STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:	)	CASE NO. 12,875
APPLICATION OF TEXAKOMA OIL AND GAS CORPORATION FOR AN UNORTHODOX COAL GAS WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO	)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 27th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 27th, 2002, 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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I N D E X

June 27th, 2002
Examiner Hearing
CASE NO. 12,875

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	15
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A P P E A R A N C E S

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* * *

ALSO PRESENT:

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* * *

WHEREUPON, the following proceedings were had at 1:53 p.m.:

EXAMINER CATANACH: All right, at this time we'll call Case 12,875, the Application of Texakoma Oil and Gas Corporation for an unorthodox coal gas well location, San Juan County, New Mexico.

Call for appearances in this case.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing the Applicant. I have one witness.

MR. OWEN: Mr. Examiner, Paul Owen of the Santa Fe law firm of Montgomery and Andrews, appearing on behalf of Dugan Production Company; Maralex Resources, Inc.; and SG Interests. I have one witness in this matter.

EXAMINER CATANACH: All right, can the two witnesses please stand to be sworn in?

(Thereupon, the witnesses were sworn.)

BRADLEY W. SALZMAN,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Bradley William Salzman.

Q. And where do you reside?

A. Farmington, New Mexico.

Q. What is your relationship to Texakoma in this matter?

A. I'm a consultant, and I handle all their operations in the San Juan Basin.

Q. By training are you an engineer?

A. Yes, sir.

Q. A petroleum engineer?

A. Yes, sir.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, they were.

Q. And are you familiar with the engineering matters involved in this Application?

A. Yes, I am.

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

EXAMINER CATANACH: Any objection?

MR. OWEN: No objection.

EXAMINER CATANACH: Mr. Salzman is so qualified.

Q. (By Mr. Bruce) Could you refer to Texakoma's Exhibit 1 and discuss briefly why Texakoma desires the off-pattern coal gas location?

A. Yeah, this is an isopach map of the Fruitland Coal south of Farmington. If you notice on here on the left-hand side, Section 16 is the proposed location. That's the Black Hills 16 Number 1. The standard pattern location would be a southwest spot. We've got it proposed in the southeast quarter. If you take a look at the net isopach there, we've got a maximum of about 27 feet of coal, for the most part, in this area.

What this map shows is the coal penetrations, the cum to date and the present production rate. If you notice, from east to west the coal tends to thin, and the production is worse as you go from east to west.

Q. Now looking at this Section 16, there's really no difference in the coal thickness in Section 16, is there?

A. No, sir.

Q. Okay. It looks like in this area it trends from the southwest up to the northeast but pretty much all that Section 16 is in the 25-foot contour line?

A. Right.

Q. But looking at this -- and we'll get to the yellow line in a minute -- does production appear to be better to the east, immediately offsetting to the east, than it does to the west?

A. Yes.

Q. And there's a couple of key wells I'd like you to

look at here, Mr. Salzman. Just south of the proposed location there's a note that says "Offset Producing Well". That's a relatively recent Maralex well, is it not?

A. Yes, sir.

Q. And that appears to be a decent well?

A. Yes.

Q. But over to the west, in the northeast quarter of Section 22, there's a Fruitland Coal well there in the northeast quarter. Is that a good well?

A. No, it's not.

Q. And then there's a bunch of others that are marked off to the west with "NP" for nonproducing in the Fruitland Coal?

A. Right.

Q. So it appears that as you move to the west of your proposed location the quality of production drops off substantially?

A. Yes, and I believe the nonproducing wells would be uneconomic at this point.

Q. Okay. Now, there's a yellow outline. What does that indicate?

A. The yellow line indicates a contour of a cumulative recovery, and what the engineers in Dallas have done is taken the cum to date and then five years at the present producing rate, and given that a cum, just so it's

a nonbias approach to an ultimate recovery. This yellow line denotes the half-BCF line. And as you can see, regardless of coal thickness and regardless of this isopach map, you basically have a north-south trend here with a half BCF.

Q. So on the left yellow line everything to the right of that line, and then on the right side of the map everything to the left of the yellow line is greater than or equal to a half BCF?

A. Yes, sir.

Q. And again, they're taking cum plus five years at the current, assuming the well is going to produce at a current rate?

A. Yes.

Q. So once again, that indicates that it would be better to be in the southeast quarter of Section 16?

A. Yes, it would.

Q. Now, with respect to the wells in this area, do they produce water out there?

A. Yes, they do. Naturally in any coal well you get a higher water rate at first, and then that declines, your gas rate comes out as the formation is dewatered and the coal is desorbed.

Q. Okay. Now, the well in the northeast quarter of Section 21, the Maralex well, I suppose Maralex could say

that, well, Texakoma drills this well and Texakoma will benefit from the dewatering that Maralex has done. That could be a statement they could make?

A. That could be, yes.

Q. What is your opinion of that and how the Texakoma well might affect the Maralex well?

A. Anecdotal evidence -- in Texakoma's operation to the north in the La Plata area, we were in here three years ago, and Coleman Oil and Gas proposed a well very similar to this on the flank of the Basin. They were proposing a nonstandard location just to the north of us --

Q. So Texakoma had a standard location and Coleman was proposing --

A. Right.

Q. -- an off-pattern location?

A. And they were -- It was exactly the same setup as far as the southeast and the northwest -- or southeast and the northeast quarters. We found that after they drilled that well, it helped us out in our dewatering process, and it sped up the incline and the desorption process by about three years. The ultimate recovery in both wells is going to be better, due to the fact that their well was drilled in the nonstandard pattern.

Q. When you went to the hearing, at approximately what rate was the Texakoma well producing?

A. The Texakoma well at that point, at the hearing, was 200 MCF a day.

Q. And after the Coleman well was drilled and there was some additional dewatering, did that producing rate increase?

A. Yes, it did.

Q. To what rate?

A. To about 600 MCF a day after nine months of production in their well.

Q. Okay.

A. It's accelerated -- We were expecting a peak of 6700 MCF a day in three to four years. But that accelerated the production and the dewatering process on our well and actually increased the net present value of that well.

Q. Okay. And of course, because the Coleman was drilled, that well was approved by the Division?

A. Right, right.

Q. Now, the well we're talking about, the Texakoma well is the -- what, the La Plata 33-2 well?

A. Yes, sir.

Q. And that's in Township 32 North, Range 13 West --

A. Yes.

Q. -- I believe --

A. Yes.

Q. -- in Section 33?

A. That's right.

Q. And then the Coleman well, what's the name of that well?

A. It was the Steward Com Number 1, S-t-e-w-a-r-d.

Q. So even though the Maralex well could possibly have dewatered a part of Section 16, you would further dewater the whole area and benefit both wells?

A. Yes, and any offset well, for that matter.

Q. So for instance, if somebody drilled over in the southwest quarter of Section 15, although there is a nonproducing well there at this point, that could benefit that well?

A. Yes, it could. Yes, it could.

Q. Now, Exhibit 1A, is that simply a production plat with additional detail on drilling dates, et cetera?

A. Yes, drilling dates, current rates and whether they're producing or not.

Q. Okay, it doesn't cover quite as much area as Exhibit 1?

A. No, it's just another -- different form of presentation of the same information that's on Exhibit 1.

Q. Now let's turn to Exhibit 2, which is the Form C-102 for the well. Now, first off, in looking at the well location, just from a footage basis, ignoring the quarter-

section requirements of the pool rules, this would be a standard footage off the section lines, would it not?

A. Yes, it would.

Q. And it appears here that there are two different -- and these are, I believe, State of New Mexico leases involved?

A. Yes, they are.

Q. Is the surface of Section 16, is that state land?

A. No, that's Navajo.

Q. Okay. Has it been difficult -- Is it difficult to get rights of way from the Navajo Tribe?

A. Yes, it is.

Q. Now --

A. Well, it's difficult and it's time-consuming and a lengthy process.

Q. Okay, so you just can't go out and get one in a couple of weeks' --

A. No, sir.

Q. -- time, like you can with the State Land Office?

A. No, sir.

Q. Has it taken months or even years in the past?

A. I wouldn't say years, but the greater portion of a year, months and months, yes.

Q. Now, drawn on this map is a little pipeline. There is a pipeline that cuts through the southeast

southeast of Section 16, is there not?

A. That's correct.

Q. And since the well would be on that lease, even though -- rather than having to cross different lease lines, which may be time-consuming, you'd have the right, since the well is on that lease, to just lay a line to that pipeline?

A. Yes, that would be on-lease construction, we could construct the pipeline immediately following testing of the well.

Q. So you wouldn't have to worry about having a well in the southwest quarter, drilling it and waiting six, eight, ten, twelve months to hook it up --

A. That's exactly right.

Q. -- which adversely affects economics?

A. Yes.

Q. Now, Exhibit 3, Mr. Salzman, does that simply exhibit the offset operatorship of the proposed well?

A. Yes, it does.

Q. And all of these parties were notified of the hearing, were they not?

A. Yes.

Q. And Exhibit 3A is simply my affidavit of notice.

In your opinion, is the granting of Texakoma's Application in the interests of conservation and the

prevention of waste?

A. Yes, it is.

Q. And were Exhibits 1 through 3A prepared by you, under your supervision or compiled from company business records?

A. Yes, they were.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 1 through 3A.

EXAMINER CATANACH: Any objection?

MR. OWEN: No objection.

EXAMINER CATANACH: Exhibits 1 through 3A will be admitted as evidence.

Mr. Owen?

MR. OWEN: May I have just a minute, Mr. Examiner?

EXAMINER CATANACH: Certainly.

MR. OWEN: Thank you.

(Off the record)

CROSS-EXAMINATION

BY MR. OWEN:

Q. Mr. Williams, my name is Paul Owen. I'm representing the parties you heard me indicate earlier.

This well, this off-pattern location is not necessitated by topographic reasons, is it?

A. Yes, in some instances it is. We've got the wash

that runs just -- as a matter of fact, we've staked this well about 80 feet south of the wash.

To get north any more, we would have to -- the wash runs -- If you take a look at Exhibit Number 2, the wash runs about 100 feet north of that location, and anywhere else in Section 16 we would have to cross that wash and probably add $40,000 to the pipeline cost, as well as crossing any lease lines.

Q. So it would be --

A. That's another economic issue, yes.

Q. It would be detrimental to be in the wash?

A. Oh, it sure would.

Q. Okay.

A. Or across the wash, just because of the pipeline costs getting back to our tie-in.

Q. But you wouldn't want to locate this well in the wash?

A. Locate it in the wash?

Q. Right.

A. No.

Q. Okay. Did you bring a topo map?

A. No, I didn't.

Q. Okay. This isn't a recompletion of a deeper well, is it?

A. No, sir.

Q. It's not an intentionally deviated horizontal wellbore, is it?

A. No.

Q. And your position is that geologic justification for this off-pattern location is that you're getting closer to the productive area of the Fruitland Coal; is that right?

A. Yes, if we would put it in the southwest quarter that may be an uneconomic well and, you know, not give Texakoma an opportunity to produce their fair and equitable share of the gas under their lease.

Q. Now, your well valuation is based on cum production over the last five years; is that right?

A. No, sir, this yellow line -- Is this what you're referring to?

Q. Correct.

A. All this is is just a representation of the better wells. And this half-BCF isocum production line was calculated based on cum to date, plus five years at current production.

Q. So you're determining if a well is a better well --

A. Correct.

Q. -- based on whether it has produced .5 BCF over the last five years, right? Or better?

A. Not over the last five years, this is a projected --

Q. A projected rate.

A. -- cumulative.

Q. So some of these are newer wells?

A. Oh, these -- Yes.

Q. Did you do any projections for any newer wells west of that line?

A. Anything west --

Q. Right.

A. -- of this line? No, I didn't.

Q. You indicated that that well in the northeast quarter of Section 8 has an indication "NP". What does that mean?

A. No production.

Q. Have you checked the records to see if that well has produced recently?

A. No, I haven't.

Q. Do you know when that well was completed?

A. Do you know how long it took the operator of that well to get a right of way?

A. No, I don't.

Q. Do you know why these wells over in 18 and 20 have not produced?

A. It's poorer pay quality, in my opinion.

Q. There's less coal?

A. No, there's no less coal. However, if you take a look at the micrologs -- I have micrologs on just about all the wells out here -- it will show a definite trend, regardless of this coal thickness, a definite trend where a microlog can show an increase in permeability. Those micrologs also substantiate this productive capacity decreasing from east to west. And if you take a look at the micrologs on any of those wells, it's going to show you a lack of permeability.

Q. Okay. Now, you talked about this Coleman well. Are you familiar with the proposed changes to the Basin Fruitland Coal Gas Pool?

A. Yes.

Q. Are you aware that under -- if those changes are accepted by the Division, that wells such as this particular well will be allowed?

A. Yes.

Q. So under that new -- if that new rule is adopted, that beneficial effect which you indicated this well might have, based on the Coleman well, would happen anyway, right?

A. Yes, it would.

Q. Okay. Do you have a lease expiration or some problem with this well?

A. No, we don't.

Q. Do you know if any of the operators in the surrounding areas, especially with regard to the wells in 8, 18 and 20, have had any trouble getting right of ways for their wells?

A. 8 -- Section 8 of 26-13?

Q. Section 18 and Section 20?

A. No, I'm not aware of their dealings with right of ways, no.

Q. Okay. I want to go back to your analogy to that Coleman well situation.

A. Uh-huh.

Q. If you have an offsetting well that's producing, both wells are going to benefit by that dewatering process; is that your testimony?

A. Yes, they can.

MR. OWEN: Okay, that's all that I have for this witness right now.

EXAMINATION

BY EXAMINER CATANACH:

Q. Okay. In retrospect, Mr. Salzman, I take it that you're now happy with the decision I made in the Coleman case?

(Laughter)

A. Yes, sir. That was your decision wasn't it?

Q. I do remember that.

MR. ROE: I'd be more interested if he was happy at the time.

Q. (By Examiner Catanach) Okay. First of all, the wash that you're talking about, where is that located? Does that run east to west or...

A. Yeah, the wash basically runs -- this isn't even a good enough quality to submit as an exhibit, but the was basically runs from northwest to southeast in that section, in Section 16.

Q. Northwest to southeast. So if you were to locate a well in the southwest quarter, how is that going to affect that?

A. Well, that would give us about 3000 feet more of a pipeline and add about $40,000 to the cost. However, I think the main reason that we want to get into the southeast quarter is that the productive capacity of these wells lessens as you go from east to west.

Q. But the wash doesn't have anything with the --

A. No, the wash doesn't have anything to do with that. Locating it farther north in the southeast quarter, you know, we would get north of that wash, and that would tremendously increase the pipeline cost.

Q. Okay. So I mean, it really isn't a topographical issue. You're really talking about additional pipeline

costs if you drill in the southwest quarter?

A. Right.

Q. As I understand it, what you did on Exhibit Number 1, you took the cumulative production from all of these wells in this area to date?

A. Yeah, the cum on an individual basis, on an individual well basis, the cum to date plus five years present production, just to get a nonbiased representation of where the better wells are.

Q. Uh-huh.

A. You know, you would expect, if the coal quality was the same, that your best wells would be in the thickest part of the reservoir. However, that's not the case.

Q. Okay.

A. You've got 25-foot contour down here in Section 17, and these wells aren't as good a producers as the ones to the east. The micrologs on these wells show that same thing to the lack of permeability as you go from east to west.

Q. Okay, I notice on your map, you didn't include any additional lines that show how much this decreases as you move to the west. What are the -- Some of these wells to the west of this yellow line, what are the recoveries of some of those wells?

MR. BRUCE: Mr. Examiner, if I could -- and I

only have one of these; maybe I can just show it to you, and Mr. Salzman has had a look at it, but it does go from less than 5 BCF, really basically to the west of that line is less than 5 -- you know --

THE WITNESS: Or a half a BCF.

MR. BRUCE: Less than a half a BCF. And I can leave that with you.

Q. (By Examiner Catanach) Okay, but we've got no lines mapped to the west of there, to the west of your proposed well?

A. Correct.

Q. Okay. I mean, does it gradually taper off as you move east? I mean --

A. Well, the coal wells that are to the west of there, they're not producing and haven't produced and may not produce. Are any of those wells Dugan's? I'm not sure. But I don't know if they ever will produce.

Q. Now, were all these wells drilled approximately the same time?

A. No, they've been drilled over the years. That's why I wanted to give it, you know, present cum plus five -- or the cum to date, plus five years of present production rate, kind of as an equalizer in that analysis.

Q. Do you know if some of the wells to the west of here -- are they newer wells or are they still dewatering

or -- I mean, did you take any of that into account?

A. I don't think they're producing.

MR. BRUCE: Mr. Examiner, Exhibit 1A does have some of the dates the wells were drilled.

Q. (By Examiner Catanach) Okay. So you're saying generally the wells to the west of that yellow line are not producing. Do you know -- You don't know why they're not producing?

A. The logs show poor pay quality. And I would expect that they're probably noncommercial production to the west.

Q. And you're attributing that to the presence of fractures -- or to the nonpresence of fractures in that area?

A. Yes, and that's what the micrologs indicate.

Q. And did you bring any of that evidence, Mr. Salzman?

A. We don't have it as an exhibit, but I have the micrologs and we can submit those later.

MR. BRUCE: I don't know what presentable form they're in, but --

EXAMINER CATANACH: I was thinking maybe if you could summarize something from the -- you don't have to submit -- I don't know what form that data is in, but if you want to --

MR. BRUCE: It wasn't on a cross-section form, so it's -- There are some individual logs, I believe --

THE WITNESS: Yes.

MR. BRUCE: -- Mr. Salzman?

MR. OWEN: I suggest it would be appropriate to prepare a cross-section and present it at the next Examiner Hearing.

MR. BRUCE: I disagree. I mean, Mr. Salzman can perhaps get a couple logs and we can show those. I don't think there's any requirement for a cross-section to be presented.

EXAMINER CATANACH: Let's do that. I think if you've got those present with you, let's --

MR. BRUCE: Okay.

EXAMINER CATANACH: -- get it out and we can deal with it now.

MR. OWEN: Mr. Examiner, I'm not clear that that additional exhibit which Mr. Bruce handed to you and I looked at was offered into evidence or not.

EXAMINER CATANACH: I don't believe it was.

MR. BRUCE: It wasn't.

EXAMINER CATANACH: Mr. Bruce, can we -- subsequent to this hearing, can we get some additional copies of this and --

MR. BRUCE: Oh, sure.

EXAMINER CATANACH: -- and enter them as exhibits? Is that what you prefer to do?

MR. BRUCE: Why don't I mark that? Mr. Examiner, I would mark it Exhibit 4 and tender it into evidence, and I'll pick it up after the hearing and have copies made for everyone.

EXAMINER CATANACH: Any objection, Mr. Owen?

MR. OWEN: Not as long as this exhibit was prepared by or under the direction and supervision of this particular witness.

Q. (By Examiner Catanach) Is that the case, Mr. Salzman?

A. Yes.

EXAMINER CATANACH: Okay, Exhibit 4 will be admitted as evidence.

MR. OWEN: Mr. Examiner, I'm not quite sure where we are. Are we waiting for additional testimony from this witness?

EXAMINER CATANACH: Right. I understand they have some of their logs here. They're going to present some --

MR. OWEN: Okay.

EXAMINER CATANACH: -- so we can cross-examine.

MR. OWEN: Do you mind if my witness takes a look at this additional exhibit?

(Off the record)

MR. BRUCE: Mr. Examiner, the witnesses might have to congregate around your table, unless the Division -- Will a copy machine handle some that size?

EXAMINER CATANACH: I don't believe it will, although I'm not sure. I don't think so.

MR. BRUCE: I guess I have to go back to Kinko's. Mr. Examiner, maybe it would be easier if we come in front of your table and Mr. Salzman can show what we have here, and Mr. Owen and Mr. Roe could come up also.

MR. OWEN: I think that would be easier for now. I'd rather not delay the hearing.

MR. BRUCE: Mr. Examiner, I've handed you what's been marked Texakoma Exhibits 5 and 6, and I'll ask Mr. Salzman a few questions.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Salzman, Exhibit 5, is that the --

A. This is the Maralex well, just to the south of our proposed location.

A. In Section -- the northeast quarter of 21?

A. 21.

Q. And then Exhibit 6 is the well in the northeast quarter of Section --

A. -- Section 22. Or Section 20, I'm sorry.

Q. Section 20.

A. Yes, sir.

Q. And could you just briefly itemize this log?

A. Yeah, what we're showing here is the microlog, which is a representation of the permeability. Let's just switch these around so we're going west. And as you can see, going in this direction -- and this is right here at the -- you know, at the place that we're talking about, you've got your better permeability here --

Q. In the Maralex?

A. -- in the Maralex well. As you go into Section 20, that coal -- the thickness is basically the same, 22 versus 27 feet, but your permeability is basically decreasing in that direction.

This well presently makes 227 MCF a day --

Q. The Section 21 well.

A. -- and the Section 20 well makes about 70 MCF a day.

And you know, this is a representation of water. And basically coal thickness is -- you know, it's the same in both of these wells, but it's just the development in that microfracture system that dictates that productive capacity.

Q. Were Exhibits 5 and 6 compiled from company business records?

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 5 and 6.

EXAMINER CATANACH: Mr. Owen, any objection?

MR. OWEN: No objection.

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

MR. OWEN: Mr. Bruce, are you done?

MR. BRUCE: Go ahead.

EXAMINER CATANACH: I was going to ask you, Mr. Owen, if you want some time to cross-examine on the basis of these exhibits?

MR. OWEN: On these particular exhibits, yes, I would appreciate that time, Mr. Examiner.

EXAMINER CATANACH: All right.

RECROSS-EXAMINATION

BY MR. OWEN:

Q. All right, Mr. Salzman, are micrologs typically run on Fruitland Coal wells in this area?

A. Texakoma runs a microlog on every well we drill, yes.

Q. How many wells do you have?

A. Over 50 in the San Juan Basin at this point.

Q. How many do you have, say, in the 36 sections around this particular well location?

A. We have the Black Hills Number 1, which is in Township 25 North, about six miles to the south.

Q. How many wells do you have on Exhibit Number 1?

A. There's none.

Q. You don't have any wells at all on Exhibit Number 1?

A. No.

Q. Do you know if other operators in the area run micrologs?

A. Maralex does, yes.

Q. Do you know about any others?

A. No. No, I'm not familiar with their practices.

Q. Okay. Are you aware of any micrologs for any other wells represented on Exhibit Number 1?

A. No.

Q. Do you know what stimulation efforts have been made on that well in Section 22?

MR. ROE: Section 20.

Q. (By Mr. Owen) In Section 20, pardon me.

A. No, I don't.

Q. Who's the operator of that well?

A. In Section 20 there's two wells. Which well?

Q. The well that's represented on one of those logs that you sponsored in the northwest -- the northeast quarter.

A. That's a Maralex well, I believe, in the northwest, or --

Q. Is that an SG well?

A. I'm not sure.

Q. Okay.

A. It's on the heading there.

Q. Okay. What stimulation does Texakoma plan to run in this proposed well?

A. If we get the -- you know, 26 feet of coal, we'll probably run a cross-linked gel system with, you know, upwards of 150,000 pounds of 20-40 sand. We'll use a sand-wedge chemical because of the low bottomhole pressures, a sand-wedge or equivalent, depending on what company pumps it, that tends to make your sand stick together.

We've found that the cross-linked gel jobs have given us the best productive potential and the best frac jobs on them.

Q. What's the purpose of this particular stimulation procedure?

A. The purpose?

Q. Yeah.

A. It's to increase the natural permeability.

Q. And were these micrologs taken before or after stimulation, do you know?

A. Those are open-hole logs that were taken before.

Q. They were taken before?

A. Yes.

Q. Do you know what effect the stimulation had on any of the wells that are represented on Exhibit Number 1?

A. Any stimulation will increase their productive capacity, and I would expect that all these Fruitland Coal wells have been stimulated as far as a hydraulic frac job.

Q. Do you know if the natural permeability of the formation increases or decreases as you trend west on the map represented on Exhibit Number 1?

A. As we trend west the permeability decreases.

Q. And that's based on these two micrologs that you presented today; is that correct?

A. That is a representation. I've looked at more and don't have them with me.

Q. You have more micrologs in this area?

A. I don't have them personally. They're in Dallas at Texakoma's office, yes.

Q. What operators performed those -- drilled the wells that those micrologs are associated with?

A. I'm not sure.

Q. You don't have anything today to show the Examiner that the permeability generally decreases as you trend westward, do you?

A. Other than those two, no.

Q. Other than those two? You don't know what effect any stimulation on the well in Section 20 had, do you?

A. The effect would be to increase the production, yes.

Q. You don't know how much it increased that production, do you?

A. Basically, that well, as an unstimulated well, will be nonproductive. So in Section 20 I would say that the stimulation would have given it a 250-, 3-MCF-a-day increase.

Q. And you don't know whether the operator considers that an adequate or an inadequate stimulation, do you?

A. No, I don't because all operators are different as far as what's adequate and what's not.

Q. And you don't know if that operator has plans to re-stimulate the well, do you?

A. No.

Q. By what factor does the permeability decrease from the southeast quarter of Section 16 to the southwest quarter of Section 16?

A. Well, if your microlog deflections are an indication of permeability in a direct linear relationship, it would be about three times.

Q. And so as we trend eastward from there, we would expect every half section to show a factor-of-three

increase in permeability and a corresponding increase in productivity in wells?

A. No, I couldn't say that. I mean, in the general area that we're looking at, not to project that one or two or three sections, I couldn't do that.

Q. Well, you're projecting this about six sections on production, right?

A. No, I'm --

Q. On Exhibit --

A. -- I'm projecting the microlog representation about 4500 feet.

Q. You're projecting the good well/bad well definition across about six sections here, aren't you?

A. But that is based on production, not the micrologs.

Q. But you're saying that the increase in production is due to increased permeability, right?

A. Yes.

Q. And the only evidence you have of increased permeability is these two micrologs, right?

A. Yes, that we're going to submit.

Q. And you don't know if permeability actually generally increases as you trend eastward, do you?

A. No.

MR. OWEN: Okay, that's all I have.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Salzman, in Section 16 you really don't have a lot of data points to the west of your proposed location. Is it possible that that yellow line could extend further westward from there?

A. Yes, it could.

Q. You just don't know at this point?

A. No.

Q. So the southwest quarter actually may be right at that line or on the other side?

A. It could be, but based on -- you know, based on the logs to the south of it -- it's the two closest logs that I have -- you would expect that that would -- that production in the southwest quarter would be less.

Q. Okay. Have you been involved, Mr. Salzman, with the discussions in the San Juan Basin on the infill drilling --

A. Yes.

Q. -- in the Fruitland Coal?

I don't know what's going to happen with that case, but do you have an speculation on what will ultimately happen with the infill case? I mean, is there a lot of support by the operators for infill drilling?

A. Oh, yes, especially -- and it applies to this

case also -- especially in the areas where we don't -- we're out of the fracture fairway and out of the overpressured zone, in the areas of poorer quality coal.

320 -- We're not draining 320, and I think that's an accepted fact by the work that Amoco and Burlington and everybody has done.

To bolster that theory, you know, going back -- that's why I brought the Steward Com deal up. You know, that really helped us out de-watering that areally with a denser well spacing. So you know, in that case, it didn't not only hurt us, it helped us. And this well here could, if economically productive, help both the wells in Section 15 and 21.

Q. So this well is out of the fairway, what's normally --

A. Definitely.

Q. It would be --

A. This is relatively poor quality coal.

EXAMINER CATANACH: Okay, I think that's all we have.

Anything else of this witness?

MR. OWEN: No.

MR. BRUCE: I don't think I have anything further.

EXAMINER CATANACH: Okay.

MR. OWEN: Mr. Examiner, I call Mr. John roe.

JOHN D. ROE, JR.,

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

DIRECT EXAMINATION

BY MR. OWEN:

Q. Please tell us your full name.

A. My name is John Dale Roe, Jr.

Q. Where do you live?

A. I live in Farmington, New Mexico.

Q. Who do you work for?

A. I am the engineering manager for Dugan Production Corp.

Q. What do you do for Dugan?

A. I do many things, but primarily the regulatory issues. My official title is engineering manager. Permitting, designing of equipment and casing -- any of our operations that require engineering input. I'm one of five petroleum engineers at Dugan Production, so I don't do it all, but I direct the engineering effort.

Q. Have you previously testified before this Division?

A. Yes, I have.

Q. At the time of that testimony, were your credentials as a petroleum engineer accepted and made a

matter of record?

A. Yes, they were.

Q. Are you familiar with the Application filed in this case?

A. Yes, I am.

Q. Were you present during the testimony of Mr. Brad Salzman?

A. Yes.

Q. Are you familiar with the status of the lands in this subject area?

A. Yes, I am.

Q. Are you familiar with the characteristics of the coal gas strata into which Texakoma proposes to drill a well?

A. Yes, I am.

Q. Have you been involved in the operation of any coal gas wells in the area?

A. Yes, I have.

Q. Why don't you summarize that involvement, please?

A. Okay, Dugan Production, in the area that we're talking about, which is basically most of Section 26 North, 13 west -- it would not include the first row of sections in that township and range, but it would include the balance of the sections -- within that area Dugan Production has got -- we've drilled 12 -- or 15 wells and

we have one location, all Fruitland Coal wells.

Q. And have you personally been involved in the engineering aspects of those wells?

A. Yes, I have.

Q. Have you been involved in the engineering aspects of other Fruitland Coal wells in the San Juan Basin?

A. Yes.

MR. OWEN: Mr. Examiner, I'd tender Mr. Roe as an expert witness in petroleum engineering.

EXAMINER CATANACH: Mr. Roe is so qualified.

Q. (By Mr. Owen) Mr. Roe, can you briefly tell me why Dugan has protested Texakoma's Application in this case?

A. Just a bottom-line summary is, I agree with Mr. Salzman's assessment that a well in the southeast quarter of Section 16 would accelerate the production activity in the Fruitland Coal Reservoir. And Dugan Production's primary objection to that at this time is, that is being done with an exception to existing pool rules which would -- do prohibit a well in the southeast quarter of Section 16 without an exception to the pool rules.

And the primary reason for my -- Dugan Production's objection is, Dugan Production has the leasehold interest comprising the north half of Section 22. We have staked an approved APD to drill a well in the

northeast quarter of Section 22, and if Texakoma is allowed to drill a well in the southeast quarter of Section 16 I firmly believe that Dugan is going to be in a position that will almost immediately need to drill a protective well in the northwest quarter of Section 22.

For us that potentially could be a second well if we've already drilled our Paul Revere Number 93. Until the pool rules are amended, it would require -- I'm sure Dugan's process would be just like Texakoma: We would initially ask for an administrative approval for an off-pattern infill well. But if there was any reason that a hearing was required, we would be here again dealing with an off-pattern location, and this time a second well in a 320-acre standard proration unit.

We are not opposed to infill drilling, we strongly support that. We've been an advocate of 160-acre spacing since pool rules were initially discussed for the Fruitland Coal. Dugan Production participated in the initial pool rules hearing as strong advocates for 160-acre spacing, particularly in this area, because as Mr. Salzman testified, this is not one of the better areas, it's not the Fruitland Coal that you hear a lot of talk about. We firmly believe 160 acres is the appropriate spacing for this area.

But currently the spacing is not 160. Spacing is

320, and the pool rules require northeast southwest.

Q. Is Texakoma's proposed well an infill well?

A. No, this will be the initial well on their spacing unit.

Q. All right. Let's go ahead and turn to Dugan Exhibit Number 1. Can you explain that exhibit, please?

A. Okay. Well, what I presented is Exhibit 1, and I might mention that I prepared all of these exhibits, but the exhibits reflect input from Maralex and SG. So basically all of the information on here is not necessarily Dugan, it's information I've compiled from a joint effort with the engineering managers of all three companies.

Exhibit 1 is nothing more than a color copy of what was included in Texakoma's original request for administrative application dated April 30th. I've taken that map and added some information to it. First, I outlined in blue Dugan Production's leasehold interest. And within these 30 sections, Dugan Production has approximately 6300 acres of leasehold interest. And as I've already indicated, we have to date drilled 15 wells and have an approved APD to drill Well Number 16.

Outlined in green is a similar presentation of leasehold interests currently held by Maralex or SG, or jointly by the two companies. In most of the wells there's a shared interest in the wells by SG and Maralex.

Q. Now, it looks like Section 16 is outlined in green, but that's not held by either SG or Maralex, is it?

A. No, that is correct. It's my understanding Section 16 is owned by Texakoma, and the reason it looks that way is, that's just one of the boundaries for the Maralex acreage or Dugan acreage that also borders Section 16.

Q. What's the pink line?

A. Okay, the pink line would be just nothing more than me tracing a line from the northeast quarter of Section 9 to the southwest quarter of Section 21, which was described as a line that would define the western edge of economic productivity. This is described by Texakoma in their request for administrative for an off-pattern location.

Q. Is that set forth in Dugan's Exhibit Number 2, that statement?

A. Yes, our Exhibit Number 2 is nothing more than just a copy of their April 30th letter, and in the third paragraph there they describe the basis for me drawing that line. And --

Q. Can you read that basis for the Examiner, please, so he can find it?

A. Okay, the paragraph that starts with "Exhibit A..." and starting the second sentence down, they're

talking about there being "...seven wells outside and to the west of a production trend line running from the northeast corner of Section 9 to the southwest corner of Section 21 are not..." -- he's talking seven wells; four of them are not producing, and there's three that are producing 100 MCF a day or less where thereby this defines "...the west edge of economic production in the Fruitland Coal in this area."

Q. Is it your understanding that at the time Texakoma made its administrative application in this case, that that was its basis for its request for this off-pattern well?

A. Yes.

Q. All right. Did you draw this pink line on Exhibit Number 1?

A. Yes, I did.

Q. Exhibit Number 1 has a Texakoma header on it. Why is that?

A. Well, again, it was their map that was used as Exhibit A in their April 30th application, and rather than generate an additional map to try to tell -- provide some explanation on some of the wells on the map, I didn't get permission from Texakoma, but I took the liberty to copy their map, because it is a map that I want to have some further discussion about.

Q. All right, based on your knowledge and expertise and your review of the data in this case, is it your opinion that that pink line that Texakoma indicates that represents the western edge of economic production, in fact represents the western edge of economic production?

A. No, I do not share that opinion.

Q. Why not?

A. Well, I think it's based on some data that is not current or should not be used to draw those conclusions. There are wells to the west of that lone that have been used as evidence of nonproductivity by virtue of them being shut in or low rate, and I have information on all seven of those wells that tells me that there's explanations for their either being shut in or low rate, other than that the wells are producing as good as the can from the Fruitland Coal. In no case is that what I believe to be the circumstance.

Q. All right, keeping Exhibit Number 1 in front of you, why don't you turn to Exhibit Number 3 and explain that exhibit for me?

A. Okay, Exhibit Number 3 is nothing more than -- I've taken the 34 wells, Fruitland Coal wells, and again these are all just Fruitland Coal completions. If you look at the map presented by Texakoma, there are lots of wellbores on that, but this is also right in the heart of

the West Bisti-Lower Gallup Unit, which Dugan Production also operates, and so a lot of the wellbores on this map that I'm presenting as Exhibit 1 are Fruitland Coal wells. And so on Dugan's Exhibit 3, we're just looking at Fruitland Coal wells.

I've kind of divided the wells into two groups, one that would be what I call the immediate area of interest, and those are at the top part of the tabulation. And that would be basically a summary of the 12 wells that are either within Section 16 or sections adjacent to Section 16. So a total of nine sections are presented in the upper part.

And what I showed on this is a listing of the date that these wells were completed and the date that the wells first produced into a pipeline. And as you've already heard, this is an area that many wells -- there's long times between completion date and first production. And as a rule, it's typically a result of getting pipeline right of ways across the surface that pretty much is controlled by the -- This is right in the heart of the Navajo Indian Irrigation Project. And even though in Texakoma's case they're dealing with state minerals, most of Dugan's acreage is federal minerals. The surface has been severed, and any time that happens you always have a problem with the surface owner in getting pipeline right of

ways.

Q. All right. Now, how many -- In the wells that are in the upper part of this Exhibit Number 3, how many of those wells are to the west of this pink line on Exhibit Number 1?

A. Of the wells listed, there's six wells that are to the west. There's an additional well, the seventh well that Texakoma talks about, that I didn't include in my tabulation.

Q. Is that illustrated on the map on Exhibit Number 1, that seventh well you just --

A. Yes, it's on Exhibit 1, and the reason I didn't include it is, that well has been plugged.

Q. Okay, how about to the east?

A. Okay, to the east there would be six wells also in the upper portion of the tabulation.

Q. Okay, of the six wells that are on your tabulation here that are to the west of that pink line, how many of those are producing wells?

A. There's four of them that are producing.

Q. And of the two that are not producing, why aren't they producing?

A. They're not producing, one of them, because it is yet to be completed. They've had it completed -- or they've had it drilled for several years, and they're not

going to pursue completion until they obtain a pipeline right of way.

Q. All right, which well is that?

A. That would be the well in Section 18, the northeast quarter of Section 18.

Q. Who's the operator there?

A. That would be Maralex.

Q. Okay. What about the other well that's not producing?

A. Okay, the other well that's not producing would be the northeast quarter of Section 17. It shows to be shut in, and that well is operated by SG Interest. They have plans to re-work the well and re-stimulate the well. They aren't comfortable with the stimulation that was done before. They firmly believe there was damage done as a result of the frac job, and they have plans to re-stimulate the well.

Q. Is the reason that well isn't producing right now because of the reservoir's inherent lack of permeability right there?

A. We don't believe that. Again, I don't know that there was a microlog recorded on that well, but I'm not an advocate of using micrologs to determine permeability in the Fruitland Coal, so...

Q. Why not?

A. The Fruitland Coal is -- the microlog is looking at basically exactly what you have at your wellbore. It's a very shallow investigation tool, and it is a very good tool if you're dealing with a formation that can build a filter cake and you have a real shallow depth of investigation.

Dugan Production typically does not run micrologs because it's a very expensive piece of information that may or may not tell you much. That's one of the reasons it's so important to stimulate the Fruitland Coal, because a lot of times the permeability you're trying to develop may not be right at the wellbore that it's close to or away from. That's why very few Fruitland Coal wells will produce without some sort of an initial stimulation.

Q. All right. Now, you indicated that there's another well on the map, which is Dugan's Exhibit Number 1, that is now represented on Exhibit Number 3, that is plugged, right?

A. Right, that would a well in the -- It's operated by SG, it's in the southwest quarter of Section 20.

Q. And why is that well plugged?

A. Well, basically that well was drilled, it was left idle for eight years, they've -- SG was in a position, they were ready to connect the well up, they went to the well to do the completion work, anxious that --

anticipating a reasonable Fruitland Coal completion for this area. They were doing their completion efforts and they discovered that the casing was deteriorated badly as a result of corrosion, a corrosion problem that typically doesn't exist in this area.

That well has been plugged, and SG has full plans to re-drill and establish a commercial completion at that location.

Q. Why was it idle for eight years before they tried to go back in and complete it?

A. It was one of these wells that they were having trouble getting pipeline connection to.

Q. Is the reason that well hasn't produced the formation's inherent lack of permeability?

A. No, this particular well never was even perforated or stimulated. Like I say, by the time they went out to do the completion work, the wellbore was in such bad shape that the consensus was it should be plugged and redrilled.

Q. All right. On the top of Dugan's Exhibit Number 1 it states that it's -- indicates production data through 11-30-01; is that right?

A. Yes.

Q. And then on the map itself, in Section 8 it shows a Maralex well that is indicated as never produced; is that

right?

A. That's correct.

Q. Is that data current? Is that currently correct?

A. No, that's not correct. No, that is data that would make me suspicious that there was a good Fruitland Coal completion possible there, because, one, you see 37 barrels a day of water, which definitely would be a measure of being some permeability in the formation. And contrary to a lot of Fruitland Coal wells, it did have some gas early in the life. So I would be excited about that being a potentially good Fruitland Coal well.

Q. All right.

A. That well was placed on production in January.

Q. Okay. Now, to the west of that pink line on Dugan Exhibit Number 1, how many wells that are represented on the top part of Dugan Exhibit Number 3 are producing wells?

A. Eight.

Q. Are there eight that are producing?

A. Yeah, eight that currently have production.

Q. Okay.

A. Dugan Production has two wells that we're still waiting on pipeline right of way, have been, one of them, for up -- so far, 97 months.

Q. Is that the Dugan well in Section 15?

A. The 97 months is the -- Yeah, that's the Paul Revere Number 92, which is in the southwest quarter.

Q. Of Section 15?

A. Yeah. And in fact, Dugan Production is putting together a gas-gathering system. We're going to deliver that to our own gathering system.

Q. Okay. Now, Exhibit Number 4 is a series of well logs; is that right?

A. Yes, it is.

Q. And you heard Mr. Salzman indicate that the coal thickness is actually fairly uniform throughout the area of review; is that right?

A. Yes, and that would be -- our information would agree with that, yeah.

Q. The information that's contained in Exhibit Number 4 is consistent with Mr. Salzman's conclusion that the core thickness is relatively consistent; is that right?

A. Yes.

Q. Okay. Based on your knowledge and experience and your examination of the data in this case, do you have any opinion as to whether the Fruitland Coal formation would be productive if a well was drilled in the southwest quarter of Section 16?

A. In my opinion, the southwest quarter offers at least as good a location with respect to reservoir quality

as the southeast.

Q. Okay.

A. In other words, I have no information to tell me the southeast is better, other than you're drilling closer to wells that have the good luck to have obtained a pipeline connection and be on production.

Q. All right. And what do you base that opinion on?

A. Well, right now we feel that the coal thickness in this whole area is fairly uniform. We for sure don't have much production information to the west of this line. But the reason we don't isn't because the wells can't produce. Of course, we'll only know that after we get the wells on production and see some production.

But for instance, the well in the northeast quarter of Section 8 that Texakoma showed as having never produced, it was placed on production in January of this year. It came on at an initial rate of 7 MCF a day and within three months it was all the way up to 13 MCF a day.

So those numbers aren't very exciting, unless you work for a company like Dugan Production, but the important point here is, the water production is high and is dropping with cumulative, and gas production started out low and is on an incline, as is very typical of the Fruitland Coal, as dewatering and desorption -- as dewatering increases and desorption starts.

Q. Looking back at Dugan Exhibit Number 3, you said there were three wells that were to the west of this pink line on Exhibit Number 1 that are actually producing; is that right?

A. Yes.

Q. Does the production information from those wells tell you anything about the permeability of the reservoir in that area?

A. Well, of course we have production because there is permeability, and of course the higher the production the better the permeability. Or the -- less other issues, such as formation damage resulting from the initial stimulation. And that is the case, or at least the opinion, of the SG people. In at least one of their wells they feel that the initial stimulation actually created damage, and so they have full plans to restimulate and hope to improve production.

Q. Do you have an opinion as to whether the Fruitland Coal formation is less permeable to the west of this pink line on Exhibit Number 1 than it is to the east of that pink line?

A. Right now my instincts tell me that it isn't decreasing as we go west, but I don't have a lot of information to tell me whether it is or isn't. But I do know the existence of low-rate and nonproducing wells to

the west is not information that should be used to come to that conclusion.

Q. Okay, and is your instinct that the permeability is not less to the west based on your experience drilling Fruitland Coal wells in this area?

A. Yes.

Q. And does that also apply to the yellow line that is represented on Texakoma's Exhibit Number 1? Let me show you that exhibit. Remember that the Texakoma witness indicated that the wells to the west of that line had a lower chance of production, commercial production.

A. Well, I remember him saying that. But I think this map is presenting cumulative production. And I also, if I didn't know anything else about those wells, would say, yes, this is an area that is either brand-new, hasn't had time to develop a cumulative, or something's happened that we just don't have a cumulative. So the data should not be used to jump to the conclusion that you have low permeability.

Q. Did you hear Mr. Salzman's testimony about his construction of -- or why he placed those line where he did and the production rate extended over a five-year period?

A. Yeah, I did. I think there's some risk of placing a value, particularly on the Fruitland Coal in that manner. If you have a new Fruitland Coal well, one, you

don't have much cumulative.

And second, and probably most important, you probably don't have a very good production rate. And there's many, many, many examples to show that, you know, Fruitland Coal wells will incline in production for as many as five or six years.

So to pick a current production rate, no matter what point in the incline or decline you are, and hold that for five years, and that -- the cumulative that may be small in the instance of a new well, you're forcing the wells to look bad and you just calculate a bad number.

Q. And is the well in the northeast quarter of Section 8, the Maralex well there, is that a new well?

A. That's a new well, and that would be a good example. It basically has very little cumulative and a very low rate, but the rate is improving after just three months of production.

Q. Would you expect that to be a better rate after a year of production?

A. If the rate continues on the trend it will be much better, yes. By Dugan's standards it will be much better.

Q. All right, and why don't you turn to Dugan Exhibit Number 5, please? Can you tell me what that Exhibit is?

A. Okay, this would be -- the top page of Exhibit Number 5 would be the C-102 that was attached to our APD.

Second page is the APD that was submitted and -- Actually, it was submitted in 1998. And you can see the C-102 was actually surveyed August of 1998.

The APD was approved by the BLM in February of 1999. And that's for the drilling, the Paul Revere 93, to develop the Fruitland Coal with a standard-pattern well in the northeast quarter of Section 22.

Q. All right. And if the current Application by Texakoma is granted before the Fruitland Coal gas wells are amended, what will Dugan need to do to protect its correlative rights?

A. Well, we will be in a position that, one, you've got a state lease in Section 16, drilling into a reservoir that has been producing since August of 2000 in the well to the south. So as Mr. Salzman has already said, there will be some benefit from dewatering that has occurred. The accelerated dewatering that will be provided by the Texakoma well will benefit probably both the wells. And it will probably even benefit Dugan's well in the southwest of 15, once we get that connected to a pipeline and producing.

But it also is probably going to serve as a drainage of the northwest quarter of Section 22. And until the Fruitland Coal well -- Fruitland Coal Pool rules are

amended and an order issued, Dugan is not going to be able to drill a well in the northwest quarter of 22 to protect that acreage, unless we go through the same process Texakoma is doing here today, and Mr. Dugan would rather not do that.

Q. All right. Are you aware of any topographical or any other reason why the well in the -- why Texakoma's proposed well couldn't be moved to the southwest quarter of Section 16?

A. I have -- In fact, it appears to me, based on the topography, the southwest offers at least a good a position as the southeast quarter.

Q. And could a well -- In your opinion, could a well be drilled in the southwest quarter of Section 16 which would have the same chance of commercial success as Texakoma's current proposed well?

A. You used the word "commercial". They have equal chance of developing as good a well. I would agree that their pipeline costs are probably going to be a little higher from the southwest quarter. But for all of the wells Dugan has drilled, that's never been a criteria for getting an off-pattern location.

Q. Okay. Is Dugan opposed to infill drilling in the Basin-Fruitland Coal Gas Pool?

A. Oh, no. In fact, our conversation with Texakoma

is, Gosh, we wish you guys would wait until the pool rules are amended, and then we're right behind you, we'll drill our wells too.

Q. Okay. What action would Dugan like to see the Division take in this case?

A. One of two things. Of course, the Examiner hasn't got the authority or power to get the Fruitland Coal Pool rules amended, but we'd like that to happen. And once that's done, then the issue that we have is no longer an issue.

In the absence of that, we think that there should not be an off-pattern location approved in the southeast quarter of Section 16 until we have an equal opportunity to develop our acreage. And bearing in mind, if we do it in the north half of 22, it would not only be an off-pattern but it probably will be a second well in the spacing unit.

Q. All right. Let's take a look at Dugan Exhibit Number 6. What is that exhibit?

A. Okay, this is nothing more than just a Xerox copy from the Moncisco Wash topography map. It's the conventional topography map that everybody uses.

Q. All right. Does it show Texakoma's proposed well?

A. Well, I've added the location that they've

presented in the southeast quarter, and I've also outlined the south-half spacing unit that would be proposed for the well.

Q. Where does that well fall in relation to the Moncisco Wash?

A. It looks to me like it's awful close to the Wash, if it's not in the Wash, but it's fairly close to it. The map actually has the Moncisco Wash label right there.

Q. Right in the middle of where the location is?

A. Well, kind of just above it a little, yeah.

Q. Okay. Does it appear that, based on this topo map, that Texakoma could move its well to the southwest quarter and have the same issues with the wash as it currently has?

A. Again, it always looks different when you're out there. But this map would certainly suggest that you shouldn't have any topography problems, and you're sure not going to be dealing with the Wash.

Now again, the washes around here aren't, in my mind, the major issue. I've got to be aware that it will carry water sometimes, but for the most part we deal with those issues all the time.

MR. OWEN: Okay. That's all I have, Mr. Examiner.

EXAMINER CATANACH: Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Mr. Roe, why don't you just keep your Exhibits 1 and 3 in front of you there, please?

A. Okay.

Q. Now, let's start up to the north in Section 9, the well in the southwest quarter of Section 9. Looking at both your exhibits, I understand that that well was completed in June of 1993, did not produce until December of 2000; is that correct?

A. Yes, sir.

Q. About --

A. -- 90 months.

Q. Seven -- What, seven and a half years?

A. When I counted it up it was 90 months --

Q. Okay --

A. -- whatever that --

Q. -- was that due to difficulty in getting a pipeline connection?

A. Yes.

Q. Or, I should say, right of way?

A. It would be very important to a pipeline connection, yes.

Q. Okay. So you had difficulty dealing with -- or SG Interest or Maralex had difficulty in obtaining a right

of way from the Navajo Tribe?

A. Basically, probably more accurately, the Navajo Agricultural Products Industry, but the Tribe has to go through the approval process also.

Q. NAPI is a subsidiary of the tribe, is it not?

A. Yes, but they don't -- They operate completely separate.

Q. Okay, you're basically dealing with the same folks?

A. No, we're not. Well, let me clarify that. There's two separate groups that you're dealing with. One is the NAPI people, and they don't always get along with the people in Window Rock.

Q. Okay. Is ultimate approval at Window Rock?

A. Yes. But it's highly contingent upon what happens at NAPI.

Q. Okay. Now, the well in Section 8, that well was drilled in March of 1990 and hooked up 12 years later?

A. 144 months.

Q. And that was due to lack of a right of way from NAPI?

A. That's what the Maralex people are telling me, yes.

Q. Okay, let's move on to Section 17. That well was completed in April of 1997, and three and a half years

later it started producing, right?

A. That's correct.

Q. And again, was that pipeline-related?

A. It's my understanding that's the case, yes.

Q. Okay. Now, in -- And I missed something, I was looking at something else when you were testifying. Now, the well in the northeast quarter of Section 18, it has never been completed; is that what you're saying? I'm looking at your Exhibit 3, and --

A. Yes.

Q. -- it doesn't have a completion date.

A. Right, and that is correct.

Q. It was originally drilled but not completed, what, in 1993?

A. Yes.

Q. Now, why has that well not been completed and produced?

A. The Maralex people tell me that they have not been able to get the necessary right of ways to produce the well, and they've postponed completion efforts until they have some comfort that they'll be able to produce the well.

Q. Okay. Now, in Section 20 you have one of the wells on here, and maybe -- one of them, which is the northeast quarter of Section 20, that well was completed in August of 2000, and you were able to pretty shortly hook it

up; is that correct?

A. Yes.

Q. Was there a difference in obtaining the pipeline right of way in that well?

A. You bet. This is an area that depends where your well rests with respect to where NAPI has their planned -- If you've been up in the area, you see the little pivotal irrigation systems, and if you're inside one of those pivotal areas or very close to it or have to cross, you have a whole different set of circumstances than if you're outside of those pivot -- the farm areas.

Q. Okay, got you.

A. So, you know, there's -- you'll probably notice all of the wells in the eastern part of this pink line, they're the ones primarily presented in the bottom part of my graph. The average time to hook those wells up is three to four months.

Q. Okay.

A. As we get closer to the area we're talking about, the average time easily exceeds 40 months.

Q. Now, there's a well in the southwest quarter of Section 20. That was drilled in 1994?

A. Right.

Q. And that well has never been produced?

A. Yeah, that's --

Q. Is that the well that had the corrosion problems?

A. Yes, sir.

Q. Okay.

A. Yeah.

Q. So that one will never be produced?

A. That particular set of casing -- the wellbore identified there will never produce, that is correct. But not because of anything to do with the Fruitland Coal; because of the mechanical condition.

Q. Now, if you have to drill a well and spend -- What do these wells cost, roughly?

A. Well, we spent a lot less drilling them than a lot of people. It's real easy to spend $200,000 on one of these wells.

Q. Okay, so $200,000, plus or minus, would be reasonable?

A. Right.

Q. If you can't get a pipeline connection for six, eight, ten, twelve years, does that adversely affect the economics of drilling a well?

A. Yes, it does.

Q. One final well on this chart. In Section 15, that well was completed in May of 1993. Why is that well not producing?

A. Are you talking about Dugan's Paul Revere 92 in

the southwest quarter?

Q. The Number 92 well in the southwest quarter.

A. Initially -- Basically, it's a right-of-way problem. We actually put together a small gas-gathering system, submitted it to the OCD and BLM for approval. We have that approved for a central-delivery gas-gathering system, but believe it or not, we're needing to get all of our right of ways in order to install that.

Q. So again, that's another nine years at this point?

A. Actually, yeah, the Paul Revere 92 has been 97 months, and I'm regularly reminded that that well is not producing.

Q. I won't ask who's reminding you.

A. I get a lot of pressure from that person.

Q. And then the Maralex well in the northeast quarter of Section 25, that well should be right just -- almost on a pipeline, right? I mean, the same pipeline that cuts through the southeast southeast of Section 16?

A. Now, Mr. Bruce, I'm not sure. Which well are you talking about?

Q. The Maralex well in the northeast quarter of Section 21.

A. Yeah, El Paso actually has a wellhead connection to that well, I believe, and that would be probably the El

Paso line that Texakoma would be hoping to connect with.

Q. Okay. Now, you do agree that the dewatering benefits generally everyone in the area?

A. Oh, yeah. In fact, that's a big interest for amending the Fruitland Coal Pool Rules.

Q. And will Dugan Production Corp. be at the July 9th hearing voicing its support in favor of infill drilling in the Fruitland Coal?

A. You bet.

Q. Mr. Roe, I think your testimony was something to the effect that your instincts tell you that the permeability isn't decreasing as you move west, say, from your Section 15. You don't have any data to present today to counter the micrologs that Texakoma presented, do you?

A. Well, other than, say for instance, the production from the Rick Wells Number 1 in the northeast quarter of Section 8. It again is dated, it tells me there's probably a pretty decent Fruitland Coal well wanting to be there, based on production that we have seen since January.

Even the tests presented on Texakoma's map tells me that it's probably a pretty decent place in the reservoir.

But no, I don't --

MR. BRUCE: That's all I have, Mr. Examiner.

EXAMINATION

BY EXAMINER CATANACH:

Q. Okay, Mr. Roe, I take it that you don't agree with my decision that I issued back in 1988 to allow 160-acre spacing in this area?

A. Well, as you may recall --

Q. I think --

A. -- there was some discussion --

Q. -- involved in every case.

A. -- there was some discussion that -- you know, 320-acre may have been appropriate for part of the Fruitland Coal, and that's one of our concerns right now, is, that issue still is a hurdle. And if there's going to be anything that delays an order for the Fruitland Coal Pool Rule Amendments, it could well be what you do with the area between the high-perm area and the low-perm area. And there is not a consensus as to how to handle that right now.

If that issue didn't exist, and I think Dugan would expect a fairly rapid order amending the pool rules, we'd be happy to see 160-acre development. I mean, we're happy, we just hope that it happens sooner than later. But we know how things go when you've got BP and Burlington fighting about how we're going to deal with adjacent areas.

Q. Okay. Mr. Roe, are you familiar with the south

half of Section 16 with regards to the location of any irrigation projects in that half section?

A. Yes, I am.

Q. Are there any present in that half section?

A. I'm glad you asked that. We have, and would be happy to enter as an exhibit, a copy of NAPI's current farm map, and on that map I've spotted Texakoma's well.

MR. OWEN: Excuse me, let me interrupt. I'd like to mark this as Dugan Exhibit Number -- 7, I believe we're on.

THE WITNESS: Yes, 7.

MR. OWEN: If you could all make appropriate marks. And I'll offer it into evidence.

MR. BRUCE: No objection.

EXAMINER CATANACH: Okay, Exhibit Number 7 will be admitted.

THE WITNESS: And Mr. Catanach, what's presented here, the circular areas would be their planned irrigation plots. Just as -- It shows where their farm is, it shows where their canal is. You know, and it really doesn't show anything in the southwest quarter of Section 16 that would be indication...

In fact, the cross-hached area is NAPI's way of telling us that they have no plans to farm that area. They call it a deleted area. Typically they delete it either

for topographical reasons or some other reason. From our topo map we don't see topography as being a reason, but you can see the cross-hached area in the southwest. At least at the time they prepared this map, there weren't any plans to farm in the southwest quarter, and the only farm field would be kind of there centering the south line of the Section 16.

Now, I might add, you know, the well there in Section 22, you can see I've got there in the northwest quarter that 93. That's one of the reasons we haven't drilled that well yet, is, it's -- We've got actually four fields that we're going to have to deal with on that well and the associated production facilities. And so, you know, we just delayed drilling until we can be ready to produce it.

Q. (By Examiner Catanach) So according to this map, you don't see a problem with connecting to a pipeline from the southwest quarter of Section 16?

A. Well, I agree with Mr. Salzman, it's going to cost more money. I mean, it's going to be further away. But no, there's no problem other than somebody's going to have to pay a little more for a longer pipeline.

Q. And you don't think it would be delayed for a considerable amount of time?

A. I didn't mean to say that. It's certainly

possible, but Mr. Catanach, that's never been a reason for asking for an exception of the pool rules. I mean, gosh, if that should be a factor, I mean, I'd be before you with almost every well Dugan drills.

Q. Well, I guess my question is, if you drill a well in the southwest quarter of Section 16, I mean, are we looking at the three to four months, or are we looking at the eight to nine years? I mean, which category would it fall into?

A. You'll probably have some time, because you've got a farm field you're going to have to cross, so there will be a longer time for right of way.

But I might counter that. If the Fruitland Coal Pool Rules are amended, ultimately you're going to be drilling in the southwest of 16 anyway. I mean, it's not that it's not going to happen ever. So the issue is, when are you going to drill it?

I would speculate if 160-acre development happens around the southwest quarter of Section 15, Texakoma should be in there developing that, just like everybody else.

Q. Okay. If we approve the well in the southeast quarter, say, within 60 days, and within say 90 to 100 days we approve infill drilling in the coal, does it really affect your correlative rights in Section 22 for maybe a two-month period until you're allowed to drill?

A. No. And if you could give us some assurance that that schedule was realistic, this wouldn't be an issue.

Again, we started this whole thing out by asking Texakoma to put this off till after the hearing, and then it's no longer an issue. I'm not sure I see anything forcing the urgency of drilling this well in the southeast quarter right now, because there is not an expiring lease, there's not any economic harm coming if nothing is -- if there isn't a well drilled. I would agree a well in the southeast quarter is going to be easier to connect to a pipeline.

It just sets up a potential drainage lease for Dugan's federal lease in the northwest quarter of Section 22, and then I'm going to be back here asking you for permission to drill an infill well at a nonpattern location if you're not -- if you don't keep that schedule you just offered.

EXAMINER CATANACH: I'm not promising anything.

MR. BRUCE: Texakoma won't object.

THE WITNESS: Yeah, if there's no objection, then it's an administrative process, yeah.

EXAMINER CATANACH: Unfortunately, it looks like there may be more controversy with this case, certainly than there was with the original Fruitland Coal case, and it looks to be getting a little worse every day from what I

understand.

MR. OWEN: "This case" means the pending rule-change case?

EXAMINER CATANACH: Yes --

MR. OWEN: Not the one before you?

EXAMINER CATANACH: -- yes, the pending rule-change case.

MR. BROOKS: That's what I understand also. And I understand next week it's going to get a lot more complicated.

THE WITNESS: And that's the basis for our objection here. I mean, if we had confidence that we would be afforded the freedom to -- not freedom, opportunity to develop the northwest quarter -- If you look at Exhibit 1, I mean, if Texakoma's well is drilled, we basically have three wells all crowding Dugan's undeveloped northwest quarter of Section 22.

And the BLM is getting faster about, Hey, guys, you've got to prove to us drainage isn't occurring. And if it is, and if you've allowed it, we're going to charge you compensatory royalty. So that's just not a good situation.

Q. (By Examiner Catanach) Okay. Mr. Roe, did you examine the Exhibits Number 5 and 6 submitted by Texakoma?

A. Just briefly.

Q. Do you agree with the assessment that in this

particular instance that the permeability appears to decrease as you move toward the west?

A. I first off don't like using micrologs to assess permeability in the Fruitland Coal. I think you're setting yourself up for lots of misinterpretation. I can't argue that the microlog recorded in the two wells, there is a difference. Whether that's the result of lower permeability, I can't say. I will say Dugan Production has never run a microlog in any of our Fruitland Coal wells, and we're a big Fruitland Coal producer. And I don't know of a lot of operators that do run micrologs. I mean, that is not a basis for running pipe. I mean, I don't know of any well that's ever -- the decision to not run pipe was based on a microlog, unless maybe Texakoma.

EXAMINER CATANACH: Okay.

EXAMINATION

BY MR. JONES:

Q. I'll try to be brief. Mr. Roe, the current coal spacing out there, what would be the -- developing these 1300-foot coal wells, what would be the peak time for your -- the time to the peak production on your wells? How many years? Just a guess.

A. Dugan Production, actually, we've produced nearly 2.8 billion cubic feet from the Fruitland Coal in this area. We've observed inclines ranging from 12 to 36

months.

Q. Is that 320 acres per well?

A. Yes.

Q. 1300 feet?

A. Yes.

Q. So -- Okay, what would be the peak rate that it would hit after that time?

A. None of these wells are good like you think of Fruitland Coal wells, and that's one of the reasons that I -- on my Exhibit 3 I presented what would be an annual rate.

And you can see -- Bearing in mind, probably the highest annual rate, or among the highest, would be some of the wells that aren't in the immediate vicinity. They're producing -- oh, there's about -- fourth well down is Calpine's well in Unit M of Section 14. It's got an annual production of about 85 million, which, in MCF per day would be about 300, 300 MCF a day.

Q. Okay.

A. And that is after production of the -- we'll get 435 million cubic feet of gas, so it's --

Q. Okay.

A. But a really good well in this area, I don't know. Mr. Salzman might have a better handle on it. I think 300 would be a big well for Dugan's wells.

Q. Okay. What about the -- I guess what I'm getting at here is the -- speculating the payout. What about water production, first of all, water production from the east to the west? Does it vary a lot on the IP's of the wells, the reported IP?

A. Well, one of the things that Dugan likes this area about is, we don't have the high volumes of water associated with the Fruitland Coal that you see typically in the higher perm areas. A big volume of water in this area is 40, 50 barrels a day --

Q. Okay.

A. -- just because it's easy to look at. You know, the Maralex well in the northeast of 8, the Rick Wells Number 1, 10 MCF a day and 37 barrels of water per day was the initial potential. Actual potential during January was 7 MCF a day, and the water was, I think, about 20 barrels a day.

But water from there is dropping off, and gas in March was 13 MCF a day.

Q. Okay, I think I remember you talking about that.

A. And again, that particular well has exhibited a decline -- it's actually -- I have data, two more months of data from Maralex, and it's actually showing an incline for the first five months of production, although only three months of that is publicly available, through like *Dwight's*

or ONGARD or something like that.

Q. So your payout on a $200,000 drilled well that's going to peak in 36 months at 300 MCF a day, what would that be? Five years?

A. Well, that's one of the reasons Mr. Dugan keeps a lot of pressure on us to not spend $200,000 drilling these wells --

Q. Right.

A. -- is -- We don't spend that much. But likewise, we don't put as big a frac on the well, and we cut some corners that other operators aren't willing to cut. Our payouts are three to five years, yes. And again, that's highly dependent on what the gas price is.

Q. Right. So current gas prices are a lot better than it was five or ten years ago also?

A. It's not as good as it was this time last year, though.

(Laughter)

Q. (By Mr. Jones) How would it affect your payout if you had to spend more to hook a well up?

A. Those are real issues. If you spend more to get it connected it adds to your payout, there's no question. And that's not a unique -- You know, Texakoma's concern is, it's unique. I mean, we all deal with that. But I don't come and ask for an off-pattern location every time I think

I could save some money with my flow line.

And again, I might just restate, I mean, once the pool rules are amended, we're not talking about southeast versus southwest. There probably will be a well in the southwest also.

So you're not eliminating the need to put a more expensive flow line in, you're just delaying when that's going to happen.

Q. Yeah, that's --

A. It won't be on their first well, it will be on their second well.

MR. JONES: All right, thank you.

EXAMINATION

BY MR. BROOKS:

Q. Do you agree with the assessment that this is unambiguously not in the fairway?

A. There's absolutely no question. Very far removed.

MR. BROOKS: That's my only question.

EXAMINER CATANACH: Anything further of this witness?

This witness may be excused.

MR. OWEN: That concludes my case, Mr. Examiner.

I do -- Actually, I do have one remaining question for this witness, Mr. Examiner.

FURTHER EXAMINATION

BY MR. OWEN:

Q. Mr. Roe, were Dugan Exhibits 1 through 7 prepared by you or under your direction and supervision?

A. Yes, they were.

MR. OWEN: Mr. Examiner, I offer into evidence Exhibits 1 through 7.

EXAMINER CATANACH: Any objection?

MR. BRUCE: No, sir.

EXAMINER CATANACH: Exhibits 1 through 7 will be admitted as evidence.

Okay, Mr. Bruce, do you have anything further?

MR. BRUCE: I have nothing further. I have a short closing.

EXAMINER CATANACH: Do you?

MR. BRUCE: Yes.

EXAMINER CATANACH: Okay. Mr. Owen, do you have any closing?

MR. OWEN: I do.

EXAMINER CATANACH: You may proceed.

MR. OWEN: Wouldn't it be more appropriate for the Applicant to proceed, Mr. Examiner?

MR. BRUCE: Not under Mr. Carr's rules.

EXAMINER CATANACH: Is it all right if I make the rules, Mr. --

MR. BRUCE: Well, yeah.

MR. OWEN: Fine, I'm happy to do that. I'm not meaning to pass the buck.

MR. BROOKS: Well, in court we always, of course, let the petitioner open and close, but --

EXAMINER CATANACH: I believe we've let the opposition go first before.

MR. BROOKS: It is appropriate for the petitioner to go last.

MR. OWEN: I'm happy to conclude, Mr. Examiner.

At the outset, I'd like to emphasize that Dugan is not opposed to infill drilling. In fact, this is not an infill case. This is an initial well on a 320. We're not coming here to offer evidence in opposition to the rule changes, we're not coming here to offer evidence that would indicate that infill drilling is not warranted by the conditions in the area.

Instead, what Dugan is here to argue, Dugan and Maralex and SG are here to argue, is that this Application is untimely. If in fact the rules are changed, then this Application will not even be necessary. In fact, that has been part of Texakoma's position in this case.

What I would liken that to is getting stopped for speeding on Interstate 25 because you were going 75 a week before the speed limit was changed and telling the officer,

Well, the speed limit is going to change to 75 next week, don't give me a ticket. It's going to change anyway.

Well, Mr. Examiner, it is your duty to apply the rules as written today, not as they're going to be written six months from now, but as they are written today.

And as they are written today, Rule 7 of the special pool rules only allows the wells in the northeast quarter or the southwest quarter and allows exceptions to that in very specified instances.

We've heard a lot of testimony about the extra cost to be added to the project because of moving the well farther away from this El Paso line, and we've heard some other testimony. But in fact, there are specific standards that the Examiner can use to assess whether or not to grant the Application in this case. Those standards are set by Rule 8 of the special pool rules.

Rule 8 states that an exception to the pattern location should only be granted for topographic reasons, or if it's a recompletion of a deeper well into a shallower zone, or if it's an intentionally deviated horizontal wellbore. Not one of those conditions is presented in this case.

Those conditions apply to the Division's consideration of administrative applications, and of course we're here as a case fully on the merits after notice.

However, those are the standards which the Division has set for itself in considering whether to grant an application for an off-pattern well.

There have been allusions to the fact that there are other off-pattern wells allowed in this area. Not one of those wells is before you today. Not one of the conditions presented in those cases is before you today. What we do have in this case is a well that doesn't have an off-pattern location justified by topographic reasons, by recompletion from a deeper horizon or an intentionally deviated wellbore. All we have is a well that seeks to get closer to the existing production directly to the south.

Now, there are some other standards that the Division has set for itself in considering nonstandard locations. Those standards are set in Order Number R-11,364. It's a Marbob case. The Order was issued in April, 2000, I believe.

Those standards which the Division set for itself in considering all unorthodox well locations state that the Division should consider whether all locations within a standard window have been eliminated, number one; number two, if there is a geologic justification for the nonstandard location; number three, if it's necessitated by surface features, why the applicant can directionally drill which, of course, is not applicable in this case; and

number four, if the operator is contemplating developing shallower zones with different well-location requirements. That's not an issue in this case.

What is at issue is whether all locations within the standard window have been eliminated. They have not.

The testimony that's before you is ambiguous at best. And in fact, it's my position that the evidence indicates that the Fruitland Coal formation in the area is, number one, uniform in thickness and, number two, not declining in permeability as you turn westward.

The geologic justifications are simply not there. The factors for granting a nonstandard location are simply not there.

Essentially, Texakoma has three arguments.

First, the rule will be changed anyway, so let us drill the well now. Well, again, Mr. Examiner, if the rules are changed anyway, then let them apply after the rules have changed. The rules as they stand today allow a well in the southwest quarter. They do not allow a well in the southeast quarter.

Number two, Texakoma's essential argument Number two is that everybody else is doing it. There are a bunch of other wells. Well, Mr. Examiner, just because everybody else is doing it doesn't make it right. The standards exist for a reason. If the Division and the Commission

feel it is appropriate to change, then it would be appropriate for Texakoma to revisit its Application in this case.

And the third reason is that the right of ways are very difficult to obtain in this area, and therefore Texakoma should be allowed to drill its well. The difficulty of obtaining a right of way is not an enumerated reason for granting an on-pattern location, either within the special pool rules or under the Division-specified conditions for granting an unorthodox well location.

Mr. Examiner, Texakoma is jumping the gun in this case. It's seeking to get down next to a well that's already producing and take advantage of the dewatering before anybody else in the area has the opportunity to do so. If the rules are going to be changed, then let them be changed and let Texakoma drill its well at that time.

I request that Texakoma's Application be denied.

Thank you.

EXAMINER CATANACH: Okay, Mr. Owen.

Mr. Bruce?

MR. BRUCE: Let me correct a few things here, Mr. Examiner.

Mr. Owen said we're here today asking it because, well, the rules will change anyway. Mr. Salzman never testified to that.

Mr. Owen says we're here because everyone else is doing it. Once again, Mr. Salzman never claimed that. We did refer to a case, the Coleman case, where an exception was granted, but he's merely pointing that out because it was beneficial in the end to everyone involved that the unorthodox Location was granted.

Mr. Owen also said we're here saying we only want the location because it will reduce costs. We never said that.

One thing he did say was about the right of way, and that is part of our reason.

But simply put, the data shows that wells west of the proposed location are uneconomic. Our opponents cannot point to any well west of Section 16 that's economic. Clear and simple. They talk about their instincts, talk about their hopes for future production. They can't show one.

Even if wells eventually prove to be economic west of Texakoma's proposed location, it's undisputed that drilling this well and dewatering this area will benefit everyone. It will benefit Dugan, Maralex, SG Interest, Texakoma. What's the beef? I don't know.

We're not here to save money on a flow line, and Texakoma has never been in front of the Division asking for an unorthodox location in the Fruitland Coal simply to save

money.

This Application has a geologic and engineering basis, and I submit it also has a topographic basis. Mr. Roe presents the map showing all of the farming areas on the NAPI lands. If that's not topographic, I don't know what is.

Significantly, what our opponents are saying is that Texakoma should go drill a well and then wait eight, ten, twelve years to get a right of way for its pipeline. That's not being prudent, that's being senseless.

Now, as far as the need to drill well, every company is different, but Texakoma has drilling programs and it needs to drill these wells. It has leases to develop, and why should it be stopped in this particular instance? The Division General Rules allow a company a company to apply for an unorthodox location. This one is based on three reasons, or four: geology, engineering, topographic, and you could say, I suppose, cost, but only in the sense that if we drill a quarter-million-dollar well or a $200,000 well, we're going to have to sit there for a long time without producing it, and that's uneconomic.

The Division Rules allow you to apply for unorthodox locations and this case warrants one. Simply waiting for a general rule change which may never happen is irrelevant to this case.

We'd ask you to approve the location.

EXAMINER CATANACH: Thank you, Mr. Bruce. Anything further?

MR. BRUCE: No, sir.

MR. OWEN: I have an administrative matter. I don't think it's necessary to wait and submit a cross-section at the next hearing, I think the case is completed as it is.

EXAMINER CATANACH: There being nothing further, Case 12,875 will be taken under advisement.

And this hearing is adjourned.

(Thereupon, these proceedings were concluded at 3:55 p.m.)

* * *

I do hereby certify that I [illegible] a complete record of the proceedings in the Examiner hearing of Case No. 12875, heard by me on July 27 2006.

David K. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 3rd, 2002.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002