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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
COMMISSION FOR THE PURPOSE OF)
CONSIDERING:) CASE NO. 10,887
APPLICATION OF KAISER-FRANCIS)
OIL COMPANY)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
GARY CARLSON, COMMISSIONER

APR 13 1994

March 10th, 1994
Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Commission on Thursday, March 10th, 1994, at
Morgan Hall, State Land Office Building, 310 Old Santa Fe
Trail, Santa Fe, New Mexico, before Steven T. Brenner,
Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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March 10th, 1994
Commission Hearing
CASE NO. 10,887

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REPORTER'S CERTIFICATE

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 3:51 p.m.:

3 CHAIRMAN LEMAY: Call Case Number 10,887.

4 MR. STOVALL: This is the Application of Kaiser-
5 Francis Oil Company for directional drilling, Eddy County,
6 New Mexico.

7 Mr. Chairman, based upon a letter from you to the
8 parties, this case is really here to hear some legal
9 argument as to whether there's any evidentiary requirement.
10 However, I'm advising the Commission to take the record
11 made in the Examiner case, incorporate it into this record,
12 because I believe it contains all of the essential factual
13 information which you'd need to review and make a
14 determination, and I would request the Commission do that
15 on its own motion, and I think the parties would concur in
16 that.

17 CHAIRMAN LEMAY: Let me understand. You'd like
18 us to issue an order in this case, first of all, whether
19 Santa Fe Energy Partners has any standing, second, to
20 review the record of the previous case, incorporate that,
21 and --

22 MR. STOVALL: Well, let me back up and make that
23 clear. You incorporate the record of a previous case, and
24 the facts in that record will help you determine the
25 standing jurisdictional question that is involved.

1 I think there's a question of either standing or
2 whether the Commission could even issue an order, as
3 requested by Santa Fe, regarding the Application. And I
4 think -- I would leave it to either of the parties to
5 summarize briefly what has happened for your information.

6 But you're not making -- It's not a substantive
7 conservation decision; it's a legal decision that you would
8 make at this point.

9 CHAIRMAN LEMAY: Well, is it a two-part decision,
10 then? First of all, we must make a finding, does Santa Fe
11 have standing? And if they do, then are we hear the case?
12 Is that --

13 MR. KELLAHIN: No, sir. No. No, sir. We're
14 here on the narrow question of a motion. The decision on
15 the motion may subsequently lead us to an evidentiary
16 hearing at a later date.

17 The only reason that we have stipulated as
18 counsel in the prehearing conference to having the record
19 and exhibits available to you today is for purposes of
20 arguing the motion. There's some basic facts in there for
21 which there is no dispute, and it will help you organize
22 your thoughts as you deal with the motion.

23 CHAIRMAN LEMAY: I think I said -- Do you
24 understand what we're here --

25 MR. STOVALL: I think you'll understand when it's

1 -- when you understand the question.

2 COMMISSIONER CARLSON: We're here today on the
3 motion to dismiss?

4 MR. BRUCE: Yes.

5 MR. KELLAHIN: We will enter our appearances when
6 you allow us, and we will argue the motion to dismiss, and
7 I will present to you my motion. Mr. Bruce will argue
8 against it. And then it will be your choice to decide how
9 to proceed.

10 COMMISSIONER CARLSON: And if this Commission
11 would happen to deny your motion to dismiss, then it would
12 act on your Application --

13 MR. KELLAHIN: No, sir.

14 COMMISSIONER CARLSON: -- or is that at some
15 future Commission --

16 MR. KELLAHIN: Then we're back in the
17 conventional method of a *de novo* hearing, and in April we
18 would present the case to you.

19 COMMISSIONER CARLSON: I see.

20 CHAIRMAN LEMAY: Okay, let's begin. We'll call
21 the case first. Did we call it already? I guess not.

22 MR. STOVALL: I think we called the case. I
23 think we need entries of appearances by the two --

24 CHAIRMAN LEMAY: Yeah, Case 10,871 [*sic*], is
25 Santa Fe Energy Partners, compulsory pooling -- This is a

1 hearing to really rule on the motion of Mr. Kellahin
2 whether Santa Fe Energy Partners has standing in the case.

3 Appearances in the case?

4 MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of
5 the Santa Fe law firm of Kellahin and Kellahin, appearing
6 on behalf of Kaiser-Francis Oil Company.

7 MR. BRUCE: Mr. Chairman, Jim Bruce on behalf of
8 Santa Fe Energy Operating Partners, L.P., and the case
9 number is 10,887.

10 CHAIRMAN LEMAY: Thank you. I just got a
11 correction there from Commissioner Weiss. May the record
12 correct my previous statement, and we have called Case
13 10,887, not 10,871. Thank you.

14 You may begin, then, Mr. Kellahin.

15 MR. KELLAHIN: By way of background, this
16 Application deals with a rather narrow topic in a
17 complicated regulatory area.

18 The Application was narrow insofar as it sought
19 relief from the Division for approval to commence Delaware
20 oil wells at unorthodox surface locations and to
21 intentionally directionally drill those wells to the Lower
22 Brushy Canyon member of the Delaware Pool so that they
23 would be bottomed in a producing interval in that pool
24 where they would be on standard 40-acre oil spacing,
25 encroaching no closer than 330 from the setbacks of the

1 facing unit.

2 And that was the topic before the Division
3 Examiner. Examiner Morrow heard that case. It was heard
4 back on December 16th, and he issued an order through the
5 Division on January 12th, and I have brought copies of the
6 order.

7 The order approved Kaiser-Francis's ten
8 applications, or ten wells in the single application, and
9 authorized them to directionally drill these wells.

10 To help orient you, I have taken out of the
11 hearing exhibits my copy of Exhibit Number 1, which is a
12 locator map which will give you some idea of where we are.

13 I said the case was simple, but the regulatory
14 environment in the area is complex. It's simply because we
15 are in the R-111-P area. Federal leases involved. We're
16 looking at Sections 20 and 21. Kaiser-Francis Oil Company
17 is the operator of those two sections. And what has
18 occurred to them is that they have found themselves in a
19 predicament with the BLM's position that there is the
20 presumption of mineable potash in the north half of
21 Sections 20 and 21.

22 The evidence before the Examiner included a copy
23 of the Department of the Interior Secretary's Potash Map.
24 It's marked as Exhibit Number 3. This will help you
25 visualize Kaiser-Francis's problem.

1 If you can see on the map, find Sections 20 and
2 21. On the photocopy the white area, if you will, is
3 shaded blue on the Secretary Map. That is the highest
4 level of shading on the Secretary Map, and that is their
5 presumed mineable potash.

6 What Kaiser-Francis sought to do, then, was
7 approach the BLM in Carlsbad to obtain approval to drill
8 vertical Delaware wells.

9 You can see from one of the maps that there's
10 substantial development by Santa Fe in Section 17 to the
11 north, substantial development in the pool by Yates in
12 Section 16, also to the north, to the south is another
13 Delaware pool, and caught in between is Kaiser-Francis.

14 The testimony before the Examiner was that
15 Kaiser-Francis had approached the BLM and the BLM refused
16 to issue APDs on the federal leases for vertical wells
17 because they wanted to maintain a wellbore-free potash
18 corridor to connect the eastern potash tracts to the
19 western tracts. And if you see, the north half of 20 and
20 21 is that corridor.

21 As a consequence of that, Kaiser-Francis has
22 sought and obtained from the BLM approval to -- of APDs for
23 the directional wells. We presented that to the Examiner,
24 he approved those Applications.

25 Santa Fe expressed their concern before the

1 Examiner, and it is our contention that their concern does
2 not elevate them to the necessary position to have standing
3 to take an appeal of the Examiner Order to the Commission.

4 To have standing before the Commission, you must
5 be a party adversely affected, an interested party,
6 adversely affected by the Examiner Order.

7 Santa Fe, with operations in section 17, is not
8 an interest owner in any of the Kaiser-Francis wells. They
9 don't pay for, they don't share in, they have nothing to do
10 with sharing production out of Sections 20 and 21.

11 The producing interval for the Kaiser-Francis
12 wells will be at standard locations. There is no
13 encroachment on Santa Fe; that was not the subject of this
14 Application. And they have no standing or basis to
15 complain that their correlative rights are being impaired
16 or infringed upon.

17 The costs of these wells is more expensive than a
18 vertical well. It is undisputed. Mr. Wakefield's
19 testimony before the Examiner said that the price
20 differential was about \$60,000 between a vertical well and
21 the least expensive short-radius directional well. About
22 \$60,000. The price differential between the vertical well
23 and the directional well with the greatest distance to
24 traverse was about \$140,000.

25 We're dealing with a producing interval between

1 7000 and 8000 feet. The oil allowable is 187 barrels a
2 day. Kaiser-Francis has made the business judgment that
3 they will expend the additional revenues in order to
4 capture their share of the oil out of the pool.

5 The engineering witness's testimony is that some
6 of these locations are at risk from drainage. Santa Fe and
7 Yates are offsetting them to the north, and he wants to
8 compete in the reservoir, and the only way he can do so is
9 with the directionally drilled wells.

10 We have gone through the APD process. There was
11 no R-111-A or -P objection from any of the potash lessees.
12 We cleared that hurdle.

13 We've got an accommodation with the BLM that they
14 will allow the vertical wells to be drilled in this fashion
15 pursuant to R-111-P.

16 We think we've done what we need to do.

17 Santa Fe raises the concern that they would
18 prefer us to file for vertical wells, have the APDs denied,
19 go to the State Director of the BLM, see the recourse at
20 that level. If denied, to appeal to the IBLA and assist
21 them in their corporate strategy, which is not to drill
22 directional wells.

23 They are now asking this Commission to assist
24 them in having Kaiser-Francis execute a business strategy
25 to deal with the problem with the BLM.

1 We contend that they have no standing before this
2 agency to encourage, coerce, require or anything else, that
3 Kaiser-Francis commit to Santa Fe's business strategy,
4 whereby we can't make the business judgment to drill
5 directional wells.

6 That is our argument, that is the sum of the
7 case, and rather than come back to you next month and put
8 on all that technical information, I think we're at the
9 same point.

10 And my point is that their problem is with the
11 BLM and not with the OCC, and they don't have any standing
12 to complain here about their problem over there.

13 We would ask that the Application for a *de novo*
14 hearing be denied because of lack of standing.

15 Continue the thought, though. If you say they
16 have standing, what are you going to do for them? What are
17 you going to do for them?

18 Are you going to tell us that we cannot drill a
19 directional well to a standard bottomhole location and
20 compete on 40-acre oil spacing with Santa Fe, Yates and
21 Pogo and the others in the reservoir, and therefore we're
22 committed to exhaust some kind of administrative remedy
23 before the BLM? I don't know where that's going to go. I
24 don't think that's appropriate.

25 The solution, I think, is to let us exercise our

1 business judgment. It may cost us a little more to drill
2 our wells. Santa Fe doesn't have to pay for it. It's not
3 affecting them.

4 Their only concern is that it might lead to some
5 type of precedent that the BLM will come back and argue,
6 Well, Kaiser-Francis did directional wells; how come you
7 don't do it too?

8 Look at the unique circumstances of this fact
9 situation. They have made the choice at the BLM to protect
10 the potash corridor. North and south of the corridor is a
11 little fringe area, and you might have a chance to move a
12 well east-west along the boundaries and maybe get a
13 vertical well. But we're trying to access the hydrocarbons
14 in the Delaware underlying the potash corridor that BLM
15 says they want to protect.

16 I think when you balance your obligations, if
17 you're going to deal with waste of hydrocarbons, under the
18 statute, under R-111-P procedure, you also have to deal
19 with the undue waste of potash.

20 I think it's a classic example of an operator
21 like Kaiser-Francis doing what they need to do to
22 accommodate the balancing of the resources of both
23 industries. The fact that it costs someone some additional
24 revenues doesn't give someone in Santa Fe's position the
25 right to complain about how we choose to spend our money.

1 We would ask that the motion be granted, and the
2 Examiner Order then becomes final.

3 Thank you.

4 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

5 One point here, maybe a legal clarification:
6 Are we allowed to ask questions of the lawyers presenting
7 their --

8 MR. KELLAHIN: Absolutely.

9 MR. BRUCE: Absolutely.

10 MR. STOVALL: Mr. Chairman, my recommendation
11 would be first that you hear from Mr. Bruce and then
12 proceed to ask. Yes, I think there's no --

13 CHAIRMAN LEMAY: But that is okay, even --

14 MR. STOVALL: Yes.

15 CHAIRMAN LEMAY: -- though we haven't sworn them?

16 MR. STOVALL: Oh, I think there are definitely
17 some questions you want to ask.

18 CHAIRMAN LEMAY: You bet. All right.

19 Thank you, Mr. Kellahin.

20 Mr. Bruce?

21 MR. BRUCE: Mr. Kellahin stated the basic facts
22 as far as what Kaiser did. They -- This is in the
23 oil/potash area, and there is the requirement, obviously,
24 in the federal leases to get BLM approval. And they went
25 in and verbally talked with the people at the BLM down in

1 Carlsbad, and the people in Carlsbad said, Please drill
2 directionally. As far as I can tell from the evidence,
3 they never filed written APD's requesting vertical well
4 approval or did any follow-up.

5 And as Mr. Kellahin stated, there's no dispute
6 that directional wells cost more, and their primary witness
7 said lifting costs will be higher on the directional wells
8 than on vertical wells, with the result, we believe, that
9 reserves will be left in the ground if you drill the
10 directional wells instead of the vertical wells.

11 Santa Fe's position is simply that drilling
12 directional wells causes waste -- both economic waste
13 because the wells cost more and physical waste because
14 you'll leave reserves in the ground -- and shouldn't be
15 allowed until a company fully complies with BLM procedures.

16 We believe that since the Commission and the
17 Division are charged with preventing waste, it has the
18 authority to review this decision.

19 Since the Division testimony is undisputed that
20 it's going to cost more, waste is going to occur. It's as
21 simple as that.

22 Now, as far as procedures to follow, there is
23 examples throughout here -- I'll point some out -- and Mr.
24 Kellahin gave you this Exhibit 3.

25 Other companies have experienced the same

1 problems. If you look up in Section 17, in the southeast
2 quarter of the southeast quarter, Santa Fe now has a well
3 approved, a vertical well approved, to drill to the
4 Delaware. It's the Pure Gold C 17 Federal Number 6 Well.

5 If you go up in the northwest quarter of Section
6 17, James Ranch Unit 56 and 57 wells -- which are in the
7 northeast of the northwest, and the southwest of the
8 northwest -- those wells are in the blue area, the defined
9 potash area.

10 Down in Section 29, Pogo Producing Company has a
11 well in the southwest of the southeast. Same thing. We
12 actually came here and got a directional drilling approval
13 from the Division to drill that well. But Pogo persisted
14 at the BLM and finally got approval to drill that well
15 vertically.

16 And I could give some other examples.

17 But we believe that a company should first be
18 required to exhaust those remedies in front of the BLM.

19 The BLM -- It's true, Santa Fe has no working
20 interest in the proposed Kaiser wells and therefore isn't
21 bearing any of that cost.

22 But if these wells are now approved as a matter
23 of course, you're going to see the BLM requiring these
24 wells more and more and more. And that's going to affect,
25 without a doubt, Santa Fe, Yates, you name it. There's --

1 I forget how many operators in the oil/potash area.

2 It's a very simple position, and we believe that
3 not only is Santa Fe an interested party, but if these
4 wells are approved routinely by the Division without
5 requiring BLM administrative appeal procedures to be
6 followed, that they will be adversely affected.

7 We think it's something similar -- Suppose
8 Kaiser-Francis and Santa Fe had a case in front of the OCD,
9 whether unorthodox location or force-pooling. If one of
10 the parties then went to the court to try to get some
11 relief while the OCD proceedings were pending, the court
12 would say, No, you go back and follow your procedures in
13 front of the OCD. We think it is essentially the same
14 position.

15 As a result, we believe that the people in Santa
16 Fe's position are interested parties in this case, and we
17 would ask that we be permitted to present evidence on these
18 issues before the Commission.

19 As far as what Kaiser should do, now, there are
20 certain instances, and I think -- in many instances, I
21 think the parties spoke up at the last hearing and says, If
22 there's a definite drainage problem we don't want to stop
23 people from protecting against drainage.

24 But a lot of these wells that Kaiser is seeing
25 approval for are in the interior of Sections 20 and 21.

1 They're not being affected by drainage.

2 And we think that the OCD or the Commission
3 should suspend directional drilling approval until a
4 company makes some effort at following through with BLM
5 procedures.

6 Thank you.

7 MR. STOVALL: Mr. Chairman, before you begin to
8 question the attorneys, there are some legal/procedural
9 issues -- and we're really in our playground right now --
10 that I would like to address.

11 The motion is brought on the basis of standing,
12 and I think that's a very important point to consider.

13 Santa Fe does not have an economic interest in
14 the wells in the properties to be affected because the
15 producing intervals of the wells would be at an orthodox
16 interval, there's not a correlative-rights issue to be
17 brought.

18 Santa Fe's interest is in a broader business
19 sense. I guess the question -- To put it in a bigger
20 picture, the question is, if you want to look at the narrow
21 standing point of view, it's much the same as if I as a
22 taxpayer or the Land Commissioner as a royalty owner or
23 even a private royalty owner in a nearby tract or somebody
24 who had an interest, came in and said, I don't believe that
25 that operator should operate that way, because there will

1 be an ultimate loss to the State.

2 How far does it go? There's plenty of law in --
3 plenty of case law in the federal sector that basically
4 says, for example, a taxpayer doesn't have standing to
5 challenge a government activity, because it is not the most
6 efficient use of tax dollars.

7 That's the type of issue that standing is, is,
8 does Santa Fe -- How far away do you have to get before it
9 becomes an issue? And I think you can first rule on that
10 very narrow issue if you wish. I think there's a basis for
11 you to say, Santa Fe, you don't have a direct interest in
12 this property, and therefore we can't give you standing to
13 address that.

14 Now, if you want to go further on, the next step,
15 then, you have to do is rule -- is, is there some
16 requirement that the operator, Kaiser-Francis, pursue an
17 administrative remedy through another, if you will,
18 parallel forum to the OCD?

19 The exhaustion-of-administrative-remedies
20 argument generally is applied when a party tries to go to
21 court to force an agency to do something without exhausting
22 that agency's administrative remedies first. I'm not aware
23 of any case law where a party can go to one agency and say,
24 You can't permit an activity which another agency has
25 requested unless the party before that other agency has

1 gone through an administrative process.

2 So those are the terms in which you need to look
3 at the issues, I think.

4 As I say, the very narrow one of standing can be
5 dispositive if -- recognizing that if you grant Santa Fe's
6 position on the standing issue that because they're an
7 operator in the area they should be able to challenge an
8 operator's business decision to go -- to drill
9 directionally to comply with the regulatory agency request.

10 How far do you go to say somebody who doesn't
11 have a direct interest in the property can challenge the
12 way somebody else operates a property on a more generic
13 interest?

14 So I think you need to focus on that first and
15 decide how you want to go there before you broaden the
16 issue.

17 CHAIRMAN LEMAY: Okay. Commissioner Carlson,
18 you're the lawyer, I'm the engineer. I'll let you start
19 off.

20 COMMISSIONER CARLSON: I don't know, I guess my
21 first question would be of Mr. Bruce.

22 If we were to rule that Santa Fe Energy had
23 standing in a case like this, wouldn't this open the door
24 for any time anybody wanted to come before this Commission
25 and seek approval for any economic or business decision

1 that they had made, that anybody else in the business can
2 then come in and challenge it on a waste issue?

3 MR. BRUCE: Well, I -- You know, I think you're
4 construing it too broadly and -- I mean, I think the
5 Hearing Examiners are fully capable of making those
6 decisions. I don't think this is the type of thing that
7 happens very often, to allay those fears.

8 But, you know, one thing I didn't mention in my
9 original argument is -- you know, you mentioned correlative
10 rights. I mean, one of these -- one of Kaiser's wells is
11 located on Santa Fe's lease, and --

12 COMMISSIONER CARLSON: The surface location?

13 MR. BRUCE: Surface location. -- and it will be
14 unorthodox in some of the uphole Delaware zones. The
15 Kaiser well will be unorthodox in some of the uphole
16 Delaware zones as to Santa Fe.

17 Now, Kaiser did state on the record that it will
18 seek Division approval before producing from, say, the
19 Cherry Canyon formation. They are going down deeper to the
20 Brushy Canyon formation.

21 But, as I -- I submitted a little response to the
22 Commission beforehand, the problem with that is, once you
23 have a well drilled it's been a kind of a routine practice
24 by the Division to approve uphole zones, even if they're
25 unorthodox. That obviously has an effect on Santa Fe. So

1 it's not like Santa Fe is totally unaffected by this
2 matter.

3 Now, you know, where do you draw the line? Well,
4 you know, Mr. Commissioners, as an attorney it's not always
5 easy to draw that bright line.

6 I've been in unorthodox-location cases before
7 where we're required to notify an offset operator, even
8 though we're not moving closer toward him. You know, take
9 a 320-acre spacing unit where you have a standard location
10 no closer than, say, 660 feet to the line of a unit and you
11 decide to move east or west, but not closer to the person
12 to the north. The Division has always recognized the
13 standing of those people to come in and protest an
14 unorthodox location.

15 I'm just saying, there isn't a bright line, I'm
16 afraid. But Santa Fe does have an interest, whether it's
17 correlative rights or waste, they do have an interest in
18 these wells.

19 MR. KELLAHIN: May I respond?

20 COMMISSIONER CARLSON: Yeah, please.

21 MR. KELLAHIN: The correlative rights thing with
22 the nonstandard location is a red herring. It is not the
23 topic of this Application.

24 At such point as Kaiser-Francis wanted to produce
25 out of the nonstandard portion of the wellbore, they've got

1 to file a new case. When that happens, they come in. And
2 we have existing wellbores at nonstandard locations all the
3 time. That's often addressed with a penalized allowable.

4 Don't let him make that issue here, because
5 that's not the issue. We can use that surface location on
6 Section 17 because the owner of the property, the BLM, has
7 allowed us to do that. That is not an issue in this case.

8 I didn't give you the written motion. I don't
9 know if you need to look at it, but here are extra copies
10 of the motion.

11 And I go back to my theme is, standing is very
12 fundamental. We have allowed lots of things to happen by
13 acquiescence and consents in these hearings. But when you
14 get up and object to standing, Mr. Bruce or Mr. Carr or Mr.
15 Stovall's got to get up and say, My client has a
16 correlative rights that's being impacted because you're
17 moving towards me, I'm going to pay for the well because
18 I'm involved in it, and I've got direct standing.

19 Here the standing is so far removed that if you
20 let Santa Fe go forward, you're going to have to let
21 everybody go forward.

22 Directionally drilled wells are permitted and
23 allowed under your rules -- specific rule on it -- and we
24 do them frequently.

25 Are you now going to have a strategy for others

1 to complain that they always cost more, therefore we're not
2 going to have them because it takes more production to pay
3 them out? You let him in, and you preclude directionally
4 drilled wells from ever being drilled anywhere. You know,
5 that's the extent of the argument, that's where it will
6 take you.

7 CHAIRMAN LEMAY: Exactly not a question, just to
8 get some things out of the way.

9 COMMISSIONER CARLSON: Yeah.

10 CHAIRMAN LEMAY: Either one of you, what are the
11 names of these fields? Are there two fields or one field?
12 Can you give us some --

13 MR. BRUCE: It's the Los Medanos-Delaware and the
14 West Sand Dunes-Delaware. There's been testimony on it
15 recently, Mr. Chairman. They're essentially one pool.

16 CHAIRMAN LEMAY: Well, I mean, I'm trying to
17 eliminate some of these other things that crop into my
18 mind. There was an application by Santa Fe for increased
19 allowable. Was that in one of these two pools?

20 MR. BRUCE: Yeah, and actually there was -- Both
21 Santa Fe and Yates were involved in that. It really had to
22 do with the Los Medanos Pool, which is Sections 16 and 17.
23 A couple of years ago there was approval. The discovery
24 well was by Yates, and it was perf'd in different zones,
25 and Yates came in and got approval to increase the

1 allowable based on the deepest perforations in the
2 discovery well.

3 CHAIRMAN LEMAY: Well, I guess -- you know what's
4 going through my mind, let's throw it out -- if Santa Fe
5 delays Kaiser-Francis drilling wells and they get a higher
6 allowable, they get more oil up before Kaiser-Francis is
7 allowed to do either one, I mean, you're talking about a
8 correlative-rights issue. That seems to be --

9 MR. BRUCE: Well, there's been -- In another
10 hearing, Mr. Chairman, Kaiser's owned this lease for ten
11 years, and they're the last in these pools to develop their
12 leases. So correlative rights is only the opportunity, and
13 until a few months ago they never took advantage of the
14 opportunity to drill.

15 CHAIRMAN LEMAY: But now you're delaying that
16 opportunity, aren't you?

17 MR. BRUCE: Well --

18 MR. STOVALL: Mr. Chairman, I'm going to have to
19 caution you a little bit because I think what we're
20 starting to do is to get into some factual arguments that
21 might go to some merits issues. And it really is a -- I
22 mean, this is a tough line from that standpoint.

23 CHAIRMAN LEMAY: Well, okay, I mean, we won't get
24 into this, but it's bound to creep in, I mean, if you're
25 talking about delaying the drilling of a well through

1 administrative remedies, whether you have standing or not,
2 can delay the opportunity for a party to develop his
3 property.

4 MR. BRUCE: I don't think Kaiser had final
5 approval until January. I suppose they've been delayed a
6 month or so, if indeed they are delayed because of this
7 Application. I mean, we didn't request a stay of the order
8 or anything. All I'm saying is that they had the leases
9 for ten years and then finally decided to act in 1993.

10 CHAIRMAN LEMAY: Well, I'm just trying to get
11 this point out.

12 MR. BRUCE: Yeah.

13 CHAIRMAN LEMAY: It's floating around in there,
14 and I want to deal with it.

15 MR. BRUCE: Yeah.

16 CHAIRMAN LEMAY: Is there a response to that?

17 MR. BRUCE: I don't even know. I think Kaiser --
18 Tom could tell better than me --

19 CHAIRMAN LEMAY: Does Kaiser feel that their
20 correlative rights are being violated by virtue of being
21 delayed in drilling the wells?

22 MR. KELLAHIN: Well, I think that was Mr.
23 Wakefield's testimony before the Division Examiner, is that
24 he thinks Los Medanos and West Sand Dunes are in pressure
25 communication over significant extents, and he says he

1 needs to get his share soon or he won't have a share.

2 CHAIRMAN LEMAY: Okay, that's all I'm trying to
3 get at. I'm sure that's in the record, and we don't have
4 access to it right now, so I wanted some comments on that.
5 I'm sorry to interrupt.

6 Commissioner Carlson, do you --

7 COMMISSIONER CARLSON: I don't know if I have any
8 more questions. I guess -- Mr. Kellahin would you agree
9 that if these wells do prove to be uneconomic, then it
10 would be a waste of oil?

11 MR. KELLAHIN: No, sir. If they're uneconomic,
12 we prove his case to the BLM and maybe he gets some more
13 vertical wells. I don't know why it's a waste of oil.

14 COMMISSIONER CARLSON: I guess that leads to my
15 second question, then: How will we know if they're
16 uneconomic? Will the data from these wells be open to --
17 if not public scrutiny, at least Commission scrutiny or
18 Division scrutiny?

19 MR. KELLAHIN: I don't know that that's
20 meaningful to the process.

21 COMMISSIONER CARLSON: Well, You know, it may not
22 be to this particular case, but for economic drilling of
23 directional wells in the potash basin, it may very well be.
24 As you know, we've got a little study we're trying to get
25 going in Socorro, and this is one of the things we asked

1 them to look at.

2 MR. KELLAHIN: Right, I understand. Let me
3 answer both questions.

4 One, I'm sure Kaiser-Francis in some fashion,
5 either in confidence or otherwise, would share the data
6 with you if that's what you're looking for.

7 COMMISSIONER CARLSON: They would cooperate with
8 that study?

9 MR. KELLAHIN: I don't see any reason not to, and
10 I would encourage them to do so. I have not raised that
11 topic with them.

12 My point is, that shouldn't make a difference
13 here. The economics of the directionally drilled well
14 doesn't give Santa Fe standing in my case.

15 MR. STOVALL: Let me raise an alternative, again
16 for analytical purposes.

17 Let's assume for a moment that Kaiser-Francis and
18 Santa Fe are in two different areas in the potash basin.
19 It happens to be that they're looking at the same channel
20 and nearby leases. If they're, say, two mines away and
21 Kaiser-Francis comes in and says, Okay, BLM, I agree to
22 directionally drill, does Santa Fe at that point have
23 standing and is there a difference? And I'd ask Mr. Bruce
24 to address that, and Mr. Kellahin.

25 Does it make a difference that they're in the

1 same channel or that they're simply in the potash area?

2 MR. BRUCE: Well, I don't think -- If we were
3 five miles away, I don't think Santa Fe would be here. But
4 they are right next door.

5 COMMISSIONER CARLSON: And you think that is an
6 issue here?

7 MR. BRUCE: The -- ?

8 COMMISSIONER CARLSON: The fact that Santa Fe has
9 leases in Section 17?

10 MR. BRUCE: They've already -- You know, I
11 mentioned the wells that have already been approved in the
12 blue area. Actually three of those four I mentioned were
13 permitted by Santa Fe, although I said Bass operates two of
14 them, they were permitted by Santa Fe. I mean, they've had
15 the battle with BLM in this area, in this immediate area
16 within a half a mile of Kaiser's proposed wells, and
17 they're affected.

18 MR. KELLAHIN: Commissioner Carlson, this is not
19 a directional well issue for all the potash area. It is
20 specific to the north half of these two sections, because
21 the undisputed testimony from the BLM's people to my
22 engineer is, they want to preserve the corridor, site-
23 specific in this area, and that's the uniqueness of this
24 case.

25 It's not the directionally drilled wells anywhere

1 in the R-111-P; it's the fact that that's the only way the
2 BLM will let us access the oil, because they want to
3 preserve this corridor.

4 CHAIRMAN LEMAY: Let me jump on that just to
5 follow up. If these wells were somewhere else and the BLM
6 said you can go either vertical or you can go directionally
7 drilled and horizontal, and Kaiser-Francis would choose to
8 go the more expensive route for whatever reason, but the
9 BLM didn't care, would you still maintain the same
10 position, that Santa Fe --

11 MR. KELLAHIN: Absolutely.

12 CHAIRMAN LEMAY: -- does not have standing?

13 MR. KELLAHIN: Yes, sir.

14 CHAIRMAN LEMAY: It's really not their business
15 what Kaiser-Francis wants to do, it's really none of their
16 business what the BLM has said, that you've made a business
17 decision and that that should not be second-guessed by
18 another operator?

19 MR. KELLAHIN: If I want to spend more money on
20 my wells with fancier toys, more testing programs, more
21 logging information, more stimulation program, whatever it
22 is, that's my choice.

23 CHAIRMAN LEMAY: There's no public-interest
24 question there?

25 MR. KELLAHIN: No, sir.

1 CHAIRMAN LEMAY: In the public interest to drill
2 cheaper? You're saying the public interest has -- They
3 can't represent the public interest, and that's not an
4 issue?

5 MR. KELLAHIN: That's right.

6 MR. BRUCE: My point would be that the Commission
7 would represent the public interest; they're charged by
8 statute.

9 COMMISSIONER CARLSON: I agree. But what
10 interest would Santa Fe have in that?

11 MR. BRUCE: Well, in the particular instance you
12 gave, it was Santa Fe -- I mean -- I don't know what that
13 instance was, I didn't quite understand that. But it
14 didn't appear Santa Fe had any offsetting interest.

15 MR. STOVALL: Mr. Chairman, let me raise another
16 matter that has come, and it is before the Division. It's
17 another analogy.

18 There's a salt-string-casing requirement. One
19 operator is challenging that requirement, other operators
20 have complied with it. Can the operator that's challenged
21 the requirement prevent the other operators from putting
22 the salt string in because they think it's a bad precedent?
23 I mean, that's the kind of decision that I'm afraid you're
24 making. When you get into that, that becomes an issue.

25 And again, I would invite either of the attorneys

1 to respond to that, but I think -- The fact that this is a
2 directional drill may or may not be significant. It is a
3 business decision as to how to deal with a regulatory
4 agency in compliance with requirements and whether or not
5 you have to go all the way with one, and whether another
6 operator can tell one that they have to battle the
7 regulatory agency to the end.

8 CHAIRMAN LEMAY: Do you want to respond to that
9 or --

10 MR. KELLAHIN: I like his statement, I'll adopt
11 it.

12 MR. STOVALL: I thought you might, Mr. Kellahin.

13 COMMISSIONER CARLSON: It seems we're getting
14 some strong advice from our counsel.

15 COMMISSIONER WEISS: What would happen if they
16 wanted to go out here and drill a dry hole? You know.
17 Hey, if they want to spend their money out here, let them.

18 CHAIRMAN LEMAY: One of the Commission's -- this
19 is going -- Well, I think you've laid out the issue. I
20 think you've laid out what we have to decide.

21 And I can't -- Do you want to do any more
22 questions or -- ?

23 COMMISSIONER CARLSON: No.

24 COMMISSIONER WEISS: There is a public interest
25 in knowing the costs of these precisely.

1 MR. KELLAHIN: And I'm certain my client will
2 cooperate with the agency. If you've got a study group
3 that needs that information, we'll get it to you.

4 But I don't want that to be the deciding basis
5 for --

6 COMMISSIONER CARLSON: It shouldn't be, I agree.

7 CHAIRMAN LEMAY: It should not be.

8 Do you both agree to incorporate into the record
9 the factual basis for --

10 MR. BRUCE: Yes.

11 CHAIRMAN LEMAY: Do you have anything else you'd
12 like to say before we take this case under advisement?

13 MR. KELLAHIN: No, sir.

14 CHAIRMAN LEMAY: Do you want to submit additional
15 briefs, or was it -- everything you had to say was in the
16 motion and the -- commented on in the motion?

17 MR. BRUCE: Yeah, I filed the responses.

18 CHAIRMAN LEMAY: Yeah. And that would be
19 adequate.

20 Well, we'll leave the record open for a few days
21 if you want to file something else.

22 Otherwise, is there anything else in this case?

23 MR. STOVALL: Which few days, Mr. Chairman? They
24 need --

25 CHAIRMAN LEMAY: Okay, a week, we'll give you a

1 week.

2 MR. KELLAHIN: I have nothing else to add, Mr.
3 Chairman.

4 CHAIRMAN LEMAY: All right, and you have nothing
5 else to add, Mr. Bruce?

6 MR. BRUCE: No, sir.

7 CHAIRMAN LEMAY: We'll just withdraw the --
8 leaving the record open. We'll close it and go from
9 there.

10 Anything else?

11 COMMISSIONER WEISS: Not from me.

12 CHAIRMAN LEMAY: We'll take this case under
13 advisement. Thank you very much.

14 MR. STOVALL: One final matter, Mr. Chairman.
15 It's my last hearing --

16 CHAIRMAN LEMAY: I think we all owe Bob Stovall a
17 debt of gratitude for the good job he's done, and I'd like
18 to publicly acknowledge --

19 (Applause)

20 MR. STOVALL: I didn't say it for that reason
21 but --

22 CHAIRMAN LEMAY: No, but -- It's your last
23 Commission hearing.

24 MR. STOVALL: Yes.

25 CHAIRMAN LEMAY: You'll have a Division hearing,

1 I guess.

2 MR. STOVALL: Well, unless I'm in court in
3 Lovington, I will.

4 COMMISSIONER WEISS: But you won't be able to
5 wear your necktie anymore.

6 CHAIRMAN LEMAY: No, I'm serious, Bob, we do
7 appreciate it -- I think everyone does -- the good job
8 you've done, the Commission and all the lawyers involved.

9 (Thereupon, these proceedings were concluded at
10 4:32 p.m.)

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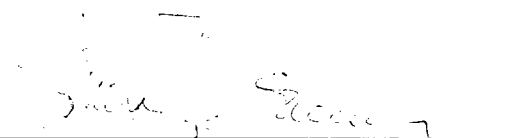
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) SS.
COUNTY OF SANTA FE)

5
6 I, Steven T. Brenner, Certified Court Reporter
7 and Notary Public, HEREBY CERTIFY that the foregoing
8 transcript of proceedings before the Oil Conservation
9 Commission was reported by me; that I transcribed my notes;
10 and that the foregoing is a true and accurate record of the
11 proceedings.

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

16 WITNESS MY HAND AND SEAL March 30th, 1994.

17
18 
19 STEVEN T. BRENNER
CCR No. 7

20
21 My commission expires: October 14, 1994
22
23
24
25

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. 10,887

APPLICATION OF KAISER-FRANCIS OIL)
COMPANY)
_____)

JAN 14 1994

ORIGINALREPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

December 16, 1993

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on Thursday, December 16, 1993, at
Morgan Hall, State Land Office Building, 310 Old Santa Fe
Trail, Santa Fe, New Mexico, before Steven T. Brenner,
Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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December 16, 1993
 Examiner Hearing
 CASE NO. 10,887

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* * *

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* * *

1 WHEREUPON, the following proceedings were had at
2 1:03 p.m.:

3
4 EXAMINER MORROW: We'll re-open the hearing in
5 Docket 36-93 and call Case 10,887.

6 MR. STOVALL: Application of Kaiser-Francis Oil
7 Company for directional drilling, Eddy County, New Mexico.

8 EXAMINER MORROW: Now call for appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 today on behalf of Kaiser-Francis Oil Company.

12 MR. NIBERT: I'm Greg Nibert with the Roswell
13 office of Hinkle, Cox, Eaton, Coffield and Hensley,
14 representing Pogo Producing Company.

15 MR. CARROLL: I'm Ernest Carroll of the Artesia
16 law firm Losee, Carson, Haas and Carroll, and I'm appearing
17 today on behalf of Yates Petroleum.

18 MR. BRUCE: And Mr. Examiner, Jim Bruce from the
19 Hinkle law firm in Santa Fe, representing Santa Fe Energy
20 Operating Partners, LP.

21 MR. KELLAHIN: Mr. Morrow, I have three witnesses
22 to be sworn.

23 EXAMINER MORROW: Please stand.

24 MR. STOVALL: Any other witnesses?

25 MR. NIBERT: We do have one witness we would like

1 to call as well.

2 EXAMINER MORROW: Mr. Carroll?

3 MR. CARROLL: Mr. Examiner, we have no witnesses.

4 (Thereupon, the witnesses were sworn.)

5 MR. KELLAHIN: Mr. Examiner, we'll have three
6 witnesses.

7 I'll call at this time my first witness, Mr. Jim
8 Wakefield. Mr. Wakefield is a petroleum engineer by
9 degree, and he is the project manager for this particular
10 project for his company.

11 There are two additional witnesses to call. Mr.
12 Alan Benson is a petroleum geologist, and Mr. Dixie Haymes
13 is a drilling engineer who will talk about the technical
14 aspects of their proposed drilling program.

15 MR. STOVALL: Mr. Kellahin?

16 MR. KELLAHIN: Yes, sir?

17 MR. STOVALL: I wonder if before we start -- We
18 kind of need to have a brief opening on the issues and
19 positions of the parties on whatever issues, so that we're
20 listening to the right information for the right purpose.

21 MR. KELLAHIN: I'd be happy to do that.

22 If you would like to unfold the first display,
23 Mr. Examiner, I think that will serve as an illustration
24 whereby I can help frame for you what I believe to be the
25 issues with regards to this case.

1 Let me tell you what this case is not, first of
2 all.

3 This is not a case involving bottomhole locations
4 at unorthodox locations. This case does not involve
5 encroaching upon the rights of any of the offset operators.
6 This case does not involve protests by the potash lessees
7 pursuant to R-111-P.

8 This case is a very simple case. We are in the
9 oil/potash enclave, we are within the boundaries of
10 R-111-P, and we are in a unique position in a reservoir
11 that currently is divided into two different pools.

12 You can see from Exhibit Number 1 there is what I
13 will characterize a corridor running east to west in the
14 north half of 20 and north half of 21. That corridor is
15 leased for oil and gas exploration, pursuant to federal oil
16 and gas leases issued to my client.

17 To the north of that area, there is a Delaware
18 pool that is being developed by Yates Petroleum in 16,
19 Santa Fe Operating in 17, and there are currently vertical
20 wells drilled along the southern boundaries of those two
21 sections in which those operators are already accessing and
22 withdrawing reserves from the Delaware Pool.

23 To the south of the corridor we have Pogo in 29
24 and 28. They are actively developing another Delaware pool
25 and currently depleting the reservoir on boundary spacing

1 units adjacent to my client's property.

2 In attempting to obtain permits from the Bureau
3 of Land Management for the drilling of vertical wells, it
4 will be Mr. Wakefield's testimony that he has exhausted all
5 reasonable opportunity to obtain federal approval to drill
6 vertical wells in the spacing units he's proposing to
7 access, and that is because the Bureau of Land Management
8 maintains that there is minable potash reserves that they
9 desire to protect.

10 In order to meet the drainage that will and has
11 begun to occur, and in order to have an opportunity to
12 exercise their correlative rights to recover their share of
13 the hydrocarbons in this reservoir, Kaiser-Francis needs to
14 access the reservoir with directional drilling.

15 The surface locations for many of these ten wells
16 are located in presumed barren areas, barren of potash. We
17 believe they meet all the requirements of the Bureau of
18 Land Management whereby we can drill vertically through the
19 salt without the waste of the potash, kick off the well,
20 and directionally drill to standard bottomhole locations,
21 and exercise our right to fairly compete with Yates, Santa
22 Fe and Pogo.

23 For those surface locations that are on the very
24 edge of the south end of Section 16, that is a state of New
25 Mexico tract. The Commissioner of Public Lands has

1 committed to issue my client business leases to utilize the
2 surface to access the reservoir and to bottom those wells
3 at standard locations on the federal lease.

4 What we're asking you to do today is to give us
5 the authority to directionally drill these wells pursuant
6 to Division Rule 111, and that's all we're seeking to do.

7 We believe that the other operators in these
8 competitive pools, if they have standing, certainly have no
9 basis to complain that we should have a right to compete
10 with them. We are not encroaching on them, they don't own
11 an interest in our leases, they don't have to pay for these
12 wells, they have nothing to do with the business decision
13 we're trying to exercise.

14 The circumstance require us, in order to have a
15 chance to compete with them, to drill these wells as we
16 propose to do.

17 And that is the sole substance of our case, and
18 that's what we propose to show you.

19 EXAMINER MORROW: All right.

20 MR. NIBERT: A couple things that Pogo would like
21 to get across to the OCD and to you, Mr. Examiner, is the
22 fact that we're not here in protest per se.

23 Pogo Producing Company is a nonoperating working
24 interest owner in the wells that have been proposed. We
25 are here to gather information that Pogo has requested for

1 some time and to make sure that we as a nonoperating
2 working interest owner understand what is proposed and what
3 is going to be involved in the drilling of the proposed
4 wells from the locations that are indicated on the map.

5 Pogo is also an interest owner, both operating
6 and nonoperating interests, in surrounding acreage.
7 Because of that fact, Pogo likewise has gone to the BLM and
8 has been denied the opportunity to drill numerous wells
9 within the oil/potash area.

10 Pogo has proceeded to appeal those decisions to
11 the Interior Board of Land Appeals, pursuant to federal
12 regulations, and is now in the middle of a substantial
13 appeal that is ongoing before that board.

14 We suggest to you, Mr. Examiner, that this is not
15 just a simple matter of drilling directional wells, but
16 that this matter also will have the effect that is far-
17 reaching within the potash area and that the actions that
18 you will take and that the Commission will take has far-
19 reaching implications regarding the ability to drill for
20 and produce oil and gas reserves within the potash area.

21 And our concern is just not with respect to these
22 ten applications but basically with respect to how
23 operations will be conducted throughout the potash area,
24 and we hope to show you that there are some significant
25 concerns that need to be considered in addition to the

1 specific concerns that Mr. Kellahin will address.

2 Pogo is generally opposed to directional drilling
3 within the potash area. It's not opposed to directional
4 drilling in the potash area where you have a drainage
5 situation, nor is it opposed to directional drilling to
6 maintain a lease for lease-maintenance purposes.

7 But we feel that interest is untimely at this
8 time to just create a potential for a precedent of
9 establishing directional drilling as a way operations
10 should be conducted within the potash area, and we say that
11 with a firm conviction that there will be some success at
12 the federal level in allowing vertical wells to be drilled
13 in many of these proposed areas.

14 That will be the basis of our comments regarding
15 the Application, and we will also be interested to learn
16 what the proposals are.

17 Thank you.

18 MR. CARROLL: Mr. Examiner, Yates Petroleum
19 appears today neither in support nor opposition to the
20 Application being made by Kaiser-Francis.

21 But Yates Petroleum would ask the Examiner to
22 take note that Yates has appeared many times -- I say
23 "many", at least several times -- in hearings before the
24 OCD and taken the official position that directional
25 drilling in this area, because of its nature of the salts

1 and what have you, that such directional drilling is
2 uneconomic, and this is based upon our expert opinion and
3 upon actual experience.

4 As you will note, that six, as Mr. Kellahin
5 indicated, six of these wells are scheduled to be spudded
6 upon a state lease belonging to Yates Petroleum in Section
7 16.

8 We too come, as Pogo, to find out what's
9 happening, because we have been, at least with respect to
10 the location of these wells, we have been told unofficially
11 that the State of New Mexico will not allow this to occur
12 and will not grant business leases. We are unsure as to
13 what is going on. We're here to find out.

14 And furthermore, just to -- our position is that
15 we are here to learn. We may find reasons to object later
16 on, and it's due to the nature of the directional drilling
17 out here, and it's because you have to drill a vertical
18 hole to such depths, you have to get below the Salado, the
19 salt formations out here, and that puts you in the
20 prospective pay formation of this area, and we are
21 concerned about that.

22 We want to listen and we want to learn, and that
23 is why Yates Petroleum at this hearing does not anticipate
24 putting any witnesses on.

25 MR. BRUCE: Mr. Examiner, Santa Fe is here today.

1 We filed a pre-hearing statement opposing the Applications
2 basically for reasons that Pogo mentioned and that is, as a
3 policy matter Santa Fe opposes directional wells in the
4 Delaware area.

5 Santa Fe owns numerous interests in this
6 particular pool, as well as in many other areas of the
7 oil/potash area, and we feel that this case has brought
8 policy implications for what might be required in the
9 future by the BLM.

10 I know the OCD can't reverse BLM decisions, but
11 if directional wells start being drilled as a matter of
12 course where we feel they're not required to be drilled, we
13 think it will have an adverse effect on our ability to
14 obtain approval for vertical wells, and it will also
15 adversely affect the economics of Delaware development in
16 this area.

17 The other thing is, Santa Fe does own a lease on
18 which one of these wells, one of the ten proposed wells, is
19 located, as far as surface location, and we're here to
20 gather data about how the well will be drilled, what zones
21 it will pierce, where it will pierce them.

22 Perhaps there are some uphole zones that are
23 unorthodox with respect to Santa Fe's leases. And we're
24 just here to check on the correlative-rights situation with
25 respect to that issue.

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JAMES T. WAKEFIELD,

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

DIRECT EXAMINATION

BY MR. KELLAHIN.:

Q. Mr. Wakefield, would you please state your name and occupation?

A. My name is Jim Wakefield. I'm a petroleum engineer, and I work for Kaiser-Francis Oil Company.

Q. Mr. Wakefield, on prior occasions have you testified before the Division as a petroleum engineer?

A. I have.

Q. Describe for us what has been your personal involvement with what I'm going to characterize as the Pure Gold Prospect.

A. Kaiser-Francis purchased these two leases from Coquina in the early Eighties and produced two gas wells. It appears on Exhibit 1 as the Pure Gold "B" Number 1 in the southwest of the southeast of Section Number 20, and Pure Gold "A" Number 1 in the southeast of the southwest of Section 21.

Q. What has been your personal involvement?

A. And then from that time, in the last two years as the Delaware development has become significant in the area, I have been the project manager for the development

1 of the Delaware production on this lease.

2 Q. So that we clearly recognize what your leasehold
3 position is, can you take Exhibit Number 1 and identify for
4 the Examiner what portions of Sections 20 and 21 are
5 leasehold oil and gas interests that you control?

6 A. Sections 20 and 21 are actually split to north
7 half/south half equivalents for working interest ownership
8 only. They are essentially the same leases, with sliding-
9 scale royalty.

10 Kaiser-Francis owns an undivided 60 percent,
11 roughly, in Section 20 and an undivided 35 percent,
12 roughly, in Section 21.

13 Q. These are both federal lease?

14 A. These are both federal leases.

15 Q. Who are your other interest owners?

16 A. In the south half of Sections 20 and 21 our only
17 interest owner is Pogo.

18 And in the north half, C and G owns 25 percent of
19 the north half of Section 21, and 12 1/2 percent of Section
20 20. Again, Pogo would own the balance.

21 Q. Describe for us the process that you've gone
22 through as the project engineer to determine how to best
23 access the Delaware Pool so that you can compete with the
24 others in this Delaware play.

25 A. I've had numerous meetings with BLM personnel,

1 both in Carlsbad and Roswell, concerning the potential to
2 drill straight holes in Sections 20 and 21.

3 You see on your plat in Section 20, four wells
4 have been drilled and completed that are straight-hole
5 wells. They're Wells Numbers 3, 4, 5 and 6, located in the
6 southeast quarter of Section 20. These wells were --
7 applied for APDs and received APD's for vertical wells.
8 Kaiser-Francis did not make those applications; they were
9 made by one of our working interest owners.

10 In Section 21 there have been three wells drilled
11 to the Delaware in the southwest quarter, Wells 2, 3 and 4.
12 Wells 2 and 4 were applied for and received vertical well
13 APDs, again by another working interest owner. The Well
14 Number 3 was applied for and received by Kaiser-Francis as
15 a vertical well.

16 All other locations, except for location number
17 14 in the northeast of the northwest of Section 20, have
18 been declared to be undrillable from a vertical standpoint
19 from the BLM, due to the presence of measurable potash.

20 Q. What then did you decide to do?

21 A. At one of these meetings, with the appropriate
22 BLM personnel, we explained that we were concerned about
23 drainage issues, that Sections 16 and 17 to the north were
24 being developed and Sections 28 and 29 to the south, that
25 their determinations that this acreage was underlain by

1 measurable potash preventing us from drilling vertical
2 wells left us with no alternative but to drill some kind of
3 directional well.

4 And they agreed that they would then determine or
5 show us where the measurable potash barren line demarcation
6 was.

7 Based on that demarcation, we then devised
8 surface locations to drill directional wells to drilling
9 spacing units for Delaware production.

10 Q. With regards to your acreage position in Sections
11 20 and 21, has the BLM made any demands upon you to drill
12 wells to protect from offset drainage?

13 A. They have.

14 Q. Let's leave Exhibit 1 out but aside for a moment
15 and have you identify for us what's marked as Exhibit
16 Number 2.

17 A. Exhibit Number 2 is a just tabular listing. It
18 gives you the surface and the bottomhole locations to be
19 drilled for each of the ten wells for which we're making an
20 Application.

21 Q. Have you examined each of the requested
22 bottomhole locations to determine whether or not in each
23 instance those would be standard well locations for a well
24 producing out of the Delaware Pool?

25 A. I have as far as regards to the Lower Brushy

1 Canyon sands.

2 Q. What is the primary objective for your wells?

3 A. We view the Lower Brushy Canyon sands, being
4 approximately 300 feet of interval above the base of the
5 Bone Springs -- above the top of the Bone Springs -- as
6 being the main productive horizon in this field, and it is
7 within -- In fact, all of the wells on this map have
8 completed in that formation on Exhibit Number 1.

9 Q. Are you familiar with the Secretary of Interior
10 1984 Potash Map?

11 A. I am.

12 MR. KELLAHIN: For aid to the Examiner, I'd like
13 to loan you my copy. It's got color codes on it. It's
14 perhaps easier to see than the photocopy that was
15 reproduced.

16 For the record, Mr. Examiner, I've handed you a
17 copy of the full Secretary of the Interior Potash Map.
18 It's dated 1984. And for all the rest of the participants,
19 I have a photocopy marked as Exhibit 3.

20 The center of the photocopy is the township in
21 question in which I have numbered six sections, Sections 20
22 and 21 showing, and those are the sections that Mr.
23 Wakefield is describing.

24 Q. (By Mr. Kellahin) With reference to the potash
25 map, Mr. Wakefield, what was your understanding of the

1 reasons the BLM gave you as to why they were precluding
2 vertical wells in the north half of Sections 20 and 21?

3 A. Sections 20 and 21 are underlain by langbeinite
4 potash, which is being mined by IMC Mine, which is off of
5 the Exhibit Number 3 -- certainly it's on the Secretary's
6 order in front of the Commissioners -- and it is the
7 presence of that langbeinite potash in what they deem to be
8 commercial quantities in Sections 20 and 21 -- in
9 particular, the north halves -- which provide a corridor to
10 a larger deposit of potash to the east of Sections 20 and
11 21.

12 Q. What was your understanding of why the BLM has
13 allowed vertical wells north and south of the corridor
14 between the east-block potash leases and the west-block
15 potash leases?

16 A. Those are areas of barren deposits, as are the
17 locations of the wells in Sections 20 and 21 that have been
18 drilled to date, are located in a barren area.

19 Q. Let's turn now to Exhibit Number 4. What have
20 you shown on this illustration?

21 A. Exhibit Number 4 is a rather enlargement of the
22 north half of Section -- well, actually the entire sections
23 of 20 and 21, excluding all the information on the wells to
24 the north and the south, to give you a better idea of how
25 each well will be drilled into its respective drilling

1 spacing unit, as each of the dotted lines then represent
2 the 40-acre drilling spacing units that make up sections 20
3 and 21.

4 Q. As to the surface location for those
5 directionally drilled wells that are located on federal
6 surface?

7 A. The surface locations for the wells to be
8 drilled, which would be denoted by -- in Section 20, in the
9 north half, would be 9, 10 -- pardon me, 8, 9, 10, 13 and
10 14, would be accessed from surface locations on Section 16,
11 a state lease, as well as would the Number 10 Well in the
12 northeast northeast of Section 20, would also be accessed
13 from that same state lease.

14 Q. Did you verify or validate with the Bureau of
15 Land Management the reliability of the potash dashed line
16 that you've shown on Exhibit 4?

17 A. Would you repeat your question?

18 Q. Yes, sir. When we look at Exhibit 4, there's a
19 dot-dash line, the code of which says "potash".

20 A. Yes, sir.

21 Q. What is that intended to represent?

22 A. That line represents the demarcation between
23 measurable potash and barren areas, per the BLM
24 determination of that demarcation line.

25 Q. Okay, that was not a determination you made?

1 A. No.

2 Q. You simply relied on what they told you was an
3 approvable surface location that in their opinion would not
4 waste potash?

5 A. Yes, sir, that's correct.

6 Q. In addition to your efforts with the Bureau of
7 Land Management -- Let me ask you this: At this point,
8 what is the status of your APDs with regards to these
9 wells?

10 A. We understand they've all been approved by the
11 Carlsbad office and that they're in the process of being
12 approved by Roswell.

13 Q. As part of your processing of your request, did
14 you contact any of the potash lessees pursuant to the
15 R-111-P rules?

16 A. Yes, we did.

17 Q. Tell me whether or not there are any potash
18 lessees that are entitled to notice of the processing of
19 these cases.

20 A. From the information that we have, the IMC Mine
21 is the only one that requires a notice.

22 Q. Are any of these wells being located within an
23 LMR?

24 A. No, they're not.

25 Q. Are you within the buffer zone of an LMR?

1 A. To my understanding, we're not.

2 Q. The purpose to IMC was because of what, sir?

3 A. R-111-P.

4 Q. And they were entitled to notice because they
5 were an operator or a lessee within a mile of the wells?

6 A. That's correct.

7 Q. Have you received any communication or
8 correspondence between you and IMC concerning these wells?

9 A. We've received approvals that -- they -- well, we
10 really don't -- ever approved. They have no objection, is
11 the way they term in their letters of response to the
12 Application.

13 Q. Let me show you what is stapled together as one
14 exhibit, Exhibit Number 5. What does that represent?

15 A. Which one --

16 Q. I think there's a copy of exhibits. Did I give
17 you a set of exhibits?

18 A. It's an October 19th letter from IMC Fertilizer,
19 addressing the drilling of wells Pure Gold "A" Federal 9,
20 10 and 14 and Pure Gold "B" Federal Number 10. And in that
21 letter, the first paragraph, they have no objection to our
22 drilling of these wells.

23 Q. Do you have similar approvals or waivers of
24 objection from IMC as to the others?

25 A. We do with respect to all the wells. We

1 subsequently, after receiving approval from them for the
2 Pure Gold "B" Number 9 well, which is in the northwest of
3 the northeast of Section 20, have moved that location about
4 100 feet.

5 Our verbal conversation with them was that they
6 have no problem; they just haven't received the letter
7 yet. Anticipate receipt in the next few days.

8 Q. As the project engineer, is it your plan and
9 intent to comply with the casing and cementing programs of
10 R-111-P?

11 A. Our Applications for Permit to Drill all comply
12 with those regulations.

13 Q. I realize we have a drilling engineer to describe
14 the actual mechanics of the directional drilling, but give
15 us a preview of what you see as the project engineer. How
16 is this going to work? Give us an example. You're going
17 to do what, now?

18 A. We're going to drill these wells vertically
19 through the salt section, just as you would any normal
20 vertical well that you drill, surface casing, cement to
21 surface, salt string, cement to surface.

22 Then the wells will be kicked off at an
23 appropriate point and a hole angle build began and then
24 held to a target zone that will be in a legal location,
25 orthodox location. Casing will be set, the wells will be

1 completed.

2 Q. Okay. We've got a Delaware interval that's --
3 the gross interval in the pool is how --

4 A. Approximately 4000 feet.

5 Q. Your major target is the Lower Brushy Canyon?

6 A. About 300 feet of the lower zone.

7 Q. All right. That's your objective. In a 40-acre
8 tract you're required to maintain the 330 setback for the
9 40-acre spacing?

10 A. Yes, sir.

11 Q. If the 330 becomes the hard line, if you will,
12 outside of which you can't produce unless we go through
13 another process for an unorthodox location -- if that's the
14 process, what are you going to do to maintain the setback
15 for that producing interval?

16 A. As far as uphole zones are concerned we haven't
17 really seen much in the way of evidence that those are
18 productive.

19 The closest one would be a well completed by
20 Yates in the Medano section in the northwest quarter that
21 made some oil from a 4200-foot interval that doesn't appear
22 to be productive on our lease. That would be downdip.

23 There is some Cherry Canyon production to the
24 south that was produced at around 6200 feet by both Pogo in
25 their Number 7 Well in the north -- pardon me, the

1 southeast southeast of 29, and Enron at that time, which is
2 now Merit, owns the leases, the 3 and the 4 well in the
3 north half of 32 -- actually be the east half, the
4 northeast quarter -- has completed in a zone that would
5 be -- that has been DST'd in a couple of wells on Pogo's
6 Pure Gold "D" lease in 28.

7 And we had some minor shows in the Pure Gold "B"
8 lease.

9 We don't view that as being a major productive
10 zone. We feel like we can complete -- or complete that
11 zone -- from one of the existing wells if we need to, but
12 we don't see it as a major producing interval or one that
13 requires any completion of the zones that we're getting
14 to -- wells that we're getting to drill.

15 Q. Let me make sure there's no misunderstanding with
16 the Division and our neighbors, that the intent is to
17 produce pursuant to this Application, if approved, the
18 portion of the Delaware that will be within the producing
19 window, which is a 330 setback within a 40-acre tract?

20 A. That's right.

21 Q. And the primary target, then, is the lower
22 portion of the Brushy Canyon, which in your opinion is
23 going to lie within that standard location?

24 A. That's correct.

25 Q. Okay. If you get lucky and there may be an

1 uphole potential in another -- in a Delaware zone that puts
2 the well unorthodox, then that's going to require a
3 different hearing and another proceeding, is it not?

4 A. Yes, sir, it will.

5 Q. Okay. With regards to the flexibility of the
6 bottomhole target, as the project engineer -- Rule 111, I
7 believe, gives you a generic 50-foot radius. But what
8 you're truly seeking is the flexibility to be within that
9 producing window?

10 A. We have no problem making the 50-foot target.
11 It's a do-able situation with the technology currently
12 existing. It's not a stretch, it's not an inordinate
13 request.

14 However, if we're in the drilling spacing unit
15 and we're inside the 330-foot setback lines, i.e., the
16 drilling window, if you would, we see no reason not to have
17 the approval to complete a well and to produce it at that
18 point.

19 Q. Our friends have raised some issues for the
20 Division concerning what our Application does in the way of
21 precedent. Have you examined all other options by which
22 you could drill vertically in your leases in order to
23 obtain your share of production?

24 A. Yes, we have. We have spent a considerable
25 amount of time and effort to rationalize the ability to

1 drill vertical wells here. Obviously, a vertical well is
2 cheaper to drill than a direction well, just very simple.

3 However, it is our studied opinion that, from an
4 investigation, there is no leeway, there is no ability
5 through the appeal process of BLA -- BLM -- to achieve
6 that.

7 Further, that existing wells are being drilled,
8 have been drilled or completed, are producing. We feel
9 this reservoir has a high degree of drainage ability
10 between wells, and we feel that we're being drained and
11 cannot afford to wait for a year or two or three or an
12 indefinite period to time to receive something that at this
13 time looks to have a less than five- or ten-percent chance
14 of ever happening in the way of a straight hole relief from
15 the BLM.

16 Q. As the project engineer, have you developed with
17 Kaiser-Francis's drilling staff a typical AFE for a
18 directionally drilled well for this project?

19 A. We have.

20 Q. Let me direct your attention, sir, to Exhibit
21 Number 6. Would you identify and describe that for us?

22 A. Exhibit Number 6 is an Authority for Expenditure
23 by Kaiser-Francis Oil Company that has -- substantially
24 sets out the estimated costs to drill a directional well to
25 a deviated location of approximately 1500, 1400 feet.

1 Q. Of the ten wells proposed, this is for the Pure
2 Gold "A" Federal Number 8?

3 A. Actually, it's a typical well. We put a number
4 on it just to make it believable for the Commission, but
5 it's a typical well. There will be wells that will have
6 less deviation and wells that will have more deviation,
7 potentially, that we will drill. This is just a typical
8 well AFE.

9 Q. In terms of the AFEs for all ten, what is your
10 recollection as to the highest estimated cost for the well
11 with the greatest expense?

12 A. This \$700,000 is in our opinion what we view the
13 average cost to be for the greatest-deviation wells, which
14 means that wells with lesser deviation will cost less than
15 this.

16 Q. As the project engineer, have you taken these
17 cost factors and applied some economic analysis to it,
18 established a criteria and then reached any conclusions
19 about the economic feasibility of directionally drilled
20 wells for this project?

21 A. We have, or I have.

22 Q. Let me direct your attention, Mr. Wakefield, to
23 Exhibit Number 7. Is that your economic evaluation?

24 A. That is our economic evaluation.

25 Q. Describe for us the process you went through, the

1 parameters selected and the end result of the analysis.

2 A. We have some production history on offset wells.
3 We have wells that after being drilled are still flowing
4 three and four and five months after their completion.
5 Some wells are pumping.

6 Overall, we see this as a very high-quality
7 Delaware reservoir, and we anticipate that for the area to
8 be drilled directionally, that the average reserves -- not
9 the maximum and not the least, but the average reserves --
10 will be in the neighborhood of 150,000 barrels of oil, and
11 about 870,000 MCF of gas -- MMCF of gas.

12 And because of those reserves and the product
13 prices that we have to date, applying appropriate cost
14 factors to produce that oil, we believe that that drilling
15 venture, successfully completed, will result in a
16 discounted at 8 percent cumulative cash flow of \$1.3
17 million, on top of paying back the \$700,000 initially
18 required to drill and complete the well, which gives us
19 somewhere close to \$2 million of cash flow from the well.

20 Q. What's the conclusion?

21 A. Conclusion, it's very economic to drill a
22 direction well, even a long -- what I would term a long-
23 throw, 1000-foot type, 1500-foot type displacement well to
24 the Delaware in this formation.

25 Q. Has your management approved the project so that

1 you can go ahead and drill these wells?

2 A. Not only our management, but our partners have
3 approved these wells.

4 Q. What partners would be involved?

5 A. Pogo and C and G.

6 Q. And Pogo has approved?

7 A. Yes, they have.

8 Q. What's the timing of the project?

9 A. We would like to begin drilling these wells as
10 soon as we receive approval from this Commission to do so.

11 Q. What is the concept of the project that requires
12 you to apply for all ten wells concurrently?

13 A. It's just an efficiency-type situation. We have
14 plans to file an additional -- I believe it's 12 locations,
15 approximately another 30 days.

16 Once we have the appropriate paperwork filed and
17 the paperwork began with the BLM -- We felt like we could
18 not come to this Commission until we had substantially
19 received approval from the BLM to drill these wells because
20 of their overriding approval in this process.

21 Q. Do each and every one of the ten well locations
22 meet your economic criteria?

23 A. They do.

24 Q. And in your opinion as a project engineer, are
25 they viable economic prospects?

1 A. They are.

2 Q. Characterize for us the risk involved. Is this
3 wildcat exploration, or is this development oil well
4 exploitation?

5 A. In our opinion, this meets the exploitation well
6 development drilling criteria.

7 We are drilling between known wells with
8 excellent pay quality, and there is very little sand risk,
9 and these wells have been drilled with absolutely no
10 mechanical problems to date, and we see very little
11 mechanical risk.

12 We have a very high confidence factor in
13 achieving a completed well at these locations.

14 MR. KELLAHIN: Thank you, Mr. Examiner. We move
15 the introduction of Mr. Wakefield's Exhibits 1 through 7.

16 EXAMINER MORROW: 1 through 7 are admitted into
17 the record.

18 Mr. Nibert, do you have any questions?

19 CROSS-EXAMINATION

20 BY MR. NIBERT:

21 Q. Mr. Wakefield, I don't want to belabor the point,
22 but I would like to ask a few questions about how Kaiser-
23 Francis is going to proceed in the development, and if
24 you're not the appropriate person, you might tell me and
25 we'll ask the other witnesses later. But there are several

1 things that Pogo is interested in as a non-operating
2 working interest owner in these wells, and that will be
3 largely the context of my questioning.

4 I'd like to go over each location with you and
5 specifically ask with respect to the wells that are going
6 to be located on the surface of Section 17 and the surface
7 of Section 16 whether you have any agreement with the
8 mineral owner or the oil and gas lessee under those
9 sections.

10 A. We have a letter from the State of New Mexico
11 Land Office indicating that they will grant us surface
12 leases for those locations in -- surface locations located
13 on Section 16, and the BLM has given us approval to utilize
14 a surface location in Section 17.

15 We have not asked for an approval process from
16 the appropriate oil and gas operator for Sections 16 or 17.
17 We have talked with them verbally about it and have had no
18 opposition to doing so.

19 Q. So you talked to Yates and to Santa Fe Energy
20 Operating Partners, LP, regarding locating your surface
21 facilities, drilling through the salt and, I guess, into
22 the zone right below the salt on their lease and then
23 kicking it off onto your lease and reach your prospective
24 location?

25 A. Actually, all the surface locations, surface

1 facilities, would be located on our lease on Sections 20
2 and 21.

3 The only thing located on Sections 16 and 17 will
4 actually be the wellbore itself, and then the drilling
5 pits. Everything else will be located on Sections 20 and
6 21.

7 Q. Okay. But as far as your surface facilities and
8 your wellbore through the salt, completely through the salt
9 and into the top zone right below the salt, right below the
10 salt, before you kick off, you're going to be drilling for
11 oil and gas, of course, from these surface locations, and I
12 was just wondering if it would be appropriate for you to
13 secure an agreement from the oil and gas lessee under those
14 sections to get their permission to conduct those
15 operations, and whether it's likely that you will get that
16 permission.

17 MR. KELLAHIN: Objection, Mr. Examiner, calls for
18 a legal conclusion from my engineering witness. He is not
19 competent to make that opinion.

20 EXAMINER MORROW: Okay, go ahead and ask him a
21 different question.

22 MR. STOVALL: I think he's upholding the
23 objection.

24 Q. (By Mr. Nibert) Do you have any intention of
25 getting a formal agreement from either Yates or Santa Fe

1 Energy Operating Partners to conduct your operations on
2 their leasehold?

3 A. Our understanding of the requirements here is
4 that we need a State Land Office business lease to conduct
5 the surface operations, that we are not intending to drill
6 for or produce from any formation underlying Sections 16 or
7 17. Therefore, there's no ingress or egress problems with
8 either 16 or 17 in terms of a mineral lease.

9 Q. Well, it's my understanding you're drilling for
10 oil and gas, correct?

11 A. Yes, sir, that's correct.

12 Q. And you're drilling on a lease that is not owned
13 by Kaiser-Francis? Kaiser-Francis has no interest in
14 Sections 16 or Section 17.

15 A. We do have an interest in Section 17.

16 Q. You do have an interest in Section 17? Okay.
17 But you have no formal agreement with the other owners of
18 that oil and gas lease in Section 17?

19 A. We have no agreement with them, no.

20 Q. Okay. Did you receive a letter from Pogo
21 Producing Company in -- I believe it was July of 1993,
22 earlier this year, requesting certain data and information
23 concerning the drilling of the directional wells that have
24 now been proposed?

25 A. We've received a number of letters from Pogo.

1 I'm sure that we've received something along that line.

2 Q. Well, let me get a little more specific. Did you
3 receive a letter dated -- and I will be introducing this
4 when we call our witness, but July 16th, 1993, signed by --

5 MR. KELLAHIN: Objection, Mr. Examiner,
6 irrelevant. Makes absolutely no difference what these
7 interest owners are doing internally with regards to
8 participating in the well. It has nothing to do with you
9 or the business we are asking you to conduct.

10 MR. NIBERT: Mr. Examiner, it does impact our
11 ability to make an informed decision, and part of the
12 evidence that Mr. Kellahin presented was that Pogo
13 Producing Company has joined Kaiser-Francis in the drilling
14 of these wells that are proposed.

15 And what I'm suggesting to you is that this is
16 relevant because Pogo Producing Company has been required
17 to come to this hearing today to seek the very information
18 that it requested approximately five months ago from Mr.
19 Wakefield.

20 EXAMINER MORROW: Let me ask a question. Has
21 Pogo joined in the project? Have they agreed to
22 participate?

23 MR. NIBERT: Pogo has signed AFEs that were
24 submitted from Kaiser-Francis on the units which they are
25 proposing to drill.

1 I don't believe the exact locations on those AFEs
2 match the locations that are before you today, but Pogo has
3 signed AFEs to drill directional wells to the unit
4 designations that are now before you.

5 MR. KELLAHIN: -- objection --

6 EXAMINER MORROW: It seems to me like I'd agree
7 that if you're already signed the AFE, that further
8 exchange of information to justify whether or not you want
9 to participate wouldn't be an appropriate subject for this
10 hearing.

11 What do you think, Bob?

12 MR. STOVALL: Well, I guess the first question --
13 You asked the question whether he's received the letter; is
14 that correct? That was the question, Mr. Nibert?

15 MR. NIBERT: That's the question.

16 MR. STOVALL: Why don't we answer that question
17 first?

18 Have you answered the letter? Do you know what
19 letter he's referring to?

20 THE WITNESS: I have no idea what letter he's
21 talking about. I've received a lot of letters from Pogo.
22 I don't know which one he's talking about.

23 MR. STOVALL: So you don't know whether you've
24 received this specific letter?

25 THE WITNESS: Not until I see it and have had a

1 chance to look in my files, no.

2 MR. STOVALL: Okay. Well, we've got the answer
3 to that question.

4 Q. (By Mr. Nibert) Did you receive a copy of that
5 letter that Pogo Producing Company sent to you in July of
6 1993?

7 A. Can I read it first before I answer?

8 Q. You sure may.

9 I will be submitting these as evidence when our
10 witness --

11 A. I remember receiving a letter that reads very
12 close to this. I assume it's the same letter.

13 Q. And you recall the information that was requested
14 by Pogo --

15 EXAMINER MORROW: I guess if you're going to talk
16 about it, we ought to have a copy of it.

17 MR. KELLAHIN: Well, I raise my objection at this
18 point. If it was premature now, it's certainly timely at
19 this point. This is not a pooling case. We're not here to
20 squabble before you with regards to the exchange of
21 information.

22 Quite frankly, I didn't know Mr. Nibert was in
23 this case until I saw him this morning. If he had wanted
24 the information, he could have called me and I would have
25 worked it out. And I'd rather not squabble about it in

1 front of you.

2 EXAMINER MORROW: Well, that suits me fine. I
3 don't even know what the letter says.

4 MR. STOVALL: Well, let me ask you one question,
5 Mr. Nibert. Are you in a position to state at this point
6 whether or not there is an operating agreement governing
7 the leases which are within -- in which Pogo has an
8 interest and which is the subject of this hearing?

9 MR. NIBERT: There are two operating agreements
10 covering this acreage. Both operating agreements provide
11 for the access to information of this nature, and we are
12 just before you today trying to gather that information
13 which has been requested for the past five months and has,
14 to this date, not been forthcoming.

15 THE WITNESS: Can I say something here?

16 MR. CARROLL: No, sir, don't --

17 MR. STOVALL: No.

18 MR. NIBERT: We do not wish to go to the
19 courthouse to --

20 MR. STOVALL: Well, let me ask you a question.
21 Would you turn around and ask Mr. Kellahin if he would be
22 willing to provide the information you need to make an
23 evaluation?

24 MR. NIBERT: That's my next question.

25 MR. KELLAHIN: I'm surprised by the whole conduct

1 of this, Mr. Stovall, and I'm an agreeable guy, and we can
2 talk about it, and -- I can't do it right now at the moment
3 because I don't think it's relevant to what we're doing,
4 but I'm more than happy to talk to Mr. Nibert about this
5 information.

6 We are in another dispute before this agency on a
7 GOR case. It comes up for hearing in two weeks, and we're
8 exchanging data all the time between these two companies.
9 I'll bet we can figure this out.

10 MR. STOVALL: Well, I think we can too, Mr.
11 Nibert. I mean, if the purpose of Pogo's appearance and
12 your cross-examination is to get information which should
13 be provided under the operating agreement, I would have to
14 advise the Examiner that this is not the forum for that
15 discussion, and we don't need to spend a lot of everybody's
16 time when perhaps either now or at a reasonable break you
17 can go and ask Mr. Kellahin and see if you can get it.
18 That's not what we're here for.

19 If it is -- I guess I do have a question. If you
20 -- part of an operating agreement and have signed an AFE,
21 I'm not sure exactly what Pogo is doing, so I guess I need
22 to know --

23 MR. NIBERT: Pogo is here today to seek the
24 information that it has requested for the past five months.

25 MR. STOVALL: Mr. Examiner, I suggest we take a

1 ten-minute break and let them do an exchange of information
2 and come back, rather than spend a lot of time here. That
3 might help Mr. Nibert --

4 EXAMINER MORROW: Well, I don't believe we can do
5 it --

6 MR. KELLAHIN: I don't know that I can get this
7 information. I'm not --

8 MR. STOVALL: Or agree -- or agree to what it --
9 find out what it is. Apparently, there's miscommunication.
10 Is this the --

11 MR. KELLAHIN: Well, I'm not sure I could read
12 this letter in ten minutes.

13 MR. STOVALL: Is this the forum to have this
14 discussion, is my question.

15 MR. KELLAHIN: No, sir, it's not; that's my
16 opinion.

17 EXAMINER MORROW: Mr. Nibert, do you think it is?

18 MR. NIBERT: I believe that this is the form in
19 which we understand what our operator is going to do to
20 drill these directional wells that, in at least one
21 instance, we're going to be paying the majority of the cost
22 on.

23 And part of the mandate of the OCD is to prevent
24 waste, and we are very concerned with these Applications,
25 and we're going to be paying a lot of money, and we are

1 going to leave a lot of oil resources in the ground, or be
2 expending a lot of money and not be able to reap the return
3 that we think is justly due us as a non-operator in this
4 particular prospect.

5 Again, I don't know that we need to get bogged
6 down in this issue. If Mr. Kellahin will submit or agree
7 to submit the information that's been requested, I think
8 it's fairly straightforward. We felt that there would be
9 testimony today on most of these points and that it would
10 be an opportunity for us to learn what finally our operator
11 is going to do.

12 EXAMINER MORROW: I believe Mr. Kellahin has
13 agreed to do that for his client, and --

14 MR. KELLAHIN: No, sir, with all due respect, I
15 haven't agreed to anything yet. I haven't yet read the
16 letter.

17 EXAMINER MORROW: Well, you said you was a good
18 guy and you'd do it.

19 MR. KELLAHIN: No, I said I'd cooperate with him.
20 I said I'd cooperate with him, and if it's a reasonable
21 request we'll do it.

22 EXAMINER MORROW: Okay.

23 MR. KELLAHIN: But I can't guess ahead.

24 EXAMINER MORROW: Well, I don't believe anything
25 that would help you decide whether or not you did the right

1 thing in signing that AFE would be revealed here.

2 I think there will be certain information
3 presented which will help us decide whether or not the
4 Applications are proper for approval, and if that helps
5 you, well, we're glad.

6 But I think we should stick to the testimony
7 which will help tell us whether or not we should approve
8 these Applications and not concern ourselves with inter --
9 or between-company arguments about whether or not you
10 should have signed the AFE or not.

11 MR. NIBERT: We're not here questioning that
12 matter. We're here, again, to learn and to try to
13 understand what this process is about.

14 EXAMINER MORROW: We're glad if you can do that,
15 but you can learn from the information that's presented for
16 our needs.

17 MR. NIBERT: Okay. Well, I will move on, then,
18 to some other questioning, if I may.

19 Q. (By Mr. Nibert) Mr. Wakefield, you indicated
20 that directional wells are more expensive to drill than
21 vertical wells; is that correct?

22 A. Yes, I did.

23 Q. What factors affect the amount of the incremental
24 cost of drilling a directional well versus a vertical well?

25 A. Dixie Haymes, who will testify later, can more

1 completely answer the question.

2 But the typical costs that are incurred in
3 directionally drilling a well is a kickoff point to build
4 angle and then to control angle to a TD.

5 Q. Do things such as the length of the deviation
6 affect the cost?

7 A. Sure.

8 Q. Things like the hole size, how big a hole you
9 have?

10 A. Anytime you put a bit in the hole that's bigger
11 than another bit, that is true, that's a universal
12 statement.

13 Q. The casing point, where you're going to case the
14 hole --

15 A. As any vertical well, casing points make a
16 difference in how much pipe you put in the hole.

17 Q. Okay. When did Kaiser-Francis determine the
18 above parameters?

19 A. What parameters?

20 Q. The parameters that these wells were economic.
21 One of your exhibits, Exhibit Number 7, identify in an
22 economic analysis that these wells would be economic. When
23 was that? When did you go through the process of
24 determining whether or not to drill directional wells?

25 A. We had a meeting, I believe, in May with BLM.

1 Actually, had meetings with BLM before May.

2 Q. Well, not your meetings with BLM internally.
3 When did you decide that it would be economic to go forward
4 with the directional well proposal?

5 A. May I answer the question?

6 Q. Yes.

7 A. Okay. We had several meetings with the BLM. The
8 last -- At the point in time, which was about May of 1993,
9 it was a certainty that we were not going to get a
10 straight-hole location. We began looking very seriously at
11 directionally drilling wells at that point and investigated
12 what it would cost to do so and what the economics thereby
13 would be.

14 We subsequently proposed to Pogo and our other
15 working interest partners the drilling of directional
16 wells, and they did approve those directional well AFEs,
17 which seems -- which implies to me they also believe it is
18 economical.

19 Q. The economics was done before the AFEs --

20 A. Yes, sir, it was.

21 Q. When did -- Do you have a casing design and
22 drilling program established --

23 A. Yes, we do.

24 Q. -- for these wells? When was that finalized?

25 A. Before the AFEs were sent out.

1 Q. Well, about what time? June? July?

2 A. I believe the Pogo letter here is -- that you
3 mentioned earlier was in July, so it would be before July.

4 Q. May? Sometime in May or --

5 A. I said sometime before July and after May, early
6 May, somewhere in there.

7 Q. Okay, sometime between May and July.

8 And you prepared the AFEs in the month of July?

9 A. They were submitted. I do not know at this time,
10 without going back and looking, when we submitted them to
11 Pogo for their review. It was either late June or early
12 July.

13 Q. Okay.

14 A. Not just Pogo but other working interest owners.

15 Q. Was this before -- Well, I guess you've already
16 testified that you did that before you submitted the AFEs.

17 How could Kaiser -- How much time did Kaiser
18 spend putting this information and disseminating the
19 information to its partners that this was a viable prospect
20 on a directional basis?

21 A. We've been looking at this prospect for well in
22 excess of a year, have had numerous meetings with both our
23 working interest owners and various contractors, we've
24 drilled six wells through the early part of May, we knew
25 what the drilling costs were, we knew what the experience

1 factor was, we knew what completion parameters were, we've
2 done quite a bit of research both from core analysis work
3 and from sidewall cores as well as logs, performance data
4 was available, reserves were estimated prior to that date
5 in a cursory manner, a more complete answer certainly after
6 the wells were drilled and produced some.

7 It's a new field, answers are changing as time
8 goes on, different completion techniques being explored.
9 This is a very new field. Again, we looked at this over a
10 period of time. To give you an exact time, I can't tell
11 you an exact time.

12 Q. So all this work had been performed -- Since you
13 have that material available, would you make it available
14 to your working interest non-operating partners?

15 MR. KELLAHIN: I'm going to object again, Mr.
16 Examiner. I've been patient, but we're not making any
17 progress with the issues of relevance to you with this
18 cross-examination. Mr. Nibert continues to want to explore
19 issues that are not relevant to you.

20 MR. NIBERT: We're trying to find out what
21 process has gone into the request for this -- what we seem
22 to have, extraordinary relief, at substantial cost to Pogo
23 and others.

24 MR. KELLAHIN: No, sir, what we're doing here is
25 conducting discovery in an OCD hearing process that deals

1 with directional drilling, standard bottomhole locations.

2 MR. STOVALL: Well, I guess -- I think I'm
3 inclined to recommend sustaining the objection, the reason
4 being that I'm not sure that even the bottom issue of the
5 economics -- that's an individual company decision, and I'm
6 not sure where we'd even be going if there were
7 disagreement on the economics, what that would lead to.

8 But -- Where are you going with this, Mr. Nibert,
9 before I make a final recommendation to the Examiner?

10 MR. NIBERT: Well, again, these wells would have
11 to be economic for us to be here today. Some determination
12 would have to be made that these wells will be economic.
13 Otherwise, you're going to have a great deal of economic
14 waste.

15 MR. STOVALL: Who makes that determination?

16 MR. NIBERT: Well, that's what we're trying to
17 get at, is, this information has been developed and has
18 been projected by Kaiser-Francis, and my question was
19 simply, will he make that -- make the various data
20 available today?

21 And again, where we're trying to go is to find
22 out exactly what the thought process is and try to
23 understand why we need to be behind them on these various
24 locations --

25 MR. STOVALL: Why don't you ask that -- Why

1 doesn't Pogo ask that before they signed the AFE?

2 MR. NIBERT: Well, I --

3 MR. STOVALL: Or if they asked and didn't get an
4 acceptable answer, why didn't they insist on getting -- I
5 mean, they signed the AFE. I guess that's my concern.

6 It seems to me that these issues are governed
7 by the operating agreement, not by the Conservation
8 Commission --

9 MR. NIBERT: You're correct.

10 MR. STOVALL: -- and therefore this is probably
11 not the forum to address getting information upon which to
12 make a decision under the terms of the operating agreement.

13 I would suggest that if Pogo is opposing this
14 Application on the basis that it is going to cause some
15 sort of waste of oil and gas resources, that it make that
16 presentation on direct evidence; that if it is opposing
17 this case on the basis that it is economically unsound,
18 that is an individual company decision, which I don't think
19 the Division --

20 MR. NIBERT: Again, here, we're not opposed to --
21 or we're not objecting to the proposal per se.

22 MR. STOVALL: Okay. Well, I think as far as
23 getting the information, again, I don't really want to
24 spend the rest of the afternoon doing something that -- I'm
25 assuming that if you're using a standard form operating

1 agreement, this information should be available, and Pogo
2 is also an operator who can do the economic analysis.

3 MR. NIBERT: Okay. Well --

4 MR. STOVALL: I would prefer to -- I would
5 recommend that we sustain the objection at this time and,
6 as I say, we will take a break at some point during the
7 day, and why don't you --

8 MR. NIBERT: Okay.

9 MR. STOVALL: -- figure out what information you
10 need and how best to get it.

11 Q. (By Mr. Nibert) Okay. The Application calls for
12 ten wells. Do you know which well is going to be spudded
13 first?

14 A. Yes, I do.

15 Q. Which well is that?

16 A. First well to be spudded will be the Pure Gold
17 "B" Number 10, or Pure Gold "B" Number 9, one of those two.

18 Q. And then the other one would be second?

19 A. Yes, and the third one would be the Pure Gold "A"
20 Number 9 and then the "A" Number 10.

21 Those wells, if you're having trouble finding
22 them, would be in the north half of the northwest quarter
23 of 21 and north half, northeast quarter of Section 20.

24 Q. Okay. And they -- Those would be the first four
25 wells. Do you have any order after that, or are you going

1 to --

2 A. What we intend to do is, as we've communicated to
3 our interest owners, is to drill some wells, find out what
4 the effects of those drilling are, and gauge the ability to
5 produce, et cetera, and make any changes we need to do in
6 our program and go forward with the rest of it as it's
7 deemed necessary.

8 Again, what we're trying to do is offset existing
9 production as a first case priority, and those wells will
10 do that.

11 Q. Okay. Correct me if I'm wrong, but it's my
12 understanding that there's really only two locations that
13 are presently potentially subject to drainage, being the
14 "A" 9 and the "A" 10 locations; is that correct?

15 A. That's incorrect. Also, the Pure Gold "B" Number
16 10 is subject to drainage and, we feel to a certain extent,
17 the "B" 9 is as well.

18 We also are proceeding with a straight hole in
19 Section -- for the Number 14 on the Pure Gold "B" lease,
20 and directional for the Pure Gold "B" 13, which are also
21 subject to drainage. And we have received letters on all
22 those locations from the BLM for drainage.

23 Q. Okay. Those, the "B" 9 and the "B" 10, those
24 would be diagonal offsets, not direct offsets?

25 A. That's right.

1 Q. Okay. After the first well is drilled, are you
2 anticipating evaluating not only the drilling of that well
3 but also allowing the production to be established,
4 evaluate the production before commencing operations on the
5 second well?

6 A. That is not what I said a minute ago. That does
7 not agree with what I said.

8 Q. No, I'm asking. So you're intending to go ahead
9 and drill the second well without evaluating, maybe, the
10 first well's --

11 A. That's right.

12 Q. -- history?

13 What about the third and fourth wells?

14 A. At this point, we are probably planning to drill
15 four wells very close together to take advantage of certain
16 economies of scale.

17 Q. If for some reason the costs of the first well
18 come in significantly higher than the AFE that's been
19 submitted to Pogo and the others, do you have any plans as
20 to what you're going to do at that point?

21 A. I think in any drilling program that anyone
22 devises, whether it's directional, straight-hole or
23 whatever, significant problems occur. You stop and you
24 think about what you're going to do. And that's what we
25 would do, I'm sure.

1 Q. Okay. So if you come in significantly higher,
2 are you going to re-propose the subsequent wells?

3 A. I'm sure that we would.

4 Q. Okay.

5 A. I don't know what you mean by "significantly
6 higher", and I can't answer that question at this moment as
7 to what that amount would be. If we ran into significant
8 problems, I'm sure there would be a re-think upon the
9 program.

10 Q. Okay. Potentially re-evaluate the entire
11 drilling program?

12 A. Sure.

13 Q. Okay.

14 A. As any operator would.

15 Q. You've indicated that you've had meetings with
16 the Bureau of Land Management concerning the drilling of
17 these wells and have been told that you could not drill
18 vertical wells at these locations. Who specifically at BLM
19 have you met with and have been told vertical wells would
20 not be allowed?

21 A. The director and heads of departments at both
22 Carlsbad and Roswell.

23 Q. Dick Manus and Leslie Cone?

24 A. Yes. I talked with Leslie Cone. Dick Manus.

25 Q. Have you met with any of the people under Dick?

1 A. Yes.

2 Q. And they would be -- ?

3 A. I don't have all their names in front of me. I
4 don't have a photographic memory.

5 Q. Tony Herrell, Greg Cranston --

6 A. Pardon?

7 Q. Tony Herrell, Greg Cranston --

8 A. Yes, I've met with him.

9 Q. -- and Gary Williams?

10 A. Yes.

11 Q. Okay. Are these the appropriate BLM personnel
12 that you were referring to on your direct examination?

13 A. Yes.

14 Q. Okay. Would it surprise you if Pogo and other
15 operators have had these same conversations with these
16 exact personnel at BLM?

17 A. It would not surprise me at all.

18 Q. Would it surprise you if they have also been told
19 that they can't drill certain vertical wells at certain
20 locations because of an undue waste of potash?

21 A. It would not surprise me at all.

22 Q. In several instances, there have been meetings
23 with BLM, and after much debate and some arm-twisting,
24 would it surprise you if vertical wells had been approved
25 at certain locations that were initially not likely to be

1 granted upon initial consultation with BLM?

2 A. We've had a conversation like that ourselves with
3 them.

4 Q. Okay. You said that BLM has made demands to
5 protect from drainage. Was that the initial form letter
6 that you got or did they make actual compensatory royalty
7 assessments?

8 A. It was a form letter.

9 Q. And it basically said that there may be a
10 potential drainage situation?

11 A. That's what they say in the letter.

12 Q. Okay. Are you familiar with the federal
13 regulations concerning drainage?

14 A. Yes, I am.

15 Q. That, I guess -- Could you explain why there's a
16 need for that initial letter, and is it a standard
17 procedure at BLM?

18 A. I believe it's a standard procedure at BLM when
19 someone drills a well offsetting a lease they hold, they --
20 where they -- in they hold a lease, to issue a letter of
21 drainage.

22 Q. Yeah, that -- Correct me if I'm wrong, but it's
23 my understanding they send out those letters even if they
24 don't have any true justification that drainage is actually
25 occurring; is that correct?

1 A. That I don't know.

2 Q. Okay.

3 A. In fact, that's not what I understand. If they
4 think there's potential drainage, why, they send the
5 letter. That's what the letter says.

6 Q. Well, basically the people that send them out,
7 are they just looking at offset locations? They're not
8 looking at geology or anything?

9 A. I think the letter says potential drainage.
10 That's my understanding of what it's sent out for.

11 Q. Okay. You indicated that on the 1984 potash map,
12 that your two sections are at least partially in the area
13 of measured ore reserves, I think is the terminology on the
14 1984 map. Is this area leased by IMC?

15 A. I don't know that they have a lease.

16 Q. You don't know if IMC has a lease?

17 A. I've been told that there may be a lease. At one
18 point I was told there was not. At a later point I was
19 told that there may be a lease. So I don't -- I'm not
20 sure.

21 Q. Well, would it be possible for IMC to designate
22 an LMR on lands that it does not lease?

23 A. I don't know that they can. I don't think that
24 they can. I know they have a lease to the west that runs
25 along the western edge of Section 20.

1 Q. Okay.

2 A. I understand that they have a -- It's my
3 understanding they have a lease in the west half of Section
4 20 currently. Again, I haven't seen any document that says
5 they have a lease. It's just my understanding.

6 Q. Did you formally file APDs for vertical locations
7 at any of these proposed bottomhole locations?

8 A. No, I did not.

9 Q. Okay. You indicated that BLM verified the line
10 on Exhibit 4. Was that Tony Harrell that verified that
11 line?

12 A. Which one is Exhibit 4?

13 Q. Exhibit 4 is the one that shows the line where
14 you can drill from.

15 A. Yes, he did, in conjunction with Greg Cranston.

16 Q. All right.

17 A. And others. They were the two primary people.

18 Q. Do you know how he came up with that line?

19 A. Came from their line of potash in barren areas in
20 Sections 20 and 21.

21 Q. He was just there, and he drew the line for you?

22 A. He actually measured off his map and placed the
23 points on my map.

24 Q. Okay. You indicated that the APDs are currently
25 being approved by the BLM, and I think you said by the

1 Carlsbad Resource Area Office?

2 A. It's my understanding that the team you have in
3 front of you, in front of the Commission currently,
4 Carlsbad Office has approved them. Rest -- Whatever the
5 manager of that process requires, it's going through that
6 process.

7 Q. Okay. So they're probably headed up to the State
8 Office for formal approval?

9 A. I understand that that's probably what's happened
10 to them.

11 Q. Okay. You indicated that there will be a kickoff
12 at an appropriate point. Could you be a little more
13 specific on --

14 A. I'll leave that for Dixie Haymes to discuss with
15 you.

16 Q. Okay. You also indicated in your direct that
17 there was potential in shallower horizons within, I guess,
18 the Delaware Mountain Group formations in this area and
19 that you could complete these from existing wells. Could
20 you explain that a little bit?

21 A. Yeah, we've had some what we consider to be minor
22 shows in the wells drilled to date in some uphole zones.
23 Not each well has had the same show. It's been fairly
24 uneven in the ability of the zones to show production.

25 We've taken a lot of side wall cores. We get no

1 consistency between those side wall cores showing what's
2 productive, as well as the logs and -- mud logs.

3 We do not see anything above Lower Brushy Canyon
4 as being a major producing interval at this time.

5 Q. Okay. Are you going to be able to test any of
6 those shallower higher horizons by the drilling of the
7 wells that you're proposing?

8 A. The short-throw wells, we think we could, if they
9 do appear to be productive.

10 Q. Would those --

11 A. The short-throw wells would be the wells along
12 the north lease lines.

13 Q. Yeah, apparently the -- maybe the first four
14 wells that you're going to drill?

15 A. That's right.

16 Q. Would you be at legal locations --

17 A. At those depths, yes, we would.

18 Q. -- to produce those?

19 So even the short throws, you'll be at legal
20 locations to produce --

21 A. For a portion of the Cherry Canyon and for all of
22 the Brushy Canyon.

23 Q. Any of the Bell?

24 A. Pardon me? No.

25 Q. Any of the Bell Canyon?

1 A. No, we don't envision the Bell Canyon being
2 productive. We haven't seen it productive in any of our
3 wells to date.

4 Q. Was there any Bell Canyon production in the area?

5 A. There's one well in Section 16 that I know -- if
6 it can be termed Bell Canyon. It was in the northwest
7 quarter of 16. It was later commingled with the Brushy
8 Canyon.

9 Q. Okay. Do you have any estimate of potential
10 reserves in these shallower horizons?

11 A. In my opinion, there's not very much reserves. I
12 would not call them commercial at this time.

13 Q. Would it be commercial if it were, as maybe
14 another operator did, as you just testified, commingle that
15 production with your primary source of production?

16 A. I think it's inappropriate to commingle the ones
17 that we've seen to date because they appear to have a lot
18 of water with them, and we're very fearful of water
19 production from the uphole zones diminishing recoveries in
20 these Lower Brushy Canyon sands.

21 Q. Mr. Kellahin asked you about the precedent-
22 setting nature of what you're asking the OCD to do.

23 A. Excuse me?

24 Q. Mr. Kellahin went into the line of questioning
25 regarding the precedent nature of the drilling of

1 directional wells within the potash area.

2 A. Actually, I didn't think it was Mr. Kellahin; I
3 thought it was you.

4 Q. No, I'm just getting to this point. Mr. Kellahin
5 asked you if you understood the precedent of drilling
6 directional wells in the potash area, and you responded
7 that drilling vertical wells is cheaper than drilling
8 directional wells, that there was no ability to drill
9 vertical wells in this instance because you've exhausted --
10 You said that you've exhausted your ability to do so.

11 I'm just -- I just want to ask you a couple
12 questions on that.

13 You're aware that a number of operators in the
14 area have applied or have appealed decisions that have
15 denied APDs for vertical wells in this area, are you not?

16 A. Yes, I am.

17 Q. Okay. And Pogo, as your non-operating working
18 interest owner is concerned about the precedent that this
19 may establish within the area, and certainly Pogo as a non-
20 operating working interest owner would like to protect
21 against drainage as well.

22 MR. KELLAHIN: Objection to the speech by
23 Counsel. He's got an opportunity to put his witness on. I
24 don't think this is getting us anywhere.

25 EXAMINER MORROW: Okay, go ahead and ask your

1 question.

2 Q. (By Mr. Nibert) Okay. With respect to Kaiser-
3 Francis's role in this play, is Kaiser-Francis concerned
4 that drilling all these directional wells may affect it in
5 other areas within the potash -- what's deemed to be the
6 oil/potash area of southeastern New Mexico?

7 A. You're asking for my opinion --

8 Q. Your opinion as to --

9 A. -- as to whether or not drilling a directional
10 well on these leases will impact other -- need for drilling
11 other directional wells on other leases?

12 Q. It's going to affect Kaiser-Francis in other
13 areas within the potash area?

14 A. I'm not understanding the question. Ask it one
15 more time, because I think I've heard two different
16 questions.

17 Q. Okay. In your opinion, do you think that the
18 drilling of these wells directionally will have any impact
19 on Kaiser-Francis's ability to drill vertical wells
20 elsewhere in the potash area?

21 A. No.

22 Q. And why is that?

23 A. I think it's a decision that has to be made on an
24 individual well basis.

25 We drilled and have had numerous discussions with

1 the BLM over drilling these directional wells, as I've
2 testified. And in particular we received, after most of
3 the -- In fact, well after those discussions were
4 concluded, we drilled a straight hole for the Pure Gold "A"
5 Number 3 well, because it was within a very close proximity
6 to other wells drilled around it that could not mine
7 economically around the existing wellbores, and they
8 allowed us to drill a straight hole for the Pure Gold "A"
9 Number 3, even though it was in a measurable potash area.
10 There's a very small amount of potash they deemed to be
11 subject to loss.

12 That was not the Application, and it is not the
13 situation with respect to what we're doing in the rest of
14 Section 20 and 21. It has nothing to do with what we're
15 doing there. It's a totally different situation.

16 We would be introducing wellbores where there are
17 none, so consequently BLM is not going to approve a
18 directional -- a straight hole there. They have been
19 consistent over a long period of time in what they say and
20 do.

21 And we have tried to follow those rules and
22 regulations, and we don't see any impact upon us,
23 henceforth, based on what we do here.

24 Q. Does Kaiser-Francis have significant positions
25 elsewhere in the potash area?

1 A. We have significant positions elsewhere in the
2 potash. We're currently drilling with Strata in the Nash
3 Draw area. We own leases in other areas as well.

4 Q. Are you aware of a situation with Phillips
5 Petroleum Company's efforts in drilling a directional well
6 to the Delaware formation in the potash area?

7 A. No.

8 Q. You don't recall Mr. Bogan's comments to the
9 Commissioner of Public Lands last week?

10 A. I wasn't here last week, so I guess I don't know
11 what he said.

12 Q. You weren't part of that group that came down?

13 A. (Shakes head)

14 Q. I misunderstood. I thought that you were.

15 A. I've been at other hearings here where there have
16 been discussions, but not at that hearing.

17 Q. On the 7th, you weren't meeting with the
18 Commissioner of Public Lands?

19 A. No, I was not.

20 Q. Okay. One last question with respect to the
21 operating costs that are identified on -- I guess Exhibit
22 Number 7. It says that \$1500 --

23 A. Which is Exhibit Number 7? Okay.

24 Q. It has the number \$1500 at the top, as operating
25 costs. Is that --

1 A. Yes, sir --

2 Q. -- per month?

3 A. -- that's what I think you're referring to.

4 Pardon me?

5 Q. Is that per month?

6 A. That's an expenditure for lease operating
7 expenses on a monthly basis.

8 Q. Okay, and is that for a flowing well or --

9 A. That's for a flowing well.

10 Q. And so it would increase substantially for a
11 pumping well?

12 A. Yes, it does. And that's included in the
13 economics.

14 Q. And that's included in the figures on this list?

15 A. Right. As you go through there, the economics,
16 once the well starts flowing, looks at an operating expense
17 of \$2500 per month, which escalates at five percent per
18 year.

19 Q. Do those operating costs -- the drilling of a
20 directional well -- you would plug and abandon a
21 directional well before you would plug and abandon a
22 vertical well due to the increased operating cost?

23 A. I think that's a subjective statement. I think,
24 yes, you will probably see a higher economic limit on a
25 directional well than you will a straight well. But at

1 this time, since there's very little experience out here, I
2 don't know that we can say what that would be. It's not
3 going to be very much difference.

4 Q. It will not be much?

5 A. It will not be much difference.

6 MR. NIBERT: Thank you.

7 MR. CARROLL: Mr. Examiner, I have no questions.

8 EXAMINER MORROW: Thank you, sir.

9 CROSS-EXAMINATION

10 BY MR. BRUCE:

11 Q. Mr. Wakefield, I just want to verify a couple of
12 things you indicated.

13 As I stated at the beginning, Santa Fe Energy is
14 interested in where the well will be in some of the uphole
15 zones. Will one of your next witnesses have diagrams where
16 we can figure that out?

17 A. Yes, sir.

18 Q. Regarding the Cherry Canyon, would Kaiser-Francis
19 drill a well simply to test the Cherry Canyon?

20 A. At this time, no, there has been no evidence that
21 it's commercially prospective on our lease. There are
22 places where it is commercially prospective and there's
23 been three completions to it, but on our lease we don't
24 deem that to be true.

25 Q. In this pool or these two pools generally, it's

1 not feasible to drill just to the Cherry?

2 A. I haven't seen a well yet drilled for that
3 specifically. Every well drilled to date in this part of
4 the field has been for Lower Brushy Canyon. In some cases
5 there has been Cherry Canyon tests taken on a DST basis,
6 and there's been three completions.

7 Q. And I think from your comments, the same would
8 hold true for Bell Canyon. You -- Kaiser couldn't drill in
9 this area, just for the Bell Canyon?

10 A. Not at this time.

11 Q. Looking at your AFE, one question. Your
12 typical -- or say your average cost per deviated well is
13 about \$700,000 completed well costs. What would it be for
14 a vertical well?

15 A. We're drilling and completing wells in this area,
16 we think, for around \$560,000, roughly.

17 Q. Okay.

18 A. Now, this -- I did not testify that this is an
19 average cost for all wells. I said this is an average cost
20 for the longer-throw wells.

21 Q. Okay. Did you do an AFE for just the -- say the
22 Pure Gold "A" Number 10, which is a short-throw well?

23 A. Yes, we had AFEs prepared for all wells.

24 Q. What was the approximate, say -- Do you recall?

25 A. Probably around \$620,000.

1 Q. Are there higher lifting costs for a deviated
2 well than a -- deviated oil well than a vertical oil well?

3 A. Depends on the amount of deviation and a lot of
4 factors. I would say in general, you would make that
5 statement.

6 Q. And you indicated that in this area, as you
7 stated, the Lower Brushy Canyon is continuous throughout
8 this zone that the wells are being drilled in and that
9 there was little mechanical risk in drilling the wells?

10 A. That's correct.

11 Q. Now, when you said there's little mechanical
12 risk, that was for vertical wells?

13 A. Yes. There's also been a directional -- several
14 directional wells drilled in this area that indicate that
15 there's very little mechanical risk in general, period.

16 For instance, the Pure Gold "B" Number 2 --

17 Q. Is that --

18 A. -- by Enron was drilled essentially similar to
19 the way we're going to drill these wells and had no
20 problems.

21 Q. Where is that well bottomed? I mean, what zone?

22 A. It bottomed in the Morrow, but it was
23 directionally in a very similar manner. Kickoff point was
24 even lower than what we drilled -- or going to kick off at,
25 and then it was S'd out into a legal location in the

1 Delaware in that drilling spacing unit.

2 Q. Is it still producing in the Morrow?

3 A. Still producing in the Morrow.

4 Q. Looking at your Exhibit 7 --

5 A. Which one is that?

6 Q. That's your economic analysis, Mr. Wakefield.

7 A. Okay.

8 Q. Do you have an opinion as to what the barrel-per-
9 day economic limit is for a directional well?

10 A. It depends on what -- how directionally it's
11 drilled and how far the throw is. We think that the short-
12 term throws are not going to be any significant different
13 than what the current vertical wells are going to be,
14 because we don't think there's going to be very many
15 production problems related to it.

16 Q. What is -- If I may ask, what is Kaiser's current
17 economic limit on a vertical Delaware well?

18 A. Somewhere around two to three barrels a day.

19 Q. In looking at your economics again, what is
20 this -- You have a price increase for both oil and gas.
21 What percentage increase is that per year?

22 A. Are you referring to the economics?

23 Q. Yes, your Exhibit 7.

24 A. And you're referring to the --

25 Q. The --

1 A. -- back-calculated average oil dollars per barrel
2 and gas dollars per MCF?

3 Q. Correct.

4 A. Okay. The initial prices are approximately what
5 current postings would give you, and then the oil is
6 escalated at five percent and gas at eight in this economic
7 run.

8 Q. If these prices don't escalate, how long will it
9 take this well to pay out?

10 A. That's not going to be significantly different.
11 Payout happens very quickly. I don't know, I anticipate a
12 month difference.

13 Q. Will the barrel-per-day economic limit remain the
14 same?

15 A. If costs don't escalate any faster than the oil.
16 In other words, if you're going to say oil and gas don't
17 escalate, then I would say costs aren't going to escalate.
18 I'd say the economic limit would be the same.

19 Q. Final question on this. Do you have your Exhibit
20 1 in front of you --

21 A. Yes.

22 Q. -- and Exhibit 7? I think your Exhibit 7 is
23 based on a top allowable well being drilled?

24 A. Yes.

25 Q. I think your first -- Say your December, 1993,

1 production, 5610 barrels, that's 187 barrels per day. If
2 you look at your Pure Gold "B" Number -- I think they're
3 the Number 5 and 6 wells, they were completed in June or
4 July of 1993. Their initial potential was only 93 barrels
5 a day; isn't that right?

6 A. You're obviously reading the figure wrong. That
7 was not their initial potential.

8 What you see -- I did not go through earlier what
9 the numbers on here mean, perhaps I didn't do that for you.
10 But for instance on the Pure Gold "B" Number 5 --

11 Q. Sure.

12 A. -- the numbers that are there show barrels of oil
13 per day and barrels of gas per day over cum oil and cum
14 gas, as of -- and if you'll look in the right-hand margin,
15 as of a certain date. That's not it's initial potential.

16 Q. Okay.

17 A. Initial potentials in these wells, all the wells
18 on the Pure Gold "A" and "B" leases were in excess of top
19 allowable.

20 Q. Okay. But they're still only producing 93
21 barrels a day?

22 A. We have artificially constrained production to
23 enable us to get a gas line through the point in time these
24 numbers were taken. These wells are now producing at top
25 allowable.

1 We didn't have a low-pressure gas connection
2 until recently. Rather than vent extraordinarily large
3 volumes of gas, we did not produce the wells at top
4 allowable.

5 Q. And obviously, if you don't get oil at top
6 allowable, it will severely affect this, then.

7 A. It will severely affect any well we drilled, sir,
8 whether it be directional or vertical, either one. Unless
9 we get top allowable wells here, you would be in
10 significant economic trouble anyway.

11 Q. A couple of final questions. Has Kaiser drilled
12 any directional Delaware wells in New Mexico to date?

13 A. No.

14 Q. Are you aware of a single financially successful
15 directional Delaware well in New Mexico?

16 A. No.

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

18 EXAMINATION

19 BY EXAMINER MORROW:

20 Q. Mr. Wakefield, did your company drill wells 3, 4,
21 5 and 6 in Section 20, and 2, 3 and 4 in -- or -- no, not
22 2, 3 and 4, but 1 and 2 in Section 21? You said those were
23 applied for by someone else.

24 A. Okay, I think I can answer your question. I
25 didn't quite get the numbers you said, but I think I can

1 answer your question.

2 Kaiser-Francis drilled the Delaware wells
3 completed in Sections 20 and 21. Section 21 in the
4 southwest quarter would be the wells numbered 2, 3 and 4.
5 In Section 20 it would be the wells number 3, 4, 5 and 6.
6 We didn't apply for the APDs, but we drilled the wells,
7 completed them as operator.

8 Q. Who applied for them?

9 A. Pogo applied for the APDs in Section 21 and Enron
10 in Section 20. Enron has since sold their interest to us.

11 Q. Was there any reason why you didn't locate your
12 surface locations on federal land instead of state land?

13 A. Federal lands in 21 and in 20, they will not let
14 us drill a vertical well on the lease.

15 Q. Well, I'm not talking vertical; I'm talking
16 surface.

17 A. Well, surface they would not let us -- the
18 surface -- Any point on the surface, they would not let us
19 spud the well along that north line in Sections 20 or 21.

20 MR. STOVALL: What you mean is, the federal
21 government -- the BLM will not let you drill through the
22 potash --

23 THE WITNESS: On the federal lease. You can stay
24 within a hundred --

25 MR. STOVALL: So the vertical section of the

1 well, even, they won't let you take through?

2 THE WITNESS: Right, their rules provide for you
3 to drill within 150 foot of an existing wellbore, which is
4 where we're drilling the Pure Gold "B" Number 9.

5 Q. (By Examiner Morrow) Well, that's not my
6 question though.

7 A. Okay.

8 Q. It doesn't appear that -- It looks like you're
9 right on the north line of each of the sections, so
10 probably a few foot to the south --

11 A. That's correct.

12 Q. -- would put you on federal land --

13 A. That's correct.

14 Q. -- which would not overlies any potash, according
15 to your map?

16 A. No, the potash map shows it would be underlaying.

17 Q. All right. I thought there was no potash under
18 those surface locations, but even on state land there's
19 potash --

20 A. That's correct, sir, there would be potash --

21 Q. -- beneath the surface location?

22 A. -- and the state has deemed it more appropriate
23 to grant the drilling of oil and gas wells at this time for
24 whatever reasons that they have for doing that.

25 Q. Okay. On one of the number 9s you -- I believe

1 you testified that you had changed the location; is that --

2 A. Yeah, the Pure Gold "B" Number 9, which is
3 adjacent -- drilling adjacent to the Pure Gold "B" Number
4 2, which is the Morrow completion, has the BHL written
5 beside, in the northwest of the northeast quarter, we had
6 an inadvertent error in our Application and in our letter
7 to the mines, and when we discovered that we had to write a
8 new letter to them and redo the APD.

9 Q. But it's correct in your Application --

10 A. Yes, it's correct.

11 Q. -- is that right?

12 And it's still an orthodox location?

13 A. Yes, sir.

14 Q. And would all the wells be completed at standard
15 or orthodox locations?

16 A. Yes, sir, they will be, as to the Lower Brushy
17 Canyon.

18 Q. I guess you answered this, but if I understand it
19 correctly, there's no potash mining in the area at this
20 time; is that correct?

21 A. The nearest mine workings are several miles away,
22 maybe as much as five or six miles away.

23 EXAMINER MORROW: Bob, what have you got?

24 MR. STOVALL: I don't think I have any -- I don't
25 have any questions at this time.

1 EXAMINER MORROW: We'd like to take about a ten-
2 minute break at this time.

3 MR. KELLAHIN: Yes, sir. I have no other further
4 questions from Mr. Wakefield. May he be excused as a
5 witness?

6 EXAMINER MORROW: Yes, sir. Thank you, Mr.
7 Wakefield.

8 MR. STOVALL: I'd like to --

9 EXAMINER MORROW: Take a break?

10 MR. STOVALL: -- yeah, take a break, but I'd like
11 to meet with counsel for a few minutes here at the start of
12 the break.

13 EXAMINER MORROW: We'd better take 15 minutes.

14 (Thereupon, a recess was taken at 2:46 p.m.)

15 (The following proceedings had at 3:05 p.m.)

16 EXAMINER MORROW: Okay, we'll reconvene. Go
17 ahead.

18 MR. STOVALL: I had a couple questions in a
19 discussion off the record regarding some of the issues of
20 economics and such, and I think I've indicated to the
21 parties that I'm not sure that comparative economics is
22 appropriate in this particular case.

23 The other issue that is implicit in here and some
24 of the questions initially have addressed, I think we all -
25 - make it clear that we understand, I think the Division

1 understands, that this Application is only for the purpose
2 of developing the Brushy Canyon member of the Delaware
3 formation, that any uphole uses of any wellbore approved by
4 this Application would have to be subject to approval by
5 the Division in a separate hearing after notice to affected
6 parties.

7 And so I think for the purpose of examination
8 that is not an issue to be addressed and discussed; is that
9 correct, Mr. Kellahin?

10 MR. KELLAHIN: Yes, sir, Mr. Stovall, that is
11 correct.

12 EXAMINER MORROW: I have a question about that of
13 you, and maybe you can get your witness to answer it or
14 answer it yourself.

15 But do the pools for which this Application is
16 requested include anything other than the Brushy Canyon?

17 MR. KELLAHIN: Yes, sir, the vertical limits of
18 both pools would be extensive enough to get all the members
19 of the Delaware.

20 EXAMINER MORROW: Get the Bell Canyon if it was
21 there and -- ?

22 MR. KELLAHIN: Yes, sir. But what we are telling
23 you now is that the standard drilling window for each of
24 these wells will put us in a position where we will access
25 the primary zone or member, which is the Brushy Canyon.

1 There will be some of the short-throw wells that
2 will have the ability to access other members of the pool.

3 MR. STOVALL: I guess the way to restate the
4 resolution, then, is that the only authorization would be
5 for completion within the orthodox window, is really what
6 it --

7 MR. KELLAHIN: I think that probably --

8 MR. STOVALL: Conceivably some Cherry Canyon in
9 there; is that correct? Is it Cherry, is the next one up,
10 or is it Bell?

11 MR. KELLAHIN: It's Cherry. And I think that Mr.
12 Stovall is correct in saying that what we're looking for
13 within the gross Delaware Pool interval is only that
14 portion that is within the standard setbacks on a 40-acre
15 oil spacing unit within that wellbore.

16 EXAMINER MORROW: Well, I believe an earlier
17 witness testified that all the locations would be standard,
18 orthodox locations --

19 MR. KELLAHIN: Yes, sir, as to the --

20 EXAMINER MORROW: -- bottomhole locations?

21 MR. KELLAHIN: As to the Brushy Canyon. And for
22 some selected few, you could be higher in the wellbore, hit
23 Cherry Canyon and still be 330 setback.

24 EXAMINER MORROW: And so it's your Application,
25 then, that you would apply for approval to perforate that

1 if it were in the --

2 MR. KELLAHIN: Yes, sir.

3 EXAMINER MORROW: Even though it might be Cherry
4 Canyon?

5 MR. KELLAHIN: Yes, sir, that's what we're hoping
6 to accomplish here.

7 Now, if it's in the pool and outside or closer to
8 the boundary and 330, then we're going to have to have a
9 whole new hearing.

10 EXAMINER MORROW: Go ahead, sir.

11 MR. KELLAHIN: One of the questions before the
12 break was the request from Mr. Nibert for data from --
13 Pogo's request for information from Kaiser-Francis.

14 I've examined the information request, and it was
15 Mr. Wakefield's belief that all this information had not
16 been provided -- had been provided. If it has not, we will
17 do so immediately.

18 I think most of that information is going to be
19 found in Exhibit 9 that we have provided to counsel. If
20 there is some -- Out of the 82 pages, if we have missed
21 something that he needs that's on this letter, we'll
22 certainly provide it to him.

23 EXAMINER MORROW: Okay.

24 MR. KELLAHIN: I'd like to call Mr. Alan Benson
25 at this time, Mr. Examiner.

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ALAN BENSON,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Benson, for the record would you please state your name and occupation?

A. My name is Alan Benson. I'm a petroleum geologist.

Q. On prior occasions, sir, have you testified as a geologist before the Division?

A. I have not.

Q. Summarize for us your education.

A. I am a 1977 graduate of the University of Missouri at Rolla with a bachelor's degree in geological engineering. That's my education.

Q. All right, sir. Describe for us your employment experience as a geologist.

A. As to employment experience, I was employed by Tenneco Oil for three years in Oklahoma City as a petroleum geologist, and I've been employed by Kaiser-Francis Oil Company since 1980 as a petroleum geologist.

Q. As part of your current duties as a geologist, has Mr. Wakefield as project engineer for the Pure Gold Prospect asked you to make any geologic investigations and

1 interpretations for him?

2 A. Yes, I'm the geologist attached to the production
3 operations group. My responsibilities encompass all the
4 geological needs that that production operations group has,
5 and one of the is the Delaware development in this area.

6 Q. As part of that study, have you a geologic
7 opinion with regards to the primary zone or member of the
8 Delaware Pool that you would target for this prospect?

9 A. Yes, I do.

10 Q. And what is that opinion?

11 A. It's my opinion, and I've recommended to
12 management and to Mr. Wakefield, that at the locations that
13 we've applied for, that we will encounter productive Brushy
14 Canyon pay at those locations.

15 Q. Were you involved in and participating with
16 others in making the decision about the bottomhole
17 locations for these wells so that you could take the
18 optimum opportunity to access that Brushy Canyon?

19 A. Yes.

20 Q. As part of your study, have you prepared an
21 isopach map of the portion of the reservoir that's in
22 question?

23 A. Yes, I have.

24 MR. KELLAHIN: Let me direct your -- We tender
25 Mr. Benson as an expert petroleum geologist.

1 EXAMINER MORROW: We accept Mr. Benson.

2 Q. (By Mr. Kellahin) Let me turn your attention,
3 sir, to Exhibit Number 8. Identify that for us.

4 A. Exhibit Number 8 is a net sand isopach of the
5 Lower Brushy Canyon sand member of the Delaware Mountain
6 Group.

7 Q. Does this represent your work?

8 A. It does.

9 Q. When we look at the net sand isopach, describe
10 for us what you mean when you identify the Lower Brushy
11 Canyon. What are we talking about?

12 A. The Lower Brushy Canyon is that part of the
13 Delaware Mountain Group that is found 200 to 300 feet above
14 the top of the Bone Springs limestone.

15 Q. Okay. What does this map show you as a geologist
16 concerning how best to locate wells in the Brushy Canyon
17 when you're trying to develop locations for the north half
18 of Sections 20 and 21?

19 A. The map shows the locations spotted on the map in
20 small circles. The large circles, oil well symbols, are
21 the completions in the Brushy Canyon sand.

22 The map shows -- and the conclusion I drew from
23 the map, you know, I've done in here is that it's a linear
24 channel trending north and south, and the locations that we
25 have shown and applied for will be located within that

1 channel.

2 Q. When we look at the isopach and the contour
3 lines, what is the greatest potential net sand thickness
4 for any of the proposed wells?

5 A. About 80 feet.

6 Q. Correspondingly, what in your opinion is the
7 potential minimum sand thickness as you've mapped on this
8 display for any of those ten wells?

9 A. Forty feet.

10 Q. When we look at the lower end of that range, the
11 40 foot --

12 A. Yes, sir.

13 Q. -- what does that tell you as a geologist? Is
14 that a sufficient sand thickness under this mapping
15 technique to give you a viable prospect?

16 A. Yes, it is.

17 Q. Are there examples on this map that you can show
18 to us, commercial producing wells out of this zone that
19 have less than 40 feet of net sand thickness?

20 A. Yes, to the south, and for example in Section 28,
21 there's wells with seven feet and 14 feet of pay that are
22 commercial wells.

23 Q. When you look at the greatest thickness on the
24 map for any of the wells, what is that thickness?

25 A. For any of the existing wells?

1 Q. Yes, sir.

2 A. I believe 90 feet on this map.

3 Q. In terms of developing a prospect as a geologist,
4 Mr. Benson, how would you rate the geologic risks involved
5 in any of these wells?

6 A. They're very low.

7 Q. And why do you say that?

8 A. The sand is very predictable. It's -- We're well
9 within the boundaries of the channel. I think the geologic
10 risk here is very minimal.

11 Q. Do you see any reason to sequence the drilling of
12 the wells such that you drill one, evaluate the geology,
13 and then drill another?

14 A. No.

15 Q. In your opinion, can these wells be packaged in a
16 group such that perhaps all ten wells might be drilled in a
17 reasonably short time, in consecutive order or successive
18 sequence?

19 A. I see no reason to drill one before any other
20 well.

21 Q. Have the operators in the pools drilled any dry
22 holes in the Brushy Canyon Delaware?

23 A. Not shown on this map here.

24 Q. So within the area of your efforts to exploit,
25 there are no Delaware dry holes yet in the Brushy Canyon?

1 A. Not within the confines of this contour map, no.

2 Q. All right, sir. You were involved in confirming
3 each of the downhole locations?

4 A. Yes.

5 Q. And these are your recommendations?

6 A. They are.

7 MR. KELLAHIN: That concludes my examination of
8 Mr. Benson. We move the introduction of his Exhibit Number
9 8.

10 EXAMINER MORROW: Exhibit Number 8 is admitted.
11 Questions?

12 MR. NIBERT: No questions.

13 EXAMINER MORROW: Mr. Carroll? Mr. Bruce? Any
14 questions?

15 MR. CARROLL: No questions, Mr. Examiner.

16 MR. BRUCE: Just one question --

17 EXAMINER MORROW: Okay, sir.

18 MR. BRUCE: -- Mr. Benson.

19 CROSS-EXAMINATION

20 BY MR. BRUCE:

21 Q. Do you anticipate, based on the geology, that all
22 of these wells will be top-allowable wells?

23 A. I've made no study of productive rates versus the
24 amount of sand encountered.

25 EXAMINER MORROW: Your answer was, you didn't

1 know, sir?

2 THE WITNESS: Right.

3 EXAMINATION

4 BY EXAMINER MORROW:

5 Q. Tell me again how you decided what to include in
6 the interval which you've mapped here on your isopach.

7 A. What I've mapped here is the feet of porosity
8 that is productive in the lower 200 feet of the Brushy
9 Canyon.

10 Q. And that's -- Is that the same interval that your
11 other wells in Sections 20 and 21 are completed in?

12 A. Yes, sir.

13 Q. Okay. You don't have anything perforated above
14 that?

15 A. No.

16 EXAMINER MORROW: Thank you, Mr. Benson.

17 MR. KELLAHIN: Mr. Examiner, at this time I'd
18 call Mr. Dixie Haymes.

19 He spells his last name H-a-y-m-e-s.

20 DIXIE HAYMES,

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. Haymes, would you please state your name and

1 occupation?

2 A. Dixie Haymes, and I'm a petroleum engineer.

3 Q. Have you testified before the Division on prior
4 occasions, Mr. Haymes?

5 A. No, I have not.

6 Q. Summarize for us your education.

7 A. I have a bachelor's degree from the University of
8 Tulsa in petroleum engineering.

9 Q. In what year, sir?

10 A. 1981.

11 Q. Summarize for us your employment as a petroleum
12 engineer since your graduation.

13 A. I want to work for Conoco in 1981 in Hobbs, New
14 Mexico.

15 Q. Doing what, sir?

16 A. I worked as a drilling engineer for the Division
17 and also had an area of responsibility dealing with
18 production.

19 I worked there for four years, and then I went to
20 New Orleans and worked offshore, responsible for drilling
21 directional wells offshore, Gulf of Mexico.

22 I worked there for three years and then took
23 employment with Kaiser-francis in Tulsa, responsible for
24 both drilling engineering, and I have an area of
25 responsibility for production in western Oklahoma.

1 Q. Did Mr. Wakefield as the project engineer for the
2 Pure Gold project ask you to make an analysis of the
3 feasibility of directionally drilling certain wells in this
4 area that are now the subject of this Application?

5 A. Yes, he did.

6 Q. And did you do that work?

7 A. Yes, I did.

8 Q. Is that within an area of your responsibility and
9 expertise?

10 A. Yes, it is.

11 Q. Having completed that work, do you have
12 conclusions about the feasibility of these ten wells to be
13 directionally drilled to the proposed bottomhole locations?

14 A. Yes, I do.

15 MR. KELLAHIN: We tender Mr. Haymes as an expert
16 drilling engineer.

17 EXAMINER MORROW: We accept Mr. Haymes as an
18 expert.

19 Q. (By Mr. Kellahin) I don't propose to go through
20 all 82 pages of this exhibit. I'd like you to find one
21 that you can characterize as typical, if you will, and
22 let's just use it as an illustration. Do you have one that
23 we can select from the package?

24 A. Okay.

25 Q. If so, let's find a page number and look at it.

1 A. If you'll turn to page 70 --

2 Q. This is the Pure Gold "B" Number 9?

3 A. "B" Number 9.

4 Q. All right, hang on a minute. I've got to find
5 the map.

6 A. And it's a well that's along the north line of
7 Section 21.

8 Q. Okay.

9 A. Or Section 20, I'm sorry.

10 Q. Its bottomhole location is in unit letter "B" of
11 Section 20?

12 A. That's correct.

13 Q. Okay. This is a short-throw well, if you will?

14 A. Yes.

15 Q. Is there a material difference in the application
16 of your expertise if it is a short-throw versus a long-
17 throw well?

18 A. The drilling techniques that are going to be used
19 are going to be basically the same in either case.

20 Q. When Mr. Wakefield said that his opinion was that
21 he needed to access the Delaware with directionally drilled
22 wells, what then were the issues for you?

23 A. The first issue is to look at any problems that
24 have been incurred in drilling the vertical wells in the
25 area, and then to look at any restrictions in terms of

1 kickoff point, and then what target he was asking for.

2 Q. With regards to problems with vertical drilled
3 wells in the area, what was the conclusion of that study?

4 A. The wells that we've drilled to date in the Pure
5 Gold field, we've have had no problems drilling the wells
6 at all.

7 Q. What -- Describe for us what the issue is about
8 the kickoff point. Why is that of concern to you?

9 A. The kickoff point that Mr. Wakefield gave me was
10 somewhere below 4100 feet, which was the -- what we've been
11 doing for setting our 8 5/8 on the vertical wells that
12 we've drilled to date, which is to protect the potash in
13 the area. And so that was the restriction that I used for
14 evaluating the directional wells.

15 Q. When you take the kickoff point and look at the
16 bottomhole target, that gives you the issue about whether
17 or not you can do it, right? Is it feasible?

18 A. Yes.

19 Q. What did you find?

20 A. That it was feasible.

21 Q. Okay. Surface to the kickoff point, you're in
22 the R-111-P. The procedures are, unless there's exceptions
23 you have a salt protection string you've got to put in and
24 other cementing requirements.

25 Is the plan to comply with the R-111-P procedures

1 with regards to the well?

2 A. Yes, it is.

3 Q. Okay. As part of your effort in determining the
4 relationship between the kickoff point and the bottomhole
5 location, did you find any of these examples where it was
6 not feasible?

7 A. No, I did not.

8 Q. In terms of the range of feasibility, does --
9 where on the spectrum of real easy and really tough do
10 these fall?

11 A. They would be considered fairly easy directional
12 wells.

13 Q. And why do you say that?

14 A. Because of the displacements and the hole angles
15 that are going to be obtained or are relatively low,
16 compared to -- if you look at a horizontal well or a high-
17 angle directional well that would normally be drilled, say,
18 offshore.

19 Q. Okay. We're going to go through the package for
20 the "B" 9. But tell us, do we have a similar package for
21 the other nine wells in this Application?

22 A. Yes, we do.

23 Q. In each case there is going to be a schematic
24 that gives the Examiner both the vertical and the
25 horizontal view?

1 A. That's right.

2 Q. And you'll have a detailed plat showing the well
3 location at the surface and exactly where that surface use
4 is going to be?

5 A. Yes, sir.

6 Q. You've got a copy of the APD?

7 A. Yes, sir.

8 Q. And then you've got a copy of the C-102, which is
9 the surveyed location of the surface?

10 A. Right.

11 Q. Then you have the written Application, and then
12 you have the summary of the drilling, casing and cementing
13 program?

14 A. Yes, sir.

15 Q. All right, sir. Let's use, then, page 70 and
16 have you take me from top to bottom. How do we drill the
17 well?

18 A. Okay. Initially we'll drill a 17-1/2-inch
19 hole from surface to approximately 1700 feet, run and set
20 13-3/8-inch casing, cement it to surface.

21 We'll drill out that string with an 11-inch hole,
22 drill to approximately 4100 feet, run and set 8-5/8-inch
23 casing and cement it to surface.

24 We'll drill out and drill to approximately 4200
25 feet and run either a gyro or a magnetic multi-shot survey

1 in order to determine the exact location, bottomhole
2 location at 4200 feet.

3 At that point we would run our angle-building
4 assembly and build angle, in this case, from a kickoff
5 point of 4250 feet at a rate of two degrees per hundred
6 feet to a true vertical depth of 5144 feet, which would
7 have a measured depth of 5159 and a hole angle of 18
8 degrees.

9 At that point we would run an angle-holding
10 assembly and hold angle to 6200 feet true vertical depth or
11 6311 feet measured depth.

12 And at that point we would start dropping angle
13 at 1 1/2 degrees per hundred, reaching vertical at 7523
14 measured depth and 7430 true vertical depth.

15 We would -- In this case there's a hardline at
16 6200 feet true vertical depth --

17 Q. What do you mean when you use the word
18 "hardline"?

19 A. Okay, what we did was, we established -- because
20 of -- in order to -- The locations that the geologist and
21 Mr. Wakefield gave us, was locations within the 330-foot
22 boundary for a legal location.

23 So what we did in order to give ourselves some
24 tolerance, we took the 330 feet and we added another 150
25 feet onto it as a hardline. So we said that when we

1 reached 8200 feet, that we're going to be at least 490 feet
2 away from that boundary or that lease line, so that we'll
3 be in a legal location from 6200 feet all the way to TD.

4 Q. You talked about build rate, and there was a
5 degree-per-hundred-foot build rate. What was the degree?

6 A. Two degrees per hundred.

7 Q. And is that an average number, or is that an
8 absolute?

9 A. No, that's an average number.

10 Q. What's the range of the average?

11 A. It would be anywhere from, say, 1 1/2 degrees to
12 2 1/2 degrees. It's going to vary to some point, but in
13 order to reach -- to make our hardline at 6200 feet, we'd
14 have to average 2 1/2 -- or 2 degrees per hundred over our
15 build section.

16 Q. Is 2 to 2 1/2 degrees per hundred feet -- is that
17 a difficult number to achieve?

18 A. No, it's not.

19 Q. In the spectrum of ranges that you deal with as a
20 drilling engineer, where does that fall?

21 A. That would be fairly low or fairly -- I say low.
22 Fairly typical for this type of well.

23 Q. Again, it doesn't expose this wellbore to any
24 kind of unusual circumstance?

25 A. No, it would not.

1 Q. You said the hole angle, 30 degrees?

2 A. Eighteen degrees.

3 Q. Eighteen degrees. What does that mean?

4 A. That's the angle from vertical out to the
5 position of the wellbore.

6 Q. Again, where does 18 degrees fall in this
7 spectrum of difficulty? If zero is easy and ten is
8 virtually impossible, where is that number?

9 A. Wells are drilled all the way up to 90 degrees
10 for horizontal wells, so 18 degrees is fairly low.

11 Q. Okay. Having drilled the well, what then do you
12 do?

13 A. Then we would start our completion, and it would
14 be the exact same completion procedure for these wells as
15 what we're doing for our current vertical wells.

16 Q. Okay. You run logs, you case the hole --

17 A. Right.

18 Q. -- you make selections about where to perforate?

19 A. Correct.

20 Q. Then you perforate?

21 A. (Nods)

22 Q. Is there any kind of stimulation program?

23 A. Yeah, we typically on these wells in the Brushy
24 Canyon spot about 200 gallons of acid across the
25 perforations. And then we'll set a packer and break down

1 the perforations with about 3000 gallons of acid and then
2 swab back our load.

3 After we've got back our acid load, then we've
4 been frac'ing these wells with about 50,000 gallons of
5 jelled water with 160,000 pounds of 1630 sand.

6 Q. Is the completion program for these directionally
7 drilled wells similar to the completion programs for the
8 vertical wells?

9 A. Yes, it is.

10 Q. When we talk about the drilling fluids for
11 drilling the well, what are your drilling fluids that you
12 propose to use?

13 A. The drilling fluids will be a brine system from
14 the bottom of the 13 3/8 at 700 feet down to 4100 feet, in
15 order to protect the salt to that depth, and then it will
16 be a cut brine system from 4100 feet to TD, which is the
17 same as what we're doing for the vertical wells.

18 Q. Okay. You've got your wells completed, you're
19 ready to set them up for production. What is going to be
20 your preference or your first option in the method by which
21 these wells are produced?

22 A. Initially those -- the wells that we've had to
23 date are flowing wells.

24 Q. Okay. After they cease to be flowing wells, how
25 then would the wells be produced? What's the first choice?

1 A. A pumping unit.

2 Q. All right. Do you have any of your current wells
3 that have been reduced or depleted to the point where
4 they're now pumping wells?

5 A. Yes, we do.

6 Q. And what is the process by which the vertical
7 wells are produced? They're pumped?

8 A. Yes.

9 Q. By what means?

10 A. Rod string.

11 Q. Okay.

12 A. Downhole pump.

13 Q. And how would you do the directionally drilled
14 wells?

15 A. That I'm going to leave to our operations
16 production engineer. I've just studied the directional
17 phase of this well and --

18 Q. All right. There's other expertise?

19 A. -- I haven't done any investigation as to
20 producing methods, but --

21 Q. There are other experts in your company that will
22 assist or determine exactly how that is to take place?

23 A. That's correct.

24 Q. All right, sir. Are there any of these ten wells
25 that represent any unique or unusual or difficult

1 circumstances for you as a drilling engineer?

2 A. No.

3 Q. You don't see any? No problems?

4 A. No, no problems that aren't normally anticipated
5 with directional wells.

6 Q. Okay. What kind of problems are those?

7 A. Hitting targets, having unusual direction changes
8 because of some unusual dip in the formation, maintaining
9 the hole angle, direction, and ultimately hitting our
10 target without a lot of extra motor runs and correction
11 runs.

12 Q. Based upon current knowledge in this area with
13 the vertical wells, do you anticipate the degree -- What's
14 the degree of difficulty you anticipate on those issues for
15 the directionally drilled wells?

16 A. Fairly low from what we've seen in the -- Looking
17 at the Enron well, it was drilled -- Even though it was
18 kicked off at a deeper depth, they had very few what I
19 consider directional problems.

20 Q. The Enron well is the one Mr. Wakefield mentioned
21 a while ago. It's the Enron well that bottomed in unit
22 letter "B" of section 20, was drilled out of the south side
23 of 17?

24 A. That's correct.

25 Q. That's the one that finally produced out of the

1 Morrow?

2 A. Yes. And that's an offset -- or that well is
3 very near the "B" 9 well, which we used as an example here.

4 Q. Are the AFEs that were prepared and presented to
5 the other interest owners, are those documents that you
6 have reviewed or examined?

7 A. I was involved in developing the directional
8 cost, and I gave that cost to Jim Wakefield, and he
9 developed AFEs based on the costs I gave him for the
10 directional drilling portion.

11 Q. Are the cost components that address the issues
12 that you've just described to us included in the AFE?

13 A. Yes, they are.

14 Q. Costs for determining where you are at any given
15 point in the drilling, steering the well and hitting the
16 bottomhole target?

17 A. That's correct.

18 Q. Those are typical, conventional problems or
19 issues in drilling a directional well?

20 A. That's right.

21 Q. And those costs are factors in these AFEs?

22 A. Yes, they are.

23 Q. Okay. Anything else, Mr. Haymes?

24 A. No.

25 Q. Did you review Exhibit 9 to determine that to the

1 best of your knowledge, the information contained in here
2 is accurate and correct?

3 A. Yes, I have.

4 Q. And how about -- Did you review these vertical
5 and horizontal profiles to satisfy yourself that they were
6 accurate?

7 A. Yes, I have.

8 MR. KELLAHIN: That concludes my examination of
9 Mr. Haymes, Mr. Morrow.

10 We would move the introduction of Exhibit 9.

11 EXAMINER MORROW: Exhibit 9 is admitted to the
12 record.

13 Mr. Nibert, do you have any questions?

14 MR. NIBERT: No, sir.

15 MR. CARROLL: No, Mr. Examiner.

16 MR. BRUCE: Just one, Mr. Examiner.

17 CROSS-EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Haymes, have you consulted with either
20 Phillips or Yates or Enron regarding the directional wells
21 they've drilled?

22 A. No, I have not.

23 EXAMINATION

24 BY EXAMINER MORROW:

25 Q. What was the 502 on the hardline down there? 490

1 and 502, what does that represent?

2 A. I couldn't answer that. I'm not sure what the
3 502 represents there. I believe --

4 MR. KELLAHIN: I'm sorry, sir, what page are you
5 on, Mr. Morrow?

6 EXAMINER MORROW: On page 70. It looks like it
7 might be a little deeper depth.

8 THE WITNESS: Right. I'm not sure.

9 Q. (By Examiner Morrow) So the -- I believe --
10 Following your casing and cementing program for this well
11 indicates that all the wells will have cement from TD to
12 surface outside some string?

13 A. The 13-3/8 string and 8-5/8-inch string will have
14 cement from the bottom of each of those strings to surface.
15 The production casing will bring cement back up inside our
16 8-5/8-inch string, 200 or 300 feet. So it will be brought
17 all the way back to surface.

18 Q. You'll confirm that?

19 A. That's right. Yeah, we'll run a cement bond log
20 upon completion.

21 EXAMINER MORROW: Okay. Thank you, Mr. Haymes.

22 MR. KELLAHIN: That concludes our presentation,
23 Mr. Morrow.

24 MR. NIBERT: I have a few questions of one
25 witness, Mr. Scott McDaniel.

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SCOTT McDANIEL,

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

DIRECT EXAMINATION

BY MR. NIBERT:

Q. Please state your name for the record.

A. Scott McDaniel.

Q. And what is your occupation and who is your
employer?

A. I'm a landman with Pogo Producing Company.

Q. And have you previously testified before the
Division?

A. No, I have not.

Q. Summarize your educational and employment
background.

A. I've got a degree in business administration from
Texas Tech University, and I have served as a landman for
the past 13 years.

Q. Excuse me, a landman for the past 13 --

A. For the last 13 years, the last two of which have
been with Pogo.

Q. Are you familiar with the land matters affecting
the Application before this Division?

A. Yes, I am.

MR. NIBERT: Mr. Examiner, I tender Mr. McDaniel

1 as an expert landman.

2 EXAMINER MORROW: Yes, sir, we accept Mr.
3 McDaniel.

4 Q. (By Mr. Nibert) What is Pogo's position in this
5 Application?

6 A. Pogo is a working interest owner in the various
7 wells that are the subject of our hearing today, as well as
8 a working interest owner, both an operating and non-
9 operating working interest owner, in six sections
10 throughout the fields that are involved in this area.

11 And moreover, they're a working interest owner in
12 more than ten sections in the immediate area.

13 Pogo generally is of the opinion that directional
14 wells to the Delaware should not be drilled, and they're
15 opposed to it. And there are limited circumstances when,
16 you know, there should be differences in that, but
17 generally we are opposed.

18 Q. What are those circumstances where Pogo would
19 favor directional drilling within this area?

20 A. Basically, Pogo would be inclined to consider
21 directional wells in situations where we -- where the
22 potential for drainage exists or we have an expiring lease
23 or an expiring farmout or some other contractual
24 arrangement such as that.

25 Q. Okay. Because of your large interest in this

1 particular Application due to your working interest
2 position, what does Pogo encourage Kaiser-Francis to do in
3 the event these ten wells are approved?

4 A. If Kaiser-Francis is adamant on drilling the
5 directional wells, these Delaware directional wells, Pogo
6 would urge Kaiser-Francis to drill one well -- drill and
7 produce one well, to gain the experience and a good handle
8 on what the cost will be, you know, of the directional
9 wells.

10 We would prefer that the directional wells not be
11 drilled one right after another. I know that's contrary to
12 some testimony we've heard earlier today, but we feel that
13 such an arrangement would be imprudent, and we prefer that
14 it not be done.

15 We would also like to see, you know, in the event
16 that costs are significantly higher than those costs shown
17 on the AFEs that were submitted to us, we would like to see
18 Kaiser-Francis reconsider their drilling program and also
19 re-propose the remaining wells to the affected working
20 interest owners, to obtain a proper consent to the
21 operations.

22 Q. Okay. You said that Pogo does not object to
23 directional wells in certain situations.

24 Could you look at the Application that's before
25 the Division and tell us if there are any directional wells

1 here that you do not object to?

2 A. Primarily, I guess the ones in the north half of
3 the northwest quarter of Section 21, I believe those are
4 the Pure Gold "A" Fed Numbers 9 and 10.

5 Q. Is that largely due to the drainage -- potential
6 drainage situation?

7 A. That's correct. There are offsetting wells to
8 those particular units. The remaining wells that are
9 included in this particular hearing at this point have no
10 great potential for drainage.

11 Q. With the exception of the wells that are
12 potentially experiencing drainage, what would you suggest
13 to Kaiser-Francis to do with the other wells at this time?

14 A. The remaining wells -- and, you know, I've had
15 conversations with them previously as well. But the
16 remaining wells, we would ask that they go ahead and make
17 formal application for APDs for the various wells, you
18 know, APDs that would provide for vertical holes.

19 And in the event they are denied, another option
20 which we think to be -- I think, is a very credible and
21 very viable option to us would be to pursue them through
22 the IBLA appellate process.

23 Q. Okay. You've heard Mr. Wakefield's testimony and
24 some of the people that he has contacted within the Bureau
25 of Land Management, and I assume that Pogo has likewise had

1 those same encounters with the BLM personnel.

2 Has Pogo encountered any problems with the Bureau
3 of Land Management in obtaining vertical wells within the
4 potash area?

5 A. Pogo has encountered numerous problems in
6 obtaining vertical locations, or APDs for vertical
7 locations within the potash area. In fact, in some
8 instances the locations have been denied.

9 But we were persistent and -- in our efforts on
10 some of these, and as a result were issued vertical -- APDs
11 providing for vertical wells, you know.

12 An example that I might mention would be our
13 Mobil Federal Number 8. I'm sure Kaiser-Francis may recall
14 that sometime last year Pogo had come before the Commission
15 for two directional wells. One was the Mobil Federal
16 Number 3, one was the Mobil Federal Number 8.

17 We received the orders, but -- and, you know, the
18 reason that we did that, again, was because we felt that we
19 may be suffering drainage. So we felt like we were
20 justified in our pursuit of the directional holes.

21 But when we pursued the -- particularly the Mobil
22 Federal Number 8 APD, the vertical APD, further, we were
23 successful in obtaining the vertical APD.

24 Q. Okay.

25 A. The Mobil Federal Number 3 we have put into the

1 IBLA appeal process.

2 Q. Because of that ongoing process at IBLA, can you
3 tell me in -- and the length of that process -- can you
4 tell me why Pogo is doing that and what it expects the
5 outcome to be in that process?

6 A. Pogo expects a positive outcome. We've had --
7 We've obviously got good people working in our behalf on
8 this problem, and we also have some experience from
9 previous cases that we feel will be beneficial in preparing
10 for this one. But we do feel that the outcome will be
11 positive.

12 The remainder of your question, I'm sorry?
13 Was -- ?

14 Q. Well, that the outcome of the process at IBLA --

15 A. Uh-huh.

16 Q. -- what your expectations are.

17 A. Okay. And we expect them to be positive. I was
18 thinking there was two parts to your question.

19 Q. Positive outcome?

20 A. Uh-huh.

21 Q. And that Kaiser-Francis -- Your request was for
22 Kaiser-Francis to maybe pursue that avenue?

23 A. That's correct. Yes, we feel that we can prevail
24 on those as well.

25 Q. Because this issue is pending before the Division

1 with respect to numerous applications, do you feel that
2 this will have a broader impact throughout the potash area
3 than just these ten Applications?

4 A. I definitely do, and I think many people within
5 our company do. This particular area, this -- what we
6 refer to as the sand dunes area seems to be very prolific
7 for the Delaware, and -- much more so than other Delaware
8 areas.

9 And in this area these particular wells could
10 impact other locations in that they're in a -- geologically
11 a much -- or what I've been told, geologically a much
12 better area and could possibly be somewhat economical
13 directionally, you know, if we were forced to drill some of
14 the wells that are suffering or could be -- could
15 potentially be suffering drainage.

16 We feel that the economic limit of these
17 directional wells may force us to leave reserves in the
18 ground. And while this may not be a tremendous amount on
19 an individual well basis, if you look at it across this
20 potash area, you know, the development -- the Delaware
21 development program across the potash area, it could be
22 extremely significant. There could be tremendous
23 quantities of reserves left in the ground as a result of
24 that.

25 Not only that, but the economics associated with

1 directional wells are obviously -- or in our opinion,
2 significantly more severe than a vertical hole.

3 And with that in mind, other operators --
4 especially considering current prices, other operators
5 would not be inclined to drill many of these Delaware
6 wells.

7 Q. To summarize, your request to Kaiser-Francis that
8 you made earlier is in the interest of conservation of
9 these resources and for the prevention of waste of these
10 resources? Your request to Kaiser-Francis today asking
11 them to drill only where there's drainage --

12 A. Uh-huh.

13 Q. -- if I understand your testimony, is in the
14 interest of conservation and is in the interest of
15 prohibiting or preventing waste of these natural resources
16 at this time?

17 A. That's correct.

18 Q. Thank you.

19 A. One point I didn't make in going through this was
20 that the BLM has demonstrated that they would like to see
21 directional wells drilled, and if they had their way in
22 this situation, they would not allow any drilling,
23 directional -- I mean any vertical wells within the Potash
24 area.

25 And if directional wells are permitted in this

1 area, we can see the potential for BLM eventually denying
2 all our -- most if not all APDs that provide for the
3 drilling of vertical holes.

4 You know, we just feel like it would be a
5 dangerous precedent to be set.

6 Q. You said a second ago "in the potash area". Did
7 you mean in the area of measured ore reserves, identified
8 as the blue area as identified on the 1984 potash map?

9 A. Uh-huh, yes.

10 MR. NIBERT: That's all I have.

11 MR. KELLAHIN: No questions.

12 MR. CARROLL: No questions.

13 MR. BRUCE: No questions.

14 EXAMINER MORROW: I've got a couple.

15 EXAMINATION

16 BY EXAMINER MORROW:

17 Q. I didn't understand the appellate process. What
18 do the initials stand for, IBLA? What is that?

19 A. Oh, Interior Board of Land Appeals.

20 Q. Interior Board of Land Appeals.

21 A. -- of Land Appeals. Yeah, for lack of a better
22 term it's kind of a big-sister organization to BLM, and it
23 is a higher organization within the Department of the
24 Interior that would serve as a level of appeals.

25 Q. And you -- After obtaining approval here to drill

1 a directional well for that Mobil Federal Number 8, you
2 went through that process and got them to reverse
3 themselves on --

4 A. That's correct. We had already received a denied
5 APD, but we were successful in having to go back through
6 their files and reverse their decision.

7 Q. Do you have an order number on that -- or order
8 number on those two wells that were approved here?

9 A. Yes, sir. I may have that with me.

10 Q. Good. Well, you can get it to me.

11 A. Okay.

12 Q. How did those two applications differ from these
13 ten that have been presented here today?

14 A. I guess one of them, the Mobil Federal Number 8,
15 had some similar or some similarities to the directional
16 wells that have been requested there in the north half,
17 north half of 21, the -- I believe the Pure Gold "A" well
18 is there along that north line.

19 To the south of Section 29 where the Mobil
20 Federal Number 8 is located, we were offset by a state
21 lease where we had offsetting production.

22 The BLM, we continued to stress to them that, you
23 know, there was -- or there was definitely the potential
24 for drainage that exists there. There along the north
25 half, or the -- you know, north half, north half of 21, a

1 similar situation exists, and --

2 Q. Was the potash that you drilled vertically
3 through, was it similar? Was it blue area or --

4 A. Yes. In fact, it was -- The Mobil Federal Number
5 8 encroached upon the quarter-mile buffer to an existing
6 LMR. The quarter-mile buffer is normally the distance from
7 an LMR that is required by not only the potash companies
8 but the BLM.

9 Q. I thought it was a half.

10 A. Well, it's a half on the deeper wells -- and this
11 is more a matter of practice than I think anything carved
12 in stone. But it's a half on deeper gas wells. On
13 Delaware wells it's a quarter mile

14 EXAMINER MORROW: Okay. Have you got anything?

15 EXAMINATION

16 BY MR. STOVALL:

17 Q. The only question I've got is, you made the
18 statement that you believe that you will prevail at the
19 IBLA. What is the basis for that statement?

20 A. I really don't feel that I can go into a lot of
21 that here and now. We feel like we have some things
22 working, both from a political standpoint as well as some
23 discovery methods that we do have working, and we just --
24 we feel that we have received some positive feedback, not
25 only from well placed people within the Department of the

1 Interior, but also within the Interior Board of Land
2 Appeals, which is also under the Department of the
3 Interior.

4 MR. STOVALL: Well, I'll save you from asking any
5 further questions on that. Take that for what it's worth.

6 No further questions.

7 EXAMINER MORROW: Okay. All right, sir. Thank
8 you --

9 THE WITNESS: Thank you.

10 EXAMINER MORROW: -- Mr. McDaniel.

11 Is there anything further? Anybody have anything
12 else they want to say today?

13 Mr. Kellahin?

14 MR. KELLAHIN: That concludes our presentation,
15 Mr. Examiner.

16 EXAMINER MORROW: Case 10,887 will be taken under
17 advisement.

18 (Thereupon, these proceedings were concluded at
19 3:53 p.m.)

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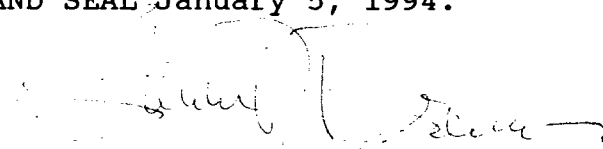
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3 STATE OF NEW MEXICO)
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COUNTY OF SANTA FE)

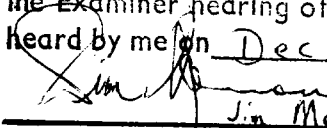
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6 I, Steven T. Brenner, Certified Court Reporter
7 and Notary Public, HEREBY CERTIFY that the foregoing
8 transcript of proceedings before the Oil Conservation
9 Division was reported by me; that I transcribed my notes;
10 and that the foregoing is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

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

16 WITNESS MY HAND AND SEAL January 5, 1994.

17
18 
19 STEVEN T. BRENNER
CCR No. 7

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21 My commission expires: October 14, 1994

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
the Examiner hearing of Case No. 10887,
24 heard by me on Dec 16 1993.
25 
Jim Merriam, Examiner
Oil Conservation Division