared in any of the reserves

1 being produced by the Bertha Barber?

2 A. No, sir.

3 Q. If they do not drill another well or have the
4 spacing unit established to include the Conoco acreage,
5 will that acreage ultimately be drained by the Bertha
6 Barber well?

7 A. Yes, we believe it will.

8 Q. What impact would that scenario have -- Well, let
9 me ask you about Sapient's proposal for 80-acre spacing
10 units. What impact would that have on Conoco's rights in
11 the northeast of Section 7?

12 A. We believe that would cause us to drill
13 unnecessarily additional wells that would accelerate the
14 recovery, not producing new reserves but causing
15 acceleration. But much of that testimony will follow from
16 our engineers.

17 Q. Is it also true that if nonstandard units are
18 proposed, you'll be in the same position, having to drill
19 an additional well?

20 A. Yes, sir.

21 Q. And you'd be doing that to access reservoir,
22 which is now capable of being produced by the Bertha Barber
23 Number 12?

24 A. We believe that is the case.

25 Q. Were Exhibits 1 and 2 prepared by you?

1 A. Yes, sir.

2 MR. CARR: At this time, Mr. Stogner, I'd move
3 the admission into evidence of Conoco Exhibits 1 and 2.

4 EXAMINER STOGNER: Any objection?

5 MR. KELLAHIN: No objection.

6 MR. CARR: And that concludes my direct of Mr.
7 Wiley.

8 EXAMINER STOGNER: Exhibits 1 and 2 will be
9 admitted into evidence.

10 Thank you, Mr. Carr.

11 Mr. Kellahin, your witness.

12 MR. KELLAHIN: Yes, sir. Thank you, Mr.
13 Examiner.

14 CROSS-EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Wiley, let's look at Exhibit Number -- What
17 is this? Number 1?

18 A. Yes, sir.

19 Q. How long have you been investigating this issue
20 concerning the Sapient well, Mr. Wiley?

21 A. Again looking at the Sapient well, which was
22 originally completed to the Abo this past summer, I'm going
23 to guess it was June.

24 Q. All right.

25 A. At that time it had produced from the Abo, and I

1 think I continued to look at it through when it had been
2 recompleted into the Tubb.

3 Q. All right. Are you aware that Cross Timbers
4 recompleted this in September of 1999 --

5 A. Yes.

6 Q. -- in the Tubb?

7 A. Yes.

8 Q. All right. In relation to that date, what is
9 your first involvement with this well?

10 A. The summer of 2000.

11 Q. All right, a year later?

12 A. Yes, sir.

13 Q. Prior to that time, whose responsibility was it,
14 geologically, to monitor the geology in the Monument area
15 for Conoco?

16 A. There's a team which consists of four geologists
17 that try to keep track of activity.

18 Q. Since the summer of last year, are you part of
19 that team that monitors the activity in the Monument area
20 for Conoco?

21 A. Yes, sir.

22 Q. Would it have been your responsibility to monitor
23 what Cross Timbers and then Falcon Creek and now Sapient
24 have done with the Barber Number 12 well?

25 A. Yes, sir, as well as many other operators in the

1 area.

2 Q. Okay. So in July 14th of last summer, when
3 Chevron re-enters the Number 6 Matthews well in the
4 southeast quarter of 6, that's information that would have
5 been available to you?

6 A. It potentially would have been available. I was
7 not aware of that until this fall.

8 Q. All right, this fall you became aware of
9 Chevron's attempt to re-enter the Matthews 6 well, right?

10 A. Yes.

11 Q. Let's look at the structure map. The gas cap as
12 you've outlined it is the area contained generally within
13 the red shading?

14 A. The definite gas cap is in red. It may extend
15 down through the hachured green-red.

16 Q. All right, we've got the Barber 12 well that is
17 within the highest structural contour you've shown on this
18 display and would place it in what you call the gas cap?

19 A. Correct.

20 Q. Right?

21 A. Yes, sir.

22 Q. Are there any other wells contained within that
23 contour line that's shaded in red, that have penetrated
24 through the Tubb?

25 A. Yes, all of those wells with a red datum

1 underneath them have penetrated through that potential gas
2 cap.

3 Q. All right. Have any of these wells been actually
4 tested to see if they will produce from what you call the
5 Tubb gas cap?

6 A. Not to my knowledge.

7 Q. Are you not aware that on July 14th of last
8 year --

9 A. Oh, excuse me --

10 Q. Yes, sir?

11 A. -- with the exception of the Chevron Matthews 6
12 well.

13 Q. All right, the Matthews 6 well, let's find it.
14 You've got a gas well symbol that says 9920. Underneath
15 the gas well symbol it says minus 2822, right?

16 A. That's correct.

17 Q. Have you looked to see what Chevron attempted to
18 do when they tried to produce Tubb gas out of that
19 wellbore?

20 A. Yes, sir.

21 Q. Do you recognize the fact that they found a tight
22 reservoir in which they could not get any fluid entry back
23 after their attempt?

24 A. Yes, sir.

25 Q. Are you aware that Chevron declares that to be a

1 tight-formation Tubb gas attempt?

2 A. Yes, sir, the structure map has not -- There is
3 no implication of porosity on this structure map.

4 Q. All right. So if we're looking to try to find
5 the distribution of the gas cap, how should we alter your
6 map to take into account the fact that the well to the
7 north of the Sapient well, the Matthews 6, can't produce
8 gas out of this gas cap?

9 A. Superimposed on this map should be a porosity
10 isopach.

11 Q. Where is your porosity isopach, Mr. Wiley?

12 A. I have not yet constructed one, sir.

13 Q. So you don't have a clue yet about the
14 distribution of the potential contribution of the reservoir
15 until you do that map, right?

16 A. If you will take the porosity map that was
17 introduced by Sapient into evidence today, you will find
18 that even taking that map at face value, there is porosity
19 present on the Conoco acreage in the west half of the east
20 half of Section 7 and in the southeast quarter of Section 6
21 of -- which would be Chevron acreage.

22 Q. So you're willing to accept Mr. Von Rhee's
23 geologic presentation concerning the isopach?

24 A. I would say that is a possible interpretation. I
25 myself have not independently confirmed or denied that.

1 Q. All right. Do you have any disagreement with the
2 porosity cutoff values that he's used?

3 A. Yes, potentially I do. He used no gamma-ray
4 cutoff to distinguish shale from nonshale. And secondly,
5 some quick calculations we've done with Mr. Tim Denny from
6 Chevron suggest that the ϕ_h in the Matthews 6 well and the
7 ϕ_h in the Barber 12 well are approximately equal.

8 Q. All right. Did Mr. Denny show you an isopach?
9 Has he prepared an isopach?

10 A. No, sir.

11 Q. Neither one of you fellows have prepared an
12 isopach, have you?

13 A. No, sir.

14 Q. Let's look at this change of structural feature
15 that you have interpreted in the southwest quarter of 5.
16 Do you see that? Do you see where the structure wiggles
17 around those oil wells?

18 A. Yes, sir.

19 Q. All right. Have you compared that to the
20 interpretation of Mr. Von Rhee that that displacement and
21 structural is accounted to by a fault?

22 A. That is certainly a possible interpretation, but
23 there's no reason to conclude -- Well, let me put it this
24 way. There is very little evidence to say what the
25 orientation of that fault is or the length of that fault.

1 There's very little displacement on that fault. He shows
2 that there's 30 feet on his map of displacement.

3 Q. Let me ask you this. You have taken the same
4 data that he has with regards to that population of wells
5 in the southwest quarter of 5, and he has a different
6 interpretation than yours, true?

7 A. Yes.

8 Q. Within the range of your science and discipline,
9 are either interpretations reasonable?

10 A. In the southwest quarter of 5 --

11 Q. Yes, sir.

12 A. -- yes.

13 Q. All right. Let's look at the Section 7 issue,
14 and look at the Conoco -- Is this the Barber A7 well?

15 A. Barber Number 1.

16 Q. I'm sorry, the Barber Number 1 here.

17 A. Barber Federal Number 1, correct.

18 Q. This is the Barber Federal Number 1. This is a
19 well that Conoco drilled in 1998.

20 A. It's on the cross-section A-A'. It is the mud
21 log on the leftmost side of the cross-section.

22 Q. I'm with you, all right. What was the objective
23 that Conoco had when they attempted to drill that well?

24 A. I don't know for certain. I know they at least
25 went to Abo on that well. I don't know whether Abo was the

1 final objective or what it was.

2 Q. All right. Was there an objective to test and
3 penetrate the Tubb?

4 A. I'm sure they were looking at all objectives
5 above their total depth, which would include the Tubb.

6 Q. All right. When Conoco lost that wellbore, why
7 didn't they redrill it?

8 A. I don't know the answer to that. That happened
9 before I came into the group, so I really don't know the
10 answer.

11 Q. All right. Are you suggesting by your
12 interpretation here of the Tubb that the Division should
13 declare this to be an associated oil and gas pool?

14 A. I'm sorry?

15 Q. Yes, sir. Your interpretation says you believe
16 that there's a gas cap and an oil pool here; is that not
17 what you said?

18 A. That's correct, yes.

19 Q. All right. Once you reach that conclusion, do
20 you understand that you obligate the Division to consider
21 adoption of associated rules for oil and gas production
22 within a common source of supply?

23 A. No, sir, I'm not an expert on those rules, so I
24 will tell you that I don't know the answer to that.

25 Q. Let's look at the cross-section. Would you find

1 the Sapient --

2 A. Could I make one more comment to your previous
3 question?

4 Q. I can't remember what the last question was. I
5 asked you about oil and gas associated pools.

6 A. Associated pools.

7 Q. You told me you didn't know.

8 A. But I will say that my understanding is, Sapient
9 has applied for the West Tubb Gas Pool. So my
10 understanding is, they have already asked us to be a gas
11 pool.

12 Q. That's your understanding?

13 A. That's my understanding.

14 Q. Are you aware that the Division declared this a
15 gas pool in January of the year 2000?

16 A. Yes, sir.

17 Q. When they adopted the West Monument-Tub Gas Pool?

18 A. Yes, sir.

19 Q. Are you aware that one of the options here is to
20 develop special rules for the gas pool?

21 A. Yes.

22 Q. It's already been created, hasn't it?

23 A. Again, no, I -- The rules, I'm not an expert on.
24 I don't --

25 Q. All right, let's talk about something you do know

1 about, Mr. Wiley. Let's look at the cross-section for the
2 Cross Timbers Sapient well.

3 A. Okay.

4 Q. All right? I've got it here before me. Show me
5 the lowest perfs in the Sapient well. Where are they?

6 A. They are at a depth of 6424.

7 Q. 6424.

8 A. Measured depth. They're indicated on the cross-
9 section in the little boxes in the depth column.

10 Q. All right. Tell me if I'm reading this right.
11 Over to the left of that well, in red, you have a minus
12 2842. It says top perfs in the Barbara 18 Y, and that is
13 your highest known oil, right?

14 A. Correct, yes, sir.

15 Q. You relate that to the Sapient well, and its
16 lowest perfs should be below the highest known oil contact,
17 right?

18 A. I'm sorry, one more time?

19 Q. Yes, sir. When I look at these perfs --

20 A. Yes.

21 Q. -- and see how you have created this structural
22 cross-section --

23 A. Yes.

24 Q. -- I should expect that the lower perfs in the
25 Sapient well will be in the oil leg of the Tubb Pool, true?

1 A. No, what I'm saying is that the GOR on the
2 Sapient well clearly indicates that this is a gas well.
3 Therefore, the lowest known gas would be at the base of
4 those perfs.

5 Q. Okay, where is the highest known oil in relation
6 to --

7 A. The highest known oil occurs in the perfs of the
8 highest oil well, which is the Barber 18 Y well, and that
9 occurs at a measured depth of 6414, which is a subsea depth
10 of minus 2842.

11 Q. All right, sir. Mr. Wiley, let me see if I can
12 make myself clear. When we look at the Sapient well --

13 A. Yes, sir.

14 Q. -- read down the log --

15 A. Yes, sir.

16 Q. -- read to the right and you see 6429, and then
17 in parentheses it says minus 2859, do you see that?

18 A. Yes, sir, I do.

19 Q. All right. You see the -- in parentheses, minus
20 2859?

21 A. Yeah, one of those two is probably -- wait a
22 minute, 6429. Oh, no, I'm sorry. What that is, that is
23 the Drinkard, that's the Drinkard top there. That's not
24 the base of the perfs, that's the Drinkard top.

25 Q. I understand that.

1 A. Okay.

2 Q. And when I read over and look at the perf and
3 then I continue over and look at your shading and coding --

4 A. Yes.

5 Q. -- do I not now have the Sapient well with lower
6 perforations in a position where it ought to produce oil?

7 A. No, what I'm trying to show by the hachured green
8 and red is that somewhere between minus 2854 and minus 2842
9 is where we would expect the gas-oil contact to occur. We
10 don't know exactly where that is.

11 Q. All right, sir.

12 A. Because Sapient well makes a slight amount of
13 oil, it may be coming out of the very basal part of those
14 perforations.

15 Q. Are you calling condensate oil in the Sapient
16 well?

17 A. No, not necessarily. I don't know if that's
18 condensate or if that's oil. I just --

19 Q. It will make a big difference, won't it?

20 A. It certainly would.

21 Q. Okay. If this is a gas well producing condensate
22 in association with the gas, that's going to mean it's a
23 different critter than if it's a gas well producing oil?

24 A. That's correct.

25 Q. All right. And your presumption is, about the

1 gas-oil pool, can be proven or disproven based upon
2 examining the character of production in the Sapient well
3 to see if it, in fact, produces oil?

4 A. One more time?

5 Q. Yes, sir. Your hypothesis on whether or not this
6 is an oil-gas well -- or I'm sorry, an oil pool with a gas
7 cap --

8 A. Right.

9 Q. -- can be proven or disproven by examining the
10 Sapient production on that well to determine the presence
11 or absence of oil production, because it should produce oil
12 in the position it is in the reservoir under your
13 interpretation, correct?

14 A. No, not if the -- If the lowest position of the
15 gas cap is at the base of those perms, or even slightly
16 lower, that well could produce gas, oil-free, and be in the
17 gas cap.

18 Q. You understand, the Barber 12 well was fractured?

19 A. Yes, sir.

20 Q. If it is in close association with the oil leg of
21 the pool, that should have logically communicated into the
22 oil, right?

23 A. You don't know where that fracture went.

24 Furthermore, the fracture usually grows up in preference to
25 growing down. There's no way to know, without having run a

1 tracer in that well, how deep that fracture --

2 Q. Does it affect your judgment, opinions and
3 conclusions if I were to tell you that the Sapient well
4 produces less than one barrel of condensate a day?

5 A. No, it does not affect my conclusions.

6 Q. Okay. Why didn't the Chevron Matthews Number 6
7 well in this gas cap produce gas?

8 A. Well, there are many possible explanations. One
9 might be that it is totally tight and there is no porosity.
10 A second might be that the frac did not get into the porous
11 zones, they were unable to -- the frac was unsuccessful. I
12 guess those would be my two highest probable suggestions.

13 Q. Talk to me about the Conoco team that you're
14 participating in since the summer of last year, Mr. Wiley.
15 Is it your responsibility among the team to monitor what
16 happens in offsetting wells and what they produce?

17 A. We attempt to do that.

18 Q. All right, sir.

19 A. You have to realize, there's 24,000 wells out
20 here, though, that we're looking at --

21 Q. I understand.

22 A. -- so it's a big job.

23 Q. In January of last year, when the Division
24 declares a new discovery of a gas well in what is formerly
25 an oil pool area in the Tubb, didn't that come to your

1 attention?

2 A. No, sir, it did not come to my attention until
3 the summer of 2000 when I was working on the Abo in this
4 particular area and noticed that that well had been
5 recompleted into the Tubb.

6 Q. Mr. Wiley, correlative rights is the opportunity
7 to produce your share of the gas. When and how is Conoco
8 going to exercise that opportunity?

9 A. We believe that we should have -- if normal 160-
10 acre spacing for gas wells is applied in this situation, on
11 this particular well, we believe we ought to receive a
12 portion of this production, and thereby protecting our
13 correlative rights by just establishing a standard spacing
14 unit here.

15 Q. When were you going to bring that to Cross
16 Timbers', Falcon Creek or Sapient's attention?

17 A. We'd been working on it since we contacted Mr.
18 Carr approximately last summer, when it came to our
19 attention.

20 Q. The color code indicates in yellow the interest
21 that Conoco has in the area --

22 A. Yes, sir.

23 Q. -- is that what that represents?

24 A. Yes, sir.

25 MR. KELLAHIN: No further questions, Mr. Stogner.

1 MR. CARR: Mr. Stogner, may I follow up with one?

2 EXAMINER STOGNER: Yes.

3 REDIRECT EXAMINATION

4 BY MR. CARR:

5 Q. Mr. Wiley, Mr. Kellahin defined correlative
6 rights as the opportunity to produce your share of the
7 reserves. That definition also says it's the opportunity
8 to produce your fair share without committing waste.

9 In your opinion, would the development of this
10 reservoir with an additional well in the northeast quarter
11 of Section 7, would that well be a necessary well?

12 A. We believe it would. As the engineering
13 testimony that will follow, we think will show, we think
14 that that acreage, the acreage you just referenced, can be
15 drained through the Barber 12 well.

16 Q. And a second well would be unnecessary?

17 A. A second well would be unnecessary.

18 Q. And you have an engineering witness who will
19 review that?

20 A. Yes, sir.

21 MR. CARR: That's all I have.

22 MR. KELLAHIN: Follow-up, Mr. Examiner.

23 RECROSS-EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Wiley, how are you going to get the oil if

1 you don't drill another well?

2 A. Again, we think that we are in the gas cap here,
3 and we're not -- to get the oil, you would have to drill a
4 40-acre location for oil in the oil leg --

5 Q. All right, there's a --

6 A. -- not in the gas leg.

7 Q. There's a 40-acre location in the northeast
8 quarter of 7 that would be in what you call the oil leg,
9 right?

10 A. Forty acres for oil, but we believe this is a gas
11 cap and that 160 acres would be appropriate, not 40.

12 MR. KELLAHIN: All right. No further questions,
13 Mr. Stogner.

14 EXAMINER STOGNER: Mr. Carr?

15 MR. CARR: (No response)

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Does Conoco have any plans to go after the oil in
19 the part of Section 7 that you have operations or operate?

20 A. I would think that would be a possibility, yes.

21 Q. And where would be the best place to put one?

22 A. For oil? The southwest quarter -- any of the 40s
23 in the southwest -- or, let's see, we have the west half of
24 the southwest quarter of 7, so there's two 40s there.
25 We've got -- That would be in the oil leg.

1 We've got 40s on the east half of the southwest
2 quarter; there's two 40s there, including the 40 that the
3 Barber Number 1 is drilled in. Now, we are getting toward
4 the oil-water contact there.

5 And then we could probably get a 40 in the -- or
6 depending on what the spacing for gas turns out to be, we
7 may be able to get a 40 in the southwest of the -- I'm
8 sorry, southeast of the northwest, might be another oil
9 pool. But again, it depends on the gas spacing.

10 Q. With such a gas cap, what happens if I pull the
11 gas off too much or too fast? What happens to the oil?

12 A. You would deplete part of your reservoir energy.

13 Q. So how could there be controls put on the gas?

14 A. I'd like to defer my answer to a reservoir
15 engineer on that, sir. But shutting it in would be one
16 way.

17 Q. Possibility. Do you work with other Tubb
18 production in Lea County, New Mexico?

19 A. Conoco does, yes.

20 Q. How about you?

21 A. No, not me personally.

22 Q. So this is the only Tubb production that you're
23 familiar with, with Conoco?

24 A. That's correct.

25 Q. Just this one?

1 A. That's correct.

2 Q. How much oil production does Conoco have in the
3 Monument-Tubb Pool in this area?

4 A. I know it's considerable, but I don't know -- I
5 can't even give you a guess as to how much. We have a
6 number of wells, I would say dozens of wells, that are
7 producing from the Tubb.

8 Q. The Monument-Tubb?

9 A. Monument-Tubb, yes. Well, that -- I better say I
10 don't know. I really don't know.

11 Q. I thought you said you worked with -- this is the
12 only Tubb production you work with?

13 A. That's what I'm saying, I'd better say I don't
14 know.

15 Q. So you don't know why it was -- Well, first of
16 all, let me go back.

17 Do you know what rules the Monument-Tubb are on?

18 A. Yes, we did copy those. Monument-Tubb oil is 40-
19 acre spacing, and the GOR allowed for that originally was
20 4000, and -- Conoco had initially applied for 6000 GOR.
21 The Commission granted 4000 GOR. And there was an
22 amendment, I believe, in 1994 which upped that to a 10,000
23 GOR. We do have a copy of that with us, but I don't have
24 it with me here.

25 Q. Okay, what's oil spacing again?

1 A. I believe it's 40 acres.

2 Q. In the Monument-Tubb.

3 A. In the Monument-Tubb.

4 Q. Would you be surprised --

5 A. I'm sorry, you're right, it's 80 yes.

6 Q. It's 80. Is there any infill wells that you know
7 about that Conoco has?

8 A. In the Monument-Tubb area or are we --

9 Q. In the Monument-Tubb area, since you don't know
10 anything about the other --

11 A. Again, yeah, I better defer. I don't work in the
12 Monument-Tubb. This is about the extent of my Monument-
13 Tubb --

14 Q. Okay, what happens if you draw too much oil out
15 of a gas cap and don't produce the gas cap? What happens
16 to the gas?

17 A. The gas will expand into the oil leg.

18 Q. And then can the gas be recovered?

19 A. It will create -- yes, I believe -- Well, I would
20 defer that to a reservoir engineer.

21 Q. Do you know if the special pool rules in the
22 Monument-Tubb allow for an additional well in an 80?

23 A. Again, I'd have to refresh my memory, sir. I
24 don't know.

25 Q. Would it surprise you if I said that nothing

1 contained herein shall be construed as prohibiting the
2 drilling of a well on each of the quarter-quarter sections
3 of the unit?

4 A. Again, I --

5 Q. Do you know who the original applicant was for
6 the special pool rules in that pool?

7 A. I believe it was Conoco.

8 Q. Do you know, by chance, what Conoco's position
9 was when Texaco came in to amend those pool rules to
10 increase the GOR?

11 A. No, sir, I don't.

12 Q. Who is the operator of those oil wells in Section
13 5 that's on your map?

14 A. Marathon Oil Company.

15 Q. Do you know what pool those are in?

16 A. Yes, those are in the Monument-Tubb Pool

17 EXAMINER STOGNER: I have no other questions of
18 this witness.

19 You may be excused.

20 Mr. Carr?

21 MR. CARR: Mr. Stogner, at this time we'd call
22 Robert Lowe.

23 EXAMINER STOGNER: Mr. Kellahin, anytime you're
24 ready.

25 MR. CARR: Mr. Stogner --

1 MR. KELLAHIN: I'm going to let Mr. Carr do this
2 one.

3 EXAMINER STOGNER: Oh, I'm sorry. Mr. Carr, you
4 may proceed.

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

8 DIRECT EXAMINATION

9 BY MR. CARR:

10 Q. Would you please state your full name for the
11 record, please?

12 A. Yes, my name is Robert J. Lowe.

13 Q. And Mr. Lowe, where do you reside?

14 A. Midland, Texas.

15 Q. By whom are you employed?

16 A. Conoco.

17 Q. And what is your position with Conoco?

18 A. I'm reservoir engineer.

19 Q. Have you previously testified before this
20 Division?

21 A. No, I haven't.

22 Q. Could you summarize your educational background
23 for Mr. Stogner?

24 A. I received my undergraduate degree, a BS in
25 petroleum engineering, from the University of Wyoming.

1 During my career I went to graduate school at the
2 University of Southern California, where I'm just one hour
3 short of a master's degree.

4 I have worked five years in Wyoming, five years
5 in California, three years overseas in the Middle East,
6 United Arab Emirates, three years here in the Permian
7 Basin, and two weeks ago I just recently joined with
8 Conoco.

9 Q. So you've been with Conoco for two weeks?

10 A. Yes, sir.

11 Q. In all your prior experience you've been employed
12 as a reservoir engineer; is that correct?

13 A. The first five years was pretty much production
14 and drilling, and then from then on it's been reservoir
15 engineering.

16 Q. Now, in terms of this hearing today, what were
17 you asked to do?

18 A. I was asked to look to see what the potential
19 drainage radius was of the Barber J. Bertha [sic] Number
20 12, Sapient's well, and if it could drain reserves from
21 Conoco's, its partners' and royalty interests' acreage in
22 the northwest-northeast corner of Section 7.

23 Q. And have you completed that work?

24 A. Yes, I have.

25 Q. And are you prepared to review that with Mr.

1 Stogner?

2 A. Yes, I am.

3 MR. CARR: Mr. Stogner, we tender Mr. Lowe as an
4 expert witness in reservoir engineering.

5 EXAMINER STOGNER: Any objection?

6 MR. KELLAHIN: No, sir.

7 EXAMINER STOGNER: So qualified.

8 Q. (By Mr. Carr) Mr. Lowe, you've prepared exhibits
9 for presentation today, have you not?

10 A. Yes, I have.

11 Q. Let's refer to what has been marked as Conoco
12 Exhibit Number 3. Would you identify this and review the
13 information on the exhibit for Mr. Stogner?

14 A. Certainly, it's is a production plot of oil,
15 water and gas. And what I'll describe to you is, on the X
16 axis, is the time line in years. The curves represented
17 here in a solid bold with filled circles is the hydrocarbon
18 liquid or oil. The dashed lines with stars is the gas
19 production. And the thin line with open diamonds is the
20 water production. I also have on here a dashed line with
21 triangles representing the GOR of this well here.

22 What you see, obviously, is the completion in
23 August of 1999, in the Tubb. We see here in December where
24 the well was fracture-stimulated and saw significant
25 increases in gas production. Along with that came some

1 water, but it quickly dropped off, as well as the oil.
2 However, this production, coming from *Dwight's PI* and
3 updated from the website of the OCD production through
4 November, shows a fairly consistent decline of gas, an
5 effective decline of 16 percent with a nominal decline of
6 about 17.

7 Using this and using an economic limit of 50 MCF
8 per day, which is fivefold higher than what was presented
9 beforehand, shows a recoverable reserves of 2.8 BCF of gas.

10 Q. Let's go to what has been marked Exhibit Number
11 4, the plot, and I ask you to review this information.

12 A. Okay. I did not know what the original pressure
13 was in this particular well, and so using some of the
14 knowledge base of Conoco in their production in the Tubb
15 formation, I presented three possible scenarios of what the
16 initial pressure might be.

17 What we show here on this graph, at the very
18 bottom, is the estimated ultimate recovery. On the left-
19 hand side is a computed drainage radius.

20 And you'll see three lines on the graph. The
21 blue line represents an initial pressure of 2462, and that
22 was computed from a pressure gradient that is typically
23 seen in the Tubb, which is 0.385 p.s.i. per foot.

24 I then looked at it from the standpoint of
25 possible depletion that may have occurred. Referencing

1 Exhibit Number 1 here, Conoco's structure map, we see that
2 the Marathon wells, the Bertha -- pardon me, Bertha Barber
3 Number 18 Y in Section 5, which is Marathon's well, had
4 been on production prior to the recompletion of Sapient's
5 Barber Number 12. And so the yellow and red lines indicate
6 a potential pressure depletion as a result of that
7 production from that well on this structure.

8 Using -- These lines were computed based on a
9 material balance and based for various ultimate recoveries,
10 is how they were arrived at.

11 If I use the 2.8 BCF from the decline curve of
12 Exhibit 3, you'll see a solid black line representing that
13 estimated ultimate recovery. And where it intersects each
14 one of these colored lines, extrapolating out what the
15 drainage radius is associated with that.

16 Q. All right, let's go back to -- Take out Exhibit
17 Number 1, the structure map, and then ask you to take out
18 what has been marked Exhibit Number 5 and explain what
19 Exhibit Number 5 shows as it applies to the structure map.

20 A. Yes, what I have here, you'll notice, looking at
21 Exhibit Number 5, is a clear overlay. There is a green
22 cross which represents the section lines, intersections of
23 Sections 6, 5, 7 and 8. There is a red dot indicating the
24 location of the Sapient Bertha Barber Number 12.

25 If you overlay the green section lines on top of

1 the map such that the red dot overlies Sapient's Barber
2 Number 12, is how this has been scaled to the map.

3 The blue circle correlates to the blue line on
4 the Exhibit Number 4, and it is illustrating the drainage
5 radius for a 2.8 BCF, for an initial pressure of 2462.

6 If there had been some pressure depletion
7 associated with the Marathon well, Barber 18 Y in Section
8 5, say, to 1900 p.s.i., then illustrated in red would be
9 the drainage radius in order to achieve 2.8 BCF.

10 From looking at the historical decline plot,
11 there was no indication of any kind of restriction or
12 confinement indicating barriers that would not prohibit you
13 from thinking that it would be a radial drainage.

14 Q. If we look at this and take any of the scenarios,
15 the drainage radius extends into the Conoco acreage in the
16 west half of the northeast quarter of 7, does it not?

17 A. Yes, it does.

18 Q. In your opinion, would an additional well be
19 necessary over in that acreage to recover the reserves that
20 can be produced from this reservoir under that acreage?

21 A. No, sir, it would be just an additional well,
22 just to accelerate the recovery.

23 Q. Have you looked at what would be the impact of
24 the 80-acre development in this area?

25 A. Yes, I have.

1 Q. And have you prepared an exhibit which shows
2 that?

3 A. Yes, I have.

4 Q. Is that what has been marked as Conoco Exhibit
5 Number 6?

6 A. Yes, it is.

7 Q. Would you refer to that and explain what it
8 shows?

9 A. Okay, once again this is a clear overlay with the
10 green lines indicating the section lines, with a red dot
11 locating the Sapient well. And in a similar fashion, if
12 you place the green lines over the section-line
13 intersections and the red dot over the Sapient well, what
14 we're showing here is potential wells on 80-acre spacing.

15 This was -- What I'll point out here, directly
16 north of the Sapient well, I had no idea where the Matthews
17 Number 12 was, so I just simply placed it based on my
18 understanding of 330, going directly off of there.

19 But what it is implying here is the fact that if
20 we go on 80-acre sections, Marathon will be -- in order to
21 protect the correlative rights of itself, its partners and
22 the royalty interests there, would have to drill a well in
23 the northwest of the northeast corner. Likewise, in
24 Chevron's interest and its working/royalty interests'
25 concerns, they would probably need to offset a well

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

1 the well, and by your analysis you get an EUR of about 2.8
2 BCF?

3 A. That's correct.

4 Q. All right, let's look at the analysis. I'm
5 looking at your data point. The first data point on
6 production is -- and I'm looking at the decline-curve line
7 you drew for the production line on the gas. Just to the
8 right of the box is a star, and that's the first data point
9 on production. It's right after the frac treatment.

10 A. Okay.

11 Q. All right, you see that?

12 A. Uh-huh.

13 Q. Then there's the second data point, third data
14 point, and there's a dashed line where the data drops
15 substantially.

16 A. Uh-huh.

17 Q. In your review of the records, what accounts for
18 that fourth star to be so far off of the curve? What
19 happened?

20 A. I can't tell you. But I can tell you that the
21 star should not represent -- This is monthly data.

22 Q. Okay.

23 A. Okay, so stars are not illustrating the actual
24 data points; there's more data in between --

25 Q. I understand.

1 A. -- the data points there, and --

2 Q. Have you tried to -- I'm sorry, go ahead and
3 answer the question.

4 A. As with respect to that fourth star that you're
5 referring to, the data after that went to zero. As to what
6 the problem was, if there was a problem with the well or
7 why it was shut in, I have no idea.

8 Q. All right. It would be at least an indication
9 that the well did not produce for that fourth month?

10 A. That's correct.

11 Q. All right. Then the fifth month, it is restored
12 to production for whatever reason, and now we have --

13 A. Or the fifth star --

14 Q. The fifth start is the next data point?

15 A. -- which would be in October.

16 Q. Right.

17 A. Yeah.

18 Q. Okay.

19 A. Of 2000.

20 Q. I know you've only been working for Conoco for a
21 couple of weeks in this area for this project. Do you have
22 experience in your background with Tubb gas production?

23 A. No, sir, I don't. However, in reviewing this I
24 did speak with individual reservoir engineers who had 20
25 years' experience in the Tubb.

1 Q. All right. Let me ask you about your knowledge
2 concerning what happens with the data point number 5, that
3 fifth month.

4 A. Are you talking about October, 2000?

5 Q. Yes, sir, October, 2000.

6 A. Okay.

7 Q. When we take October of 2000, can that data point
8 be affected by how the well is performed in that month?

9 A. I'm sorry, could you restate that?

10 Q. Yes, sir. The data point is simply the
11 reflection of what is recorded to be the cumulative gas
12 produced for the month of October.

13 A. That is correct.

14 Q. And that volume of gas produced in October of
15 last year can be affected by how the well is operated and
16 produced --

17 A. Yes.

18 Q. -- right?

19 A. And so is a similar point on November.

20 Q. Yes, sir, they're all the same way.

21 A. Yes, sir.

22 Q. So if that monthly production from October is
23 uncharacteristically high for whatever reason, you have a
24 data point that could be too high on which to place a
25 production line?

1 A. It could be. But then again, we see that we have
2 an established decline from what appears to be January,
3 February, March, April, May, June, July points.

4 Q. Do you know whether or not it's characteristic in
5 the Tubb to have a hyperbolic curve associated with that
6 production where it will change from this straight-line
7 decline that you have depicted here?

8 A. If you had a hyperbolic decline -- I used an
9 exponential decline, which is the most conservative
10 estimate. If you were to use a hyperbolic decline, it
11 would actually add more reserves than what I am suggesting.

12 Q. Okay, I'm trying to understand the range of
13 choice that you have concerning the 16-percent annual rate
14 of decline. And so the data you've used is what we're
15 describing here as monthly production?

16 A. Yes, sir.

17 Q. Okay. In looking at the production, did you
18 attempt to analyze and determine whether or not the well
19 was producing oil or whether that fluid production was
20 simply condensate being produced in association with the
21 gas?

22 A. No, sir, I didn't. My review of how it was
23 reported on the OCD was as oil.

24 Q. All right. And so the assumption --

25 A. I should say on the web page.

1 Q. I understand. So you haven't looked at data to
2 determine whether or not it was oil or condensate; you
3 simply assume because of the way it was reported that that
4 was oil production?

5 A. Yes, sir.

6 Q. All right, let's -- The drainage radius surface
7 are based upon taking your assumption of estimated ultimate
8 recovery and backing into a radius using an engineering
9 calculation?

10 A. It also assumes some other Tubb parameters that I
11 acquired, as I mentioned, from some of these experienced
12 Tubb engineers.

13 Q. That's what I want from you. Would you list for
14 me the assumptions that you made in order to do the
15 drainage calculations?

16 A. Certainly. Based on our understanding that there
17 was 21 feet perforated in the Sapient Barber B Number 12 --

18 Q. All right, let's stop right there. For your
19 calculation, you used 21 feet?

20 A. No, sir, I'm just --

21 Q. All right. For the assumption on the radius of
22 drainage --

23 A. Yes.

24 Q. -- you have used a net thickness of 21 feet?

25 A. I use a net thickness of 25.

1 Q. Twenty-five feet, okay. All right, now come back
2 and tell me how you got to the 25.

3 A. Actually, I had my geologist, Mr. Bruce Wiley,
4 who just previously testified here, provide that for me.

5 Q. Okay. We have a difference between the two
6 geologic experts. Mr. Von Rhee used 30 feet when he gave
7 it to his engineer, and Mr. Wiley has given you 25 feet?

8 A. That's correct.

9 Q. Okay. If we use 25 feet, the calculation will
10 spread out the drainage so it's a longer radius?

11 A. Likewise, if you use a larger number it will
12 reduce it.

13 Q. All right, sir.

14 A. Right.

15 Q. All right, so I've got that value. What other
16 values did you assume?

17 A. Typically what we see in the Tubb, water
18 saturation is 23 percent. I used an average porosity of 12
19 percent, fairly close to what was beforehand.

20 Q. Yes, sir.

21 A. I used a specific gas gravity of .67.

22 Q. Okay.

23 A. And I used a correlation to compute the Z
24 factor --

25 Q. Uh-huh.

1 A. -- which is based on the Benedict-Webb-Rubin
2 equation of state.

3 Q. And what was your Z factor?

4 A. It was 0.77.

5 Q. All right, and --

6 A. Zero point seven --

7 Q. -- Mr. Travis used 0.79, I think?

8 A. Yeah.

9 Q. Will a choice on the Z-factor component change
10 materially between .77 and .79?

11 A. I'm sorry, once again?

12 Q. Yeah, does the difference between you and Mr.
13 Travis, if all other things are the same, if you use a
14 different Z factor that's .77 versus .79, does that matter
15 anywhere?

16 A. No, not that significantly, if you're using the
17 same pressures, initial pressures.

18 Q. All right, let's go back and have you tell me
19 what you used for your initial pressure.

20 A. As I was saying, it was 2462. That was based on
21 the pressure gradient that we have seen in the Tubb of
22 0.385.

23 Q. Did you use an abandonment pressure in your
24 calculation?

25 A. Yes, I did.

1 Q. And what was that?

2 A. 250 p.s.i., that's bottomhole pressure.

3 Q. Any other assumptions in the calculation that you
4 made?

5 A. No, sir.

6 Q. I think that's all the ones I remember that go
7 into the equation.

8 A. Yeah.

9 Q. All right. And then what you did is, you made
10 the overlay with the various circles. And in order to fit
11 this on Mr. Wiley's map, I have to take the green north-
12 south-east-west intersection --

13 A. That's correct.

14 Q. -- and place that point at the intersection of
15 the four sections that are on his map?

16 A. That's correct.

17 Q. And then I'll have correctly oriented that.

18 A. And you'll see a red dot identifying the Sapient
19 well, which would overlay the one identified on the map.

20 Q. Okay. Have you gotten to the point in your work,
21 Mr. Lowe, that you have reached any engineering judgments
22 about whether or not this is an oil pool with a gas cap or
23 not?

24 A. We have -- if you -- if we -- According to this
25 map, the fact that Marathon is producing from the same

1 structures as interpreted here, we see an increasing GOR
2 over time.

3 Q. In the Marathon well?

4 A. In the Marathon well, yes, as well as in the
5 Barber B.

6 Q. All right. That can be explained by other
7 circumstances, can it not? In other words, you can have
8 increasing gas-oil ratios in an oil pool, compared to a gas
9 pool, and not have the two connected?

10 A. You could, except for the fact that if you have
11 an oil well whose GOR is increasing since the time the gas
12 well has been brought on, it would suggest that there is
13 some pressure depletion. Perhaps the gas cap is moving
14 down into the well.

15 Q. Is there any other oil well in the area, other
16 than this one Marathon well, that displays that increase in
17 gas-oil ratio?

18 A. That one Marathon well being the Barber 18 Y?

19 Q. Yes, sir, yeah. Is that the only one?

20 A. You're starting to see a slight increase in the
21 Barber B16, but not as significant as the Barber B18 Y.

22 Q. Have you looked at the other wells in the
23 Monument-Tubb Oil Pool to see what those wells are doing,
24 one to another, in terms of the gas-oil ratio.

25 A. This Monument-Tubb Pool you're talking about that

1 is down to the --

2 Q. Yeah, the oil pool.

3 A. The oil pool, no, I haven't. I do understand,
4 though, that they do have a lower GOR than what is being
5 seen at the 18 Y. The 18 Y is getting up around 10,000.

6 Q. And the rules permit that to --

7 A. That's correct.

8 Q. -- occur? And those wells, Marathon wells, are
9 currently classified in the Monument-Tubb Oil Pool?

10 A. That's correct.

11 Q. Okay. Conoco operate any wells in this area?

12 A. Once again, I'm afraid I --

13 Q. You don't know?

14 A. I'm not that familiar.

15 Q. All right, sir. Do you know if Conoco has the
16 opportunity to take any of the wells in the west half of
17 the east half and deepen them to the Tubb?

18 A. Not to my understanding. We would have to
19 drill --

20 Q. All right, sir.

21 A. -- a brand-new well.

22 MR. KELLAHIN: No further questions. Thank you,
23 Mr. Stogner.

24 EXAMINER STOGNER: Mr. Carr, any redirect?

25 MR. CARR: No redirect.

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.

1 Q. And that's because it's a gas well, right?

2 A. The gas-balancing, yes, sir.

3 Q. With that in mind, why doesn't Conoco have a
4 problem with the Matthews well?

5 A. Well, I'm certainly not an expert on pool rules
6 or anything of that sort, but I don't think we would
7 necessarily have a recourse with their well on Number 6.
8 They're in a different section.

9 Q. Well, isn't their well closer to your property
10 than this well, the Sapient well?

11 A. It is, but has not affected our area at this
12 point in time.

13 Q. But will it, according to what you suggested?

14 A. There will be, obviously, a boundary effect
15 between the two wells in which the Matthews Number 12 will
16 not be able to drain because of the flow profiles that --
17 or the flow streams that are already established by the
18 production of having the Barber Number 12 already on
19 production.

20 Q. Now, you said this is the only Tubb production
21 that you're affiliated with; is that correct?

22 A. At this time, sir.

23 Q. Have you been affiliated with any other type of
24 reservoirs that had gas caps, as you're indicating here?

25 A. Yes, sir.

1 Q. Okay, what kind of restrictions can be put on --
2 or should be put on the gas production to control the --
3 how would you say it -- the uncontrolled take of gas in a
4 gas cap for an associated-type pool?

5 A. You would want to have a minimal amount of
6 withdrawals. Simply, it was described beforehand that you
7 will lose the mobility or the energy within the oil. One
8 of the primary mechanisms for producing the oil would be
9 through fluid expansion, as well as gas-cap expansion.

10 Q. Wouldn't that be prudent, then, in this instance?

11 A. Yes, we believe so.

12 Q. How come Conoco didn't request special pool rules
13 or associated pool rules in conjunction with the Monument-
14 Tubb?

15 A. I'll be honest with you, I don't know at this
16 point in time. I don't know if they have decided on that
17 or --

18 Q. Who would? Who would have that decision made in
19 Conoco?

20 A. That would be discussed within our group.

21 Q. Usually in other pools that you've dealt with,
22 how has that control or mechanism been established and
23 associated with oil production from the lower portion of
24 this pool, or a pool such as this?

25 A. Well, I should tell you too that the wells or the

1 reservoirs that I've worked on with gas caps, the companies
2 had fully owned the entire working interest and acreage
3 within the structure.

4 Q. Oh, even better, then. So how, then, in this
5 instance, had this occurred, was this a prudent -- Because
6 this was all engineering, essentially, right?

7 A. Yes, sir.

8 Q. So what kind of formula was utilized?

9 A. Whatever maximized the recovery.

10 Q. And how was that determined?

11 A. Through material-balance calculations.

12 Q. So in those kind of pools, was oil production
13 also limited or controlled?

14 A. No, sir.

15 Q. So oil production was pull out as much as you can;
16 it was only the gas cap that was --

17 A. Yes, sir.

18 Q. -- controlled?

19 Q. Was the spacing or the amount of oil wells, was
20 that limited or did you just drill as many oil wells as you
21 could, no matter what it was?

22 A. This gas cap was in California, and there was 10-
23 acre spacing.

24 Q. Okay.

25 A. They were also under a waterflood.

1 Q. Now, you said it was all 100-percent, so it
2 doesn't really matter what California's spacing rules were,
3 because you essentially were allowed to drill as
4 engineering saw fit; is that correct?

5 A. It was -- Actually, the spacing was deemed
6 because -- in order not to accelerate reserves but because
7 of the nature of the geology, that's what was required in
8 order to acquire the production. If it was the case that
9 we would have been able to acquire the production with
10 larger acre spacing, then we would have had fewer wells.

11 Q. So you kind of got stuck with the situation
12 before Conoco --

13 A. Geology --

14 Q. -- before you got involved?

15 A. Yeah.

16 Q. Kind of like this, huh?

17 A. Yeah.

18 EXAMINER STOGNER: Okay. I have no other
19 questions of this witness.

20 MR. KELLAHIN: May I follow up on one question
21 that you had, Mr. Examiner?

22 EXAMINER STOGNER: Sure, please.

23 FURTHER EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Lowe, let's take the overlay.

1 A. Which overlay?

2 Q. With the circle, not the multiple circles. The
3 single-circle overlay is Exhibit 5. Mr. Lowe, if you'll
4 put it on the position on the map, I want to follow up on
5 Mr. Stogner's question. This inferred radial drainage
6 assumes the Matthew 12 is not yet competing, correct?

7 A. That is correct.

8 Q. All right. It assumes that this geologic
9 interpretation is correct?

10 A. Yes, sir.

11 Q. It assumes a uniform thickness within the radius
12 of the 25 feet?

13 A. Actually, it's much more conservative as you go
14 out towards 18, or it appears that there may be a thinning
15 trend, as I understand from the geologist, going from 18 to
16 12. Using the 25 feet would give it -- does not honor that
17 thinning process. If I tried to honor the thinning
18 process, it would extend the drainage radius even further
19 than what I show.

20 Q. When the Matthews 12 well is completed to the
21 Tubb, and if it's successful, Mr. Stogner was asking about
22 the barrier or, if you will, the no-flow boundary --

23 A. Uh-huh.

24 Q. -- that's established between the two wells.

25 A. Uh-huh.

1 Q. Where would that occur?

2 A. It would occur between the Matthews 12 and the
3 Barber -- and the Sapient's Barber Number 12.

4 Q. Okay. Assuming the reservoir is uniform --

5 A. Uh-huh.

6 Q. -- with the same permeability and porosity, the
7 no-flow boundary should be equidistant between the two
8 wells, right?

9 A. Over time, but not immediately. In fact,
10 initially you probably establish the no-flow boundary
11 probably a little bit initially closer to 12, then
12 eventually it would probably move towards the median.

13 Q. Okay.

14 Q. At that point of no flow, and as you move
15 northeast and southwest of that point of competition in the
16 reservoir, what happens to the shape of that line or curve
17 as the two wells compete?

18 A. This is -- If you're assuming a homogeneous
19 system as you're talking about throughout --

20 Q. Yes, sir.

21 A. -- any production, any radial drainage that would
22 have occurred in Section -- northeast of Matthews 12 would
23 probably then probably extend out further to the southeast
24 in Section 8 and into Section 5, Marathon's area.

25 Q. All right. If this is homogeneous uniform, can I

1 presume that I would have a circle that now is divided in
2 half in the diameter of that circle?

3 A. No, sir, you wouldn't have that half circle, you
4 would --

5 Q. All right, what's the shape, then, looking up the
6 drainage area?

7 A. Well, it would probably be elongated, as I
8 mentioned, down into Section 8 and over into Section 5.

9 Q. Okay. What happens to the oil production that's
10 in the south half of the northeast quarter under this
11 drainage radius example?

12 A. What happens to the oil?

13 Q. Yeah, how are we going to produce the oil that is
14 south of the radius in the northeast quarter of 7? How do
15 we get that? Do you have to drill an oil well?

16 A. Yes, sir, you're talking -- If I understand you
17 correctly, you're talking about the acreage of Sapient in
18 the -- Is this the southeast corner of Section 7?

19 Q. Let me repeat this. I'm taking the northeast
20 quarter of 7 --

21 A. Northeast --

22 Q. -- and on the structure map I have drawn a square
23 that will encompass the northeast quarter, and --

24 A. Okay, so 160 spacing.

25 Q. 160 spacing.

1 A. Okay.

2 Q. All right? And I've found the area affected by
3 your drainage radius circle --

4 A. Uh-huh.

5 Q. And there's a portion in the south half of the
6 northeast that is not being drained by the Sapient well?

7 A. Yes, sir.

8 Q. You're down in the oil portion, as I understand
9 this analysis?

10 A. Yes.

11 Q. How are we going to get the oil?

12 A. You would have to drill an oil well.

13 Q. Okay. Is there anything in the current rules
14 that preclude that oil well from being drilled now?

15 A. I'm afraid I'm not that familiar with respect to
16 rules and prorations.

17 MR. KELLAHIN: No further questions.

18 EXAMINER STOGNER: Mr. Carr?

19 MR. CARR: No questions.

20 EXAMINER STOGNER: Okay, we'll reconvene here at
21 ten after two.

22 (Thereupon, a recess was taken at 1:10 p.m.)

23 (The following proceedings had at 2:10 p.m.)

24 EXAMINER STOGNER: Okay, hearing will come to
25 order.

1 Mr. Carr, I believe we're still with you.

2 MR. CARR: May it please the Examiner, at this
3 time we would like to move to the Chevron presentation and
4 call Tim Denny.

5 EXAMINER STOGNER: Ready, Mr. Carr?

6 MR. CARR: Yes, sir.

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

10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q. Would you state your full name for the record?

13 A. Tim Denny.

14 Q. Spell your last name.

15 A. D-e-n-n-y.

16 Q. Where do you reside?

17 A. Midland, Texas.

18 Q. By whom are you employed?

19 A. Chevron.

20 Q. Mr. Denny, what is your position with Chevron?

21 A. Geologist.

22 Q. Have you previously testified before this
23 Division?

24 A. No, sir.

25 Q. Could you review your educational background and

1 then summarize your work experience for Mr. Stogner?

2 A. I have a BS degree and an MS degree in geology
3 from the University of Nebraska, and I've worked for
4 Chevron for 21 years.

5 Q. Are you familiar with what Sapient is seeking in
6 these cases?

7 A. Yes, sir.

8 Q. Have you made a geological study of the area
9 which is the subject of these cases?

10 A. Yes.

11 Q. Are you prepared to share the results of that
12 work with Mr. Stogner?

13 A. Yes.

14 MR. CARR: We tender Mr. Wiley as an expert in
15 petroleum geology.

16 EXAMINER STOGNER: Are there any objections?

17 THE WITNESS: Mr. Denny.

18 MR. KELLAHIN: You said Mr. Wiley.

19 MR. CARR: I tender Mr. Denny, this witness, as
20 an expert in petroleum geology.

21 MR. KELLAHIN: No objection.

22 EXAMINER STOGNER: Mr. Denny is so qualified.

23 Q. (By Mr. Carr) Mr. Denny, could you initially
24 review for us what are the status of Chevron's efforts to
25 develop the 160-acre tract north of the Bertha Barber

1 Number 12 well?

2 A. We are currently waiting for a rig to move in on
3 the Matthews Number 12 well.

4 Q. And that is the well that was approved by an
5 administrative order of this Division?

6 A. That's right.

7 Q. Have you prepared certain exhibits for
8 presentation in this case today?

9 A. Yes.

10 Q. Would you refer to what has been marked for
11 identification as Chevron Exhibit Number 1, identify that
12 and review it for Mr. Stogner?

13 A. Exhibit Number 1 is a structure map that I've
14 constructed on top of the Tubb formation. And this map was
15 generated basically -- I just use a program that -- went
16 out and looked at tops from PI, and the map that I got is
17 pretty much what I have here. And I went and verified some
18 of the tops to make sure they were in line with what I
19 thought they were on my structure -- cross-section.

20 The top-of-the-Tubb map, it may be a little
21 different than what's been previously shown by Mr. Wiley.
22 His map is constructed at a level below the top of the
23 Tubb, and my map is actually on top of the Tubb. And the
24 oil and gas contacts were adjusted up to essentially the
25 top of the reservoir, which I considered to be the top perf

1 in the Sapient well. So I moved my contacts up 123 feet.

2 And what this structure map shows is -- appears
3 to be a closed structure. You have a small syncline on the
4 southeast portion of the map, and you have another small
5 syncline on the northwest portion of the map, and it
6 appears to be structurally controlled. And there appears
7 to be a gas cap that has one well producing in it, the
8 Sapient Number 12 well. And there are three oil wells on
9 the right-hand side, the Marathon 18 Y and 16 and 17,
10 Marathon wells.

11 Chevron has 100 percent in Section 6, 100-percent
12 working interest in Section 6 in the southeast quarter, and
13 then in Section 7 where we have the west half of the
14 northeast quarter, and also in the east half of the
15 northwest quarter, Chevron has an 18.7-percent working
16 interest and an NRI in that lease of 14.967.

17 Q. And this exhibit shows that there is productive
18 reservoir under the west half of the northeast quarter of
19 Section 7; is that correct?

20 A. Yes.

21 Q. Let's go to Exhibit Number 2, your cross-section.
22 Would you review that for the Examiner?

23 A. This cross-section, if you look at the structure
24 map, the blue line is what we'll be looking at. The blue
25 line represents the line of cross-section.

1 And on the left side of the cross-section is the
2 Gulf Matthews Number 6 well, and then it goes down to the
3 Sapient, the Barber Number 12, and then the Marathon 18 and
4 the 16 and then the 17.

5 And the Number 6 well, the Gulf Number 6 well,
6 Matthews Number 6, this log you're looking at is a log that
7 we went out into the well back in November of 1999, we
8 logged this well because we were aware of Sapient's
9 production in the Number 12 well, so we went out and logged
10 this Number 6 to see if we could see some porosity in this
11 well.

12 And we did that, and then we filed for a permit
13 in April and we got approval in May, and we went to work in
14 July of 2000.

15 And what this shows is, if you look up at the top
16 here, there's a blue marker called the Tubb, and that TD
17 doesn't mean anything other than my initials. Okay. But
18 that's the top of the Tubb.

19 And then down towards the bottom there's another
20 blue marker, which is the top of the Drinkard. I've made
21 quite a few more detailed correlations within the Tubb
22 section itself.

23 We feel like the Matthews Number 6 well was
24 completed in essentially the same intervals, although
25 there's one interval that we did not perforate that was in

1 the Sapient well. But overall, we think that we were
2 perforated in more or less the same section.

3 We had some fair porosity development in the
4 Matthews well, and we to this day do not understand why we
5 were unable to make a well.

6 But the other thing that's shown on here are
7 these different lines, the highest oil and the lowest gas,
8 and then also the lowest known oil. And all I did here was
9 basically confirm what the Conoco geologist had done, Mr.
10 Wiley, and I thought that it was a reasonable estimate of
11 where these contacts might possibly be. It's not to in any
12 way insinuate that these are the exact contacts, but these
13 are, based on perforations, our best guess as to where they
14 might be.

15 And the lowest gas, again, was basically the
16 lowest perf in the Sapient well. And the highest oil that
17 was shown was the highest perf in the 18, and the lowest
18 perforation was in the Marathon Number 16.

19 And as you can see down at the bottom of the
20 cross-section, the Sapient well IP'd for 610 MCF, the
21 Marathon 18 Y produced 68 oil and some water, and -- 104
22 water. And the 16, Marathon 16, was 41 oil. Had some gas,
23 81 MCF, with a couple barrels of water. And the Marathon
24 17 had 104 oil, 278 gas and zero water.

25 So I guess it just shows that the Sapient well

1 was all -- IP'd for all gas, where the other wells were oil
2 and some gas.

3 So I just wanted to make sure people understood
4 these contacts are just our best guess, and they're not
5 necessarily anything hard wired, because we just do the
6 best with the data that we're provided.

7 Q. Mr. Denny, what conclusions can you reach from
8 this geological review of the area?

9 A. Our analysis suggests that you have a closed
10 structure and that you have a gas cap in the northern
11 portion of Section 7, and we feel that a standard 160-acre
12 proration unit would be the way to develop that quarter
13 section.

14 Q. In your opinion, will the Bertha Barber Number 12
15 well produce the Tubb reserves under that quarter section?

16 A. Under the northeast of 7?

17 Q. Northeast of Section 7.

18 A. Well, probably not because -- or not for some
19 long time. There may be interference, eventually, when we
20 get two wells in there, but --

21 Q. I'm talking about the Bertha Barber Number 12 in
22 the --

23 A. Oh --

24 Q. -- northeast of 12.

25 A. -- oh, yes --

1 Q. Will that well produce the reserves under --

2 A. I'm sorry, I was thinking the Gulf well. Yes,
3 the Sapient Number 12 will produce gas out of the northeast
4 quarter of 7.

5 Q. And Chevron owns interest in that spacing unit;
6 is that right?

7 A. Yes, sir.

8 Q. Have you shared in that production to date?

9 A. No.

10 Q. And what are you seeking?

11 A. Well, we seek a standard 160-acre proration unit.

12 Q. And do you believe that the spacing unit should
13 be set up and that the sharing should be effective back to
14 first production from the well on the Tubb?

15 A. Yes.

16 Q. The nonstandard units are being proposed by
17 Sapient. If they are approved, the east half, east half
18 and west half, west half, what impact would that have on
19 Chevron?

20 A. It would require additional drilling in Section 7
21 and also in Section 6, and we feel like the area can be
22 drained effectively with fewer wells and it would cause
23 waste as far as additional drilling goes.

24 Q. Will Chevron call an engineering witness to
25 review the drainage aspects of this issue?

1 A. Yes, sir.

2 Q. Does Chevron request that the Sapient well be
3 shut in until an approved spacing unit has been established
4 for it?

5 A. Yes.

6 Q. Were Exhibits 1 and 2 prepared by you?

7 A. Yes.

8 MR. CARR: At this time, Mr. Stogner, we move the
9 admission into evidence of Chevron Exhibits 1 and 2.

10 EXAMINER STOGNER: Exhibits 1 and 2 will be
11 admitted into evidence.

12 MR. CARR: And that concludes my direct
13 examination of Mr. Denny.

14 EXAMINER STOGNER: Thank you, sir.

15 Mr. Kellahin, your witness.

16 MR. KELLAHIN: Thank you sir.

17 CROSS-EXAMINATION

18 BY MR. KELLAHIN:

19 Q. Mr. Denny, how long have you been employed as a
20 geologist for Chevron?

21 A. Twenty-one years.

22 Q. Of that period of time, have you been involved
23 with looking at the geology in Lea County, New Mexico?

24 A. Off and on at different times.

25 Q. All right. Prior to September of 1999, were you

1 one of the geologists responsible for the Monument area in
2 Lea County, New Mexico?

3 A. A portion of the Monument. When you say
4 Monument, there's different reservoirs in the Monument.

5 Q. I understand. I'm talking about the area around
6 what is now West Monument-Tubb Gas Pool, east half of
7 Section 7.

8 A. My involvement in this area came from -- I was
9 working on the Monument-Abo area.

10 Q. Yes, sir.

11 A. And because I'd worked with that and it was
12 proximal to this, then I happened to be looking at this
13 area. But that's about the extent of my Tubb knowledge.

14 Q. Were you one of the technical individuals that
15 reviewed the Cross Timbers discovery well, the Barber 12
16 well?

17 A. Yes, sir.

18 Q. And when did you first do that, sir?

19 A. The best I can recall is, I saw the information
20 on PI that they were drilling a well, and then in the PI
21 reports, the drilling reports.

22 Q. Oh, so then you would have been aware of their
23 activity back in September of 1999?

24 A. That's probably correct.

25 Q. Okay.

1 A. I don't look at the PI reports every week or
2 every -- on a regular basis. But sometime in September,
3 October, I would guess.

4 Q. All right. So there's a system in place in
5 Chevron in which you are a participant and have the
6 opportunity, and the responsibility, to look to see what's
7 happening in this particular area?

8 A. Yes.

9 Q. All right. And in September of 1999, you become
10 aware that Cross Timbers is taking the old oil well and
11 deepening it into the Tubb, and that you later learned that
12 it produced gas out of the Tubb, correct?

13 A. That's right.

14 Q. All right. Did you become aware of the fact that
15 the Division established in January of the year 2000 a new
16 pool for that well?

17 A. January, 2000, yes, I think I was informed at
18 that time.

19 Q. All right. Are you familiar enough with the
20 spacing requirements for that portion --

21 A. Oh, let me --

22 Q. Yeah.

23 A. -- let me think, 2000 ---

24 Q. Yeah, last year.

25 A. -- I don't think I realized that this was a new

1 pool -- a new field rule until about October of 2000.

2 Q. All right, let me go back and clarify something.

3 You told me you were working on the Barber Number 6 well --

4 A. Right.

5 Q. -- and I thought you told me that was in the

6 spring of the year 2000. Would you check again and tell me

7 what your best recollection is concerning the Barbara 6

8 well?

9 A. The Barber 6 --

10 Q. I'm sorry, I can't keep them straight. The

11 Matthews 6.

12 A. I have trouble too.

13 Q. The Chevron Matthews 6.

14 A. The Matthews 6 well.

15 Q. Yes, sir.

16 A. Okay, the chronology there was, we were aware

17 that there was an IP, Sapient IP'd their well for 610 MCF,

18 and that was in September or October of 1999.

19 Q. All right, sir.

20 A. And then we went out and logged -- because of

21 their success, we went out and logged our Matthews Number 6

22 well.

23 Q. Okay, now stop right there. Now, when did that

24 happen? Tell me again.

25 A. The logging date on that was November 24th of

1 1999.

2 Q. All right. So we've got the Cross Timber well in
3 September. Two months later in November, you're back
4 logging the Matthew 6?

5 A. Correct.

6 Q. All right. Are you familiar with the general
7 statewide spacing rule for oil wells on 40-acre spacing?

8 A. Am I familiar with it, I --

9 Q. Yeah, do you know that that's the rule?

10 A. I asked the engineer as far as what the Monument-
11 Tubb spacing was, and he told me 40 acres.

12 Q. He told you 40 acres?

13 A. That's what I recall.

14 Q. All right. If it's 40-acre spacing, do you know
15 what a standard well would be 330 from the side boundaries
16 of the 40-acre spacing unit?

17 A. Yes.

18 Q. That's not unusual to be aware of that?

19 A. That's right.

20 Q. Okay. Regardless of the actual spacing for the
21 oil pool, area you aware that it's typical for the
22 Division, under the statewide rules, to have a gas well on
23 160 acres?

24 A. Yes.

25 Q. And are you aware that it is within the rule that

1 that well should be no closer than 660 to the side
2 boundaries of the 160? You know that, right?

3 A. Right.

4 Q. Okay. Did it occur to you that the Cross-Timbers
5 well, which was an oil well 330 from your property, is now
6 a gas well, and therefore too close?

7 A. We checked into that and we tried to find out
8 what the field rules were for that, and it was classified
9 as wildcat for a long time.

10 Q. And what would that mean to you?

11 A. That means no field fields rules are established,
12 as far as I know.

13 Q. So then it defaulted to the statewide rule,
14 right? You don't know?

15 A. I guess not.

16 Q. Okay.

17 A. I hadn't thought of it like that, I guess.

18 Q. All right, let me show you something. Mr. Denny,
19 I've handed you an exhibit. It's marked Exhibit 20, it's
20 Sapient Exhibit 20, and the first page of it is on Chevron
21 letterhead, and it's dated October 11th, year 2000. And if
22 you'll turn past the first page, you'll see that this
23 letter is authored by Lloyd Trautman of Chevron and that
24 you were copied?

25 A. Uh-huh.

1 Q. T.R. Denny is you; is that no so?

2 A. That's right.

3 Q. All right. Do you know about this Application of
4 October 11th, year 2000, for the unorthodox location for
5 the Matthews 12 well?

6 A. Matthews 12, yes.

7 Q. Yes, sir. Mr. Trautman is copying you, right?

8 A. Right.

9 Q. Where's Mr. Trautman?

10 A. He no longer works in this particular group.

11 Q. All right, is he still employed by Chevron?

12 A. Yes.

13 Q. Is he still located in Midland?

14 A. Yes.

15 Q. Okay. On October 11th, then, Mr. Trautman, by
16 copying you, is requesting to use the Number 12 well as a
17 well at an unorthodox location in the southeast quarter of
18 7, correct?

19 A. That's right.

20 Q. All right. At this point he is referencing the
21 Cross Timbers Bertha 12 well, correct?

22 A. Uh-huh.

23 Q. Did you know at this time that well was operated
24 by Sapient and not Cross Timbers?

25 A. No.

1 Q. Why is Mr. Trautman copying you with this
2 Application, Mr. Denny?

3 A. Just standard procedure, I guess. You know, when
4 they do something, the engineers do something, they usually
5 send us a copy.

6 Q. All right. Are you involved in deciding which of
7 the wellbores in the southeast quarter of 7 -- I'm sorry,
8 the southeast quarter of 6, that Chevron is going to
9 utilize for this attempt to deepen into the Tubb gas?

10 A. Yes.

11 Q. All right, so that would be a good reason to copy
12 you, right?

13 A. Yes.

14 Q. All right. Let's turn to the next page, and it's
15 a plat that was filed with Chevron's Application, and it
16 shows the Number 12, correct?

17 A. Okay.

18 Q. Do you see that? It's got an arrow on it, the
19 Number 12?

20 A. Right.

21 Q. And you see north of that is the Number 6 well?

22 A. Right.

23 Q. Do you know the significance of the area that is
24 shaded with diagonal hatch lines on this exhibit, of this
25 display? Do you know why that was done?

1 A. No.

2 Q. Turn to the next page with me. You'll see Mr.
3 Trautman sent notice to the offset operators. Do you see
4 that?

5 A. Yes.

6 Q. Do you know why he sent notice to Cross Timbers?

7 A. As I said, I don't think we knew it was Sapient's
8 well then.

9 Q. Okay.

10 A. So that's -- I don't know.

11 Q. Do you know why notice was not sent to Conoco?

12 A. No, sir, I don't get involved in this kind of
13 work much.

14 Q. All right, sir, let's turn to the next page.
15 There's a C-102 attached to the Application. It shows the
16 location for the Matthews Number 12 well, correct?

17 A. Yes.

18 Q. All right, turn to the next page. It's a letter
19 from Mr. Stogner to Mr. Trautman dated October 26th, year
20 2000, and Mr. Stogner is asking for more information
21 concerning the wells in the southeast quarter?

22 A. Right.

23 Q. Have you seen this before?

24 A. Yes.

25 Q. Okay, let's turn to the next one. It's Mr.

1 Trautman's response on November 7th, the year 2000, to Mr.
2 Stogner's letter, correct?

3 A. Right.

4 Q. Did you participate in the preparation of this
5 letter or any of the information that went from this
6 submittal to Mr. Stogner?

7 A. No, I just read over it and that was it.

8 Q. Okay. Let's look at some of the things Mr.
9 Trautman is saying. If you'll look at the second paragraph
10 he says, "At this time we decided to recomplete the Number
11 6 well." Do you see that?

12 A. Yes.

13 Q. "Permits were obtained and.." we completed the
14 work on July 14th, year 2000, right?

15 A. Yes.

16 Q. So this is in response to knowing that Cross
17 Timbers has a Tubb gas well, and you're looking at your
18 wells in the southeast quarter for a re-entry, right?

19 A. Right.

20 Q. You know that the Cross Timbers well is 330 from
21 the common line, right?

22 A. Uh-huh.

23 Q. In July of the year 2000, why did you not select
24 the Number 12 well, which is the immediate offset for
25 competition --

1 A. Yeah.

2 Q. -- and instead select the Number 6 well?

3 A. Well, the reason that we did that was because
4 we're under constant pressure to keep our costs down, and
5 the Number 6 well was a well that we had casing in. All we
6 had to do was run a porosity log to high-grade our porosity
7 interval and put some perforations in it, and it was the
8 most economical way for us to get in and test the Tubb in
9 that area.

10 Q. But if you're worried about the offset drainage
11 to the south by the Cross Timbers Tubb gas well --

12 A. I understand.

13 Q. -- why wouldn't you spend the additional moneys
14 for the protection well, which would be the Number 12?

15 A. Well, like I say, we just -- with the management
16 approach, as I said, they like to do things that it's most
17 economical. And we thought if the 6 was productive then we
18 could maybe do subsequent work.

19 Q. Were you proposing to have two Tubb gas wells in
20 the same southeast quarter of Section 6?

21 A. No, I'm just saying, we just thought if the 6 was
22 productive, then we could do, you know, maybe some other
23 things in other areas. But we thought it would give us a
24 well in that pool.

25 Q. All right. So if you're worried about

1 competition and drainage by the Cross Timbers well, and you
2 have that knowledge in September of 1999 when that well
3 starts to produce gas, and if you're concerned about that
4 competition and drainage, isn't the most probable solution
5 the one to take the Matthews 12 well and utilize that well?

6 A. Well, all I can -- The way I recall what happened
7 is, we just looked at a well that would be the most
8 economical re-enter. We didn't know what the field rules
9 were going to be for this well. We thought it would be
10 Monument-Tubb, 40-acre spacing and --

11 EXAMINER STOGNER: What did you say? Stop right
12 there, go back. What did you say about the Monument-Tubb?

13 THE WITNESS: Just because most all the areas --
14 or all the wells in this area had been classified as
15 Monument-Tubb, and we knew the Marathon wells were called
16 Monument-tubb, and they were 40-acre-spacing wells, we just
17 assumed that was going to be what this well would be
18 called. So I really didn't worry too much about -- You
19 know, I just looked for the most economical recompletion
20 candidate at that point.

21 Q. (By Mr. Kellahin) All right. Mr. Denny, do you
22 know that during all this period of time the Monument-Tubb
23 oil wells are spaced on 80 acres?

24 A. I didn't know that at the time.

25 Q. All right. Let's look at the map that you

1 prepared. This is a structural map based upon your
2 analysis of the data available; is that right?

3 A. Yes.

4 Q. Is this commercially available data, Mr. Denny?

5 A. As far as I know, it's -- Like I say, this map
6 was constructed mainly with tops from PI.

7 Q. Let's compare your map to Mr. Wiley's map, and
8 there's a difference, isn't there? Do you have his map?

9 A. Not a copy.

10 Q. All right, let me show you my copy. When you
11 look at Mr. Wiley's map as an expert geologist, Mr. Denny,
12 don't you conclude that Mr. Wiley is associating the Tubb
13 oil wells in Section 8 with the Sapient gas well? He shows
14 a connection and a link, doesn't he?

15 A. Would you re-state your --

16 Q. Yes, sir. In Section 8 --

17 A. Yes.

18 Q. -- you've got some oil wells?

19 A. Yes.

20 Q. Those are Tubb oil wells?

21 A. Down here.

22 Q. Yes, sir, in Section 8. And he's connecting
23 those on his display with the same feature in which the
24 Sapient gas well --

25 A. It would --

1 Q. -- right?

2 A. Yes, it looks like it.

3 Q. All right. When I look at your map, I don't see
4 that connection. Am I misunderstanding what you're doing?

5 A. Like I say, there appears to be some lower wells
6 there, and you can easily put a syncline in there.

7 Q. So, you show me an interpretation that would
8 exclude the Tubb oil wells in 8 from being impacted or
9 affected by the Sapient Tubb gas well in Section 7?

10 A. Yes, sir.

11 Q. All right. The ones you're drawing our attention
12 to are the Marathon oil wells down in the southwest quarter
13 of 5, right?

14 A. Yes, sir.

15 Q. Mr. Wiley does something also different from your
16 map when we look at Section 5, all right? I'm going to
17 give you his map back. There's a substantial difference
18 between how you have chosen to handle the relationship of
19 the Marathon Oil wells in the southwest of 5 as you move
20 towards the gas well in the northeast of 7, correct? Do
21 you see how they're different?

22 A. Yes.

23 Q. All right. What's the explanation for why you
24 have not chosen to do what Mr. Wiley did?

25 A. Well, I didn't realize until today when these

1 fellows presented their map that I have no control for
2 their Marathon Number 12 well.

3 Q. Okay.

4 A. And so when I constructed this map, evidently I
5 had no log, and so I had no data point on that. So it was
6 just left off.

7 Q. All right. You had a chance to see Mr. Von
8 Rhee's geologic presentation of the structure with regards
9 to the southwest quarter of 5, did you not?

10 A. Yeah.

11 Q. And his interpretation is, the explanation is,
12 there's a fault separating the oil wells from the gas well,
13 right?

14 A. Uh-huh.

15 Q. Is that not a reasonable position to take, based
16 upon the data?

17 A. Based upon these two maps -- You could put in a
18 fault, but it's not the only answer.

19 Q. Have you prepared an isopach, Mr. Denny?

20 A. No, sir.

21 Q. When we're trying to figure out where this gas
22 reservoir is and Chevron decides to take the southeast
23 quarter and to re-enter the Matthews 6 well, the letter
24 supplied by Mr. Trautman indicates that attempt failed
25 because the Tubb was tight. What does that do, then, to

1 the reservoir in the southeast quarter of 6?

2 A. All it tells me is that at that particular
3 location the well was -- we were unable to establish
4 production.

5 Q. What does that tell you is the next potential
6 place at which you might have an opportunity to compete for
7 the Tubb gas? Would it be farther away from the Number 6
8 well or closer to the Sapient well?

9 A. Well, you know, I guess you want to get closer to
10 the apple tree, so we -- the Sapient.

11 MR. KELLAHIN: No further questions, Mr. Stogner.

12 We would at this time move the introduction of
13 what I've marked Exhibit 20.

14 MR. CARR: No objection.

15 EXAMINER STOGNER: Sapient Exhibit -- That's 20?

16 MR. KELLAHIN: Yes, sir.

17 EXAMINER STOGNER: -- will be admitted into
18 evidence.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. I'm referring to Sapient's Exhibit Number 20, the
22 last page. Who of these people that are cc'd are
23 responsible for interpretation of the rules and regulations
24 for Chevron? Who should have caught that?

25 A. Mr. Stogner, from what I can recall on this, we

1 were calling the OCD trying to find out what the rules were
2 going to be for that well, and it was considered a wildcat.
3 So we didn't know what the spacing was going to be.

4 Q. Okay, when did you call them and when were you
5 told it was a wildcat?

6 A. Well, I don't get involved a whole lot in spacing
7 and all this kind of stuff, but the engineer working on it,
8 Mr. Trautman, was -- he has a note that he was informed in
9 October that the field had a field name of West Monument-
10 Tubb, and it had a 160-acre proration unit.

11 Q. Do you know what a wildcat well is?

12 A. To me it just means a well that has no field
13 rules, I guess, or it's just a new well.

14 Q. Do you know what the rules and regulations of New
15 Mexico say what wildcat well is?

16 A. Like I say, that's really not what I get involved
17 in too much. I just try to do the technical work.

18 EXAMINER STOGNER: Mr. Kellahin --

19 MR. KELLAHIN: Yes, sir.

20 EXAMINER STOGNER: -- who in your part knows the
21 rules and regulations of New Mexico? None of them
22 testified to that.

23 MR. KELLAHIN: No, sir, and I explained in my
24 opening --

25 EXAMINER STOGNER: Mr. Carr, who in Conoco did

1 you have here today?

2 MR. CARR: I don't have anyone who can testify as
3 to --

4 EXAMINER STOGNER: How about Chevron?

5 MR. CARR: And I don't have anyone for Chevron
6 who can testify to the rules.

7 EXAMINER STOGNER: Would that be important? I
8 guess I'm missing something. I know the OCD made a big
9 mistake. The OCD in Hobbs made a huge mistake, and I tell
10 you what, I'm not going to cover up at all for that. We
11 made a huge mistake in Hobbs. What do I do, fire that
12 person?

13 MR. CARR: Are you asking me?

14 EXAMINER STOGNER: I don't know --

15 MR. CARR: I mean, I could --

16 EXAMINER STOGNER: -- it's just sort of general.
17 No, I'm not asking.

18 MR. CARR: I can give an opinion, but I...

19 EXAMINER STOGNER: And then we get somebody new
20 in there that don't know the rules and regulations too?
21 Maybe that's where we should go.

22 I'll tell you what, what I've seen today so far,
23 I'm beginning to doubt the administrative Application for
24 the Chevron Well Number 12 should have even been issued at
25 all, because it doesn't look like to me Phillips was even

1 notified, nor was Conoco.

2 Now, I did get Sapiant's waiver of an objection,
3 even though they did not get notified, evidently Sapiant
4 also got it, because I got some correspondence from them,
5 Mr. Kellahin. So that waives Sapiant's -- I mean, that
6 introduced Sapiant, so that waived them from the
7 notification. And then the objection came in and of course
8 it was waived. But that one waiver allowed me to approve
9 that well.

10 I'm beginning to see now that that might not have
11 been the best plan of action. And we did have that set to
12 hearing, didn't we, and that was dismissed?

13 What should we do on that Application, Mr. Carr?
14 I'm a little concerned that it doesn't look like to me
15 adequate notification pursuant to Rule 1207.A

16 MR. CARR: I'd like to confirm who the actual
17 owners are and see if there are waivers that can be
18 presented.

19 EXAMINER STOGNER: Okay, with that I'm going to
20 stay that administrative application by verbal today on the
21 record, that Administrative Order NSL- -- what? 3726-A?

22 MR. KELLAHIN: Yes, sir, I think that's right.

23 EXAMINER STOGNER: Get the right number.

24 MR. KELLAHIN: 3752-A issued January 24th.

25 EXAMINER STOGNER: Okay, 3752-A is hereby stayed

1 pending further review by the Applicant.

2 MR. CARR: By Chevron, and we will report
3 quickly.

4 EXAMINER STOGNER: Okay. Hopefully by the proper
5 party.

6 Q. (By Examiner Stogner) Okay, Mr. Trautman is no
7 longer working for the Western -- he's no longer in this
8 portion of it, right?

9 A. That's correct.

10 Q. How about this R.M. Vaden? Who's he?

11 A. He's a landman.

12 Q. A landman. Does also know the rules and regs?

13 A. I can't speak for him.

14 Q. Uh-huh. Is he still working for Chevron?

15 A. Yes.

16 Q. He is? Is he here today?

17 A. No.

18 Q. Do you know why not?

19 A. No, sir.

20 Q. Is this the same R.M. Vaden that serves on the
21 regulatory practices committee that makes recommendations
22 to my boss about rules and regulations and how to change
23 them and make them simplified? Is that the same person?

24 A. I think that was one of his responsibilities, I'm
25 not sure --

1 Q. So he would be the regulatory expert in this
2 instance?

3 A. I can't say for sure. I don't know exactly what
4 all duties he has, but I think he does go to some -- or has
5 in the past went to some regulatory commission rules -- or
6 meetings.

7 Q. Maybe we need to subpoena him up here.

8 Okay, I'll start asking questions that you may
9 evidently know something about, pursuant to this particular
10 Exhibit Number 1. So we have possible oil production
11 underneath this pod or area? Underneath that gas that's
12 painted pink, I should assume that there's oil underneath
13 there?

14 A. Yes.

15 Q. Pardon?

16 A. Yes.

17 Q. So this would be an associated -- a gas-cap
18 reservoir?

19 A. I don' -- I'm not sure. All I know is, it looks
20 like just one well has gas and the other three have oil,
21 and the other three oil wells also produce some gas.

22 Q. But you're not here seeking associated pool rules
23 for this Tubb production?

24 A. No.

25 Q. Why not?

1 A. I don't really know associated pools really mean,
2 so --

3 Q. Who would?

4 A. I just have no experience with these type of
5 reservoirs, so...

6 EXAMINER STOGNER: Okay, then in that case I have
7 no other questions. You may be excused.

8 Mr. Carr?

9 MR. CARR: At this time we call Mr. Abel Lovato.

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

15 Q. Would you state your name for the record?

16 A. Abel Lovato.

17 Q. And where do you reside?

18 A. In Midland, Texas.

19 Q. Mr. Lovato, by whom are you employed?

20 A. Chevron.

21 Q. And what is your position with Chevron?

22 A. I'm a petroleum engineer.

23 Q. Have you on prior occasions testified before the
24 Oil Conservation Division?

25 A. No.

1 Q. Would you summarize your educational background
2 for Mr. Stogner?

3 A. I'm a 1992 graduate from the New Mexico Institute
4 of Mining Technology, New Mexico Tech, and I've been
5 employed with Chevron in the west basin, or the Permian
6 Basin, since 1992 to present.

7 Q. And you've been as a petroleum engineer at all
8 times?

9 A. Yes.

10 Q. Are you familiar with what Sapient is seeking in
11 this case?

12 A. Yes.

13 Q. Have you made an engineering study of the area
14 which is involved in this Application?

15 A. Yes, I have.

16 Q. Basically, what have you done, what have you
17 tried to do?

18 A. I've just tried to calculate the gas in place
19 around the Bertha Barber Number 12.

20 Q. Are you prepared to share the results of your
21 work with Mr. Stogner?

22 A. Yes.

23 MR. CARR: We tender Mr. Lovato as an expert
24 petroleum engineer.

25 EXAMINER STOGNER: Any objection?

1 MR. KELLAHIN: No, sir.

2 EXAMINER STOGNER: Mr. Lovato, you graduated in
3 1992. When did you start?

4 THE WITNESS: In 1987.

5 EXAMINER STOGNER: Okay, I don't -- No objection.
6 I was just thinking -- Okay, yeah, Mr. Lovato is so
7 qualified.

8 Q. (By Mr. Carr) Would you refer to what has been
9 marked as Chevron Exhibit Number 3, identify and review
10 this for the Examiner?

11 A. This is a production plot of the Bertha Barber
12 Number 12 production since it was completed in August of
13 1999. The solid line on top is the cum production. The
14 dashed and triangled -- or squared line on the bottom, is
15 the daily production in MCF per date.

16 As a decline analysis, I used the bottom line or
17 the bottom dashed line to predict the gas in place through
18 decline analysis. I used the point starting in February of
19 2000 to January of 2001, and those calculations are on the
20 next page.

21 Q. Okay, and you have calculated a decline rate for
22 this well, and the calculations are set forth on Exhibit 4,
23 correct?

24 A. Yes.

25 Q. Okay, let's go through those, please.

1 A. Okay. On the top of the page there you have your
2 effective and nominal decline yearly. I used a 1400-MCF-
3 per-day from the January, 2000, production, and I used 1176
4 MCF per day in January or December -- in December of 2000.
5 And that calculated out to be about a 16-percent annual
6 decline. And changing that over to a normal decline,
7 that's 17 percent.

8 And then your expected recovery using that
9 calculation comes out to be about 2.6 BCF, is what we can
10 expect to recover from the Bertha Barber Number 12.

11 Q. Now, you've used another approach, have you not,
12 to --

13 A. Yes.

14 Q. -- estimate ultimate recovery?

15 A. Yes, and the next line below there is the
16 material balance equation. And using that material balance
17 equation, I had to come up with a couple of assumptions,
18 one of them being the reservoir pressure, initial reservoir
19 pressure, and the other being your chemical analysis of the
20 gas.

21 I obtained these from our gas group who transfer
22 gas in the Monument-Tubb area, and those were just
23 probability estimates from the information that they gather
24 collecting gas.

25 When I ran through that equation, I came out with

1 a 2.2-BCF calculation which was in line with my previous
2 estimate or the previous calculation, a decline analysis of
3 2.6. I believe I used a 250-p.s.i. abandonment pressure on
4 the expected recovery, on the material balance equation.

5 Q. Now, you were able to take these numbers and
6 calculate drainage radii, were you not?

7 A. Yes, and that's --

8 Q. Is that shown on the exhibit --

9 A. -- and that goes down -- yes, it breaks down into
10 this next table.

11 Where I got the 2800-pound initial pressure from
12 was the work that we had done on the G.C. Barber Number 6,
13 the frac that was talked about earlier. I went back and I
14 looked at the daily reports. And when they were going in
15 to perf that well, the standard procedure is to fill the
16 well with 2-percent KCl, for safety reasons. In case you
17 have a blowout you'll be able to hold that gas in
18 formation.

19 But when I went in there and shot the upper
20 perfs, it was noted on the daily report that the well went
21 on slight vacuum, which indicates that the hydrostatic
22 pressure at that depth was over and above the pressure in
23 the reservoir.

24 So after calculating what the hydrostatic
25 pressure is with the fluid that they had in the reservoir,

1 it calculated out to approximately 2800 pounds pressure at
2 formation.

3 So that's where I used on my material balance,
4 that's the pressure that I used. And you can see that
5 that's in the second small column, you can see where it
6 says reservoir pressure, 2800 pounds.

7 The reservoir temperature, I also got that off of
8 the G.C. Matthews Number 6, off of the log. That was 120.
9 Gas density, I calculated that off of the gas composition
10 supplied by the gas group.

11 Pseudoreduced pressure, pseudoreduced temperature
12 is a calculated value, and then -- and from that value you
13 come out with your Z factor or your compressibility factor
14 for your gas, and I got a .841 at 2800 pounds.

15 Going further down this table, I calculated it at
16 -- if we were on a 160-acre proration unit with a net foot
17 of pay of 21 feet. And I got that off of the logs, off of
18 the Bertha Barber Number 12, that's all they perforated was
19 21 feet of pay.

20 I estimated the average porosity to be 10 percent
21 and the interstitial water saturation of 20 percent. I
22 obtained that from other engineers who had a little more
23 experience and time in the Tubb formation, Mr. Lloyd
24 Trautman and Mike Howe. They helped me with that.

25 And so when you -- Using those numbers, I come

1 out with a gas in place of around 2.3 BCF for that well.
2 And taking that number, that 2.377 BCF, it also falls --
3 you know, it will fall in line with what we estimated off
4 of the decline analysis and also off of the material
5 balance.

6 The next number underneath there is the 471,000
7 MCF that they have produced out of that well to date. That
8 20 percent below there is percent recovered of the 2.3 BCF,
9 and that's again calculated on 160 acres.

10 This is also calculated radially, so if you back
11 out the radius for the gas produced, 471,000 MCF, it comes
12 out to a produced volume radius of around 296 feet radially
13 around the Bertha Barber 12.

14 And since it's situated 330 feet off the lease
15 line to the north and 330 feet off the lease line from the
16 New Mexico Federal Unit, it's my estimation that the Bertha
17 Barber will be encroaching on our gas reserves shortly.

18 And on the -- If you just go off of a 160-acre
19 proration unit radius, if you take that 2.3 BCF, it
20 calculates out to 1491 feet from the wellbore.

21 Q. Mr. Lovato, you were present this morning when
22 Mr. Travis testified, were you not?

23 A. Yes, I was.

24 Q. And in his volumetric calculations he was using
25 an initial pressure of 2570 pounds?

1 A. Yes.

2 Q. If we applied that number would we, in fact -- if
3 you apply that pressure number to the table --

4 A. Yes.

5 Q. -- what sort of radius would we have as of
6 January of this year?

7 A. It appears it would be within 317 feet and 342
8 feet there somewhere.

9 Q. Is it your testimony that the Bertha Barber well
10 will, in fact, drain the Chevron and Conoco acreage in
11 Section 7?

12 A. Yes, it's my opinion that it will.

13 Q. What are your recommendations concerning this
14 Application?

15 A. Well, I recommend that the Sapient Application be
16 denied and that they be -- they apply for a standard
17 spacing unit of 160 acres.

18 Q. Do request that the well be shut in until a
19 standard spacing unit is approved?

20 A. That would give us the opportunity to catch up,
21 yes.

22 Q. Were Exhibits 3 and 4 prepared by you?

23 A. Yes, sir.

24 MR. CARR: Mr. Stogner, at this time we'd move
25 the admission into evidence of Exhibits 3 and 4.

1 EXAMINER STOGNER: Exhibits 3 and 4 will be
2 admitted into evidence.

3 MR. CARR: That concludes my direct examination
4 of Mr. Lovato.

5 EXAMINER STOGNER: Thank you, sir.

6 Mr. Kellahin, your witness.

7 MR. KELLAHIN: Mr. Stogner, thank you.

8 CROSS-EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Lovato, did you assume the responsibilities
11 for this project from Mr. Trautman?

12 A. Yes, I did.

13 Q. And when did that happen?

14 A. I was -- Lloyd and I were traded properties as of
15 January 1st --

16 Q. Of this year?

17 A. Of 2001, yes. He had promised me that he wasn't
18 going to leave me out in the cold and that he was going to
19 help me with the January 21st hearing that was on the
20 docket, and -- but that was canceled, so he had other
21 obligations and he had to take his -- and he left me with
22 this responsibility --

23 Q. As part of your responsibilities in replacing
24 him, did you read the Chevron files that included Mr.
25 Trautman's Application on behalf of Chevron for a Tubb gas

1 well in the southeast quarter of Section 6?

2 A. Southeast quarter of Section 6?

3 Q. Yes, sir.

4 A. Yes.

5 Q. All right. You've read all that stuff?

6 A. Yes.

7 Q. All right. Your last response to Mr. Carr, you
8 talked about shutting in the Sapient well to afford Chevron
9 a chance to catch up, right?

10 A. Yes.

11 Q. Chevron had that opportunity, if we are to
12 believe Mr. Denny, in September of 1999, right?

13 A. I believe if that well hadn't made a well, we
14 probably wouldn't be here. That's just my opinion.

15 Q. Well, my question is, you may not have known, but
16 in September of 1999 Mr. Denny knew, and presumably Chevron
17 knows, that there's a Tubb gas well just to the south,
18 right?

19 A. Yes.

20 Q. All right. So the opportunity was there
21 immediately after the well started to produce gas, right?

22 A. Yes.

23 Q. And you now want the well shut in, after 18
24 months of waiting to exercise your opportunity to compete?

25 A. Well, it's my understanding that Lloyd had -- or

1 Mr. Trautman had tried, or had conferred with Mr. Carr
2 about getting the well, the Bertha Barber Number 12, shut
3 in.

4 Q. That did not occur --

5 A. It did not occur.

6 Q. -- until fall of this year.

7 All right, my question is, what happened between
8 September, 1999, and October of the next year that
9 precluded Chevron from taking action with regards to the
10 Cross Timbers well?

11 A. Well, I believe most of that time was taken to
12 prepare properly for the G.C. Matthews Number 6.

13 Q. How much time would it have taken for a Chevron
14 employee with knowledge to look at that gas well, decide
15 where it was located, and see if the right acreage
16 configuration had been dedicated to it?

17 A. Well, as Mr. Denny stated earlier -- I just don't
18 have an answer for that. I don't know how long it would
19 take. It...

20 Q. All right. You were not involved in Chevron's
21 decision about choosing the Matthews 6 well as the first
22 effort to attempt to compete with the Cross Timbers well,
23 correct?

24 A. Correct. No, I just read the correspondence
25 between Mr. Stogner --

1 Q. All right, and you were not involved in Mr.
2 Trautman's response to Mr. Stogner in November of last
3 year?

4 A. No.

5 Q. Okay. Let's look at -- Let me ask you this:
6 Have you studied or made any reservoir investigation of
7 this issue about having an oil pool with a gas cap?

8 A. No.

9 Q. You've not studied the gas-oil ratios of the
10 Marathon wells?

11 A. No, just as I've listened to the Conoco testimony
12 and Tim --

13 Q. Well, that's here today.

14 A. -- Mr. Denny and I, we discussed -- we looked at
15 the production off of those Marathon wells, we looked at
16 the production plots that we pulled off of *PI/Dwight's* --

17 Q. Okay.

18 A. -- and we looked at that stuff, yeah. We kind of
19 looked at it where it fell on the map.

20 Q. Well, let me ask you what you saw. When you look
21 at the Marathon wells, did you notice that of the three
22 Marathon wells, the well with the highest gas-oil ratio was
23 farthest downstructure?

24 A. No, sir, I didn't make that observation.

25 Q. Okay. Let's look at your Exhibit Number 3.

1 Where did you get the production information for the
2 Sapient Barber Number 12 well for the month of February of
3 this year?

4 A. I don't believe I have the data for February. I
5 think I have it for January.

6 Q. All right, so I need to take the point, the data
7 point on the February production and white it out, right?
8 Is that --

9 A. Yes --

10 Q. -- last data point --

11 A. -- yes, yes.

12 Q. All right, that's not correct. Take me back on
13 that line where it says just above the 1000-MCF-a-day
14 line -- Do you see the line?

15 A. My calculation was done at -- The initial point
16 was 1400 MCF, and then putting -- That was at December, and
17 then giving it a year would put us at December, 2000, and I
18 gave it 1176 MCF, which is below that 1236 MCF.

19 As we were going along, we -- As Lloyd was going
20 along, he started collecting data, production data, and we
21 just kept updating it, and I guess I've added a point -- I
22 added that January number in there, but I've already done
23 the calculation at 1176, which is below what's on the plot
24 there.

25 Q. All right, here's what I'm trying to find out,

1 Mr. Lovato. When you look at Exhibit 4 and look at the top
2 part of it, you've established an expected EUR of 2.6 BCF
3 of gas?

4 A. Yes.

5 Q. I'm assuming that you have forecasted a
6 production decline in order to get that 2.6 BCF of gas,
7 correct?

8 A. Yes, yes.

9 Q. And so to find out how you did that, I'm looking
10 back at Exhibit 3, to find out what point in time you have
11 got a daily producing rate of 1400, right?

12 A. Right.

13 Q. Where is it?

14 A. That is right after the frac that was done in
15 December, so it was in January.

16 Q. So January of the year 2000 is the starting point
17 for that number, right?

18 A. Correct.

19 Q. Okay. And you're taking this on -- base this on
20 the monthly production report?

21 A. Yeah.

22 Q. You're not looking at daily production?

23 A. No, I just took a monthly gross and then convert
24 it to a daily number.

25 Q. You're not looking to see if the operator changed

1 the choke setting to change the amount of production being
2 produced in any given period, right?

3 A. No, no.

4 Q. Do you know whether or not this was condensate
5 production in association with the gas well or whether it
6 was oil production?

7 A. I assumed it was oil production.

8 Q. Simply because of how it was reported?

9 A. Right.

10 Q. All right. So we've got the starting point for
11 the 1400. How do I find the point in time that you have
12 picked the 1176 number?

13 A. The 1176 would be one year from there, so it
14 would be January, 2001.

15 Q. All right. And based upon that methodology,
16 then, you are forecasting a straight-line decline at 16
17 percent a year?

18 A. Yes, sir.

19 Q. For the life of the well?

20 A. Yes, sir.

21 Q. All right. And when I look at the volumetric
22 calculation, then, we've got some differences.

23 A. Yes, sir.

24 Q. Mr. Travis used the 30 feet of net pay in the
25 reservoir that Mr. Von Rhee gave him based upon careful,

1 detailed log analysis of the Sapient well?

2 A. Yes, sir.

3 Q. And you're using 21 feet?

4 A. Yes, sir.

5 Q. Did you independently look at the log of the
6 Sapient well and decide for yourself exactly how to value
7 the dolomite and the limestone and pick the net thickness?

8 A. I got with Mr. Denny --

9 Q. Mr. Denny did it?

10 A. -- and we looked at it together and discussed,
11 and we thought that that was the appropriate net pay.

12 Q. What's your background and experience in picking
13 out those values on a log? Is that something you do?

14 A. Yes, I've done it before. I've been out in the
15 field and we see something that hasn't been anticipated,
16 and if I believe that I -- you know, it's the correct thing
17 to shoot, I'll call the shots on it, and we'll shoot it.

18 It's hard for me to believe that you would -- Why
19 wouldn't you shoot the whole 20 -- or 30 feet? I mean,
20 that is unusual practice, as far as I'm concerned.

21 Q. Well, my education is in English literature, I
22 can't tell you, Mr. Lovato. But I can tell you this: I
23 have seen numerous instances where the operator will have a
24 pay interval that far exceeds the actual perforations in
25 the wellbore. Can you think of reasons why that might

1 work?

2 A. Yes, I guess I could think of reasons, but in
3 this circumstance it's all right in one package. Why
4 wouldn't you shoot all 30 feet of it, instead of just
5 shooting 21 feet of it? I guess that's the part that I
6 don't understand.

7 Q. How about a fracture treatment? That would
8 communicate all the pay, wouldn't it?

9 A. That's to extend the fracture throughout the pay
10 interval that you've chosen, yes.

11 Q. Are you going to tell me the fracture will stay
12 confined in a horizontal extent to the level of the
13 perforation and not move upward or downward?

14 A. Preferentially, it will move upward. And
15 according to this, according to Sapient, they're saying
16 that their -- unless I misunderstood, they're saying that
17 their pay was down below.

18 Q. Well, my point is, you and Mr. Denny are
19 selecting pay based upon the perfs, and you get 21 feet?

20 A. Yeah.

21 Q. And you've excluded the opportunity to suggest
22 that the pay could be thicker, right?

23 A. According to our experience, yes.

24 MR. KELLAHIN: All right. No further questions.
25 Thank you, Mr. Stogner.

1 EXAMINER STOGNER: Thank you.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. So I can understand Exhibit Number 4, you've
5 showed the produced volume radius, and the highest you show
6 right now is 342. That's after going down the road, at
7 least, right? Is that correct?

8 A. What I was trying to show on this was just a
9 different scenario. Like I said, I really didn't have a
10 good handle as to what the initial reservoir pressure is,
11 and that is a big factor in this calculation.

12 I gathered the information that I could off of
13 the G.C. Matthews 6, perforations, fluid levels after the
14 frac when we tried to clean it up, and I came up with a
15 best-guess estimate that it would be around 2800 pounds.
16 But I still went ahead and I ran out these other different
17 scenarios, just to see what that radius would come out to
18 be if that well had a different initial -- or a lower
19 initial pressure.

20 Q. So what is the -- Will this well produce 160
21 acres?

22 A. I believe it will if the decline analysis from
23 all three engineers have put it around 2.3, 2.5, just off
24 the decline analysis, so -- using the 10-percent porosity
25 and the interstitial water saturation and net foot of pay,

1 I believe it will come up with 160 acres, because 160 acres
2 at 2400 pounds came out to 2.0 BCF. So I believe it would.

3 Q. Okay, will the Chevron well up there in Section 6
4 -- do you expect that to produce 160 acres radius or, you
5 know, have the effect of 160-acre spacing?

6 A. Well, we would have gone through the same
7 analysis to be able to calculate that. I believe Mr.
8 Trautman on this economic analysis had it at 1 -- top end
9 of around 1 BCF. I think that's --

10 Q. Okay, but what happens when that well starts
11 producing, since you show the well up to the northern part
12 of that 160-acre unit to be tight? So it's not going to
13 drain that, because that's too tight. So you already have
14 some sort of a pressure differential down to the south of
15 you because of this Bertha -- or this Sapient well.

16 So realistically, what kind of drainage will your
17 Chevron well make?

18 A. In the G.C. Matthews Number 6, I -- In
19 preparation for the G.C. Matthews Number 12, we were
20 anticipating drilling that one, so I was going to look at
21 the frac on it to see if there was anything that I could
22 come up with that might -- you know, that might point us in
23 directions to what went wrong with that well.

24 Both of those jobs on the -- frac jobs on the
25 G.C. Matthews Number 6 and the Bertha Barber Number 12 were

1 done by BJ, and they were identical. We calculated average
2 porosity was basically the same, depth was the same,
3 everything was the same. They had good luck on theirs; we
4 didn't have any good luck on ours.

5 I'm not saying -- You know, we keep referring to
6 that there could have been some tight pay up there. Well,
7 after reviewing the frac off of both of those wells, I'm
8 not 100-percent that it was just tight. For some reason,
9 the G.C. Matthews 6 locked up right in the beginning, and
10 it just didn't make any sense.

11 So I'm just -- I personally, with the little
12 experience that I have there, I'm just not 100-percent sure
13 that that area up there is tight. I believe my -- The
14 method that I backed out the 2800 pounds came out close to
15 what everybody else has, so the pressure is there. But,
16 you know, is the porosity and the permeability there? I
17 don't know.

18 Q. Well, is there any plans on going back into that
19 well that is too tight or that was determined to be too
20 tight, to open it up for Tubb production?

21 A. Well, we were going to attack this one step at a
22 time. We were hoping, you know, to get some -- if this
23 hearing was going to resolve the 160-acre spacing, then we
24 wouldn't have that opportunity to go back and do anything
25 on it. We would have to be content with what we got out of

1 the 12.

2 Q. Now, it's my understanding from Mr. Kellahin's
3 cross-examination that you don't know if this is a gas cap
4 or not?

5 A. Well, from the study that Conoco has presented
6 and from the information that our geologist has given to
7 us, we believe that it's a gas cap.

8 Q. Okay, so were you going -- So having three wells
9 up in the gas cap producing all it could, wouldn't that
10 affect that oil somehow?

11 A. Yes, sir.

12 Q. Would it adversely affect it or do good for it?

13 A. It would adversely affect it.

14 Q. Wow. But you think 160 acres is adequate
15 spacing --

16 A. Yes, sir.

17 Q. -- for gas?

18 A. Yes, sir.

19 Q. Should that gas production be controlled to
20 protect the oil underneath, or vice versa?

21 A. I don't have enough experience to be able to make
22 that call.

23 EXAMINER STOGNER: I have no other questions of
24 this witness.

25 Anything further, Mr. Carr?

1 MR. CARR: Nothing further, Mr. Stogner.

2 EXAMINER STOGNER: Mr. Kellahin, do you have
3 anything further?

4 MR. KELLAHIN: No, Mr. Examiner.

5 EXAMINER STOGNER: Okay, so I believe we're ready
6 to close at this point. Bear in mind, I'm going to have
7 the final word.

8 Mr. Carr?

9 MR. CARR: May it please the Examiner, Sapient is
10 before you as the operator of the well that is in a
11 nonstandard unit, a well at an unorthodox location. And
12 whether it was the fault of their predecessor or something
13 slipped during the due diligence, we come before you. They
14 have a problem. There has not been proper approval
15 obtained in this Division for either the nonstandard unit
16 or the unorthodox well location.

17 And when we look at the record, we can stand here
18 and point fingers at who should have done what and how this
19 might have played out differently, but today we stand here
20 before you with a well with two necessary approvals not
21 there. And I'm sure when Mr. Kellahin closes he'll point
22 out all kinds of different things Chevron and Conoco might
23 have done, and I'm sure we could have. And we could sit
24 here and point out all kinds of things that Sapient might
25 have done and should have done. But the bottom line is,

1 we've got a problem.

2 And the problem is not just that the nonstandard
3 unit hasn't been approved and the location hasn't been
4 approved. The problem also is that with all the evidence
5 presented here today, every geological interpretation and
6 every engineering witness shows that the Bertha Barber
7 Number 12 well would drain not only acreage in the east
8 half, east of 7, but also would drain reserves in the west
9 half of the northeast of 7.

10 And if a standard spacing unit was created -- and
11 Sapient could do that today -- then we'd have a standard
12 spacing unit, no objection to a well location, and as to
13 the narrow problem that's presented within the context of
14 the Application that's before you, the matter could be
15 addressed.

16 But it poses a second-tier problem for Sapient.
17 We suggest they would have to, if they form a standard
18 unit, share the production from that well with the interest
19 owners in the west half of the northeast of 7, and they,
20 for obvious reasons, don't want to do that.

21 The problem on the flip side for us is, we are
22 those other owners, and we believe that we are the owners
23 of the acreage and the reserves that ultimately will be
24 drained by this well, and therefore we have a right and
25 should be included in the standard unit. And to avoid

1 sharing the production, Sapient seeks approval of
2 nonstandard spacing units and 80-acre spacing.

3 The nonstandard spacing units are actually
4 ludicrous if you compare them to the real data on the
5 reservoir. The well, the Bertha Barber 12, is not, 330 off
6 the north line of Section 6, going to drain the east half
7 of the east half, whether or not it's productive. And we
8 submit that the best information shows that the southern
9 portion of that spacing unit is not productive, is not
10 contributing but, in fact, acreage owned by Chevron and
11 Conoco is.

12 The other alternative, to go to 80-acre spacing,
13 likewise simply doesn't match the evidence here today. The
14 wells drain substantially more than 80 acres. You start
15 packing them into this reservoir, you start having wells
16 competing for the reserves, and you're going to be drilling
17 far more wells than are actually necessary to develop the
18 acreage.

19 And so the problem is, as we see it, that there
20 is a well, it has not been permitted, the location has not
21 been approved. There is a well, and it's on a spacing unit
22 that doesn't make any sense. And if we could get back to
23 the rules as close as possible on spacing, spacing would
24 follow drainage, and the unit should be the northeast
25 quarter of Section 7, and we should share.

1 We've been trying to compete with a well to the
2 north. You've heard today the time frame that led to the
3 Application which you today have stayed and which we will
4 quickly address.

5 But I would point out that while we stand before
6 you in an application state, we are in a position where we
7 are not now before you with a well permit that's been
8 properly approved. We've got a problem. And our well is
9 shut in. And I would suggest that Sapient is standing
10 before you with a well that hasn't obtained proper
11 approvals, and until this matter is sorted out they should
12 also be shut in.

13 We believe the way to resolve this matter is to
14 deny the Applications, all of them, as to the spacing, as
15 to the nonstandard spacing units, shut in the Sapient well
16 until they form a standard unit, and approve their well
17 location.

18 In the meantime, Chevron will go forward, sort
19 out the concerns that have come up today about their
20 Application, we will sort that out, and we will get on with
21 developing the acreage to the north. We believe this is
22 the only way that instead of letting the decisions here be
23 governed by ownership or who might have not known this rule
24 or not understood this, but to get back to what's happening
25 in the reservoir and to how to prevent waste and protect

1 correlative rights, we believe that is the remedy that
2 should be adopted by the Division.

3 Thank you.

4 EXAMINER STOGNER: Mr. Kellahin?

5 MR. KELLAHIN: Mr. Stogner, I have appeared
6 before this agency and this Division for 29 years now, and
7 when I first started doing this, I was taught by my dad and
8 by Dan Nutter and others of experience and knowledge that
9 the Oil Conservation Division did not have to be a
10 policeman, that the industry had capable, conscientious,
11 knowledgeable people that not only knew reservoir
12 engineering, that not only knew geology, they knew the
13 rules.

14 And with that expectation, that the industry was
15 self-policing, I practiced before you for more than two
16 decades before I ever came across an example of this kind
17 of situation. We were self-policing each other, we would
18 find each other's mistakes, we would call each other, we
19 get them solved, we would notify the Division when they
20 found mistakes or did not find mistakes, and these problems
21 simply didn't occur, because we had knowledgeable people
22 doing important work.

23 I find it astonishing that the major operators in
24 the Monument area, who have been there for decades, the
25 Chevrans and the Conocos and the Marathons, think they have

1 an oil pool with a gas cap.

2 Can you imagine the responsibility of those
3 individuals and companies for not coming forward to you
4 back in September of 1999 or calling Cross Timbers and
5 saying, What in the world are you doing with a gas-cap well
6 in my oil pool? Do you for a minute believe what we have
7 seen here this morning?

8 This is the first time I have heard either
9 Chevron or Conoco raise the contention that this Tubb gas
10 well is in an oil pool. It's absolute nonsense. You can
11 look at the exhibits, but look at your experience. Can you
12 imagine Marathon not whining, complaining, filing something
13 if they thought their oil production was jeopardized? Can
14 you imagine Chevron with knowledge of the discovery, within
15 days of it being completed, that they don't take action?
16 Come on, give me a break.

17 And what are they supposed to do? They're
18 supposed to compete. Isn't there anyone in that
19 organization that knows this oil well, when it's now in the
20 Tubb, should be 660 back from the side boundaries? Can't
21 they make a phone call and figure that out? They had an
22 opportunity to figure that out? They had an opportunity to
23 fix this mistake, and they chose not to do so for whatever
24 reason.

25 And 18 months have now gone by, and Mr. Carr on

1 behalf of his clients now want this well shut in. Well,
2 shame on them.

3 This cannot possibly be a gas cap. You don't
4 have to look at the data to recognize that it's not. The
5 information will show you, if you care to look, that the
6 Tubb gas well is a gas well producing condensate. It's a
7 different critter, it's a different animal.

8 Aren't you disappointed when you see a
9 presentation that fails to give you an isopach to show you
10 the distribution, and all you get is a couple of structure
11 maps from Chevron and Conoco, implying that there's a gas
12 cap and an equity established between the southeast quarter
13 of 6 and the northeast of 7? And yet they pretend not to
14 know the significance of the Matthews Number 6 well.

15 And where's Mr. Trautman? He's the reservoir
16 engineer for Chevron, the experienced man in the loop, who
17 writes you and tells you the Number 6 well failed because
18 the Tubb is too tight. And where was he back in September
19 of the year 1999 when he had a chance to re-enter and use
20 the Number 12 well and compete with the Cross Timbers well?
21 They knew about it, they chose not to compete, they had the
22 opportunity.

23 And what's the fix? I have agonized for months
24 over what do we do. That agony has not precluded, however,
25 Chevron from going to hearing on the objection. The

1 objection was filed in October, there was absolutely
2 nothing beyond Chevron's control that precluded that case
3 from going to hearing in November, December or January.
4 They could have put it on any of those Examiner dockets and
5 could have brought that to you far sooner than this. Don't
6 punish me or Sapient because they didn't do what they could
7 do, even over the objection.

8 So what do we do? We are now in a new world
9 where no one has an expert that can read the book and
10 figure out what to do. Sapient is here before you as a
11 novice in New Mexico. It's unfortunate that they acquired
12 this problem. But Chevron didn't bring it to your
13 attention, Conoco didn't bring it to your attention. I
14 brought it to your attention at the time you were reviewing
15 this, and you and I both know it was a problem. And I
16 immediately took action to get this resolved.

17 So what's the fix?

18 The fix is, I think, we just memorialize the
19 problem, leave the equities established, continue with the
20 approvals, approve the unorthodox location, create a
21 nonstandard proration unit for the east half, east half,
22 and let Chevron and Conoco go out and compete. And we're
23 talking about competing at a minor level when the cost of
24 the competition is a well that is estimated to cost
25 \$350,000.

1 In return, there's the opportunity for Chevron
2 and Conoco to share a BCF of gas. Mr. Travis testifies it
3 will be unique reserves, and he testifies to something
4 that's critically important for your decision. Based upon
5 careful log analysis and his engineering calculation, they
6 have carefully detailed to you what he has calculated to be
7 the area affected by the well. And based upon his
8 judgment, it's somewhere between 103 and 107 acres.

9 Is not that the solution? Don't we create an 80-
10 acre gas pool of a defined, limited extent, and let each of
11 the parties go out and participate on that basis?

12 And look how fair it is to Chevron. They have
13 already condemned two-thirds of their spacing unit.
14 There's only 40 productive acreage in the southeast
15 quarter. Let them have that Number 12 well and let them go
16 compete.

17 And what do we do about the west half of the
18 northeast quarter? That's a logical spacing unit. Chevron
19 and Conoco are big boys, they can go drill a well in what
20 we think is a thinning portion of the reservoir that is
21 substantially undervalued in terms of what Sapient has
22 acquired, and let them go compete.

23 But no, that's not what they want to do. What
24 they want you to do is, they want you to take hundreds of
25 thousands of dollars from Sapient and redistribute it to

1 Conoco and the interest owners in the west half of the east
2 half. And there's simply no recourse for Sapient except to
3 do that if you tell us we must.

4 We think it's inequitable, we find it incredibly
5 disappointing that this problem occurred. With all due
6 respect to Mr. Kautz, I have great admiration for his
7 dedication to the Oil Conservation Division. He seldom, if
8 ever, ever, overlooks such an obvious issue, and I'm just
9 sorry he didn't catch it.

10 Thank you.

11 EXAMINER STOGNER: I want this to be a lesson to
12 everybody, what you don't know will hurt you. Chevron is
13 going to see, and will see, in the Jalmat and the Eumont --
14 I guarantee that -- and Conoco.

15 The three companies today, any future
16 administrative applications you file, if they're returned
17 to you as incomplete, don't call me and ask me what it is.
18 You figure it out.

19 I've spent I don't know how many hours on
20 applications that each one of you have filed -- I should
21 say Cross Timbers in this instance. But Sapient, take my
22 word for it. If you get something back that says
23 "incomplete", there's only one word on it, don't call me
24 and ask me what it is. Don't waste my time. You are
25 supposed to know.

1 Continental Oil Company, Gulf Petroleum, set
2 these rules and regulations up as the Lea County Operators'
3 Committee back in the 1920s and 1930s. Not me, not a bunch
4 of government employees, but the companies got together.
5 And they didn't want to know -- they didn't want to see
6 what happened working at Texas or in Oklahoma happen here
7 in New Mexico.

8 Mr. Kellahin is right, when I first started, I
9 learned from the industry people. They taught me. And the
10 reason I asked you about when you got to Socorro, a man by
11 the name of Wayne Taylor, who worked for the Kansas
12 Corporation Commission, gave me the insight about that this
13 kind of government intervention is needed and is definitely
14 warranted out there.

15 And today, that proves it. That was the reason I
16 asked you. And he worked in the time in the industry when
17 people knew what was going on.

18 I will put an expedite on this, but I don't want
19 Conoco, Chevron calling me at least for a month on any
20 pending applications -- I've got one on my desk for Conoco
21 I'm fixing to get out today -- because Kay, who should have
22 been here, who you should listen to first, knows what she's
23 talking about.

24 If you'd like, Mr. Carr and Mr. Kellahin, you can
25 give me a rough draft order as soon as possible.

1 With that, I don't see anything further in this
2 matter, other than taking it under advisement at this time.
3 So Cases 12,587 and 12,605 will be taken under advisement,
4 and this hearing is adjourned today.

5 (Thereupon, these proceedings were concluded at
6 3:45 p.m.)

7 * * *

15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Cases Nos. 12587 and 12605
18 heard by me on 1 March 2000
19 Michael E. Elly, Examiner
20 Of Conservation Division
21
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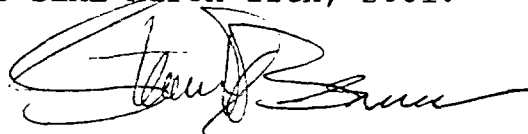
CERTIFICATE OF REPORTER

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 March 11th, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002