

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

APPLICATION OF CHEVRON U.S.A., INC.,
FOR STATUTORY UNITIZATION, ARROWHEAD
GRAYBURG UNIT, LEA COUNTY, NEW MEXICO

RECEIVED
FEB 11 1991
OIL CONSERVATION DIVISION
CASE NO. 10259

A P P L I C A T I O N

CHEVRON U.S.A., INC. ("CHEVRON") hereby
applies to the New Mexico Oil Conservation Division for
an order pursuant to the New Mexico Statutory
Unitization Act (70-7-1 through 70-7-21 N.M.S.A. 1978)
providing for the unitized management, operation and
further development of the area and formation known as
the Arrowhead Grayburg Unit, Lea County, New Mexico,
and in support of its application states:

1. Chevron U.S.A., Inc. is a Delaware
corporation authorized to transact business in the
State of New Mexico, and is engaged in the business of,
among other things, producing and selling oil and gas
as defined by the New Mexico Statutory Unitization Act
(70-7-1 through 70-7-21 N.M.S.A. 1978), hereinafter
referred to as the "Act".)

2. The proposed area for which application is made for unitized operations pursuant to the act is known as the Arrowhead Grayburg, Lea County, New Mexico (the "Unit Area"), and consists of 5922.26 acres, more or less, in Lea County, New Mexico, being more particularly described in Exhibit "B" attached hereto and incorporated herein by reference. A map of the Unit Area is attached hereto and incorporated herein by reference as Exhibit "A".

3. "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend 150 feet below sea level or the top of the Grayburg formation, whichever is shallower, to a depth of 1,500 feet below sea level. The top of the Grayburg formation for unitization purposes is defined as that point at 3,671 feet in the Chevron Harry Leonard (NCT-C) No. 20 well (located 660 feet from the North line and 990 feet from the West line of Section 36, T21S, R36E, Lea County, New Mexico) as recorded by the Gearhart Compensated Neutron Log measured from the Kelly Drive Bushing elevation of 3,532 feet and dated February 25, 1985, save and except the following: Southwest Eunice San Andres Pool in the SE/4 of Section 18, T22S, R37E, and N/2N/2 of Section 19, T22S, R37E, Lea County, New Mexico, the top of which, for

Operating Agreement, a true and correct copy of which is attached hereto and incorporated herein by reference as Exhibit "E".

8. Chevron projects that the unitized management, operation and further development of the Unitized Formation will increase reserves by approximately 15.0 MMSTBO and will improve the producing rate of this reservoir. It is therefore evident that the unitized management, operation and further development of the Unitized Formation is reasonably necessary in order to effectively carry on pressure maintenance and secondary recovery operations to substantially increase the ultimate recovery of oil and gas from the Unitized Formation within the Unit Area.

9. The method of operation which is proposed in the Unit Operating Agreement is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Unitized Formation than would otherwise be recovered.

10. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas to the recovered plus a reasonable profit.

unitization purposes, occurs at 3,804 feet below the Kelly Drive Bushing on the Dresser Atlas Compensated Density Neutron Log dated August 16, 1978 on the Zia (Exxon) New Mexico "M" No. 49 well which is located 2,610 feet from the South line and 2,310 feet from the East line of Section 18, T22S, R37E, Lea County, New Mexico. A copy of a portion of the logs for said wells on said dates are attached hereto and incorporated herein by reference as Exhibits "C-1" and "C-2".

4. The portion of the Unitized Formation included within the Unit Area has been reasonably defined by development.

5. Chevron proposes to institute a project for the secondary recovery of oil and gas from the Unitized Formation within the Unit Area.

6. The proposed plan of unitization is embodied in the Unit Agreement, a true and correct copy of which is attached hereto and incorporated herein by reference as Exhibit "D", and said plan is fair, reasonable and equitable.

7. The proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid is embodied in the Unit

11. The proposed unitization and adoption of the methods of operation embodied in the Unit Operating Agreement will benefit the working interest owners and royalty owners of the oil and gas rights within the Unitized Formation of the Unit Area.

12. Chevron has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

13. Pursuant to Division rules, a copy of this application was mailed by certified mail, return-receipt requested, to all parties listed on Exhibit "F" notifying them of the hearing set for March 7, 1991.

14. The participation formula contained in the Unit Agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit area on a fair, reasonable and equitable basis, and protects the correlative rights of all owners of interest within the Unit Area.

15. The statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights.

WHEREFORE, Chevron respectfully requests that this application be set for hearing before the Oil Conservation Division at the earliest practicable date and that the Division enter its order approving the Unit Agreement and Unit Operating Agreement and providing for the unitized management, operation and further development of the Unitized Formation and the Unit Area in accordance with the Act.

Respectfully submitted,

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

ATTORNEYS FOR CHEVRON U.S.A., INC.

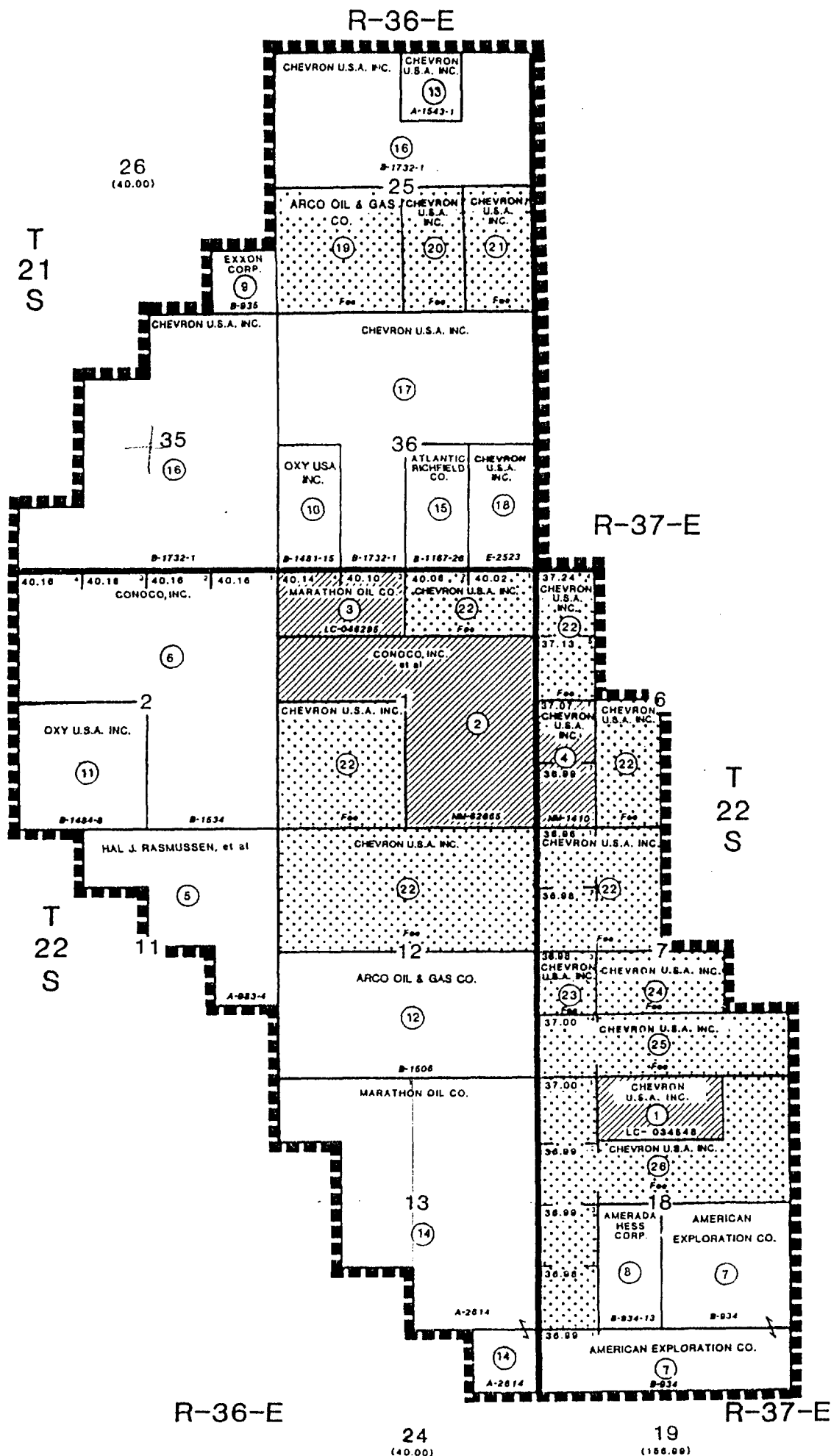


EXHIBIT "A"
ARROWHEAD GRAYBURG
UNIT AREA
LEA COUNTY, NEW MEXICO

	ACREAGE	PERCENTAGE
FEDERAL LANDS	554.30	8.36%
STATE LANDS	3,697.83	60.75%
PATENTED LANDS	1,770.33	28.89%
TOTAL	5,922.26	100.00%

UNIT OUTLINE

TRACT NUMBERS

SCALE 1"-3000 ft

CHEVRON U.S.A. INC.
MIDLAND TX.

EXHIBIT "A"

NOTE: UNLESS OTHERWISE INDICATED, THE VARIOUS SECTIONS ON THIS PLAT CONTAIN 640.00 AC.

EXHIBIT "B"

T21S, R36E

Section 25: A11
Section 26: SE/4SE/4
Section 35: E/2; E/2SW/4; SW/4SW/4; SE/4NW/4
Section 36: A11

T22S, R36E

Section 1: A11
Section 2: A11
Section 11: NE/4NW/4; NE/4; NE/4SE/4
Section 12: A11
Section 13: E/2; E/2NW/4; NW/4NW/4; NE/4SW/4
Section 24: NE/4NE/4

T22S, R37E

Section 6: W/2NW/4; SW/4
Section 7: W/2; S/2SE/4; NW/4SE/4
Section 18: A11
Section 19: N/2N/2

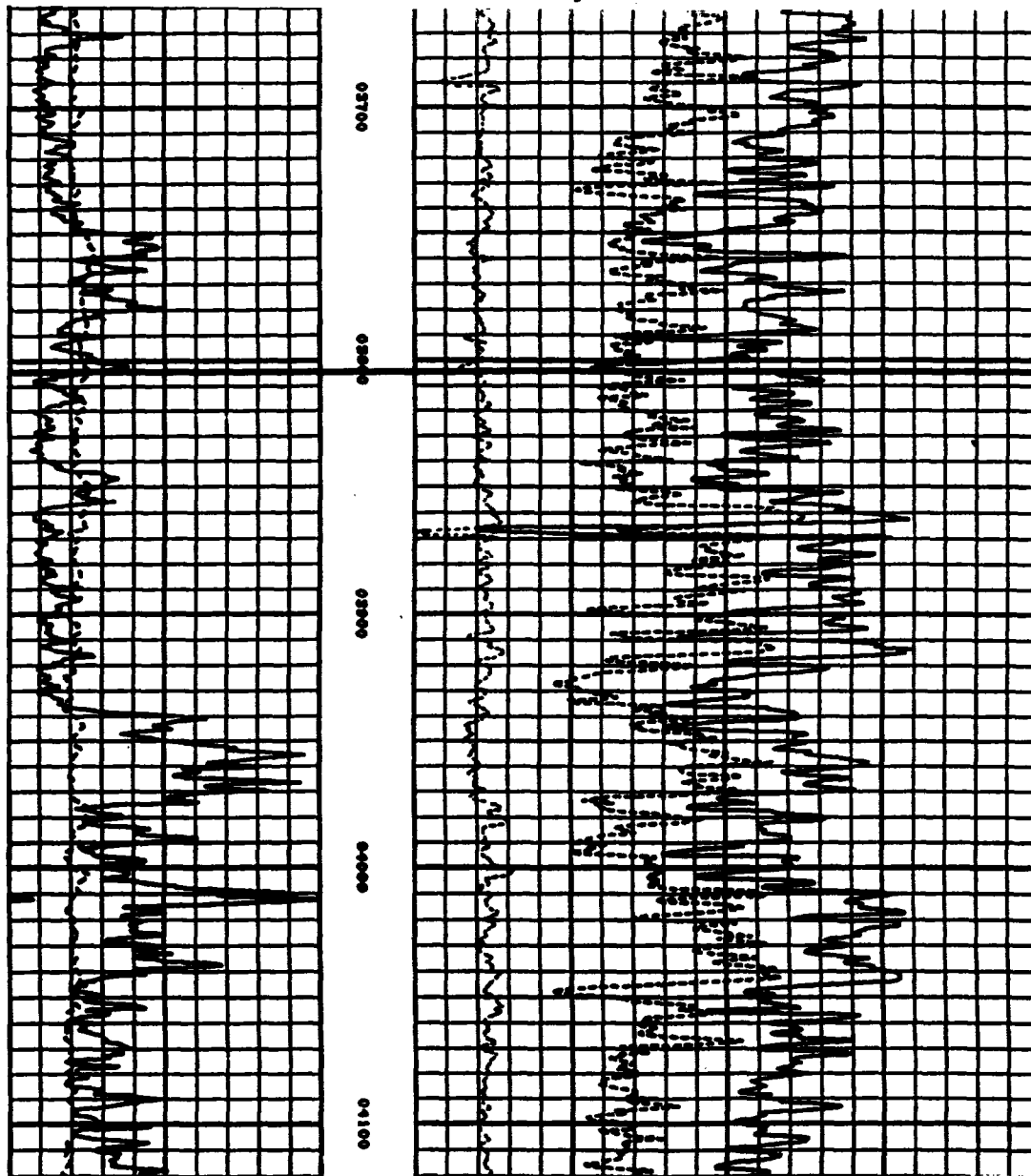
TYPE LOG

Southwest Eunice - San Andres Pool

Exxon New Mexico State 'M' # 49

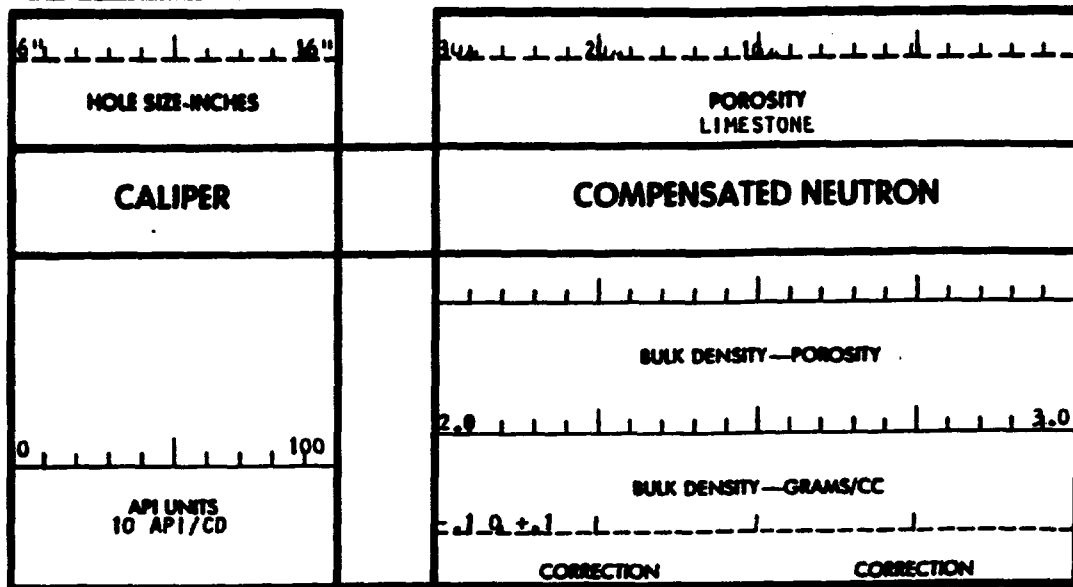
Section 18, T-22-S, R-37-E

Lea County, New Mexico



T/SAN ANDRES

MD = 3804'



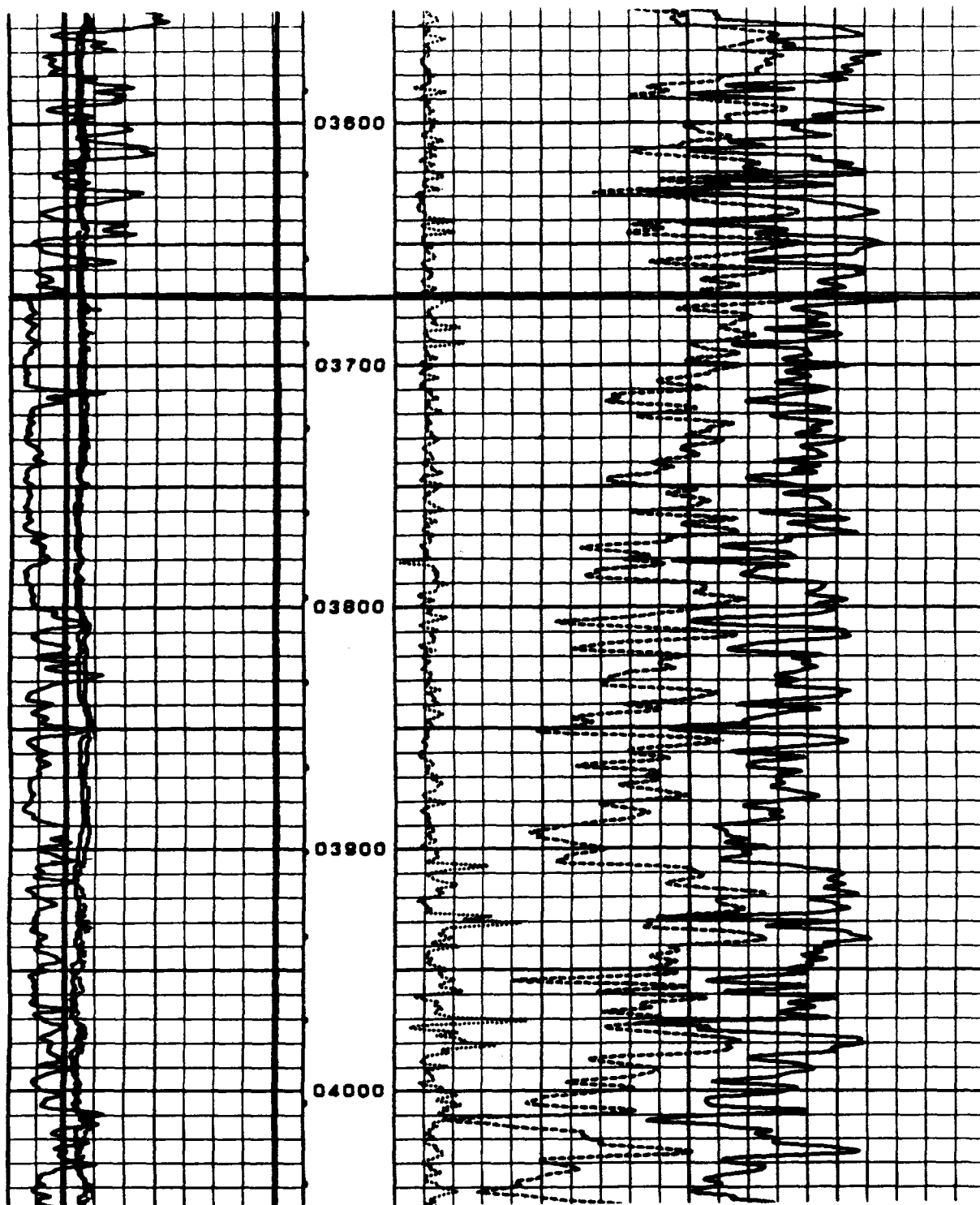
TYPE LOG

Arrowhead Grayburg

Chevron (Gulf) Harry Leonard (NCT-C) # 20

Section 36, T-21-S, R-36-E

Lea County, New Mexico



T/GRAYBURG

MD = 3671'

(-139'SS)

8	BITSIZE	16			
150	GR API	300	-0.05	ΔP	0.45
6	Y - CAL	16	70	φ (CNS)	30
8	X - CAL	16	30	φ (CNS)	-10
0	GR API	150	2	P (B)	3

AGU C-108
FEDERAL AND STATE AGENCIES

UNITED STATES DEPT OF INTERIOR
BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
ATTN MR ARMONDO LOPEZ
P O BOX 1397
ROSWELL NEW MEXICO 88201

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
ATTN MR FLOYD PRONDO
P O BOX 1148
SANTA FE NEW MEXICO 87504

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION DISTRICT 1
ATTN MR JERRY SEXTON
P O BOX 1980
HOBBS NEW MEXICO 88240

ASBY CORPORATION WI 01
PO BOX 1829
GRAND JUNCTION COLORADO 81602

AMERADA HESS CORPORATION WI 03
PO BOX 2040
TULSA OKLAHOMA 74102

AMERICAN EXPLORATION CO WI 02
700 LOUISIANA
HOUSTON TEXAS 77002

AMOCO PRODUCTION COMPANY WI 04
PO BOX 3082
HOUSTON TEXAS 77253

ATLANTIC RICHFIELD COMPANY R 008
PO BOX 1810
MIDLAND TEXAS 79702

ARCO OIL & GAS COMPANY WI 05
PO BOX 1810
MIDLAND TEXAS 79702

BELCO DEVELOPMENT COMPANY WI 51
PO BOX 2287
MIDLAND TEXAS 79702

BORREGO PROPERTIES INC WI 52
PO BOX 2541
MIDLAND TEXAS 79702

BOYS CLUB OF AMERICA R 016
771 FIRST AVENUE
NEW YORK NEW YORK 10017

BRADLEY NOMINEE CORPORATION R 018
PO BOX 292
WELLSVILLE NEW YORK 14896

BRAILLE INSTITUTE OF AMERICA INC R 019
AGENCY #831-00
NCNB TRUSTEE O & G SEC
PO BOX 830308
DALLAS TEXAS 75283-2029

CHARON OIL GROUP R 033
PO BOX 785
FORT DODGE IOWA 50501-0795

CHEVRON USA INC WI 13
PO BOX 1160
MIDLAND TEXAS 79702

COLONIAL SECURITIES CO R 038
PO BOX 381
SHAWNEE MISSION KANSAS 66201-0381

CONOCO INC WI 14
10 DESTA DR
MIDLAND TEXAS 79705

DASCO ENERGY CORP WI 18
PO BOX 2646
HOBBS NEW MEXICO 88240

DAVID PETROLEUM CORP R 044
116 WEST FIRST
ROSWELL NEW MEXICO 88201-4702

EL PASO NATURAL GAS CO WI 18
ONE PETROLEUM CENTER BLDG II
3300 NORTH 'A' STREET
MIDLAND TEXAS 79701

ELKS NATIONAL FOUNDATION R 052
CARE BANK OF NEW ENGLAND N A
ACCT 5-6429
28 STATE STREET
BOSTON MASSACHUSETTS 02108

ELLIOTT OIL COMPANY R 053
PO BOX 1356
ROSWELL NEW MEXICO 88201

ENRON OIL & GAS WI 19
PO BOX 2287
MIDLAND TEXAS 79701

EXXON COMPANY USA WI 20
ATTN: SAM JOLLIFFE
PO BOX 1700
MIDLAND TEXAS 79702

GEODYNE RESOURCES INC R 069
320 S BOSTON AVENUE
TULSA OKLAHOMA 74103-3708

HAL J RASMUSSEN OPERATING INC WI 40
ATTN: HAL J RASMUSSEN
8 DESTA DRIVE - STE 6860
MIDLAND TEXAS 79705

HANSON-MCBRIDE PETROLEUM CO WI 54
PO BOX 1516
ROSWELL NEW MEXICO 88201

HENDRICK MEMORIAL HOSPITAL R 083
1242 19TH ST
ABILENE TEXAS 79801

HIGGINS TRUST INC R 084
PO BOX 2421
GAINESVILLE GEORGIA 30503

JOHN H HENDRIX CORP R 089
233 W WALL STE 525
MIDLAND TEXAS 79701

LADD PETROLEUM CORP R 224
PO BOX 85878
DALLAS TEXAS 75285

MAIN STREET HOLDING CO R 129
PO BOX 381
SHAWNEE MISSION KANSAS 66201

HAWKINS OIL & GAS INC
ATTN LORI DAUGHERTY
400 S BOSTON SUITE 900
TULSA OKLAHOMA 74103

R 238

WLDO1214.04X

D C TRUST MARILYN CONE TRUSTEE BOX 64244 LUBBOCK TX 79464	R 040	SUE STINSON TESTAMENTARY #2046-12 NCNB TEXAS NATIONAL BANK ATTN GREG HOLCOMB P O BOX 270 MIDLAND TEXAS 79702	R 198	NCNB TEXAS NATIONAL BANK TRUSTEE OF THE JESSIE B CRUMP FAMILY TRUST #1069 P O BOX 270 MIDLAND TEXAS 79702	R 203
ELYSE S PATTERSON TRUST "B" COMMERCE BANK OF KANSAS CITY NA ATTN REAL ESTATE DEPT BOX 419248 KANSAS CITY MO 64141-9248	R 206	LINWOOD SECURITIES TRUST COMMERCE BANK OF KANSAS CITY NA TRUSTEE P O BOX 419248 KANSAS CITY MISSOURI 64141	R 118	JAMES R CRAVENS TRUST TEXAS COMMERCE BANK NA BOX 2668 HOUSTON TEXAS 77262-8033	R 092
C W GRIMES TRUST GLORIA MCFARLAND TRUSTEE BOX 702076 TULSA OKLAHOMA 74170	R 021	CALDWELL J SAUNDERS TRUST 2600 SOUTH TOWER LB 201 800 N PEARL DALLAS TEXAS 75201-2880	R063	HOWARD PAYNE COLLEGE F/B/O MCARTHUR ACADEMY OF FREEDOM C/O COMMERCIAL NATL BANK TRUST DEPT BOX 21119 SHREVEPORT LOUISIANA 71162	R 086
EVELYN L GREEN & ROBERT GREEN CO-EXECUTORS U/W/O JACOB M GREEN C/O EDWARD BARTH 1630 PALISADE AVENUE FORT LEE NEW JERSEY 07024-6487	R 090	THE WILSON CHILDREN TRUST 102 SUDBERRY RD CONCORD MASSACHUSETTS 01742	R 208	ROY G BARTON SR & OPAL BARTON TRUST ROY G BARTON JR TRUSTEE P O BOX 978 HOBBS NEW MEXICO 88240	R 206
NEWBY-FORESEE TRUST LIBERTY NATIONAL BANK ATTN: CHRIS BUCK P O BOX 26848 OKLAHOMA CITY OKLAHOMA 73126	R 178	CHARLES PFILE TRUST LIBERTY NATIONAL BANK TRUSTEE BOX 26848 OKLAHOMA CITY OKLAHOMA 74868	R 031	ANNIE TAYLOR ESTATE THELMA TAYLOR EXECUTRIX C/O JOHN F GEISTER JR 1046 DONAGHEY BUILDING LITTLE ROCK ARKANSAS 72201	R 006
ANDREA SINGER POLLACK REVOCABLE TRUST JOSEPH B SINGER TRUSTEE BOX 2632 DENVER COLORADO 80201	R 004	KATHERINE K MCINTYRE REVOCABLE TRUST #4641 TEAM BANK TRUSTEE TRUSTS MINERAL STATION #31 BOX 2060 FORT WORTH TEXAS 76113	R 107	THE JOHN K CLEARY TRUST BANK OF OKLAHOMA N A TRUSTEE OF JOHN K CLEARY TRUST P O BOX 1688 TULSA OKLAHOMA 74101	R 204
JOE & JESSIE CRUMP FUND #2312 TEAM BANK TRUSTEE ATTN CINDY BYARS BOX 2060 FORT WORTH TEXAS 76113	R 096	SELMA E ANDREWS TRUST #6188-01/02 NCNB TEXAS NATIONAL BANK TRUSTEE FOR THE SELMA E ANDREWS TRUST P O BOX 830308 DALLAS TEXAS 75283-0308	R 184	NATHAN APPLEMAN TRUST ACCT 45-3080 C/O BESSEMER TRUST CO N A ATTN GUY WALTMAN 630 FIFTH AVENUE NEW YORK NEW YORK 10111-001	R 147
WILLIAM G SEAL & MARCELLYN J SEAL JOINT TENANT 4682 SOUTH TROOST TULSA OKLAHOMA 74106	R 220	JAMES W WINKEL ESTATE CAROL WINKEL EXECUTRIX 2101 WOODLAWN MIDLAND TX 79701	WI 49	MARY G MORAN FAGAN PAYNE BASDEN TRUST C/O TEXAS COMMERCE BANK NA MINERAL SECTION 6314001 P O BOX 2668 HOUSTON TEXAS 77262-8033	R 138
RANDY M KIDWELL ESTATE SUZANNE KIDWELL EXECUTRIX 4204 CRESTRIDGE MIDLAND TEXAS 79707-2732	WI 24	ROY S MAGRUDER TRUST FORT WORTH NATIONAL BANK TRUSTEE P O BOX 2060 FORT WORTH TEXAS 76101	R 176	LLOYD GARRINGER ESTATE ETTA VIVIAN BROOKS EXECUTRIX C/O H B BRADBURY P O BOX 686 WOODWARD OKLAHOMA 73801-0688	R 119
GEORGE W BROWNLEE ESTATE EDGIE B BROWNLEE INDEPENDENT EXECUTRIX 10066 OLYMPIA DRIVE HOUSTON TEXAS 77042	R 071	KIRBY D SCHENCK C/O LIBERTY NATIONAL BANK PERSONAL REPRESENTATIVE BOX 1827 LOVINGTON NM 88260-1827	R 074	CHARLES F DOORNBOS REVOCABLE TRUST ATTN SUE ABBE P O BOX 839 BARTLESVILLE OK 74006	R 236

DANIEL THAMMEL ESTATE
JULIE PAYNE EXECUTRIX
118 REAMER AVE
WILMINGTON DELAWARE 19804

R 041

POWMIAN & BEVERLY T CARTER REV TRUST R 180
BEVERLY T CARTER TRUSTEE
P O BOX 328
FT SUMNER NEW MEXICO 88119

WLD01231072

A J TRAMMELL R 001
RT 13 312 CLAY ST
BERMINGHAM MISSOURI 64161

ALVIN LUSKEY R 002
101 N HOUSTON STREET
FORT WORTH TEXAS 76102

ANDERSON CARTER R 003
PO BOX 988
LAS CRUCES NEW MEXICO 88004

ANDREW B BURLESON WI 11
2823 CIMMARON DRIVE
MIDLAND TEXAS 79706

ATHENIA M HUNT R 009
338 RANDOLPH STREET
EAST PEORIA ILLINOIS 61611

AUBREY C PRICE WI 38
700 MEADOWPARK DRIVE
MIDLAND TEXAS 79706

B A CHRISTMAS JR R 010
CHICO ROUTE
RATON NEW MEXICO 87740

BARBARA E HANNIFIN WI 22
PO BOX 2588
ROSWELL NEW MEXICO 88202-2588

BEATRICE V COOK R 011
PO BOX 1076
ROSWELL NEW MEXICO 88202

BERNARD G SCOTT WI 41
3002 GODDARD PLACE
MIDLAND TEXAS 79706

BETTY MORAN RICE R 012
6223 LUPTON
DALLAS TEXAS 75226

BILLIE JUNE CROW R 014
PO BOX 643
ROSWELL NEW MEXICO 88201

BRADFORD ACE CHRISTMAS R 017
PO BOX 173
WAGON MOUND NEW MEXICO 87752

BURTON VETETO WI 43
670 ABO
HOBBS NEW MEXICO 88240

BUSTER TRAMMELL R 020
2516 YELLOW FIR RD
TILLAMOOK OREGON 97141

CANDY CHRISTMAS R 022
PO BOX 1564
MOORESVILLE NORTH CAROLINA 28116

CAROLYN LOVELESS SCHLICHER R 023
PO BOX 606
ROSWELL NEW MEXICO 88202-0606

CATHIE CONE AUVENSHINE R 025
PO BOX 658
DRIPPING SPRINGS TEXAS 78620

CECIL FRANK WILSON R 026
613 NE 6TH STREET
AMARILLO TEXAS 79107

CELIA A ZINN WI 50
2603 HUGHES
MIDLAND TEXAS 79706

CHARLES B BROWNLEE R 027
129 CRESTBROOK
RED OAK TEXAS 75154-9619

CHARLES DANIEL RANSOM R 029
PO BOX 221
EUREKA CALIFORNIA 95602

CHARLES H PRICE II R 028
ONE W ARMOUR BLVD-STE 300
KANSAS CITY MISSOURI 64111

CHARLOTTE FRANCIS WELDON R 032
RR 2 BOX 18
SEMINOLE OKLAHOMA 74868

CHICORA MODESTA WILLIAMS TRUST WI 47
PO BOX 10908
MIDLAND TEXAS 79702

CLIFFORD CONE R 035
PO BOX 6010
LUBBOCK TEXAS 79413

COLIN MCMILLAN R 037
118 WEST 1ST STREET
ROSWELL NEW MEXICO 88201-4702

DAVID E PRICE R 042
77 S BIRCH RD APT 11-D
FT LAUDERDALE FLORIDA 33318

DAVID LUSKEY R 043
101 N HOUSTON ST
FORT WORTH TEXAS 76102

DELLA LONG R 045
RT 72 PIONEER VILLAGE B27
MOUNTAIN VIEW ARKANSAS 72660

DORIS B NEAL R 047
1201 BERING #79-
HOUSTON TEXAS 77067-2308

DOYLE & MARGARET M HARTMAN R 232
P O BOX 10426
MIDLAND TEXAS 79702

DOSHA GILBERT R 048
HC 73 BOX 478
MOUNTAIN VIEW ARKANSAS 72580

EDGAR LEWIS KILLINGSWORTH R 051
2112 NW 118 TERRACE
OKLAHOMA CITY OKLAHOMA 73120

ELLIS TRAMMELL R 054
HC-73 BOX 804
ONIA ARKANSAS 97388

EMELY ANN EDWARDS R 056
226 W 7TH ST
BRISTOW OKLAHOMA 74010

EUNICE JAMES GRAY R 059
177 TWEED BOULEVARD
NYACK NEW YORK 10980

FANCHER ARCHER R 062
PO DRAWER 430
HALE CENTER TEXAS 79041

FRANK LYNN KILLINGSWORTH R 066
414 W WALNUT
SHAWNEE OKLAHOMA 74868

G T MCALPIN WI 27
PO BOX 48
CUERO TEXAS 77954-2732

GEORGE ETTA EMERSON R 070
7216 COMANCHE
OKLAHOMA CITY OKLAHOMA 73132

GREGORY J BROSE WI 08
6100 BECKWORTH COURT
PARKER COLORADO 80134

GWEN G HALL R 072
4004 TERRACE DRIVE
AMARILLO TEXAS 79109

HARMON HESS JR R 078
1614 PIERSON STREET
PEORIA ILLINOIS 61647

HAROLD B BRADBURY R 079
808 W COLORADO
COLORADO SPRINGS COLORADO 80901

HARVEY ROBERTS R 081
6512 GOTHAM ST
BELL GARDENS CALIFORNIA 90201

HELEN JANE CHRISTMAS BARBY R 082
PO BOX 2787
EDMOND OKLAHOMA 73034

IMA JO BRISCOE R 087
623 MCGRAW
HEALDTON OKLAHOMA 73438

JACK FLETCHER R 089
P O BOX 10887
MIDLAND TEXAS 79702

JAMES A DAVIDSON R 233
PO BOX 484
MIDLAND TEXAS 79702

JAMES E BURR WI 12
3803 WEDGEWOOD COURT
MIDLAND TEXAS 79707-4706

JEAN ANDERSON SIMPSON R 093
6802 S DELAWARE PLACE
TULSA OKLAHOMA 74106

JIMMIE OLIS HESS R 094
1326 GANNON
ENID OKLAHOMA 73703

JOHN ALBERT HESS R 097
PO BOX 979
VELMA OKLAHOMA 73091-0979

JOHN B WHITLEY R 098
2620 DESOTO
SHREVEPORT LOUISIANA 71103

JOHN HENRY KILLINGSWORTH R 100
1933 MINNESOTA
SHAWNEE OKLAHOMA 74801

JOHN R BROSE WI 07
3000 CLAYDESTA NAT BANK
MIDLAND TEXAS 79706

JOHN R BRYANT WI 10
911 WEST SILVER
HOBBS NEW MEXICO 88240

JOHN W BURRESS R 101
PO BOX 36363
ALBUQUERQUE NEW MEXICO 87178

JOHN W BURRESS & CONSTANCE F BURRESS R 102
PO BOX 36363
ALBUQUERQUE NEW MEXICO 87178

JOHNNIE TRAMMELL R 103
RT 2 BOX 74
LIBERTY MISSOURI 64068

JOYCE ANN BROWN R 104
PO BOX 72
WATROUS NEW MEXICO 87753

JULIE HESS HOSHOR R 106
132 ERMA COURT
CREVE COEUR ILLINOIS 61611

JUNE D SPEIGHT R 108
P O DRAWER 1687
LOVINGTON NEW MEXICO 88260

KATHLEEN CONE R 108
PO BOX 1608
LOVINGTON NEW MEXICO 88260

KELLY H BAXTER R 109
PO BOX 11193
MIDLAND TEXAS 79702

KENNETH G CONE R 110
PO BOX 11310
MIDLAND TEXAS 79701

KEVIN HESS R 111
R R #2
MAPLETON ILLINOIS 61647

KIM D JONES WI 23
4000 DYER CIRCLE
MIDLAND TEXAS 79705

KIRBY D SCHENCK R 074
C/O LIBERTY NATIONAL BANK
PERSONAL REPRESENTATIVE OF
KIRBY D SCHENCK
P O BOX 1627
LOVINGTON, NM 88260-1627

L O CARROLL R 112
1216 COUNTRY CLUB DRIVE
NORMAN OKLAHOMA 73069

L PAUL LATHAM WI 25
8600 CLAYDESTA NAT'L BANK
MIDLAND TEXAS 79705

LARRY A CRESS WI 16
3702 BERMUDA COURT
MIDLAND TEXAS 79707

LARRY NERMYR WI 34
HC-37 BOX 4106
SIDNEY MONTANA 59270

LEE ROBERTS R 113
PO BOX 27
LOVINGTON NEW MEXICO 88260

LEE WOOD ROBERTS R 114
STAR RT 2 BOX 1927
TULAROSA NEW MEXICO 88339

LEO WIMAN R 116
PO BOX 12073
DALLAS TEXAS 75226

LILLIAN MYERS R 117
10232 REGAL OAKS APT C
DALLAS TEXAS 75230

LORENE JANE HESS R 121
736 N PALM ST
PONCA CITY OKLAHOMA 74601

LOUIS LUSKEY R 122
101 N HOUSTON ST
FORT WORTH TEXAS 76102

LOUISE B DIGGLES R 123
10123 GREENTREE STREET
HOUSTON TEXAS 77042-1229

LOUISE C SUMMERS R 124
PO BOX 778
HOBBS NEW MEXICO 88240

LUCINDA LOVELESS R 126
419 WEST WELLINGTON #1
CHICAGO ILLINOIS 60657-5803

LUCY MAE LITRELL R 126
C/O HELEN BEMIS
9812 NE 85TH ST
VANCOUVER WASHINGTON 98662

MACK H WOOLRIDGE R 230
P O BOX 1946
ALBANY TEXAS 74630

MARGARET ELIZABETH BURNS R 131
3113 NW 80TH STREET
OKLAHOMA CITY OKLAHOMA 73112

MARTHA FARRIS R 133
RT 73 BOX 912
ONIA ARKANSAS 72863

MARY ALLISON R 134
814 CHERI WAY
FAIRDALE KENTUCKY 40118

MARY FRANCES HURLEY R 137
297 W LOMA ALTA DRIVE
ALTADENA CALIFORNIA 91001

MARY LEE S REESE R 139
PO BOX 8631
SALT LAKE CITY UTAH 84108-8631

MARY T CHRISTMAS HOLLADAY R 141
PO BOX 201204 -
ARLINGTON TEXAS 76006-1204

MARY VERN RANSOM R 142
28890 LILAC RD SP 148
VALLEY CENTER CALIFORNIA 92082

MYRTLE PRILE R 145
C/O JAMES BRUTON
PO BOX 218
WAURIKA OKLAHOMA 73573

NADINE PRIDEAU LOVELESS SMITH R 146
C/O MR BAYNARD W MALONE
ATTORNEY-AT-LAW
PO BOX 568
ROSWELL NEW MEXICO 88202

NORMA JEAN TALBERT R 150
1704 ASPEN ACRES
BENTON ARKANSAS 72015

OLIS S HESS R 151
1029 SHADY PLACE
PONCA CITY OKLAHOMA 74801

OTIS E RAMSEY JR R 152
18510 24TH PLACE NE
SEATTLE WASHINGTON 98155

OTIS TRAMMELL R 153
3513 MAPLE LANE
TILLAMOOK OREGON 97141

PATRICK J LEONARD R 156
PO BOX 335
DALLAS TEXAS 75221

R H TRAMMELL R 162
RR 13
KANSAS CITY MISSOURI 64161

RANDOLPH E WILSON R 164
5949 SHERRY LANE
DALLAS TEXAS 75225

ROBERT BOOTH KELLOUGH R 168
3824 N RIVER ROAD
PORT ALLEN LOUISIANA 70787

ROBERT E KING ESTATE R 169
JANET E ALBRIGHT,
PERSONAL REPRESENTATIVE
11840 MT LAUREL DRIVE
ROSWELL GEORGIA 30075

ROBERT E KING NO 2 R 170
JANET E ALBRIGHT
PERSONAL REPRESENTATIVE
11840 MT LAUREL DR
ROSWELL GEORGIA 30075

ROBERT J LEONARD R 171
PO BOX 400
ROSWELL NEW MEXICO 88201

ROBERT L E BURRESS R 172
PO BOX 671
FARMINGTON NEW MEXICO 87499

ROY G BARTON JR R 174
PO BOX 978
HOBBBS NEW MEXICO 88240

RUBIE C BELL R 178
1331 THIRD STREET
NEW ORLEANS LOUISIANA 70130

RUTH SUTTON WI 42
2828 MOSS AVENUE
MIDLAND TEXAS 79705

SARA H STOVALL R 181
3800 MINOT
FORT WORTH TEXAS 76133

SAVANNAH HESS ALTMAN R 182
1604 HUDSON DRIVE
PONCA CITY OKLAHOMA 74801

STANLEY W CROSBY III R 193
P O BOX 2346
ROSWELL NEW MEXICO 88202-2346

STEPHEN N JAMES R 198
5406 SCOUT ISLAND CIRCLE SOUTH
AUSTIN TEXAS 78731

SUE SAUNDERS GRAHAM R 197
PO BOX 987
ROSWELL NEW MEXICO 88201

THELMA BLACK R 210
PO BOX 205
MIDLAND TEXAS 79701

THOMAS H MOORE WI 32
4461 HACKBERRY CT
MIDLAND TEXAS 79707-1614

TIMOTHY T LEONARD R 211
PO BOX 6006
SAN ANTONIO TEXAS 78209

TOM R CONE R 212
PO BOX 778
JAY OKLAHOMA 74348

TOM W ELLISON R 213
2502 CIMMARON
MIDLAND TEXAS 79701

W SCOTT RAMSEY WI 39
1302 LAWSON
MIDLAND TEXAS 79701

WILLIAM A KOLLIKER R 218
3812 HILLCREST DRIVE
EL PASO TEXAS 79902-1707

WILLIAM COLEMAN RANSOM R 219
PO BOX 31
WHITETHORN CALIFORNIA 95489 -

WILLIAM G SEAL & MARCELLYN J SEAL R 220
JOINT TENANTS
4882 SOUTH TROOST
TULSA OKLAHOMA 74106

WILLIAM W BURRESS R 221
3 MAXWELL LANE
PLANO TEXAS 75094

WOODLAN PERRY SAUNDERS R 222
PO BOX 1536
SANTA FE NEW MEXICO 87501-1536

WYNANT S WILSON R 223
2014 BROOK HOLLOW DRIVE
ABILENE TEXAS 79605

VELMA B WOODY R 237
ROUTE 3 BOX 886
ONIA ARKANSAS 72663

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MARATHON OIL COMPANY PO BOX 552 MIDLAND TEXAS 79702	WI 26	MARSHALL & WINSTON INC PO BOX 50880 MIDLAND TEXAS 79710	R 132	MCSBRIDE OIL & GAS CORPORATION PO BOX 1515 ROSWELL NEW MEXICO 88202-1515	WI 29
MERIDIAN OIL INC 21 DESTA DRIVE MIDLAND TEXAS 79705	WI 30	NEW MEXICO BOYS RANCH INC BOYS RANCH STATION BOYS RANCH NEW MEXICO 87002	R 149	NUEVO SEIS INC PO BOX 182 ROSWELL NEW MEXICO 88202-0182	WI 35
OXY USA PO BOX 50250 MIDLAND TEXAS 79710	WI 38	PARA MIA INC PO BOX 2541 MIDLAND TEXAS 79702	WI 37	PETCO LIMITED PO BOX 911 BRECKENRIDGE TEXAS 76024	R 157
REBEL OIL COMPANY 6333 MOCKINGBIRD BLDG 147 STE 247 DALLAS TX 75214	R 186	REGENTS OF THE UNIVERSITY OF NEW MEXICO UNIVERSITY HILL NE ALBUQUERQUE NEW MEXICO 87131	R 187	ROCA PROPERTIES LTD 2001 GULF AVENUE MIDLAND TEXAS 79705	R 226
SHATTUCK ST MARY'S SCHOOL PO BOX 218 FAIRBAULT MINNESOTA 55021	R 185	SOHIO PETROLEUM COMPANY PO BOX 4597 HOUSTON TEXAS 77210	R 187	SOUTHLAND ROYALTY COMPANY PO BOX 910497 DALLAS TEXAS 75391	R 188
SOUTHWEST ROYALTIES INC PO BOX 11390 MIDLAND TEXAS 79702	R 190	SPINDLETOP EXPLORATION CO INC PO BOX 25604 DALLAS TEXAS 75225-5504	R 191	SUN OPERATING LTD PTN ORYX ENERGY CO MANAGING PARTNER PO BOX 2880 DALLAS TEXAS 75221	R 200
THE HOME STAKE ROYALTY CORPORATION 15 EAST FIFTH STREET TULSA OKLAHOMA 74103	R 202	THE TOLES COMPANY PO BOX 1380 ROSWELL NEW MEXICO 88202	R 227	THE W A YEAGER GROUP PO BOX 990 MIDLAND TEXAS 79702	R 207
THE WILLIAMS PARTNERSHIP 8 DESTA DRIVE - SUITE 5800 MIDLAND TEXAS 79705	WI 48	THE WISER OIL COMPANY DEPT L 464-P PITTSBURGH PENNSYLVANIA 15264-0454	R 209	TRIBUTE ROYALTIES INC ONE RODNEY SQUARE 10TH AND KING STREET WILMINGTON DELAWARE 19801	R 214
TRINITY PROPERTIES II PO BOX 2111 MIDLAND TEXAS 79702	R 225	WESTWAY PETROLEUM COMPANY LOCK BOX 79 500 N ACKARD STREET DALLAS TEXAS 75201-3384	WI 45	SHELL WESTERN E&P INC P O BOX 576 HOUSTON TX 77001	R 062
STATE STREET BANK & TRUST CO 801 STATE STREET QUINCY ILLINOIS 62301	R 195	TRIO PETROLEUM CORPORATION ROUTE 78 BOX 35 E GLENVILLE WV 26031	R 239	HICKORY TIMBERS LTD PTN ATTN VAUGHN D VENNBERG II 810 HOUSTON STREET SUITE 2000 FORT WORTH TEXAS 76102	R 234



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

BRUCE KING
GOVERNOR

MEMORANDUM

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

TO: ALL INTERESTED PARTIES

FROM: WILLIAM J. LEMAY, Director
Oil Conservation Division *MS for WJL*

SUBJECT: EXAMINERS HEARING SCHEDULED FOR APRIL 4, 1991

DATE: FEBRUARY 25, 1991

The April 4, 1991 Examiner Hearing is currently heavily docketed with two cases involving statutory unitization and the institution of a waterflood project with 108 injection wells (Case No. 10252 and 10253); also the Basin Fruitland Coal Gas Pool special Rules and Regulations review case (Case No. 9420) is scheduled for this date. The length of time involved to hear these cases alone could possibly extend into 2 days. Therefore no new cases will be scheduled for this date nor will any current cases be continued to this docket.

Further, for those parties involved in the April 4th hearing, a determination has not yet been made as to the location of the hearing. Please check with the docket issued at that time for verification whether the April 4th Examiner hearing will be in Farmington or Santa Fe.



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

BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: NEW MEXICO OIL PRODUCERS
FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*
SUBJECT: REGULATORY INITIATIVES TO INCREASE NEW MEXICO'S OIL PRODUCTION

The Oil Conservation Commission conducted a hearing on September 24, 1990, to receive comments and suggestions from industry concerning regulatory actions which might be taken to encourage industry activity and increase New Mexico oil production. The hearing was conducted as a result of the Persian Gulf crisis and in response to the Department of Energy requests for increased domestic oil production.

Hearing participants were generally in agreement that OCD should authorize higher well allowables in those pools where higher producing rates would not cause waste or damage correlative rates.

Since the September, 1990 hearing, OCD has heard and approved four cases which involved requests by the applicant to increase pool allowables. Orders have not yet been issued for two other cases involving increased allowables which were heard at the February 7, 1991 hearing. It will be OCD policy to continue this initiative and to entertain hearing requests for higher pool allowables which can be supported by performance data from the pool provided it can also be shown that the increase in allowable will not cause waste or harm correlative rights.

Other suggestions which the OCD plans to implement involve the encouragement of new oil field technology such as horizontal drilling and improving the overall efficiency of our regulatory process.

February 22, 1991

dr/

Nos. 8-91 and 9-91 are tentatively set for March 21, 1991 and April 4, 1991. Applications for hearing must be filed at least in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - MARCH 7, 1991

8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Jim Morrow, Examiner, or Michael E. Stogner, or David R. Catanach, Alternate Examiners:

CASE 10141: (Continued from February 7, 1991, Examiner Hearing.)

Application of Samuel Gary Jr. and Associates, Inc. for a gas reinjection/pressure maintenance project, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a gas reinjection/pressure maintenance project in its San Isidro (Shallow) Unit Area located in Townships 20 and 21 North, Ranges 2 and 3 West, by the injection of gas into the Rio Puerco-Mancos Oil Pool through the openhole interval from approximately 3793 feet to 4188 feet in its San Isidro 11 Well No. 16 located 660 feet from the South line and 630 feet from the West line (Unit P) of Section 11, Township 20 North, Range 3 West. Said project area is located approximately 5 to 13 miles west-southwest of Cuba, New Mexico.

CASE 10233: (Continued from February 7, 1991, Examiner Hearing.)

Application of Mobil Exploration & Producing Company for approval of salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the South Vacuum Devonian Pool, in the open hole interval from approximately 11,800 feet to 13,970 feet in its State Section 27 Well No. 1 located 660 feet from the North line and 1983 feet from the East line (Unit B) of Section 27, Township 18 South, Range 35 East. Said well is located approximately 5 miles east of the old Hobbs Army Air Corps Auxiliary Airfield No. 4.

CASE 10255: Application of Mobil Exploration & Producing U.S. Inc. for an unorthodox oil well location and a non-standard oil proration unit, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox oil well location in the Undesignated West Lindrith Gallup-Dakota Oil Pool for its Lindrith "B" Unit Well No. 78 to be drilled 2030 feet from the South line and 143 feet from the West line (Unit L) of Section 6, Township 24 North, Range 2 West, Lots 6 and 7 and the E/2 SW/4 (SW/4 equivalent) of said Section 6 to be dedicated to said well forming a non-standard 151.34-acre oil spacing and proration unit for said pool. Said unit is located approximately 3.5 miles northwest of Lindrith, New Mexico.

CASE 10241: (Readvertised)

Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox gas well location in the Undesignated West Dagger Draw-Morrow Gas Pool to be drilled 560 feet from the South and East lines (Unit P) of Section 9, Township 20 South, Range 24 East, the E/2 of said Section 9 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit. Said unit is located approximately 10 miles west of Seven Rivers, New Mexico.

CASE 10234: (Continued from February 7, 1991, Examiner Hearing.)

Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Ordovician formation underlying the following described acreage in Section 29, Township 9 South, Range 26 East, and in the following manner: the N/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Four Ranch-PrePermian Gas Pool and Undesignated East Bitter Lakes-Wolfcamp Gas Pool; the NE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the South Pecos Slope-Abo Gas Pool; and the SW/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations developed on 40-acre oil spacing within said vertical extent. Said units are to be dedicated to a single well to be drilled 1980 feet from the North line and 2310 feet from the East line (Unit G) of said Section 29, which is a standard oil and gas well location for zones spaced on 320 acres and 40 acres but is an unorthodox gas well location for zones spaced on 160 acres. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 7 miles north of Mile Marker No. 167 on U.S. Highway 380.

CASE 10256: Application of LBO New Mexico, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation or to a depth of 11,200 feet, whichever is deeper, underlying the following described acreage in Section 9, Township 11 South, Range 33 East and in the following manner: the S/2 forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent; the W/2 SW/4 forming a standard 80-acre oil spacing and proration unit in the North Bagley-Permo Pennsylvanian Pool; and the NW/4 SW/4 forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 40-acre spacing. Said units are to be dedicated to a single well to be drilled 1980 feet from the South line and 660 feet from the West line (Unit L) of said Section 9 being a standard oil well location but an unorthodox gas well location. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 5 miles east by south of Caprock, New Mexico.

CASE 10202: (Continued from February 7, 1991, Examiner Hearing.)

Application of Seay Exploration, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Abo formation underlying the following described acreage and in the following manner: Lots 1 and 2 and the S/2 NE/4 (NE/4 equivalent) of Section 6, Township 20 South, Range 39 East, forming a 160.12-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 160-acre spacing, which presently includes but is not necessarily limited to the House-Yates Seven Rivers Gas Pool and the SW/4 NE/4 of said Section 6 forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 40-acre spacing, which presently includes but is not necessarily limited to the House-San Andres, Undesignated House-Blinberry and House-Drinkard Pools. Said units are to be dedicated to a single well to be drilled at a standard location in the SW/4 NE/4 (Unit G) of said Section 6. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3 miles east-southeast of the community of Nadine, New Mexico.

CASE 10257: Application of Nearburg Producing Company for compulsory pooling and a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Undesignated North Osudo-Morrow Gas Pool underlying all of irregular Section 19, Township 19 South, Range 36 East, forming a non-standard 629.62-acre gas spacing and proration unit for said pool, to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 8 miles west by north of Monument, New Mexico.

CASE 10258: Application of Nearburg Producing Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 23, Township 20 South, Range 34 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 320-acre spacing, which presently includes but is not necessarily limited to the Laguna Valley-Morrow Gas Pool. Said unit is to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 4.5 miles south of U.S. Highway 62/180 at Mile Marker No. 80.5.

CASE 10259: Application of Chevron U.S.A., Inc. for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the Grayburg and San Andres formations, more or less, underlying 5922.26 acres, more or less, of Federal, State, and Fee lands comprising portions of Townships 21 and 22 South, Ranges 36 and 37 East. Said unit is to be designated the Arrowhead Grayburg (San Andres) Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Said Unit Area is located 3 to 5 miles west of Eunice, New Mexico.

CASE 10260: Application of Chevron U.S.A., Inc. for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its proposed Arrowhead Grayburg (San Andres) Unit Area (Division Case No. 10259) located in portions of Townships 21 and 22 South, Ranges 36 and 37 East, by the injection of water into the unitized interval which includes the Grayburg and San Andres formations, more or less, through 50 certain wells to either be drilled, recompleted or converted from producing to water injection wells. Said project area is located 3 to 5 miles west of Eunice, New Mexico.

CASE 10261: Application of Chevron U.S.A., Inc. for pool extensions and contractions, Lea County, New Mexico. Applicant, in the above-styled cause, in conjunction with its Arrowhead Grayburg (San Andres) Unit and waterflood project (Division Cases Nos. 10259 and 10260), applicant seeks to contract and extend the horizontal and/or vertical limits of the Arrowhead-Grayburg, Penrose-Skelly, Langlie-Mattix, and Eumont Gas Pools in portions of Townships 21 and 22 South, Ranges 36 and 37 East, which is 3 to 5 miles west of Eunice, New Mexico.

CASE 10236: (Continued from February 7, 1991, Examiner Hearing.)

Application of Meridian Oil Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from 50 feet below the base of the Queen formation to 50 feet below the base of the Delaware formation underlying the NW/4 SE/4 (Unit J) of Section 12, Township 18 South, Range 31 East, to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Shugart-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 2.75 miles south by west of New Mexico State Highway No. 529 at the Lea/Eddy County line.

CASE 10237: (Continued from February 7, 1991, Examiner Hearing.)

Application of Meridian Oil Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from 50 feet below the base of the Queen formation to 50 feet below the base of the Delaware formation underlying the NE/4 SW/4 (Unit K) of Section 12, Township 18 South, Range 31 East, to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Shugart-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3 miles south by west of the New Mexico State Highway 529 at the Lea/Eddy County line.

CASE 10238: (Continued from February 7, 1991, Examiner Hearing.)

Application of Meridian Oil Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from 50 feet below the base of the Queen formation to 50 feet below the base of the Delaware formation underlying the SE/4 SW/4 (Unit N) of Section 12, Township 18 South, Range 31 East, to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Shugart-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3 miles south by west of the New Mexico State Highway 529 at the Lea/Eddy County line.

CASE 10239: (Continued from February 7, 1991, Examiner Hearing.)

Application of Meridian Oil Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from 50 feet below the base of the Queen formation to 50 feet below the base of the Delaware formation underlying the SW/4 SE/4 (Unit O) of Section 12, Township 18 South, Range 31 East, to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Shugart-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3.25 miles south by east of the New Mexico State Highway 529 at the Lea/Eddy County line.

CASE 10249: (Continued from February 21, 1991, Examiner Hearing.)

Application of Pacific Enterprises Oil Company (USA) for a non-standard gas proration unit and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the current Special Rules and Regulations for the McMillan-Morrow Gas Pool, as promulgated by Division Order No. R-2917, as amended, and to establish a non-standard 320-acre gas spacing and proration unit comprising the S/2 of Section 18, Township 20 South, Range 27 East, to be dedicated to a well to be drilled at an unorthodox gas well location 660 feet from the South line and 1980 feet from the West line (Unit M) of said Section 18. Said unit is located approximately 9.5 miles south of the Old Illinois Camp.

CASE 10250: (Continued from February 21, 1991, Examiner Hearing.)

Application of Pacific Enterprises Oil Company (USA) for the rescission of special pool rules and for two non-standard 640-acre gas proration units or, in the alternative, to amend Division Order No. R-2917, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of the Special Rules and Regulations for the spacing and location of wells in the McMillan-Morrow Gas Pool, comprising Sections 13 and 24, Township 20 South, Range 26 East and Sections 7, 18, and 19, Township 20 South, Range 27 East, and seeks to have said pool governed by the provisions of General Rule 104.C.II(a) for gas pools of Pennsylvanian age. Further, the applicant requests the concomitant creation of two non-standard 640-acre gas spacing and proration units for the McMillan-Morrow Gas Pool in Section 13, Township 20 South, Range 26 East, for the existing Yates Drilling Company Pecos River Deep Unit located in Unit H of said Section 13 and in Section 19, Township 20 South, Range 27 East, for the existing Presidio Exploration Inc. State "I" Com Well No. 1 located in Unit F of Section 19, Township 20 South, Range 27 East. IN THE ALTERNATIVE, the applicant seeks to amend the current Rules and Regulations for said McMillan-Morrow Gas Pool, as promulgated by Division Order No. R-2917, as amended, to permit the optional drilling of an additional well on each 640-acre proration unit. Said pool is located approximately 5 miles south-southeast of Lakewood, New Mexico.

CASE 10262: Application of J. Oil and Gas Production Company, d.b.a. P. T. Adams, for an unorthodox location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox well location 1340 feet from the South line and 990 feet from the East line (Unit I) of Section 26, Township 7 South, Range 28 East, to test the Fusselman formation. The S/2 of said Section 26 forming a standard 320-acre gas spacing and proration unit to be dedicated should the well be classified as a gas well in the Undesignated South Elkins-Fusselman Gas Pool or the NE/4 SE/4 of said Section 26 forming a standard 40-acre oil spacing and proration unit should the well be classified as an oil well in the Undesignated South Elkins-Fusselman Pool. Said well location is approximately 1.5 miles south of Elkins, New Mexico.

CASE 10211: (Continued from February 21, 1991, Examiner Hearing.)

Application of Santa Fe Energy Operating Partners, L.P. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, and in the following manner: the W/2 NW/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated South Corbin-Wolfcamp Pool; and the SW/4 NW/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware Pool, Undesignated Central Corbin-Queen Pool, Undesignated West Corbin-San Andres Pool, and Undesignated Corbin-Bone Spring Pool. Said units are to be dedicated to a single well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet from the West line of said Section 8. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 7.5 miles southeast by south of Maljamar, New Mexico

CASE 10219: (Continued from February 21, 1991, Examiner Hearing.)

Application of Hanley Petroleum Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, and in the following manner: the W/2 NW/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated South Corbin-Wolfcamp Pool; and the SW/4 NW/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware Pool, Undesignated Central Corbin-Queen Pool, Undesignated West Corbin-San Andres Pool, and Undesignated Corbin-Bone Spring Pool. Said units are to be dedicated to a single well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet from the West line of said Section 8. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 7.5 miles southeast by south of Maljamar, New Mexico.

RECEIVED

FEB 28 1991

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION TO CONSIDER THE
APPLICATION OF CHEVRON USA INC.
FOR STATUTORY UNITIZATION LEA
COUNTY, NEW MEXICO

Case No. 10259

PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted on behalf of Carolyn Loveless Schlicher, Colin McMillan, David Petroleum Corp., Lucinda Loveless, Nadine Prideaux Loveless Smith, and Ladd Petroleum Corp., as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

Opponents: Carolyn Loveless Schlicher
Colin McMillan
David Petroleum Corp.
Lucinda Loveless
Nadine Prideaux Loveless Smith
Ladd Petroleum Corp.

Contact	Bill Owen	and	R.J. Kepke
Person:	David Petroleum Corp.		Ladd Petroleum Corp.
	116 West 1st Street		P.O. Box 42806
	Roswell, New Mexico 88201		Houston, TX 77042
	(505) 623-8800		(713) 978-7700

Attorney: W. Perry Pearce
Montgomery & Andrews, P.A.
Post Office Box 2307
Santa Fe, New Mexico 87504
(505) 982-3873

OPPONENT'S STATEMENT OF OPPOSITION

Opponents are parties interested in this matter because they are the holders of overriding royalty interests on properties within

the boundaries of the proposed statutory unit. The tracts within the unit area subject to the opponents' overriding royalty interests have been assigned a participating interest in unit production of zero percent (0%).

The New Mexico Statutory Unitization Act § 70-7-1 et seq. NMSA 1978 provides in pertinent part that at the hearing of a statutory unitization case, the division shall consider whether or not each of the following conditions exists:

(4) That such unitization and adoption of one or more of such unitized methods of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the pool or portion thereof directly affected;

* * *

(6) That the participation formula contained in the Unitization Agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

§ 70-7-6 NMSA 1978 (emphasis added)

Applicant believes that the proposal submitted by applicant in this case fails to meet the requirements.

OPPONENT'S PROPOSED EVIDENCE

Opponent expects to call one witness, a petroleum engineer at such hearing. Opponent does not presently know whether it will submit exhibits at such hearing but expects that its direct presentation would require 45 minutes to 1 hour. Opponents expect to participate in this hearing through cross-examination of applicant's witnesses.

PROCEDURAL MATTERS

Opponent is unaware of any procedural matters which must be resolved prior to the hearing of this case.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

By 

W. Perry Pearce

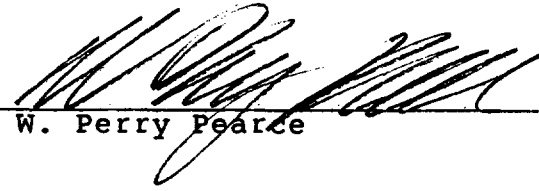
Post Office Box 2307

Santa Fe, New Mexico 87504-2307
(505) 982-3873

Attorneys for Opponents

CERTIFICATE OF SERVICE

I certify that I had a copy of this Pre-Hearing Statement hand-delivered to W. Thomas Kellahin, Esq., 117 N. Guadalupe, Santa Fe, New Mexico 87501 on February 28, 1991.


W. Perry Pearce

[wpp:77]

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. 10259

APPLICATION OF CHEVRON U.S.A., INC.,
FOR STATUTORY UNITIZATION, ARROWHEAD
GRAYBURG UNIT, LEA COUNTY, NEW MEXICO

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by CHEVRON
U.S.A., INC. as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT
(name, address, phone
and contact person)

Chevron U.S.A., Inc.
P.O. Box 1150
Midland, TX 79702
Attn: Bryan Cotner
(915) 687-7314

ATTORNEY

W. Thomas Kellahin
KELLAHIN, KELLAHIN & AUBREY
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

OPPOSITION OR OTHER PARTY
(name, address, phone
and contact person)

ARCO Oil & Gas Company

ATTORNEY

William F. Carr
Campbell & Black, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504
(505) 988-4421

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OIL CONSERVATION DIV.
SANTA FE

Carolyn Loveless Schlicher
Colin McMillan
David Petroleum Corp.
Lucinda Loveless
Nadine Prideaux Loveless
Smith
Ladd Petroleum Corp.

W. Perry Pearce
Montgomery & Andrews, P.A.
P.O. Box 2307
Santa Fe, New Mexico 87504
(505) 982-3873

STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with this application and the reasons therefore.)

Chevron U.S.A., Inc. seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the Grayburg and San Andres formations, more or less, underlying 5922.26 acres, more or less, of Federal, State and Fee lands comprising portions of Townships 21 and 22 South, Ranges 36 and 37 East. Said unit is to be designated the Arrowhead Grayburg (San Andres) Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations.

PROPOSED EVIDENCE

APPLICANT

WITNESSES (name and expertise)	EST. TIME	EXHIBITS
Bryan Cotner (PE)	60 Min.	20
Don Lindsay (geologist)	20 Min.	8
Denise Beckham (landman)	20 Min.	14

OPPOSITION OR OTHER PARTY

WITNESSES (name and expertise)	EST. TIME	EXHIBITS
-----------------------------------	-----------	----------

PROCEDURAL MATTERS

(Please identify any procedural matters which need to be resolved prior to the hearing)

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin

P.O. Box 2265

Santa Fe, New Mexico 87504

(505) 982-4285

**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. 10259

APPLICATION OF CHEVRON U.S.A. INC.
FOR STATUTORY UNITIZATION,
LEA COUNTY, NEW MEXICO.

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MAR 01 1991

PRE-HEARING STATEMENT

OIL CONSERVATION DIV.

This Prehearing Statement is submitted by William F. Carr, as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Chevron U.S.A., Inc. _____

name, address, phone and
contact person

ATTORNEY

W. Thomas Kellahin, Esq. _____
Kellahin, Kellahin & Aubrey _____
Post Office Box 2265 _____
Santa Fe, New Mexico 87504 _____
(505) 982-4285

OPPOSITION OR OTHER PARTY

ARCO Oil & Gas Company _____
Post Office Box 1610 _____
Midland, Texas 79702 _____
Attn: Kent Bickham _____
(915) 688-5632

name, address, phone and
contact person

ATTORNEY

William F. Carr _____
Campbell & Black, P.A. _____
Post Office Box 2208 _____
Santa Fe, New Mexico 87504 _____
(505) 988-4421 _____

STATEMENT OF CASE

APPLICANT

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

PROPOSED EVIDENCE

APPLICANT

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

OPPOSITION

WITNESSES
(Name and expertise)

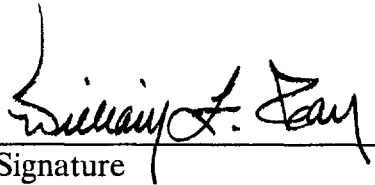
EST. TIME

EXHIBITS

None.

PROCEDURAL MATTERS

None.


Signature

PROPOSED EVIDENCE

APPLICANT

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

OPPOSITION

WITNESSES
(Name and expertise)

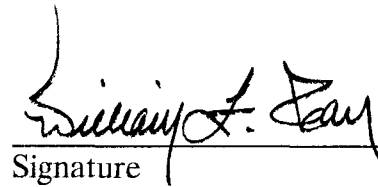
EST. TIME

EXHIBITS

None.

PROCEDURAL MATTERS

None.


Signature

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 NOS. 10259,
10260, 10261

APPLICATION OF CHEVRON U.S.A.,)
INC.)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

March 7, 1991

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on March 7, 1991, at 1:52 p.m. at Oil
Conservation Division Conference Room, State Land Office
Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico,
before Freda Donica, RPR, Certified Court Reporter No. 417,
for the State of New Mexico.

FOR: OIL CONSERVATION
DIVISION

BY: FREDA DONICA, RPR
Certified Court Reporter
CCR No. 417

I N D E X

March 7, 1991
Examiner Hearing
CASE NO. 10259, 10260, 10261

PAGE

APPEARANCES

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CHEVRON'S WITNESSES:

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DON LEE LINDSEY

Direct Examination by Mr. Kellahin 85

DENISE K. BECKHAM

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* * *

E X H I B I T S

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Applicant's 44-61

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A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT:

KELLAHIN, KELLAHIN & AUBREY
117 N. Guadalupe
Santa Fe, New Mexico
BY: W. THOMAS KELLAHIN, ESQ.

FOR ARCO:

CAMPBELL & BLACK, P.A.
110 N. Guadalupe
Santa Fe, New Mexico
BY: WILLIAM F. CARR, ESQ.

1 HEARING EXAMINER: We're ready to start again, and
2 we'll call case 10259.

3 MR. STOVALL: Application of Chevron U.S.A., Inc. for
4 statutory unitization, Lea County, New Mexico.

5 HEARING EXAMINER: Do you want to call the other two?

6 MR. KELLAHIN: If you please, Mr. Examiner.

7 HEARING EXAMINER: Also call 10260 and 10261.

8 MR. STOVALL: Application of Chevron U.S.A., Inc. for a
9 waterflood project, Lea County, New Mexico. Case 10261 is
10 the application of Chevron U.S.A., Inc. for pool extensions
11 and contractions, Lea County, New Mexico.

12 MR. KELLAHIN: Call for appearances now.

13 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the
14 Santa Fe law firm of Kellahin, Kellahin & Aubrey, appearing
15 on behalf of the applicant Chevron U.S. Inc.

16 MR. CARR: May it please the Examiner, my name is
17 William F. Carr with the law firm Campbell & Black, P.A., of
18 Santa Fe. I represent Arco Oil and Gas, and I do not intend
19 to call a witness.

20 MR. PEARCE: May it please the Examiner, I'm W. Perry
21 Pearce of the Santa Fe law firm of Montgomery & Andrews.
22 I'm appearing in this matter on behalf of Carolyn Lovelace
23 Schlicher, Collin McMillan, David Petroleum Corp., Lucinda
24 Lovelace and Nadine Trudeau Lovelace Smith.

25 Mr. Examiner, I have previously filed a

1 prehearing statement in this matter which also listed a
2 company called Ladd Petroleum Corp. I have since been
3 informed by Ladd that they do not wish to participate in
4 this hearing, and I'd like for the record to make it clear
5 that I am not at this time representing Ladd Petroleum.

6 HEARING EXAMINER: Yes, sir. Thank you. Will the
7 witnesses to testify please stand and be sworn?

8 MR. KELLAHIN: I have three witnesses to be sworn.

9 MR. STOVALL: Mr. Carr, do you have any?

10 MR. CARR: I do not.

11 (Witnesses sworn.)

12 MR. KELLAHIN: Mr. Examiner, I'd like to call my first
13 witness Mr. Bryan Cotner. Mr. Cotner is a petroleum
14 engineer and will explain to you the bulk of the
15 presentation concerning Chevron's request to have the
16 division use its statutory unitization authority so that we
17 might implement a waterflood project.

18 Despite our efforts, it is apparent that we will
19 not receive unanimous support from a hundred percent of the
20 working interest owners, nor a hundred percent of the
21 royalty owners. In that regard then, we would ask that you
22 impose the Statutory Unitization Act to allow this project
23 to go forward.

24 In the course of putting together the
25 presentation, there was a group of overriding royalty owners

1 who hold an interest in what is known as Tract 20. A
2 portion of that group is represented by Mr. Pearce today.

3 The parameters selected by the working interest
4 owners upon which to allocate secondary reserves for the
5 unit were such that in a single, unique situation, which Mr.
6 Cotner can explain in more detail, there is a group of
7 overriding royalty owners on a lease which is held by
8 Chevron as the working interest owners, under the
9 participation formula, have a zero percent participation as
10 a result of the calculation. While it is our position that
11 that is permitted under the statutory unitization, we have
12 agreed with Mr. Pearce's clients to seek your approval of an
13 additional provision in the order, the language of which we
14 will specifically submit to you later. We're happy to draft
15 the order if you desire it. And with Mr. Pearce's approval,
16 we'll have language in there that specifically addresses the
17 unique situation of those overriding royalty owners. In
18 effect, what we will provide is that those overriding royal
19 owners will receive their royalty as if their tract did not
20 participate in the unit so that when there is a producing
21 well on that tract, they will get their royalty calculated
22 from production from that well. That, in principal, is the
23 proposal, and it has been accepted by Mr. Pearce and his
24 clients. That is a little different solution than we have
25 asked in the past. We think it's allowed and permitted.

1 Other than that, I am unaware of any working
2 interest owner or royalty owner that actively opposes the
3 approval of either the waterflood project, the nomenclature
4 adjustments or the statutory unitization case.

5 We are prepared to proceed at this point then
6 with Mr. Cotner's technical presentation on the engineering
7 work and all the details necessary to satisfy you that you
8 may exercise the authority to prove this project.

9 HEARING EXAMINER: Would it affect the monies received
10 by any other interest owner such as -- obviously it would
11 have to -- but would it affect other royalty interest owners
12 to pay these overriding royalty interests more than they
13 would get under the agreement?

14 MR. KELLAHIN: No, sir, it does not proportionately
15 reduce any other royalty owner. It is proposed to be
16 handled as a unit expense chargeable against the working
17 interest owners of the unit.

18 HEARING EXAMINER: I assume they're all in agreement on
19 it; is that correct?

20 MR. KELLAHIN: Their agreement is yet to be determined
21 and can be effected once the order is entered, and we have
22 to seek their post-order approval. Under statutory
23 unitization procedures, we are obligated after the order is
24 entered, within a six-month period, to obtain the necessary
25 threshold percentages of approval; 75 percent for the

1 working interest owner and 75 percent for the royalty
2 group. It may occur that with that language in the order,
3 we may not receive the 75 percent. We are hopeful that we
4 will. And so by that mechanism we will have the necessary
5 approvals to implement this solution for Tract 20.

6 MR. STOVALL: Sounds fine to me.

7 HEARING EXAMINER: All right, go ahead.

8 BRYAN C. COTNER

9 the Witness herein, having been first duly sworn, was
10 examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. For the record, Mr. Cotner, would you please
14 state your name and occupation?

15 A. My name is Bryan C. Cotner. My current
16 occupation is unitization coordinator for Chevron U.S.A. in
17 Midland, Texas.

18 Q. Do you hold a professional degree?

19 A. Yes, sir. I'm a petroleum engineer with a
20 Bachelor of Science degree from the University of Texas at
21 Austin.

22 Q. In what year did you obtain your degree?

23 A. 1981.

24 Q. Subsequent to graduation, Mr. Cotner, would you
25 summarize your professional engineering experience?

1 A. I have worked for Gulf Oil and Chevron U.S.A., a
2 successor to Gulf Oil, since 1981, eight years in the
3 capacity of a reservoir engineer and two years in the
4 capacity of a field engineer.

5 Q. Summarize for us your involvement in the
6 Arrowhead Grayburg Unit process.

7 A. I began work on studying the feasibility of
8 waterflooding and unitizing the Arrowhead Pool in 1987 and
9 have been involved in all aspects that Chevron has conducted
10 in this unitization effort since the first working interest
11 owners meeting in May of 1988.

12 Q. Was Chevron the instigator of the unit?

13 A. Yes, sir, we were.

14 Q. And were you one of the engineers that supplied
15 the work for the Technical Committee Report?

16 A. Yes, sir, I was.

17 Q. In addition, have you participated in the working
18 interest owners committee discussions and meetings?

19 A. Yes, sir, I have.

20 Q. And you have also prepared under your direction
21 the necessary waterflood documents for filing before this
22 division, we characterize it as the C-108 application
23 filing?

24 A. Yes, sir.

25 Q. That was done under your direction and control?

1 A. Yes, it was.

2 Q. Have you, along with other technique people of
3 Chevron, participated in completing the Technical Committee
4 Report?

5 A. Yes, sir, I participated.

6 Q. When we talk about the Technical Committee
7 Report, are we talking about the document that's date
8 September of 1989?

9 A. Yes, sir, that is the report.

10 Q. And it's marked for introduction as Exhibit
11 Number 5 to this hearing?

12 A. Yes, sir.

13 Q. Based upon that study, have you formulated
14 opinions as a professional engineer concerning the formation
15 of this waterflood project?

16 A. Yes, sir, I have.

17 Q. Have you formulated opinions about whether or not
18 it would be successful?

19 A. Yes, sir, I have.

20 Q. Have you determined that you will need the
21 implementation of the Statutory Unitization Act in order to
22 make the unit and the waterflood fully effective?

23 A. Yes, sir, because through our process we have
24 never had 100 percent correspondence received back from
25 partners. We have had up to 98.8 percent of the working

1 interest owners respond on certain issues, but we've always
2 had a small element that has just not ever returned any
3 correspondence.

4 MR. KELLAHIN: At this point, Mr. Examiner, I tender
5 Mr. Cotner as an expert petroleum engineer.

6 HEARING EXAMINER: We'll accept his qualifications.

7 Q. (By Mr. Kellahin) Mr. Cotner, let me direct your
8 attention, sir, to what is marked as Exhibit Number 1.
9 Would you identify that for us, please?

10 A. Yes, sir. It's an existing and proposed Grayburg
11 and San Andres waterflood map for southeast New Mexico. The
12 purpose of this exhibit is to orientate the Examiner on the
13 location of the proposed Arrowhead Grayburg Unit. It is
14 approximately one mile southeast of the Chevron-operated
15 Eunice Monument South Unit, which was a statutory unit
16 formed in 1985 that produces also from the Grayburg
17 formation. The Arrowhead Unit is on the same structural
18 trend as this Eunice Monument South Unit. In 1990, the
19 Eunice Monument South Unit was expanded in the area
20 indicated EMSUB, which is the Eunice Monument South Unit
21 expansion area B. Again, this is the same element of the
22 Grayburg reservoir that will be flooded in the proposed
23 unit. Just to the north of that is the Amaratta Hess
24 proposed North Monument Grayburg Unit.

25 Q. Let me have you turn to Exhibit Number 2 and look

1 specifically at the proposed configuration of the unit.

2 What is shown on Exhibit Number 2?

3 A. Exhibit Number 2 is a unit outline through the
4 sections included in the unit which occurs in Townships 21
5 and 22 South, Range 36 and 37 East. This map indicates
6 current tract numbers that will be seen on a land exhibit
7 later. It indicates the portions of the unit that are
8 federal land, state lands and patented lands or fee lands.
9 The total proportion of each is 9.36 percent federal, 60.75
10 percent for the State of New Mexico and a little less than
11 30 percent in fee lands.

12 Q. If we use Exhibit Number 2 as a guideline for
13 tract identification, are these still the tract
14 identification numbers to be used in the unit?

15 A. These will be the tract numbers used in the
16 unit. As we go through the Technical Committee Report,
17 there will be some deviation of that. I have included in
18 the exhibits, I believe it's Exhibit Number 32, which is a
19 cross reference to the new tract number as compared to the
20 old or steady tract number.

21 The reason for these changes is we originally had
22 issued the numbers based on the exchange date of state
23 leases, and we were later corrected, and it was determined
24 we should base that on original lease date. So, for
25 example, in the study, what we call Tract 15, which was

1 based on the sequence of exchange dates, became Tract 6
2 because it was, indeed, an earlier lease than Tract 7
3 through 14.

4 Q. For clarity in our discussion, Mr. Cotner, I
5 propose that you and I will continue to identify the tracts
6 using the tract identification numbers shown on Exhibit
7 Number 2.

8 A. Yes, sir. When I refer to tracts in the
9 Technical Committee Report, I'll make it clear what the
10 correct number is if it's different from the report.

11 Q. Do you have a schematic or a display that will
12 give us a visual reference vertically so that we can see the
13 proposed impact on the zones to be unitized?

14 A. Yes, sir. There's a schematic, which is Exhibit
15 Number 3, which indicates a cross-section through the unit.
16 It shows the Penrose member of the Queen formation just
17 above the Grayburg. It indicates the top of the unit where
18 the San Andres formation occurs, which is the aquifer
19 portion, and where the proposed base of the unit is.

20 You'll see that we have indicated the top of the
21 unit to be at minus 150 subsea, or the top of the Grayburg,
22 whichever is shallower. On the left-hand edge, which would
23 be the western boundary of the unit, we show that the
24 boundary was drawn where the top of the Grayburg occurred
25 above minus 325 subsea. On the eastern portion we show that

1 the boundary of the unit was drawn where the percent
2 carbonate, or dolomite, if you will, was greater than 60
3 percent. I'll explain this, and there will be some geology
4 testimony explaining this in more detail. We show the base
5 of the unit at minus 1,500 subsea, which will include the
6 majority portion of the San Andres aquifer that falls within
7 100 to 200 feet above the base of the San Andres.

8 Q. Using the schematic now, let me have you give the
9 Examiner a summary of the justification for the base of the
10 unit being in the aquifer. What is the argument for using
11 that nomenclature to describe in a consistent way the base
12 of the unit?

13 A. It was our intention to include the aquifer in
14 the unit so we could enjoy maximum control of the water
15 supply for makeup injection purposes. And it also would
16 allow us to equitably treat any trace hydrocarbon production
17 that came with the high volumes of water from the water
18 supply wells. We had reviewed this proposal very early in
19 the project with Mr. Jerry Sexton of the Hobbs district
20 offices of the OCD, and he had no problems with that.

21 Q. As we deal with the details of the unit process,
22 are we going to have to resolve any problem with unit wells
23 that penetrate below the base of the proposed unit?

24 A. I'm sorry, I don't believe I understand your
25 question fully.

1 Q. When we're looking at the base of the unit, do we
2 have any unit wells, wells that will be dedicated as
3 contributing wells to the unit that must be recompleted in
4 such a fashion to get them out of an interval below the base
5 of the unit?

6 A. No, sir, we do not.

7 Q. When we look at the top of the unit, as we go
8 through west to east, there is a proposed change in
9 nomenclature, is there not?

10 A. Yes, sir, there is.

11 Q. Why do you need the change in nomenclature?

12 A. The -- a very large portion, in fact, over 60
13 wells within the proposed unit were completed in both the
14 Grayburg formation and the Penrose Member of the Queen. In
15 the early days of the pool, the pool definition allowed for
16 the inclusion of Penrose and Grayburg production from the
17 Arrowhead Grayburg well. Subsequent to that, and I believe
18 it was about 1957, and I will have some notes to that effect
19 later, the commission redefined the Arrowhead Grayburg Pool
20 to include only the Grayburg formation, and any new wells to
21 be classified as Arrowhead should be completed only in the
22 Grayburg formation that after that date. The commission,
23 however, did not require any remedial work to isolate Eumont
24 or Pequano Monument, Penrose production from the Grayburg
25 production from wells that were completed prior to 1957. By

1 including this minus 150 subsea, which is the apparent gas
2 well contact, we will be including the entire oil column in
3 this waterflood unit.

4 Q. If we were to stay with a nomenclature
5 description that described the top of the unit as being the
6 top of the Grayburg, we will on both the western edge and
7 the eastern edge of the unit inadvertently omit part of the
8 oil column that should be in the unit.

9 A. Yes, sir, that's correct. And at the same time
10 we will be eliminating some of the production or allowing
11 for inclusion of production in the parameter tables that
12 would not be part of the unit because we could not directly
13 measure how much production came from the Penrose and how
14 much production came from the Grayburg.

15 Q. If the Examiner desires a quick reference to the
16 pool designations, if you will, that will accompany Exhibit
17 Number 3, he might look at figure 5, I believe, in Exhibit
18 5, the technical report? There is a cartoon, if you will,
19 in Exhibit 5, if you'll turn to the figure section. It
20 should be in the white book. Figure 5 in Exhibit 5 would
21 also aid the Examiner in understanding the difference
22 nomenclatures applied in the study area?

23 A. Yes, sir, it would.

24 Q. When you're dealing with the proposed plan to
25 establish a top of the unit, did you find that there are

1 proposed unit wells that are open hole or perforated or
2 completed above the top of the proposed unit in any
3 individual wellbores?

4 A. Yes, sir, there are several occurrences of that.

5 Q. And you have taken appropriate measures to
6 provide a solution for that situation?

7 A. Yes, sir. Prior to commencing unit operations
8 and producing from those wells, we will isolate the unitized
9 formation only.

10 HEARING EXAMINER: Pardon me, you said some of the
11 Arrowhead wells are completed above the 150?

12 THE WITNESS: Yes, sir, and it's not only the Arrowhead
13 wells, it's a couple of the Langlie Mattix wells as well.

14 Q. (By Mr. Kellahin) Again then, describe in the
15 summary fashion the solution for those wellbores in the top
16 section that are penetrating through the Grayburg into the
17 unitized interval and correspondingly also would be above
18 the unit.

19 A. Yes, sir. We can isolate the unit interval
20 production by either squeezing perforations on wells that
21 are cased hole across the top of the unit and have
22 perforations above the unit, or we can run and submit liners
23 and then perforate them on wells that are open hole across
24 the top of the unit.

25 Q. Now that you've generally described the unit

1 boundary, both horizontally and vertically, let me have you
2 to go to the next display, Exhibit Number 4, and within the
3 context of explaining that display, describe for us what has
4 been the past pool history of production out of the pool.

5 A. Okay. Exhibit 5 is a rate versus time production
6 plot indicating oil, water, GOR and well count for all wells
7 in the proposed Arrowhead Grayburg Unit. The discovery of
8 the Arrowhead Grayburg was credited to the Continental Oil
9 Company State J-2 Number 1 in May of 1938. However, several
10 wells in the unit produced prior to that date, as seen by
11 the production of '36 and '37. This is production that was
12 then classified as Penrose South Eunice or Eunice area that
13 was later incorporated into the Arrowhead Grayburg Pool.

14 The cumulative production to date has been 31.3
15 million stocktank barrels of oil. The peak production rate,
16 which occurred in about 1943 or four, was about 5,500
17 barrels of oil per day. There's been a total of 134 wells
18 produced in the unitized area. There are currently 55 wells
19 producing, and the current rate is 530 barrels of oil per
20 day, 5,400 barrels of water per day, 3,700 MCF per day.

21 Initial reservoir pressure was approximately 1460. The last
22 pressure required to be recorded by the state of in about
23 1965, at which time the pressure was about 450 PSI.

24 Reviewing the pressure data versus cume over those years
25 indicates that solution gas drive is the predominant

1 recovery mechanism. But as indicated by the increased water
2 production in midforties and continued through date, there
3 are some elements of water drive present. We believe these
4 are localized and not efficient in increasing recovery from
5 the pool and that there is sufficient secondary reserves
6 target this way.

7 Q. As part of the technical analysis of the
8 feasibility of the unit for waterflood operations, have you
9 and the geologist come to certain geologic conclusions about
10 the suitability of this formation for flooding?

11 A. Yes, sir, we have.

12 Q. Summarize for us the ability of this formation to
13 be successfully flooded.

14 A. We see a permeability seal at the top of the
15 Grayburg, between the Grayburg and the Penrose, and repeated
16 seals within the Penrose oil column that will allow for
17 water injection to remain in the target waterflood. We see
18 pay continuity between current producing wells on the 40
19 acres that the fill was developed on, indicating that water
20 injection in a well will affect production from an
21 offsetting well. In fact, this continuity travels more than
22 one location across. We see some of these permeability
23 seals separating members of the Grayburg formation, which
24 would say that if you had some active element of water drive
25 in a portion of the Grayburg, that the other portion of the

1 Grayburg penetrated by individual well may not be affected
2 at all by that water drive.

3 Q. In terms of a logical boundary, both north,
4 south, east and west for this unit, what is your assessment
5 of the feasibility of the boundaries as being logical
6 boundaries for the waterflood?

7 A. We have picked the most logical boundaries for
8 the waterflood.

9 Q. The current status of the unitized area is you've
10 got 56 producers left?

11 A. Fifty-five or 56 to date.

12 Q. Producing on average of five to ten barrels of
13 oil a day?

14 A. Yes, sir, that would be the average.

15 Q. The proposed plan of operation will involve some
16 6,000 acres?

17 A. Yes, sir, just shy of 6,000 acres.

18 Q. How many producing wells do you anticipate and
19 how many injectors?

20 A. If developed as planned, we'll have 75 producers
21 and 52 injectors.

22 Q. What type of waterflood spot pattern will you
23 utilize when fully developed?

24 A. We'd incorporate an 80-acre five-spot pattern.

25 Q. Sometimes the division has to deal with the

1 complexity of having significant gas volumes being produced
2 or subject to production within a unitized interval in the
3 statutory unit waterflood project. Do you have that problem
4 to cope with in this unit?

5 A. No, sir, although we may have a secondary gas cap
6 that has formed since initial discovery. It's a small gas
7 cap, and we anticipate that all gas will go back in the
8 solution as we repressurize the reservoir.

9 Q. Let me direct your attention now to Exhibit
10 Number 5, which is -- some of you have the three-ring
11 binders -- it's the white book -- others may have it as a
12 bound spiral. It's the Technical Committee Report dated
13 September 1989. Before we go into the details of the book,
14 describe for the Examiner how the book is organized.

15 A. The book was compiled by members of -- several of
16 the major partners of this proposed waterflood that -- each
17 working interest owner was invited to designate a technical
18 committee representative. And we had several meetings of
19 the technical committee to review the proposed boundaries,
20 the secondary recovery performance prediction, the economics
21 for the project. As part of their work and charged by the
22 working interest owners, we compiled this report, which
23 begins with an introduction, has the conclusions and
24 recommendations of the technical committee, followed by the
25 reservoir information which includes pool history, the

1 proposed boundaries, the secondary recovery potential, the
2 capital requirements, the economics, the equity parameters
3 presented to the working interest owners for use in
4 participation negotiations, and as a breakdown of the costs
5 or the ownership in each tract.

6 Q. What percentage of the working interest owners,
7 if you recall, provided technical people to work on the
8 technical committee?

9 A. In terms of participating percent, it was
10 typically 95 percent.

11 Q. During what period of time did the technical
12 committee meet and work on preparing the technical report?

13 A. We began meeting in August of 1988 and completed
14 our charge in October of 1989.

15 Q. Prior to writing the section and coming to an
16 agreement on the secondary recovery potential of the unit,
17 summarize for us the types of data acquired in order to make
18 that assessment.

19 A. The Arrowhead Pool, because of the time that it
20 was developed, in the thirties and forties, lacked a -- very
21 much quantitative data that could be used for traditional
22 performance predictions. The premise of the performance
23 prediction was based on analogies of other five-spot
24 carbonate and Grayburg waterfloods in the area. This was
25 the same approach originally used on the EMSU in 1985, and

1 we repeated it for the Arrowhead Grayburg. The analogy
2 looks at the statistical averages of the performance of
3 other floods, including what the secondary to primary
4 recovery ratio would be, what the peak production rate would
5 be in terms of injection rate, the time to initial response,
6 the time until peak response, and the duration of peak
7 response. And then this was reinforced while we were
8 working by simulation work that was being conducted on the
9 EMSU, which was having quantitative data gathered as the
10 unit was being developed, which indicated that our secondary
11 to primary ratio of 50 percent was a reasonable number to
12 apply for the Arrowhead Unit.

13 Q. Let's turn to that portion of Exhibit 5 behind
14 the tab that talks about secondary recovery potential.
15 There's a separate blue tab that simply says that,
16 "Secondary Recovery Potential."

17 A. Yes, sir.

18 Q. Summarize for us the conclusions that the
19 technical committee reached concerning the secondary
20 recovery potential for the unit.

21 A. The conclusion was that we should expect to
22 recover an additional 15 million barrels of oil from the
23 Arrowhead Pool.

24 Q. Describe for us the methodology applied then
25 again to reach that number.

1 A. We applied the secondary to primary ratio of 50
2 percent to the proposed swept area or the area that would be
3 directly affected by injection within the proposed unit
4 boundaries. So this wasn't simply applying the 50 percent
5 to the cumulative or ultimate production from the entire
6 unit area, but taking into account that the secondary
7 production would only come from the areas directly flooded
8 by injectors. As a result, we're really talking in terms of
9 about 46 percent of secondary/primary ratio to the entire
10 unit area. By applying the analogy after determination of
11 the reserves, we concluded that the peak production rate
12 would be 5,850 barrels of oil per day, which is based on 25
13 percent of the anticipated injection rate, which is expected
14 to be between 450 and 500 barrels of water per day for each
15 of the 52 injection wells.

16 The time to initial response assumed was one-half
17 fill-up, and the peak response was fill-up. And based on
18 the depletion, the reservoir being similar to the EMSU and
19 on use of the Calaway equation, we calculated there was
20 slightly less than 20 percent free gas saturation, and the
21 time to one-half fill-up and fill-up were approximately
22 three-and-a-half and seven years respectively.

23 Q. What, if any, consensus was arrived at among the
24 reservoir engineers participating in the technical committee
25 on behalf of their various companies to this approach to

1 secondary reserve analysis?

2 A. That it was a reasonable approach, considering
3 the lack of quantitative data available.

4 Q. Was there any reservoir engineer for any of the
5 other companies participating on the technical committee
6 that proposed alternative ways to assess secondary recovery
7 potential?

8 A. No, sir, there was not.

9 Q. Having come for an agreement on the technical
10 committee concerning the secondary recovery potential, did
11 the committee also address the capital requirements
12 necessary in order to attain that secondary potential?

13 A. Yes, sir, we did.

14 Q. And is that set forth in a chapter of the book?

15 A. Yes, sir, it's in chapter VII.

16 Q. This will be shown on Exhibit 5 behind the blue
17 tab that says "Capital Requirements"?

18 A. Yes, sir.

19 Q. Summarize for us -- no reason to read the details
20 of it, the Examiner can read it himself if he desires -- but
21 summarize for us the details of, first of all, the
22 methodology applied for analyzing the capital requirements
23 and then the conclusions you reached after applying that
24 analysis.

25 A. Each individual well within the unit and its

1 current status was reviewed by members of the technical
2 committee to determine how many additional wells we'd have
3 to drill because a large portion of the wells that
4 historically produced from the Arrowhead Grayburg Pool had
5 either been plugged back to the Eumont or plugged and
6 abandoned. So we estimated for the proposed waterflood
7 pattern how many wells we'd have to drill, producers and
8 injectors. We assumed how many -- or that each producer
9 that came from an existing well would be worked over, in
10 terms of an acid job. We reviewed the completion to see if
11 wells would be deepened or perforations added and added that
12 to the cost element also. We evaluated which of the current
13 producing wells would be converted to injection and
14 calculated the cost for those conversions. And then we
15 reviewed the surface facilities requirements and cost
16 estimates, the costs for putting in a production gathering
17 system that would include five satellite batteries and
18 central gathering point, the water injection station and
19 water injection distribution system -- or the abandonment of
20 the existing tank batteries that would be replaced by the
21 satellite batteries and central batteries, and the
22 electrical distribution system. And the total cost estimate
23 for all of this is shown in Table 3 of this Exhibit 5, and
24 it shows that 28.2 million dollars would be required. And
25 that table also indicates the breakdown for the drill and

1 completion costs, the workover costs and the surface
2 facility costs.

3 Q. Having reached conclusions on the secondary
4 recovery potential, the capital requirements, did you apply
5 an economic analysis to the unit to determine whether or not
6 it was economic?

7 A. Yes, sir, and that is indicated behind the tab
8 indicated "Economics," which is chapter VIII of the Exhibit
9 5.

10 Q. What are the economic conclusions?

11 A. Our analysis, which assumed the base case of the
12 remaining primary production from the unit, subtracted from
13 the proposed case, which included both remaining primary and
14 incremental secondary production, indicated for the 15
15 million barrels of oil additional recovery and a
16 28.2-million-dollar expense that the owners of the unit
17 would realize a 20 percent discounted cash flow rate of
18 return and a present worth profit discounted at ten percent
19 of 24.6 million dollars.

20 Q. If the unit and waterflood is approved by the
21 division, the estimated secondary oil recovery is what
22 volume of oil, estimated?

23 A. Fifteen million barrels of oil.

24 Q. In your opinion, can the operators acting
25 individuals, without the benefit of the unit, recover that

1 volume of secondary oil potential from the unit area?

2 A. No, sir, I do not believe so.

3 Q. Does unitized management operation and
4 development of the reserves to be assigned under this unit
5 operation necessary -- start over again. Is unitized
6 operation necessary for this formation in order to
7 effectively and efficiently recover that secondary reserve
8 potential?

9 A. Yes, sir, it is.

10 Q. Can it be done using unitized operations?

11 A. Yes, sir, it can.

12 Q. Let's talk now about the equity parameters
13 developed by the technical committee. The process is to
14 come to an agreement on all the parameters. Once that is
15 agreed upon, then you submit it to the working interest
16 owners committee and that committee then decides how to
17 establish participation formulas using those parameters to
18 share production in the unit?

19 A. Yes, sir.

20 Q. Let's talk about the equity parameters then. Is
21 there a list of those parameters in the technical report?

22 A. Yes, sir. Behind the tab marked "Equity
23 Parameters," which is chapter IX of Exhibit 5, there is a
24 list of six parameters originally charged the technical
25 committee by the working interest owners. The technical

1 committee reviewed each of those parameters and made -- each
2 of those parameters and made some modifications to what was
3 in return reported to the working interest owners.

4 Q. Summarize for us each of the parameters and the
5 basis for having those as an equity parameter.

6 A. The first parameter was cumulative oil
7 production, which was cumulative oil as of December 31st,
8 1988, which was a cutoff date within the scope of the time
9 period of the work by the technical committee. It allowed
10 the technical committee to use the most recent data that it
11 had available before completing the report. Remaining
12 primary oil and gas reserves are based on proven producing
13 reserves and calculated by using tract decline curves and
14 applying the apparent tract decline rate to the initial rate
15 as of 1-1-1989. Each of those are shown in Appendix B of
16 the report, which indicates the IP, the economic limit,
17 which was based on two barrels oil and equivalent gas per
18 day, and then the decline rate. And you see the remaining
19 oil and gas reserves approved by the technical committee.

20 The ultimate primary oil reserves is simply the
21 summation of cumulative oil production prior to 1989 and
22 remaining primary reserves allocated to tract subsequent to
23 that date. The current oil and gas production rates are
24 based on rates of the fourth quarter of 1989, which would be
25 October 1st through December 31st. And that's production

1 actually reported to the state on form C-115.

2 The next parameter was gross acreage, which would
3 just indicate what acreage within the 5,922-acre unit each
4 tract or owner would receive. Since we're including the San
5 Andres in this unit, there are several ownership splits that
6 occur at or near the aquifer. In fact, most of them occur
7 slightly below the top of the aquifer portion of the unit.
8 In recognizing that the technical committee elected to add
9 an additional term, which was surface acres allocated on
10 ownership from the top of the unit to 325 feet below the top
11 of the Grayburg, which was then identified as including the
12 full productive limit of the reservoir. So instead of
13 having gross acreage and having to allocate it
14 disproportionately for 300 feet to an owner in an oil column
15 and 1,200 feet to an owner in the aquifer, the technical
16 committee elected to add this additional parameter. So we
17 had gross acreage and surface acreage based on this window
18 from the top of the unit to 325 feet below the top of the
19 Grayburg.

20 The sixth parameter was introduced from the floor
21 at the first working interest owners meeting as usable
22 wellbores. And after review, the technique committee
23 concluded that that was really an inappropriate parameter
24 for participation negotiations because whether or not a well
25 was usable would not actually be determined until after the

1 unit operator had an opportunity to test the well and to
2 make sure that there was no casing leaks or obstructions in
3 the hole. Instead, the technical committee opted to
4 recommend a wellbore dedication incentive method to entice
5 partners in the unit to dedicate usable wellbores instead of
6 using it as an equity parameter.

7 Q. Did the technical committee discuss establishing
8 a parameter that simply had surface acres alone? And if so,
9 is that one of the six listed?

10 A. Surface acreage is only listed in the terms with
11 the ownership allocated from the top of the unit to 325 feet
12 below the top of the Grayburg.

13 Q. The selection of participation formula based upon
14 these parameters was something the working interest
15 ownership committee did?

16 A. Yes, sir.

17 Q. Did the technical committee attempt to develop a
18 pour volume by tract parameter, for example, develop an
19 isopach or some net pay map to try to value each tract in
20 terms of its potential storage capacity of oil?

21 A. No, sir, because they recognized that they could
22 not accurately do that because of the lack of quantitative
23 data. Along the eastern side of the unit, where the
24 production has been actually the least per acre, is the only
25 place that we have modern logs. And we're afforded those

1 modern logs because the Blinebry and Drinkard wells that
2 were completed in the seventies that were logged through the
3 Grayburg interval where most of the production has come
4 from, the wells that were open hole completions and drilled
5 in the thirties and forties, and we either had a gamma ray
6 neutron log of questionable accuracy or no log at all. So
7 the technical committee did not attempt to come up with a
8 pour volume calculation for equity negotiations.

9 Q. Despite the extensive development that has taken
10 place within the unit area, there were, in fact, tracts that
11 did not have either past or current production from that
12 tract.

13 A. Yes, sir.

14 Q. Was the committee aware of that fact?

15 A. Yes, sir, they were.

16 Q. How did they deal with it?

17 A. They dealt with it by assigning a zero
18 cumulative production, obviously. The remaining reserves
19 were assigned zero because there were no proven producing
20 remaining reserves, and so only the equity parameter acreage
21 was -- either surface acres or gross acres was allocated to
22 the tract.

23 Q. If the Examiner wants to see -- well, let me ask
24 you this: Did the technical committee then break out, on a
25 tract by tract basis, a spreadsheet showing the column

1 entries for each of the parameters and what the impact is on
2 that tract if that parameter is applied?

3 A. Yes, sir.

4 Q. Where do we find that in the book?

5 A. That's in Appendix A of the exhibit. The first
6 page indicates the gross volumes for each tract. And,
7 again, these are the old state tract numbers and not the
8 current tract numbers. The second page indicates the
9 percent of total for each tract, and then the third page
10 breaks it down to percent of total by owner, taking the
11 ownership takeoff data that our land department had
12 furnished and applying the tract values to actual ownership.

13 Q. Let's have you look at the information that's
14 shown in the book following the word "Figures." What's
15 contained in the Technical Committee Report after that?

16 A. Would you like me just to go --

17 Q. Go through and summarize what you've included so
18 the Examiner recognizes what the working interest owner
19 group had to work with.

20 A. The first page is the actual charges to the
21 technical committee made by the working interest owners.
22 And that was to determine what the logical unit boundaries
23 should be, to develop a plan of secondary recovery for the
24 unit, including a cost estimate and a performance
25 prediction, and prepare a tabulation of the equity

1 parameters that we just discussed.

2 The second figure just indicates the relative
3 location of the proposed unit in southeast New Mexico.

4 The third figure indicates the proposed unit
5 outline.

6 And then figure four is what we have today as
7 Exhibit 2, which indicates the breakdown of the federal,
8 state and fee acreage.

9 Figure five is the -- a pool limits cartoon, if
10 you will, of the pools above and below and through the unit
11 in this area, including the Eumont Oil and Gas, Langlie
12 Mattix, Arrowhead, Penrose Skelly, etcetera.

13 Figure six is a structure map for the unit area,
14 the structure map on the top of the Grayburg.

15 Figure seven is a type log through one of the
16 unit wells, the Chevron-operated Harry Leonard C-20,
17 indicating where the top of the Queen, the top of the
18 Penrose Member of the Queen, the top of the Grayburg and the
19 zonation within the Grayburg.

20 Figure eight is a percent dolomite map which was
21 used to help define the eastern boundary of the unit in
22 terms of pay quality, where, as we discussed before, the
23 eastern boundary was indicated where a percent dolomite was
24 in excess of 60 percent.

25 Figure ten is a cumulative oil for the study area

1 of the unit.

2 Figure 11 is cumulative oil only for wells
3 actually within the unit area.

4 Figures 12 through 18 reflect different
5 production contour maps for cumulative water, cumulative
6 water/oil ratio, current oil, water and gas production
7 rates, and current producing water/oil ratios and GORs.

8 Figure 19 is a stick diagram index map that goes
9 for figures 20 through 24. And each of these indicate a
10 cross-section through the unit, indicating the -- where the
11 top of the Grayburg is, where the gas producing horizon is
12 in red, where the oil producing interval has been in green,
13 where the Grayburg zones 1 through 5 are, and the subsea
14 complete depths of each of these completions.

15 Figure 25 is the proposed pattern map for the
16 unit.

17 Figure 26 indicates the secondary recovery
18 prediction and the base case primary recovery prediction
19 assumed by the technical committee.

20 HEARING EXAMINER: Why don't you break about 60
21 seconds? I got behind.

22 THE WITNESS: Okay.

23 HEARING EXAMINER: All right, go ahead.

24 A. Figure 27 indicates the surface facilities
25 production gathering system where the satellite batteries

1 and central battery will be.

2 28 indicates the water injection distribution
3 system, and 29 the electrical distribution system.

4 Q. (By Mr. Kellahin) If the Examiner wants to refer
5 to the minutes of the various technical committee meetings,
6 where will he find those in the technical book?

7 A. That is indicated in Appendix D. He should find
8 minutes for each of the four technical committee meetings.

9 Q. In addition, the technical committee took ballots
10 on certain of the parameters, and that's shown also in that
11 portion of the book?

12 A. Yes, sir. That should be in the minutes of the
13 fourth technical committee meeting.

14 Q. Does the book also contain a description of the
15 reservoir parameters used for analyzing the reservoir?

16 A. Yes. That will be found in the table section. I
17 believe that's Table 1, gives some pertinent reservoir data.

18 Q. What else is found in Table 1 of the book?

19 A. In the table section?

20 Q. In the table section of the technical report,
21 what other kinds of information has been included?

22 A. There's a tract orientation map indicating for a
23 tract number who the operator and what the lease is and
24 where it's located, is Table 2.

25 There are several tables indicating how the cost

1 estimate for the unit was developed, including the Table 3
2 that we looked at previously to see the total of 28
3 million. There's a breakdown of how much the -- surface
4 facilities cost estimate, how much different elements
5 contributed to that. There is a typical cost estimate for a
6 producing well to drill and complete, the same for an
7 injection well and a water supply well. And then there are
8 elements for the workover cost element of how much each
9 element of the workover would cost.

10 Subsequent to that, Table 9 indicates an
11 estimation of the capital investment schedule for the unit
12 in terms of drilling and completion costs, workover costs,
13 constructions. And it indicates that the majority of the
14 investments were made in the first two years. Subsequent to
15 that, there's 3, 4 and 5. There's some tangible workover
16 money which is included for upgrading pumping capacities of
17 wells as the waterflood response kicks in and we see the
18 need for lifting more fluids.

19 Table 10 indicates completion data for existing
20 wells in the unit. And Table 11 indicates a completion data
21 if the wells are recompleted or PNA wells.

22 Table 12 indicates the oil/gas production by year
23 and the operating costs that were assumed in the economics
24 previously reported for the base case.

25 And Table 13 indicates the investments in those

1 productions and operating costs schedules for the proposed
2 waterflood case.

3 Q. Having completed the technical committee work,
4 written the report and made the conclusions and
5 recommendations, was a working interest owner committee
6 formed?

7 A. The working interest owners committee was formed
8 prior to the conclusion of the Technical Committee Report.
9 The working interest owners met and charged the technical
10 committee to develop this report, and upon conclusion and
11 acceptance by the committee members, then this report was
12 submitted to the working interest owners.

13 Q. Have you prepared a tabulation of the working
14 interest owners for the unit?

15 A. Yes, sir, I have.

16 Q. And that's Exhibit Number 6?

17 A. Yes, sir, it is.

18 Q. When it shows a percentage, what does that
19 reflect?

20 A. That's the percentage afforded under the
21 participation formula approved by the working interest
22 owners.

23 Q. Let's turn now to a chronology of activity by the
24 working interest owner committee. Have you prepared a
25 display showing the chronology of meetings and events?

1 A. Yes, sir. It is Exhibit Number 7.

2 Q. Take us through in summary fashion the work of
3 the working interest owner committee.

4 A. Well, the first working interest owners meeting
5 was called by Chevron in May of 1989. And we invited all
6 owners that we could determine from takeoff data within our
7 proposed -- or what we saw as a logical unit area. Those
8 owners then agreed to pursue the study of the waterflood
9 feasibility and formed the technical committee, which met
10 four times between August of '88 and May of 1989.

11 In number of '89 the Technical Committee Report,
12 which was submitted to committee members in September of
13 '89, was adopted. At the first working interest owners
14 meeting each owner was asked to designate a technical
15 committee representative and a working interest owners
16 representative. Most of the companies did, some of the
17 smaller organizations did not. In each case, when there was
18 a technical committee meeting, if an owner had not specified
19 a technical committee representative, the working interest
20 owner was invited to the technical committee and then
21 subsequently sent the minutes and findings of the committee
22 meetings.

23 In December of '89, after the Technical Committee
24 Report had been approved by the committee members, a second
25 working interest owners meeting was called, at which time

1 the working interest owners approved the Technical Committee
2 Report as completion of their charge and negotiated
3 participation formula for the unit. And shortly after that
4 meeting, a formal ballot requesting approval of the
5 participation formula agreed upon at the meeting was sent to
6 all working interest owners since not all were present at
7 the meeting. And we received that ballot approval in
8 February of 1990.

9 Q. Let's talk about two things that occurred at this
10 working interest owner meeting about this time.

11 A. Okay.

12 Q. One is you came to a solution with regards to the
13 Zia Energy issue --

14 A. Yes, sir.

15 Q. -- down in the southeastern corner of the unit.
16 Summarize for the Examiner what the solution is with regards
17 to the Zia issue.

18 A. In the southeastern portion of the unit and to
19 the east there is an operator in Hobbs, New Mexico, named
20 Zia Energy who has completed several wells and a pool
21 designated as Eunice San Andres Southwest. This pool was
22 within the proposed limits of the Arrowhead Grayburg Unit,
23 initially. When we began the working interest owners and
24 technical committee meetings, Zia had not yet completed a
25 well within this pool interval within the unit area, and

1 they did complete a well by the time we had the second
2 working interest owners meeting. Their well is in what we
3 classify as zone 5 of the Grayburg and in the San Andres,
4 and it produces approximately a barrel of oil per day, 600
5 barrels of water and 200 MCF of gas per day. They have
6 additional wells east of that that had similar performance.

7 In the Technical Committee Report under the
8 boundaries, you'll find a description of the request for
9 exclusion from the unit from Zia Energy. At Chevron we
10 reviewed the effects of complying with Zia's request on what
11 effect would it have on the unit to carve out, if you would,
12 this lower part of the Grayburg and San Andres in the
13 southeast portion of the unit. And we determined it would
14 have no effect on the secondary reserves because of the
15 nature of the production that Zia was getting.

16 We met with Zia to determine how we could come to
17 terms with each other on what we -- each of us would do if
18 the unit San Andres Southwest was excluded from the unit.
19 And Chevron's commitment was that we would not inject water
20 into the unit San Andres Southwest either on the acreage
21 that was excluded or on immediate offsetting injection
22 wells. Zia Energy agreed to indemnify the unit from any
23 damages if we agreed to not inject water into their zone.

24 We presented this request and our findings at the
25 working interest owners meeting and had unanimous approval

1 of exclusion of Zia Energy. We subsequently met with the
2 OCD and the state land office to insure that they would
3 concur with the appropriateness of this exclusion, and they
4 did concur.

5 Q. For the Examiner's purpose, it will require
6 action on his part to complete a resolution of the Zia
7 question in that he needs to, if he agrees, change the
8 nomenclature, if you will, for that portion of the pool that
9 is being excluded from the unit?

10 A. Well, that portion of the pool that's being
11 excluded from the unit is currently classified as Eunice San
12 Andres Southwest. So I do not believe it will require any
13 special action on the Examiner's part. What will be
14 required is when we reclassify some of the other acreage,
15 like the Langlie Mattix, that we do not pull in this unit
16 San Andres Southwest and reclassify it as Arrowhead as we
17 are some other acreage.

18 Q. The other issue dealt with at this second working
19 interest owners meeting was negotiation of a participation
20 formula?

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

22 Q. Let's go backwards and start with the conclusion
23 on what was finally approved for the participation formula
24 and then talk about the other choices.

25 A. Okay. And if I can refer you to Exhibit 15,

1 which is a supplement to the minutes of the second working
2 interest owners meeting, and at the very back of that
3 exhibit you will see Formula 12, which was proposed by
4 American Exploration. The formula proposed was that the
5 participation formula for the unit would be based on 57
6 percent cumulative oil, 33 percent remaining oil reserves
7 and 10 percent current oil rate. As you can see in the
8 column indicated four, at that meeting there was 95.38
9 percent approval with four.6 percent abstain. That 4.6
10 percent reflects the members that were not present at the
11 meeting. So that shows that we had unanimous approval at
12 the meeting of the formula proposed by American.

13 Again, it was the 12th formula proposed at the
14 meeting. The previous 11 pages show Formula 1 through 12,
15 which included other proportions of the same parameters, and
16 it also included the parameter surface acres and so forth.
17 None of the other formulas proposed came close in receiving
18 the amount of approval that Formula 12 did.

19 Q. Formula 12 then is the participation formula that
20 has been incorporated into the unit agreement?

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

22 Q. And it is the proposed participation formula that
23 you're seeking approval from the division?

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

25 Q. In your opinion, Mr. Cotner, is this

1 participation formula 1 that is fair and equity to all
2 parties?

3 A. Yes, it is.

4 Q. Does it apply relative value to each of the
5 individual tracts within the unit so that they have a fair
6 opportunity to receive income for their contributing value
7 of their tracts?

8 A. Yes, sir, it does.

9 Q. Describe for us some of the alternative choices
10 and why, in your opinion, they were not able to obtain the
11 necessary percentages for approval. For example, why was
12 not a straight acreage component put into the participation
13 formula?

14 A. The secondary reserves for the unit were by
15 applying the SP ratio are literally based on ultimate
16 primary recovery, and not on surface acres. And if you look
17 back at the cumulative production contour maps, you'll see
18 that cumulative production or ultimate production is not
19 directly associated to acreage, that there are areas of high
20 cumulative and areas of much lower cumulative. And so
21 acreage does not fairly distribute this evaluation of
22 secondary reserves. An easy conclusion to draw from that is
23 ultimate primary recovery should be the basis, but that
24 doesn't fairly allocate out your current cash flows and your
25 present values of, one, remaining primary and, secondly, the

1 present value of your secondary recovery. By using a
2 combination of the cumulative and the remaining oil and the
3 current rate, you're able to fairly distribute, to preserve
4 to a large degree current cash flow as well as secondary
5 reserves. By incorporating acreage, you're not really
6 addressing either one of those things directly.

7 Q. Are there any other parameters or combination of
8 parameters, in your opinion, that could have been utilized
9 to arrive at a participation formula that was more fair,
10 reasonable or equitable than the one ultimately adopted by
11 the working interest owners?

12 A. No, sir, I do not believe that there is a formula
13 that would be more fair or equitable. And I would give
14 evidence to that by the support by the working interest
15 owners.

16 Q. Let's turn to -- let me have you identify for the
17 record the series of correspondence, minutes and tables here
18 in a summarize fashion so that we don't have to tell the
19 Examiner every one of these. But you have put in the
20 exhibit book, starting with exhibit number 8, I believe?

21 A. Yes, sir.

22 Q. And continuing on through Exhibit 18?

23 A. Okay. Exhibit Number 8 is the minutes of the
24 first working interest owners meeting, an important part to
25 the inclusion of these in -- as an exhibit today, it

1 indicates the working interest owners at the time of the
2 initial working interest owners meeting that were identified
3 and invited to the meeting. It also indicates what --
4 excuse me, this is not a copy of minutes of the meeting, it
5 is a letter inviting the working interest owners to the
6 initial meeting, and it indicates who was invited to the
7 meeting.

8 Q. Exhibit 9 is the minutes?

9 A. Exhibit 9 is the minutes of the meeting, which
10 indicates in the back part of it what percent of the
11 cumulative oil at that time was present at the first
12 meeting, the charges to the technical committee arrived at
13 by the working interest owners, the interim voting procedure
14 that was developed which was to be based on cumulative oil
15 as of 12-31-87, and that a motion requires 75 percent
16 approval to pass. And then it has the partners that
17 participated in the meeting.

18 Exhibit 10 is a summary of the ballot approval of
19 the Technical Committee Report by technical committee
20 members. It indicates that 87 percent of the voting
21 interest approved the report. Figure -- or attached behind
22 that is the actual letter sent to the committee members in
23 asking for their approval.

24 Exhibit 11 is a meeting -- or is a letter calling
25 the second working interest owners meeting. It indicates at

1 that time 79 percent of the technical committee members have
2 approved the report. The previous exhibit showed a higher
3 number because there was additional ballots received after
4 the meeting was called. It spells out an agenda for the
5 second working interest owners meeting to review and adopt
6 the report, to review the requests for exclusion and to
7 participate unit negotiations -- or for unit participation
8 -- to negotiate unit participation.

9 Exhibit 12 is a handout at the second working
10 interest owners meeting. It includes the charges that were
11 given to the technical committee originally, the recommended
12 vertical and horizontal limits of the unit, the proposed
13 waterflood pattern, the secondary recovery performance
14 prediction with a cost estimate in economics, a definition
15 of usable wellbores to be used in a wellbore dedication
16 incentive, the equity parameter tables. It includes the
17 discussion on the request of Zia Energy to exclude the unit
18 San Andres Southwest portion of the pool. It also includes
19 a request by Exxon to exclude their 40 acres then known as
20 Tract 10 from the unit. Exxon felt that they were going to
21 have too small of a working interest in the unit to want to
22 participate actively. We presented -- although Exxon did
23 not appear at the meeting, we did present their case for
24 them and make a motion for exclusion of their acreage, and
25 there was no second. Since that time I'd like to point out

1 that Exxon has ratified the unit operating agreement and
2 joined in all subsequent correspondence.

3 Exhibit 13 is the revised equity parameter table
4 for the unit, which is an adjustment to reflect the
5 exclusion of the Zia Energy's acreage.

6 Figure -- or Exhibit 14 is the -- is minutes for
7 the second working interest owners meeting.

8 Figure 16 is a transmittal letter for the minutes
9 of the second working interest owners meeting with an
10 attached ballot asking for formal approval of the
11 participation formula.

12 HEARING EXAMINER: Take another 30 seconds there,
13 please.

14 THE WITNESS: Okay.

15 HEARING EXAMINER: Go ahead.

16 A. Figure 17 is a letter to discuss a wellbore
17 dedication incentive. I'd like to stop and talk about this
18 exhibit for just a minute. When the technical committee
19 decided usable wellbores was not a reasonable parameter, it
20 did recommend to the owners that a dedication incentive be
21 used to entice working interest owners to contribute the
22 maximum number of wells for unit operations to minimize unit
23 drilling and completion expenses. We've identified two
24 traditional, if you will -- I use that word loosely since
25 there's not that much tradition -- two methods that had been

1 proposed or used before. One was to assess a wellbore
2 penalty to working interest owners who did not contribute a
3 usable wellbore on each 40-acre tract that had not previous
4 produced. Since many of the Arrowhead Grayburg wells had
5 been plugged back to the Eumont or plugged and abandoned,
6 and many of the wells plugged back to the Eumont were owned
7 by different parties than the person owning the Arrowhead
8 Grayburg rights, we felt that it was not in -- the most fair
9 thing to do to apply this penalty across the board. In
10 addition, it may have resulted in an uneconomic investment
11 in the unit if someone were to have to pay a large penalty
12 for a very low working interest.

13 The other method was a wellbore dedication, or a
14 wellbore inventory credit type method, where a value be
15 placed on each wellbore and owners would pay their
16 proportionate working interest times the value of all
17 wellbores dedicated and receive a credit for each wellbore
18 that they specifically dedicated. This was going to
19 increase the investment by some parties substantially, so we
20 obviously had a polarization on which method would be the
21 best to use. This letter of January 5th proposed a
22 compromise method which said we would simply impose the
23 wellbore penalty only on wells that were not contributed,
24 that were currently completed in the Grayburg formation. So
25 we sent this proposal with a list of which wells would be

1 the demand wells to the working interest owners while they
2 had this ballot for the working interest participation.
3 Figure 18 indicates the ballot approval of the participation
4 formula and the wellbore dedication incentive method.

5 Q. What level of commitment or percentage did the
6 working interest owners ballot favorably for the
7 participation formula and the wellbore incentive?

8 A. The participation formula, the number recorded is
9 97.77 percent. I'd like to point out with some changes in
10 ownership since that date that number would currently be
11 98.2 percent approval of the participation formula. For the
12 wellbore dedication incentive the approval was 93 percent.
13 There was only one objection to the proposed method. One
14 objection shows up as two "nos" because the one voting party
15 represented two interests.

16 Q. Exhibit 19 is what, Mr. Cotner?

17 A. It is a plan of operations that was given to the
18 Bureau of Land Management and the state land office and
19 requests for preliminary approval of the proposed unit.
20 Although the BLM or federal lands comprises less than ten
21 percent acreage, we decided to go ahead and meet with the
22 BLM. They were at nine percent, it's pretty close, so as a
23 courtesy, we wanted to review our operations and make sure
24 that they concurred. This is a plan of operation given to
25 both the state land office and the BLM.

1 Q. Did the state land office issue preliminary
2 approval for the unit?

3 A. Yes, sir, they did.

4 HEARING EXAMINER: BLM?

5 THE WITNESS: Yes, sir, they did.

6 HEARING EXAMINER: BLM did also?

7 THE WITNESS: Yes, sir.

8 Q. (By Mr. Kellahin) Let me direct your attention
9 now to the display or the tabulation shown as Exhibit 20.
10 This represents the various tracts, the application of the
11 participation formula to each individual tract and the
12 resulting net percentage that they would receive of unit
13 production under this participation formula?

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

15 Q. And this is the participation formula that has
16 been approved by what percentage of the working interest
17 owners?

18 A. Ninety-eight percent.

19 Q. And you ask the Examiner to also approve this
20 participation formula?

21 A. Yes, sir.

22 Q. When you look through the tabulation and see
23 various tracts, in two instances, I believe, Tract 18 and
24 Tract 20, under the formula show a zero participation
25 factor?

1 A. Yes, sir.

2 Q. Explain how that occurs.

3 A. Since those tracts did not have cumulative oil or
4 remaining oil reserves as indicated by the proven producing
5 reserves calculated by the technical committee and current
6 oil rate, they received a zero in the participation formula
7 approved by the working interest owners. This -- the fact
8 that they received zero remaining oil reserves is not too
9 alarming because they -- both tracts did have a test of
10 production and both tracts indicated that there was no
11 commercial production from the wells in the tract. And in
12 the case of Tract 18 it was a well drilled in the thirties
13 or forties, I believe, by Gribble, or Bay Petroleum. And
14 Tract 20 in 1988 Hanson McBride, who was a current working
15 interest owner, tested the Kingwood Number 2. He was not
16 able to have a commercial completion on that tract, so the
17 credit of zero remaining oil reserves was appropriate.

18 It is important to include the tracts for us to
19 complete our proposed injection and production patterns. We
20 contend that there will be oil pushed from offsetting leases
21 on to that tract, and there will need to be a producing well
22 to capture those reserves. And there will be an injection
23 well in Tract 20 that will support offset historic
24 production.

25 Q. Who's the current lessee of Tract 18?

1 A. Chevron U.S.

2 Q. And who is the current lessee of Tract 20?

3 A. Chevron U.S.

4 Q. So as a working interest owner, Chevron receives
5 no positive benefit in terms of an additional portion of oil
6 production from the unit by the contribution of those
7 tracts?

8 A. That's correct.

9 Q. But the contribution of those tracts is necessary
10 in order to recover additional oil that might not otherwise
11 be recovered?

12 A. Yes, sir.

13 Q. Describe the basis for that statement.

14 A. If we did not include those tracts, we would not
15 be able to have injection wells immediately offsetting them
16 because it concerns the migration of oil that would be
17 pushed on to the tract by offset injectors. Although there
18 was no second reserves that could be calculated specifically
19 for that tract, in the absence of any ultimate primary
20 recovery in applying the .5 SP ratio, you come up with
21 zero. The inclusion of that tract was necessary to have the
22 offset injection wells. And if you were to eliminate that
23 tract and accordingly not inject immediately offset to that
24 tract, the unit would lose a significant amount of reserves.

25 HEARING EXAMINER: Are they going to have to contribute

1 a well in order to get in?

2 THE WITNESS: No, sir. There is a demand well on Tract
3 20 because it is a current completion in the Grayburg, it
4 was the unsuccessful test. But the wellbore contribution is
5 not something that was part of the formula. Chevron U.S.
6 will contribute the wellbore. We have no additional value.
7 We do not have the dry gas rights for that tract and so we
8 could use the well to plug back to the Eumont gas.

9 Q. (By Mr. Kellahin) Tract 18 is what typed of
10 royalty?

11 A. It's a state royalty.

12 Q. And the state land office has approved the
13 inclusion of this tract, notwithstanding the fact that tract
14 standing by itself has zero participation for their royalty?

15 A. Yes, sir. When we met with the state land
16 office, we actually presented to them this concept that we
17 had zero participation and drew that to their attention.
18 They reviewed their records and indicated that the --

19 Q. Beneficiary?

20 A. -- beneficiary of that tract receives benefit
21 elsewhere in the unit, so they did not have an objection to
22 the allocation of zero in the tract participation factor.

23 Q. Are there any overriding royalty owners for Tract
24 18?

25 A. No.

1 Q. When we turn to Tract 20, who's the royalty owner
2 for that tract?

3 A. There is a long list of who the royalty owners
4 are, but they are the same as the royalty owners in the two
5 offsetting Tracts 19 and 21, and then some of them occur
6 again in Tract 26.

7 Q. With the exception of the group represented by
8 Mr. Pearce and the inclusion of Ladd Petroleum, I guess, are
9 all other royalty and overriding royalty owners
10 participating in some other tract?

11 A. Yes, sir, they are.

12 Q. So Mr. Pearce's group and Ladd Petroleum are the
13 only unique overriding royalty owners that don't otherwise
14 share in unit production?

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

16 Q. Let's turn now to --

17 A. There are some overriding royalty interest owners
18 in a couple of other tracts in the southern portion of the
19 unit, but they occur very obviously in the aquifer portion
20 of the unit, so there is no overriding royalty -- other
21 overriding royalty interest owner in the oil column that
22 does not share in unit production.

23 Q. Turn now to Exhibit 21 and identify that for us.

24 A. It is a project AFE distributed to working
25 interest owners when we mailed out the final form of the

1 unit operating and unit agreement. It indicates a new cost
2 estimate of 29.7 million dollars compared to the 28.2
3 million dollars previously. The cause for the increase was
4 the resulting increase in number of wells that had to be
5 drilled and corresponding reduction in number of workovers
6 as a result of the wellbore dedication incentive that the
7 approved by the working interest owners. The Technical
8 Committee Report had assumed that a total of 77 wells would
9 be made available to the unit as a result of the wellbore
10 dedication incentive, and the end result, I believe, was 66
11 wells. So the number of drill and completions went up by
12 about 11 wells and the number of workovers dropped by a
13 corresponding amount, which increased the unit costs
14 slightly. And there was also a slight upper revision in the
15 cost estimate for the surface facilities.

16 Q. Exhibit 22?

17 A. Exhibit 22 indicates the AFE approval received as
18 of February 28th from this AFE sent to partners. And it
19 indicates that we currently have 74.77 percent approval.
20 I'd like to point out, though, on the AFE sent, it did say
21 that approval is given subject to the regulatory approval by
22 the New Mexico OCD and the Commission of Public Lands and
23 BLM. That indicates that we are under the terms of the unit
24 agreement or unit operating agreement. We already have
25 sufficient approval to proceed with this project once we

1 have the OCD order.

2 Q. One of the findings the division examiner must
3 made for the order is to find that the estimated additional
4 costs of recovering the secondary oil potential don't exceed
5 the value of that secondary oil and that it can be conducted
6 so that the working interest owners receive a reasonable
7 profit from the investment. Can you support a finding of
8 that, Mr. Cotner?

9 A. Yes, sir. The -- even with the increased costs
10 from 28.2 million to 29.7 million, the economies of scale
11 are still the same within the Technical Committee Report.
12 The working interest owners will realize a 24.2 million
13 dollars present worth profit discounted at ten percent when
14 they recover this 15 million barrels of oil for the slightly
15 less than 30-million-dollar investment.

16 Q. Another finding the division examiner must make
17 is one that the unitized operation will benefit the working
18 interest and royalty owners of the oil and gas rights within
19 that portion of the pool being affected and that each of the
20 tracts had been treated fairly and equitably in terms of its
21 relative value. Has that been accomplished?

22 A. Yes, sir, it has.

23 MR. KELLAHIN: Perhaps we might take a five-minute
24 break at this point. We're about to finish up with the
25 unitization aspects, and we're going to talk pool

1 nomenclature changes and then get into the C-108
2 discussion.

3 HEARING EXAMINER: Are you through with this witness?

4 MR. KELLAHIN: No, sir, but if the court reporter or
5 anybody needs a break, perhaps now is a convenient stopping
6 point.

7 HEARING EXAMINER: We'll take a ten-minute break.

8 (Recess, 3:14 p.m. to 3:22 p.m.)

9 HEARING EXAMINER: Let's continue.

10 Q. (By Mr. Kellahin) Mr. Cotner, let me direct your
11 attention to Exhibit Number 23. Would you identify that for
12 us, please?

13 A. Yes, sir. It's a table of non-Arrowhead wells
14 that will be affected by our pool extension and contraction
15 application. It indicates the operator, the lease, the well
16 number, location, current status, and the current pool. And
17 the indicated comment is that each of those will be
18 reclassified to Arrowhead Grayburg. Each of these wells
19 will participate and be a part of the proposed unit.

20 Q. Let's turn now to Exhibit 24. Would you identify
21 and describe that display?

22 A. I'd like to point out one more thing on Exhibit
23 23 first. At the bottom of the page it indicates three
24 non-Arrowhead wells that penetrate the unit that will not
25 actually be affected by the pool extension and contraction

1 application. There are two Eumont gas wells that penetrate
2 the unit, one eight-foot and one 15-foot. They are dry gas
3 producers. We would request that the commission not require
4 any remedial work occur on these wells to get them back out
5 of the unit until such time they show pressure increases or
6 begin making fluids that might be associated with the unit
7 operations. However, since they're completed in this very
8 high sand content area, we don't believe that the parts of
9 the completions will -- contribute production nor will unit
10 operations affect them, but we can monitor them and make
11 corrections at a future date if it's deemed necessary. The
12 reason that I propose not to plug back the wells now out of
13 the unit is every time you work over a low pressure gas
14 well, you do run the risk of losing the well. And if we
15 were simply going in to set something to plug back the well
16 eight feet and lost productivity, that could be mean that
17 we'd made a mistake in doing so.

18 The third well is a disposal well operated by
19 Rice Engineering, which is in Section 18 and 2237. It is
20 disposing into the San Andres aquifer only. That would not
21 affect at all our waterflood operations in flooding the oil
22 column and may even help in making sure that the San Andres
23 is an adequate water supply zone for our makeup injection
24 water. So we propose no workover to be required on that
25 well.

1 Q. Let's turn now to Exhibit 24?

2 A. Figure 24, or Exhibit 24, is a table of current
3 and historic Arrowhead Grayburg and Penrose Skelly oil pool
4 completions that overlap into the Eumont. This was part of
5 when I testified earlier how prior to the OCD order
6 redefining the Arrowhead and Penrose Skelly pools, Grayburg
7 formation only. This indicates which wells were completed
8 in both the Penrose Member of the Queen and the Grayburg.
9 And there are four pages of wells here, so you can see that
10 it's not just one or two isolated occurrences. This
11 indicates that there would be a portion of a cumulative and
12 ultimate primary production that has actually come from the
13 Penrose Member of the Queen. If we were to draw the top of
14 the unit, simply the top of the Grayburg, we would be
15 carving out this part of the oil column and then would also
16 be unfair in handling the parameters cumulative oil produced
17 by the working interest owners in participation negotiations
18 because we'd have to give credit for oil produced that was
19 produced from outside the unit. So a well that just
20 produced from the unitized interval would have its interest
21 somewhat depleted or deluded.

22 Q. Exhibit 25?

23 A. Exhibit 25 is a list of Eumont oil pool
24 completions overlapping into the Arrowhead Grayburg Pool.
25 Again, both of these wells will be included into the unit.

1 It shows that there are two wells that have 28 and 12 feet
2 completed from the Eumont, which are actually Penrose
3 completions into the Grayburg unit.

4 Q. Exhibit 26?

5 HEARING EXAMINER: Would your nomenclature change take
6 care of these two wells?

7 THE WITNESS: Yes, sir. These wells would be
8 reclassified as Arrowhead Grayburg.

9 A. The Exhibit 26 is the Langlie Mattix oil pool
10 completions that overlap the Queen and Penrose and Grayburg
11 sections. Again, these will be taken care of in the
12 nomenclature.

13 The next exhibit is an overlap map that just
14 gives you a visual or map representation of the same things
15 in the tables. The red and blue and yellow dots indicate
16 the Penrose Eumont oil and Langlie Mattix completions. The
17 white dots or non-colored dots are the Arrowhead Grayburg
18 completions. Below each well is the proposed AGU well
19 number for that proration unit. To the right of each well,
20 or left, depending on where there was room, you will see
21 typically two numbers. For example, if you look in Section
22 25 of 2136 up at the northern portion of the unit, over to
23 the western side from the W. A. Ramsey B Number 2, you see a
24 number 26 and a number 83. The 26 indicates the feet of
25 Penrose completion, which is really the Eumont pool now; and

1 the 83 indicates the number of feet completed in the
2 Grayburg section.

3 HEARING EXAMINER: I didn't find those. Tell me again
4 where they are.

5 THE WITNESS: If you'll look in the -- in section -- in
6 the north half of Section 25, up at the northern portion of
7 the unit, over in the southwest quarter of the northwest
8 quarter is the Ramsey B Number 2, which will be the
9 Arrowhead Grayburg Unit well number 104, as indicated by the
10 number at the bottom of the location in parenthesis. To the
11 left of the well you'll see the 26 and 83. Those two
12 numbers represent the feet of Penrose completion and the
13 feet of Grayburg completion respectively.

14 Q. (By Mr. Kellahin) Would you identify and describe
15 Exhibit 28?

16 A. Exhibit 28 indicates the current Eumont gas wells
17 and gas proration units, which include two cume units.
18 These will be slightly affected by the nomenclature case
19 because we'll be asking the commission to contract the
20 vertical limits of the Eumont gas pool overlying the unit to
21 the top of the Grayburg, or minus 150 subsea, whichever is
22 shallower, where it's currently defined as the top of the
23 Grayburg. Only two wells would actually be affected by this
24 contraction, which are the two that I described earlier,
25 which were found on a previous exhibit as the ones that

1 penetrate the top of the unit. This map represents all of
2 the current Eumont gas wells and associated gas proration
3 units that would be affected by the nomenclature.

4 HEARING EXAMINER: There will be some Eumont oil wells,
5 but only two gas?

6 THE WITNESS: Yes, sir. These will not be
7 reclassified, but the vertical limits of the Eumont pool,
8 oil and gas, would be brought up to minus 150 subsea, or the
9 top of the Grayburg, whichever was shallower.

10 Q. (By Mr. Kellahin) I believe we turn now to the
11 package of documents in the black binders. It's the C-108
12 documents.

13 A. Yes, sir, the Exhibit 29.

14 HEARING EXAMINER: Would it be more convenient to ask
15 questions about this group or go on through the others?

16 MR. KELLAHIN: It's your pleasure, Mr. Examiner.

17 HEARING EXAMINER: Why don't we then take some time to
18 clear up these things I had listed here and see if Mr. Carr
19 or Mr. Pearce either have any questions at this time?

20 MR. CARR: No questions.

21 MR. KELLAHIN: We'll move introduction at this time
22 then of Mr. Cotner's Exhibits 1 through 28.

23 HEARING EXAMINER: All right, we'll admit Exhibits 1
24 through 28.

25 On Exhibit 3, Mr. Cotner, the east west boundary,

1 I didn't understand the west boundary, how you determined
2 where that was, other than I think later you said it was
3 real logical or something.

4 THE WITNESS: Yes, sir. We defined the western
5 boundary of the unit structurally and included all proration
6 units where the top of the Grayburg was found above minus
7 325 subsea. West of that, if we can refer to Figure 6 in
8 the Technical Committee Report where the geologists provide
9 further testimony later, but on the structure map, the
10 western boundary of the unit includes all proration units
11 where the top of the Grayburg is found at minus 325 or
12 above. Further west of that boundary, the Grayburg
13 formation is wet and in the aquifer portion.

14 HEARING EXAMINER: So it's essentially the productive
15 limit on the west side.

16 THE WITNESS: It is the productive limit, and there's
17 actually been two tests recently in -- while we were going
18 through the unitization process that confirmed that
19 boundary.

20 HEARING EXAMINER: And on the east side it was -- tell
21 me again what it was.

22 THE WITNESS: It's a stratigraphic measure of the pay
23 quality, which what was used was a percent dolomite map, and
24 we included pay of greater than 60 percent carbonate
25 porosity.

1 HEARING EXAMINER: Was that also a productive limit --

2 THE WITNESS: No, sir.

3 HEARING EXAMINER: -- boundary or not?

4 THE WITNESS: As you continue east, you get into the
5 Penrose Selly pool, and you have a greater amount of
6 sandstone, but those sandstones are clastic intervals,
7 become greater thickness. And where we drew the limit was
8 kind of a low energy environment that you created kind of a
9 low in production, and you have a low in what we believe
10 will be a rock that we can inject into. The geologist that
11 will testify after me will have additional comments about
12 that.

13 MR. STOVALL: Just quickly, is Figure 8 that dolomite
14 map that you used?

15 THE WITNESS: Yes, sir, that's correct.

16 HEARING EXAMINER: The Figures 10 and 11, I followed
17 that those were the entire area, 10 is, and 11 is only the
18 unit area, but there seemed to be some differences along the
19 boundaries that I was unable to understand. Would you
20 explain those? There's some absence of contour lines near
21 the unit boundaries.

22 THE WITNESS: I think if you'll examine that, the
23 actual ^{limits} (cumes) indicated on each well are the same. The
24 difference would be in the contouring program by not having
25 the wells beyond the limits of the unit would change the

1 mathematical means that the program would draw in the
2 contour. These were computer automated contours.

3 HEARING EXAMINER: You did use that outside data to
4 come up with the numbers and the numbers under the wells?

5 THE WITNESS: Yes, sir.

6 HEARING EXAMINER: And on the Zia -- location of the
7 Zia (proffer), even the initial map that you showed us
8 appeared to me to be exactly the same as subsequent maps
9 that were presented, so I never did know where Zia pulled
10 out of the unit or where they used to be.

11 THE WITNESS: The Zia interest begins at what was on an
12 assignment referred to as the top of the San Andres, which
13 was on a Humble state well. I believe it's cited in the
14 unit agreement as far as the definition of the unit. Where
15 they actually occur is in the southeast quarter of Section
16 18, Township 22 South, Range 37 East. That same assignment
17 also conveyed the rights below the top of the San Andres, as
18 referred to in assignment, in the north half of the north
19 half of Section 19. This is down at the very south end of
20 the unit. The reason the maps appear the same is the
21 Grayburg, or majority of the Grayburg, interval will
22 continue to be included in the unit. It's just this
23 ownership in the deeper portions of the unit, or those 320
24 acres will be excluded.

25 HEARING EXAMINER: So that acreage -- those tracts will

1 still be included, you just won't have ownership as deep
2 under those tracts as you do in the remainder of the unit.

3 THE WITNESS: That's correct. American Exploration is
4 the owner of the shallower rights, and they do want to
5 participate in the unit. So we didn't want to carve out the
6 whole acreage and carve out an owner that wanted to
7 participate that on the majority of the Grayburg, and then
8 when we carved out the owner that was in the lower part of
9 the Grayburg and San Andres that requested to be excluded.

10 HEARING EXAMINER: Will they continue to produce those
11 San Andres wells?

12 THE WITNESS: Yes, sir, they will.

13 HEARING EXAMINER: What pool will they be assigned to?

14 THE WITNESS: This is ^{Eunice JHM} (unit) San Andres southwest and we
15 will not change that.

16 HEARING EXAMINER: Currently assigned to that?

17 THE WITNESS: Yes, sir.

18 MR. STOVALL: I assume there won't be any injection
19 down in that zone?

20 THE WITNESS: That's correct. That was one of the
21 agreements that we reached with Zia in settling the --
22 carving it out.

23 HEARING EXAMINER: Now, the demand wells on Exhibit 18,
24 was that a well in each 40 acres or just a well in every 40
25 acres where you thought it was reasonable?

1 THE WITNESS: It was one well for each 40 acres that
2 had -- that the 40 acres had a current completion within the
3 unitized interval. If this was the 40 acres that had
4 previously produced but all wells on the 40 acres had been
5 plugged or producing from another horizon, that there was no
6 current completion in the Grayburg, it was not a demand
7 well.

8 HEARING EXAMINER: You demanded only if it had it.

9 THE WITNESS: Only if it had a current completion on
10 the 40 acres and only one well per 40.

11 HEARING EXAMINER: Assuming that all this is approved
12 and the nomenclature changes are approved, will your company
13 submit forms to the Hobbs office to follow up on changes
14 approved by the order, or would you expect the order to take
15 care of those changes, or do you know?

16 THE WITNESS: I'm not sure I understand.

17 MR. STOVALL: Let me help. It may take, for example, a
18 C-104 for those wells to change the pool identification or
19 something -- I believe it would be the 104.

20 THE WITNESS: Yes, sir. We would take care of that, as
21 we have in this Eunice Monument south unit expansion area
22 B. When we file the change of operator form on that form,
23 we also indicate the change of the pool name for the ones
24 that required a pool name change. In any other wells that
25 we have that would be affected by the nomenclature change

1 that would have a change of operator, we would show both the
2 new well number and the new pool designation.

3 MR. STOVALL: So actually every well will get a new 104
4 on it because --

5 THE WITNESS: -- have a new well number.

6 MR. KELLAHIN: Talk one at a time.

7 HEARING EXAMINER: Thank you, Tom.

8 On the two Eumont wells that -- gas wells that
9 penetrate down into the proposed Arrowhead top, have all the
10 working interest owners -- are they all aware of that and
11 all in approval, all approve of it?

12 THE WITNESS: It was mentioned at the technical
13 committee meetings. Chevron is the operator of one of the
14 wells, so they're aware of it. Amaratta Hess is the
15 operator of the other well. I'm not sure if they're aware
16 of it or not. I believe we would draw their attention to it
17 and ask them to make an election on whether they wanted to
18 plug the well back out of the unit now or monitor the well.

19 HEARING EXAMINER: I was worried about the other
20 operators that didn't have a well sticking down into the
21 unitized substance. Do they know about it, and would you
22 make them aware of it?

23 THE WITNESS: I cannot testify whether or not they're
24 aware of it now, but we could make them aware of it. We
25 would want to avoid allowing any additional wells authority

1 to penetrate the unit now. But to grandfather, if you will,
2 these two existing wells that do not require the plug back
3 again, we would not want all these operators going and
4 penetrating the unit and changing how much feet they
5 penetrate the unit and trying to have a gas-free
6 recompletion because that would be potentially damaging to
7 the unit. Eventually you would get something that would
8 communicate the unit to the Eumont gas by doing that.

9 HEARING EXAMINER: Have you got any questions at this
10 time, Bob?

11 MR. STOVALL: I don't ask engineers questions.

12 HEARING EXAMINER: That's a switch.

13 Q. (By Mr. Kellahin) Mr. Cotner, you said earlier in
14 the beginning of your testimony that you were the
15 responsible engineer for compiling the data to submit with
16 the C-108?

17 A. Yes, sir.

18 Q. So that the Examiner has an understanding of how
19 you have compiled the C-108 booklet, it's the three-ring
20 binder in black?

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

22 Q. Describe for us how you've compiled it?

23 A. I reviewed the requirements of the form C-108 and
24 determined within Chevron who is the appropriate party to
25 answer the questions asked. I prepared a good portion of

1 the exhibits myself, and I had some help from the production
2 engineer in completing the wellbore diagrams, and submitted
3 to the geologist involved in the project the geological seal
4 and fresh water, sand types of questions, asked each of them
5 to answer the questions appropriately and submit the
6 document to me for inclusion in the report.

7 Q. Is the book the Examiner has before him now a
8 complete C-108 with all the attachments?

9 A. Yes, sir, it is.

10 Q. Describe how the book is organized.

11 A. The first page of the book is the actual form
12 C-108 which I signed on February 7th. And then the next
13 page has an index reference which refers to the Roman
14 numeral reference items on the C-108 itself. For example,
15 reference item three on the C-108 calls for well data,
16 "Complete the data required on the reverse side of this
17 form for each well proposed for injection. Additional
18 sheets may be attached if necessary." So if you turn to
19 Section III on the tabs, you will find the injection well
20 data sheets. The same would occur for each reference
21 section of the form C-108 that required some type of
22 document to be attached.

23 Q. Let's turn to the tab marked with Roman numeral
24 III. You have a number of different examples of type
25 schematics for injection wells?

1 A. Yes, sir.

2 Q. Pick out for us the type example and then show us
3 the differences.

4 A. What I did is reviewed the -- all wellbores for
5 wells that would be converted to injection and then added
6 the wellbore schematic for the new injection well. So the
7 first exhibit indicates the schematic and data for a
8 proposed new injection well. It indicates that the pack
9 would be set within a hundred feet above the top. It
10 indicates the typical perforation range in the TD, the
11 amounts of cement that will be involved in the casing
12 programs, etcetera.

13 Q. To understand how there's a change in the
14 schematic, the label for the change is written on the third
15 line down below where it says well number and footage
16 location?

17 A. Yes, sir.

18 Q. And in small print it says "proposed new
19 injection well"?

20 A. Yes, sir.

21 Q. As we thumb through the injection schematics
22 then, in each instance at that position on the display it
23 identifies the type of injection schematic?

24 A. Yes, sir. Instead of completing a schematic for
25 each and every well, I categorized them into the types of

1 completion, whether it's a new well, whether it's an
2 existing two casing strings with an open hole, which would
3 be the second one, or two casing strings perforated, or two
4 casing strings with a perforated liner, three casing strings
5 with a perforated liner, etcetera.

6 Q. Have you handled all the combinations that you
7 believe possible in the unit in terms of injection well
8 configurations?

9 A. Yes, sir, I have.

10 Q. Have you satisfied yourself as an engineer that
11 each of those injection configurations, if applied, will
12 give you good wellbore integrity for that injection well so
13 that injection fluids will remain confined to the injection
14 interval?

15 A. Yes, sir.

16 Q. Do you have a means to monitor the injection
17 pressure at the surface between the tubing and the annulus
18 base?

19 A. Yes, sir, we will.

20 Q. Do the methods of injection completion satisfy
21 you as an engineer that they are in conformance with
22 division rules and regulations for wellbore integrity?

23 A. Yes, sir, they do.

24 Q. The cement tops on the well between the surface
25 and the bottom of the surface casing string, is that going

1 to be a continuous cement from surface to the bottom of the
2 first casing, the surface casing string?

3 A. It should be upon completion. It's a remedial
4 work that may be necessary on some potential problem wells.

5 Q. Where is the likeliest deepest fresh water sand
6 available in the unit area?

7 A. I believe I'll defer that question to the
8 geologist that testifies, if you don't mind.

9 Q. Okay. Have you, in connection with the
10 geologist, worked out a program where, when completed, the
11 injection wells and producing wells will be isolated from
12 the any fresh water aquifer?

13 A. Yes.

14 Q. When we look at tab Roman numeral V, I guess it
15 is, is the next one -- I don't have a IV.

16 A. No, there is no Roman numeral IV.

17 Q. Go to V. What's at V?

18 A. V gives you two maps; first is the proposed
19 injection pattern, injection and producing pattern, for the
20 flood with the proposed unit well numbers. The next is a
21 map which is also indicated on the wall. It's indicating
22 the one-half mile area of review from each of the injection
23 wells. It's this one-to-1000-inch scale map here. It
24 indicates the location of proposed injection wells, whether
25 a proposed water injection conversion or a new drill. The

1 cloud-like appearance ring around the map is the one-half
2 mile radius review drawn around the injection wells around
3 the periphery of the unit, which all wells falling within
4 that ream were documented further to C-108 for their
5 completions, the plug wells, etcetera.

6 Q. Within the half-mile area of review, rather than
7 provide a tabulation of the wellbore information, have you
8 simply provided an individual well schematic with that same
9 information shown on the schematic?

10 A. Yes, sir. I have supplied some wellbore
11 information behind tab VIa, which is a tabular review of all
12 wells within that area of review. And then we have wellbore
13 schematics for -- behind tab VIb, is all wells within the
14 unit area that have not been plugged and abandoned. VIc is
15 all wells outside the unit area but within that half-mile
16 radius of review that have not been plugged and abandoned.
17 And VId is all wells that have been plugged and abandoned,
18 either inside or outside the unit, within a half-mile area
19 of review.

20 Q. Let me direct your attention first to the plugged
21 and abandoned wells. Have you found any plugged and
22 abandoned wells that you would characterize as problem wells
23 and otherwise wells that you suspect might be inadequately
24 plugged so that injection fluids might have the opportunity
25 to escape the injection formation?

1 A. Yes, sir. I have submitted Exhibit 31, which
2 indicates the potential problem wells of the plugged and
3 abandoned wells within the area of review. We have supplied
4 Mr. Jerry Sexton of the Hobbs district OCD with a copy of
5 the C-108 and have made a personal review of the wells with
6 him. He indicated that we would have some problem wells,
7 although he has not gotten back in touch with us which wells
8 he has identified. But on Exhibit 31 I indicate six wells,
9 and in the comment column what I believe would create them
10 to be potential problem wells. For example, the first one
11 in the public record, I could not find indication that there
12 was a last cement plug set near the surface or dry hole
13 marker installed. Mr. Sexton indicated that if we went out
14 and found the well and found the dry hole marker, then that
15 would probably satisfy his requirements, but that each of
16 these problem wells or any other identified by the
17 commission, that we would meet the district director's
18 requirements before we would initiate injection within a
19 half-mile radius of that well.

20 Q. In looking at the producing wells within the
21 half-mile area of review, do you find any producing wells
22 that you would characterize as problem wells?

23 A. There are some wells that it is not clear where
24 the top of cement was. For example, I believe there was a
25 former Sohio well in Section 7 that one indication was that

1 they did not get the majority of their long string cement
2 behind pipe, and it may not have an adequate cement top. We
3 will review those and also take heed to any of the
4 commission's recommendations on any wells that need remedial
5 work.

6 Q. In terms of the program for operation, do you
7 anticipate requiring approval to inject at surface
8 limitation pressures that would exceed the division
9 guideline of .2 PSI per foot of depth?

10 A. Initially, we're confident that the injection
11 pressures would not exceed that. At such time as we begin
12 to fill up the reservoir and repressurize, if we have step
13 rate tests that indicate the parting pressure is greater
14 than that .2 PSI per foot, we would ask the commission for
15 permission to exceed that .2 limitation within the confines
16 of the indicating parting pressure of the step rate test.

17 Q. The division examiner provides in his order an
18 administrative process to attain increased injection
19 pressures by the submittal of step rate test to the
20 division, would that be a procedure that would give you
21 operational flexibility?

22 A. Yes, it would.

23 Q. Do you have any fresh water analysis?

24 A. Yes, sir, we do.

25 Q. Where do we find that?

1 A. If you refer behind tab XI of the C-108
2 application, the first page is a map indicating the fresh
3 water well sample. Actually, it indicates three different
4 wells. It was -- the triangles are wells registered with
5 the state engineer's office that we were able to find and
6 sample. The circles indicate wells that were not registered
7 at the state engineer's office that we did find and sample.
8 And then the squares are wells that were registered at the
9 state engineer's office that we either could not find or
10 they were not active so we could not obtain a sample.
11 Following that page will be the samples performed by Martin
12 Water Labs of Midland, Texas, for each of those fresh water
13 wells that we were able to find and sample, whether of
14 record with the state engineer or not.

15 Q. What will be the source of your injection water
16 into the waterflood project?

17 A. It will be a combination of the produced water
18 from the Grayburg formation and San Andres makeup water.

19 Q. Do you anticipate any incompatibility problems
20 with the mixing of those two waters and introducing them
21 into the waterflood?

22 A. No, sir, we do not. In fact, behind tab VII we
23 asked Martin Water Labs, again of Midland, to perform a
24 compatibility test of several different mixtures of the
25 produced water in the San Andres makeup water taken from an

1 EMS or Eunice Monument South Unit supply well to determine
2 if there was any incompatibilities. And he indicated that
3 there was no apparent incompatibility.

4 Q. What did you do about satisfying the division
5 notice requirements for distributing the required notice to
6 potentially affected parties on the C-108 application?

7 A. Behind tab XIV of the application is a letter
8 that was mailed certified to each surface owner, offset
9 operator and the working interest owners within the proposed
10 unit area. The letter indicated that we have scheduled a
11 hearing for today, and we included a copy of the C-108
12 application, the statutory unitization application and the
13 full extension contraction application. And then in my
14 exhibit outside the C-108, but Exhibit Number 33, I have a
15 list of the owners that that letter and additional data was
16 sent to. On that list, if you see a checkmark to the right
17 of the name, it indicates that we have received the green
18 card, return receipt requested card, from the post office.
19 There are a couple of instances where we do not have
20 checkmarks, and in those cases I have included a copy of the
21 mail log record from Chevron's mail room in Midland, Texas,
22 indicating the proof of sending with the address label and
23 the stamp and the return receipt requested. For the green
24 cards that we have returned, I have xeroxed all those and
25 included that also in this proof of notice.

1 Q. Have you received any objection for any surface
2 owner of the location of the proposed injection well?

3 A. No, sir, we have not.

4 Q. Have you received any objection from any offset
5 operator?

6 A. No, sir, we have not.

7 MR. KELLAHIN: That concludes my examination of Mr.
8 Cotner. We move the introduction of Exhibits 29 through 33.

9 HEARING EXAMINER: Exhibits 29 through 33 are admitted.

10 MR. CARR: No questions.

11 HEARING EXAMINER: On the -- I had noted several wells
12 in the PNA section there that didn't have a plug between the
13 top of the salt and the base of the Santa Rosa. And you
14 testified that you and Jerry had spotted several of those
15 and that you planned to fix them. Would the remedial work
16 be done on any well that was found in the condition which
17 would be similar to those that are listed on your exhibit
18 that you plan to do some work on?

19 THE WITNESS: Yes, sir.

20 HEARING EXAMINER: Exhibit Number 31.

21 THE WITNESS: Yes, sir, we do remedial work on any of
22 the wells that the commission had indicated were problem
23 wells and would require the work on.

24 HEARING EXAMINER: You said that you will do whatever
25 the commission asks you to, but would you either perforate

1 the casing or pull the casing in order to get a plug across
2 the entire wellbore in doing your remedial work on those
3 wells?

4 THE WITNESS: If that was necessary and feasible.

5 HEARING EXAMINER: Did you -- or maybe it's planned for
6 later testimony -- but have you -- did you include a
7 percentage of the royalty ownership sign-up in here? If you
8 did, I missed it.

9 THE WITNESS: No, sir, not in the C-108. Our landman
10 will testify to that later.

11 HEARING EXAMINER: I meant on your unit agreement.

12 THE WITNESS: The landman will testify to that later.

13 HEARING EXAMINER: And the nomenclature portion of your
14 presentation will be later too; is that correct?

15 MR. KELLAHIN: This is the best witness on the
16 nomenclature details, Mr. Examiner.

17 HEARING EXAMINER: On the map you submitted prior to
18 the hearing there was a quarter section in Section 14 that
19 apparently would still be included (in the right) in the
20 Arrowhead Grayburg. And if I understood correctly what you
21 propose, that would be the only 40 acres that would not
22 exactly correspond to the unit boundary; is that correct?

23 THE WITNESS: No, sir. I believe there's one other
24 40-acre tract that is in Section 17. I believe it is the
25 northwest quarter of the northwest quarter. There are two

1 wells that are currently classified as Arrowhead Grayburg,
2 although they're not actually completions. But in the New
3 Mexico Oil and Gas Engineering Committee Annual Reports, the
4 cumulative is carried as Arrowhead Grayburg. When we met
5 with Jerry Sexton and his staff members in the Hobbs
6 district office, Evelyn Downs had requested that we not --
7 when we carve down the size of the Arrowhead Pool, loping
8 off the acreage that would probably never have a Grayburg
9 completion, that we didn't carve it down just to the size of
10 the unit so they could still carry the cumulative production
11 from those two wells as Arrowhead Grayburg. There's no
12 reason to contract the Eumont gas pool to minus 150 of the
13 top of the Grayburg above there since they're outside the
14 unit area, nor to include the San Andres -- expand them --
15 pull them into the Arrowhead Grayburg, include the San
16 Andres in those two. It would just be how the Examiner saw
17 fit to handle that.

18 HEARING EXAMINER: Included in your proposal, was there
19 a downward expansion proposed?

20 THE WITNESS: Yes, sir. The current pool limits of the
21 Arrowhead Grayburg Pool are to the base of the Grayburg.
22 And since we are proposing to include the San Andres aquifer
23 as part of the unitized interval, we would like to expand
24 the vertical limits to minus 1,500 subsea, which is near the
25 base of the San Andres, save and except that portion of the

1 unit where we're excluding the unit San Andres southwest
2 pool.

3 HEARING EXAMINER: Was that included in your request?

4 THE WITNESS: Yes, sir, that was in the application.

5 HEARING EXAMINER: Did you plan to present anything
6 more on that here today?

7 MR. KELLAHIN: Nothing more in that it fits with the
8 Zia solution. And what we will do, if you desire, is
9 propose a draft order for you. Part of the solutions on
10 nomenclature came from Mr. Sexton's office on how they wish
11 to manage the pool changes.

12 MR. STOVALL: Are you proposing, Tom, that the
13 nomenclature is a separate case, isn't it?

14 MR. KELLAHIN: I would think it might be easier to
15 enter a separate order to make those adjustments.

16 HEARING EXAMINER: I believe you told me that you've
17 said all you're going to say about it.

18 MR. KELLAHIN: Yes, sir, unless you have some
19 additional questions of Mr. Cotner.

20 MR. STOVALL: I was thinking in terms of the context of
21 issuing an order, I think that would be simpler to have a
22 nomenclature order in that case.

23 HEARING EXAMINER: All right, I see the 1,500. Did all
24 the interest owners in all the pools that will be changed
25 receive notice of these proposals, notice of the hearing?

1 MR. KELLAHIN: Yes, sir.

2 THE WITNESS: Within the unit area. We did not notify
3 every Langlie Mattix interest owner in the entire Langlie
4 Mattix pool. I'm not sure I understood the question.

5 HEARING EXAMINER: Well, I think that's a better answer
6 than it was a question. How about the Eumont interest
7 owners above the boundary unit? Were they all notified?

8 THE WITNESS: Yes, sir, all working interest owners
9 within the boundaries of the unit.

10 HEARING EXAMINER: From the surface to wherever (basic)
11 production is?

12 THE WITNESS: Yes, sir. At least all operators were
13 notified. I'm not sure if all owners were notified.

14 MR. STOVALL: Are there any undrilled tracts where
15 there would not be an operator of record? And do you know
16 if there are any?

17 MR. KELLAHIN: We would pick them up in the unitization
18 case, and those parties have the same mailing as the
19 nomenclature case. So we're going to have them either as an
20 operator or as a working interest owner or a royalty owner
21 in the unit mailing case, for which they also received the
22 pool nomenclature application. So I can't imagine that
23 there's anybody that we've missed.

24 HEARING EXAMINER: Each Grayburg well currently
25 completed in this area will have a home after this expansion

1 and contract is completed, or a field to be in; is that
2 correct?

3 THE WITNESS: Yes, sir.

4 MR. STOVALL: I'm going to ask him a non-engineering
5 question.

6 EXAMINATION

7 BY MR. STOVALL:

8 Q. I'm going back to actually the earlier block of
9 testimony when you talked about the AFE. And you've got 74
10 percent approval of the AFE?

11 A. Yes, sir.

12 Q. Do you know in the unit operating agreement what
13 the percentage approval for operations is required under the
14 terms of the agreement?

15 A. I believe it's 65 percent.

16 MR. STOVALL: That's all I have.

17 HEARING EXAMINER: You may be excused.

18 DON LEE LINDSEY

19 the Witness herein, having been first duly sworn, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

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

25 A. My name is Don Lee Lindsey. I'm a petroleum

1 geologist for Chevron U.S.A., Midland, Texas.

2 Q. Mr. Lindsey, you spell your last name
3 L-i-n-d-s-a-y?

4 A. s-e-y.

5 Q. Have you testified on prior occasions before the
6 division, Mr. Lindsey?

7 A. Yes, I have.

8 Q. What has been your involvement in the Arrowhead
9 unit project?

10 A. My involvement at the onset was as a person that
11 was familiar with the project, although I was not
12 specifically assigned to the project, through its
13 evolution. I've been officially assigned to the project
14 over the last four months, and I've reviewed all the
15 previous geological work.

16 Q. Has your study included a review of the technical
17 committee geologic information?

18 A. Yes, it has.

19 Q. And have you satisfied yourself that that
20 information is reliable and accurate?

21 A. I've looked at the specific geologic information,
22 including structural, stratigraphic information, completions
23 of the wells in the field. I'm satisfied with the validity
24 of the work.

25 Q. In those areas where you had thought a need to

1 look for other information, have you gone out and found
2 supplemental information to satisfy your inquire on any
3 geologic point?

4 A. Yes, I have.

5 Q. At this point, are you able to formulate certain
6 geologic conclusions about the proposed unit waterflood in
7 the unit project?

8 A. Yes, I am.

9 MR. KELLAHIN: We tender Mr. Lindsey as an expert
10 petroleum geologist.

11 HEARING EXAMINER: We'll accept his qualifications.

12 Q. (By Mr. Kellahin) Mr. Lindsey, have you formed an
13 opinion as a geologist concerning the boundaries of the unit
14 and whether or not it has any reasonable geologic basis?

15 A. Yes, I have. All boundaries are very reasonable
16 geologically.

17 Q. Have you examined the proposed flood interval to
18 satisfy yourself geologically that they were sufficiently
19 continuous from well to well to provide the operations a
20 realistic opportunity to inject water into an injection
21 well, have that flood through the formation and have water
22 and oil produced out of producing wells?

23 A. Yes, I have, and I believe the Arrowhead Grayburg
24 reservoir has excellent secondary recovery potential.

25 Q. As part of your study, have you assisted Mr.

1 Cotner in the preparation of the C-108 to look for two
2 items; one, to see if there was any open faulting or other
3 geologic events that might hydrologically connect the flood
4 formation and any fresh water zones?

5 A. Yes, I've looked at that.

6 Q. Is it a problem?

7 A. No, sir, it's not.

8 Q. Do you find any evidence of open faulting?

9 A. No, sir.

10 Q. Do you find any evidence that the formations or
11 communicated between any aquifer and any flood zone?

12 A. No, sir.

13 Q. What is your opinion about the deepest known
14 producing fresh water sands in this unit area?

15 A. My knowledge is the Triassic age Chinle and Santa
16 Rosa formations are the primary fresh water aquifers in the
17 area.

18 Q. Approximately how deep would be the deepest fresh
19 water source that might be utilized for a beneficial use?

20 A. The deepest fresh water source would be the Santa
21 Rosa formation, which extends from approximately 850 feet
22 down to about 1,250 feet in this area.

23 Q. Do you see in your investigation any producing or
24 plugged and abandoned well within the unit or within a
25 half-mile radius of any proposed injector that poses a

1 problem whereby injection fluids might utilize that wellbore
2 and communicate with any fresh water sands?

3 A. No, sir.

4 Q. Let's go to Exhibit Number 34-A and have you
5 identify that for us.

6 A. Exhibit 34-A and, actually, 34-B are companion
7 exhibits. 34-A is a type log, the type log for the
8 Arrowhead Grayburg field. It is the Gulf Oil Corporation,
9 now Chevron, Harry Leonard (NCT-C) Number 20. It's located
10 in the extreme northwestern portion of Section 36 in
11 Township 21 South, 36 East.

12 Q. This type log is used in the engineering report
13 and perhaps is already before the Examiner in a different
14 format?

15 A. Yes, it is. I've highgraded 34-B to include pool
16 boundaries with the type log, which is -- by the way, it's a
17 combination of Figure 7 and 5 in your Technical Committee
18 Report.

19 Q. If the Examiner wants to look at the full log
20 itself, then you have the density neutron log for the type
21 well and he see it in full scale?

22 A. That's correct. It's the entire section starting
23 at, I believe, 200 feet, extending down to this well's total
24 depth of around 6850.

25 Q. And then you've taken a portion of the type log

1 put it on display 34-B and given the Examiner the
2 nomenclature for pool and for formation?

3 A. That's correct. I'd like to add perhaps at this
4 time that the formation tops that are represented for the
5 Queen, Penrose, Grayburg and San Andres tops were picked
6 from -- by Paul ^{Kautz} (Kauts) from the Hobbs OCD office. ^{JHM}

7 Q. In your examination, do you agree with Mr. ^{Kautz's} (Kauts)
8 pick of tops?

9 A. Yes, I do.

10 Q. Is it a zone that is easily correlated from well
11 to well so that there can be uniform agreement among
12 geologists about how to correlate the logs?

13 A. Yes. There are good, consistent methodologies
14 that are readily correlated, very straightforward. We'll
15 see a little of that in subsequent exhibits.

16 Q. Let's turn now to Exhibit 35. Would you identify
17 that?

18 A. Yes. Exhibit 35 is a structure map drawn on top
19 of the Grayburg formation. The Examiner may have large or
20 small scale versions.

21 Q. Your major geologic conclusions were that you had
22 geologic explanations to the outer boundaries of the pool
23 and had a conclusion that the flood formation was continuous
24 and feasibly could be flooded?

25 A. Yes.

1 Q. In what way does this display support those
2 conclusions?

3 A. This display supports the western boundary of our
4 unit. We've testified prior that our western boundary was
5 defined on a structural contour, which is the minus 325
6 contour. It's highlighted in blue on this map.

7 Q. Do you concur with Mr. Cotner's conclusion that
8 the western boundary of the unit has a good rational basis?

9 A. Yes, it does, and subsequent exhibits will bear
10 that out.

11 Q. Can you use the structure map to tell you
12 anything else about your conclusions concerning the
13 floodability of the Grayburg formation?

14 A. There are better exhibits for that.

15 Q. Let's turn now to the stratigraphic
16 cross-section, Exhibit 36.

17 A. Exhibit 36 is hanging on the wall.

18 Q. Let me have you go to the display on the wall,
19 Mr. Lindsey, Exhibit number 36. I'll hand you a pointer.
20 First of all, to orient us --

21 A. The map on the stratigraphic cross-section which
22 is hung on top of the Grayburg, acting as the datum, runs
23 from the currently flooded EMSU unit to the north through
24 our proposed Arrowhead Grayburg Unit. It's an important
25 exhibit in that it shows the similarities seen at Arrowhead

1 that we also see at EMSU. Those similarities particularly
2 are zonation. Within the Grayburg, we have five distinct
3 zones which are separated by dense, solisiclastic, low
4 permeability zones. The other point to make here is the
5 zones are easily correlatable, as previously mentioned.
6 It's interesting to note that we have a thinning overall
7 Grayburg section at Arrowhead, a little thinner than we have
8 at EMSU, although very similar lithologically,
9 stratigraphically and structurally.

10 I'd like to point out that our color scheme on
11 the exhibit is blue for the flood target dolomites and
12 yellow for the ^{siliclastics} (solisiclastics) that I mentioned. These
13 solisiclastics, again, create the zonation not only within
14 the Grayburg but also from the Penrose and the Queen section
15 above. So we do have this zonation in the north south
16 direction.

17 Q. Part of engineering committee's analysis of the
18 secondary potential of the Arrowhead was to compare the
19 reservoirs in the Arrowhead Unit with the Eunice Monument
20 Grayburg Unit?

21 A. Yes, sir.

22 Q. And they were drawing some analogies about the
23 secondary recovery potential to be attributed to Arrowhead.
24 Can you concur as a geologist that the reservoirs being
25 flooded in both Arrowhead and Eunice Monument are similar

1 enough that the engineers may rely on the fact that they are
2 dealing with similar reservoirs and not some other kind of
3 creature?

4 A. Yes, sir, they are very similar. Again, our
5 flood target, the dolomites, from what few modern logs we do
6 have within the proposed Arrowhead Unit are very similar in
7 character with the modern logs in the EMSU existing
8 waterflood unit.

9 Q. While I have you on your feet, let's skip 37 and
10 go to 38. Let's go to your structural cross-section.

11 A. We have actually two structural cross-sections.
12 One is Exhibit 38, the other is 39. I might show both.

13 Q. Let's leave that one there and put the extra one
14 on top.

15 A. Okay. The purpose of constructing the two
16 east-west cross-sections through the southern part of the
17 field, which C-C' indicates, and the northern part of the
18 field, which B-B' indicates -- by the way, these lines of
19 cross-section are reflected also on your structure map which
20 I submitted earlier -- is to also show that we have a
21 zonation within the Grayburg in an east-west fashion as well
22 as a north-south fashion, which we saw earlier. Again, the
23 color scheme is the blue floodable dolomites and the yellow
24 dense permeability barrier clastic sections. These, by the
25 way, it would be important to note, are examples of log

1 quality that are the exception rather than the rule in the
2 area. These lines of cross-section were chosen because
3 there are a number of good, modern quality logs linearly
4 here which, again, is not the common case throughout the
5 field.

6 Q. Identify and describe for us Exhibit Number 37,
7 Mr. Lindsey.

8 A. Exhibit Number 37 bears out the dense nature of
9 the solisiclastics which I've been mentioning as barriers
10 between not only the Grayburg and the Penrose, but also
11 zones within the Grayburg. There are no cores within the
12 Arrowhead Grayburg Unit area. This open hole log from the
13 Eunice Monument South Unit Number 457 was cored, and the
14 core analysis indicates that the permeabilities of these
15 stringers, which I have highlighted in yellow to stay
16 consistent with my cross-section, are quite low and, indeed,
17 they are permeability barriers. I've attached a tabulated
18 core analysis bracketed A, B, C and D as on the logs to help
19 verify this low permeability lithology.

20 Q. What are the ranges of permeability within the
21 area of the Grayburg and Penrose shown?

22 A. The -- well, productive permeabilities need to
23 exceed .5 to .6, we estimate, millidarcies.

24 Q. So when I look on the second page of the core
25 display, you get to the column that shows permeability

1 there.

2 A. Permeability.

3 Q. The important number is the horizontal
4 permeability?

5 A. They're all important. Vertical is the primary
6 important one.

7 Q. So I look at the column that has the vertical
8 permeability?

9 A. And you have permeabilities in most of the
10 sections below .5, .6 range. Certainly on the C and D you
11 have an indication of an extremely tight section.

12 Q. What is the minimum permeability you believe
13 necessary?

14 A. I believe it's about .5 to .6 is our estimate.

15 Q. Can you exceed that on average in the A zone in
16 terms of permeability?

17 A. You average it, with .35 being present, and then
18 A and B are both solisiclastics above the Grayburg section,
19 or actually the base of the Penrose section. So although A
20 is borderline as far as our permeability minimums, the lower
21 B is within it or below it. And, again, zonation within the
22 Grayburg is identified by C and D, which are extremely
23 tight.

24 Q. To the well that's cored in the Eunice Monument
25 Unit, this well 457, are the permeabilities adequate enough

1 in order to allow for the introduction of water into those
2 formations and let them move the oil?

3 A. Not within the sand formations.

4 Q. Only within the dolomite?

5 A. That's correct.

6 Q. And your analogy then in the absence of core data
7 in the Arrowhead, you find similar log characteristics for
8 those wells to give you confidence that you can apply this
9 core information in Eunice Monument to the lithology and the
10 permeabilities you anticipate in Arrowhead.

11 A. That's correct, based primarily on gamma ray of
12 modern logs in the area. If you'll notice either on the
13 structural cross-section or the stratigraphic
14 cross-sections, as well as the EMSU 457 open hole log, which
15 I have on Exhibit 37 here, the lower reading gamma rays
16 indicate the carbonates around 10 to 20 API. What I've
17 highlighted in yellow or sands, and they are usually 25 to
18 40 API, and these are very good, consistent indicators of
19 this impermeable solisiclastic section. Although
20 solisiclastics are these sands produced in the Penrose, they
21 are much thicker and porous and permeable. These
22 solisiclastic barriers in the lower Penrose and throughout
23 the Grayburg are very thin, less than five foot in
24 thickness, and have no permeability. It's interesting to
25 note that the porosities appear high. It's because these

1 are a solisiclastic zone, the porosities are based basically
 2 like a shale porosity in that there is porosity, but it's
 3 not ever connected, therefore it's not permeable. The
 4 porosity here in these ^{siliclastics} (solisiclastic) stringers are the
 5 result of the dissolution of fell spars within these
 6 sections.

7 Q. Does this geologic information help you form an
 8 opinion about the eastern boundary of the unit?

9 A. Yes, it does.

10 Q. Let's skip the stick diagrams for a minute and go
 11 to Exhibit 43.

12 A. Exhibit 43 will help define conclusively exactly
 13 what our intent was on the eastern boundary of the unit.
 14 Again, you may have either a large or a small version of
 15 Exhibit 43.

16 Q. What's the significance to you as a geologist of
 17 the blue lines shown on the eastern boundary of the unit?

18 A. The blue line on the eastern side of the unit
 19 indicates a 60 percent dolomite line. To the west of this
 20 line is increasing carbonate or dolomite, which, again, is
 21 our floodable target. To the east of this line we have the
 22 interbedded nature of the Grayburg, being interbedded
 23 dolomites and ^{siliclastics} (solisiclastics) or sands such -- to such effect
 24 that the sands make up more than 50 percent or 40 percent or
 25 more, and increasing to the east. These sands are not our

1 floodable target. And they've been unsuccessfully flooded
2 in the Section 17 area by our company in the past.

3 Q. What is it that tells you as a geologist that
4 this dolomite percentage cutoff for the eastern boundary
5 should be at 60 percent?

6 A. The cumulative production of the unit lies -- the
7 better cumulative production of the unit lies within the
8 portion of the reservoir which is 60 percent carbonate, or
9 greater.

10 Q. In conclusion then, do you find that to be a
11 reasonable, logical limit to the eastern boundary of the
12 unit?

13 A. Yes, sir.

14 Q. Your unit boundary closely approximates the 60
15 percent dolomite or greater line until we get down into
16 sections -- is that 7 and then 18, the northeast corner of
17 18 and part of 7 there, looks to be a little saddle or a
18 little transition zone in there?

19 A. The eastern part of Section 7, as you notice,
20 I've also highlighted the 60 percent carbonate line to the
21 east too. There is a little lull through there. So the
22 portions of the southern quarter of Section 7 do belong
23 within the unit and meet our percent carbonate criteria. As
24 far as the east half of the northeast quarter of Section 18,
25 which I assume you're referring to, there are two existing

1 wellbores there that have produced. The Number 8 well in
2 the northern half has produced on the order of 80,000
3 barrels cum. The southern wells produced on the order of
4 about 35 to 40,000 barrels cum from the Grayburg, so we have
5 existing wells there, low cost inclusion into the unit, and
6 therefore we've included those wells into the unit, and we
7 feel that although they are below the 60 percent carbonate
8 regime, we feel they would be a profitable inclusion into
9 the unit.

10 Q. Let me have you go back and look at the two stick
11 diagrams. They're Exhibits 42 and 41.

12 A. Exhibits 40, 41 and 42, again, are compatible
13 exhibits. I've taken those from the Technical Committee
14 Report.

15 Q. 40 is the diagram index that shows the location
16 of Exhibits 41 and 42?

17 A. Right. The stick index is Figure 19 in the
18 technical report. 41 is Figure 21 in the report, and our
19 Exhibit 42 is Figure 22 in the technical report. What I've
20 done here is, first of all, with the diagram index map is
21 I've chosen five, or two of the five east-west
22 cross-sections in the technical report which I think best
23 shows and supports not only our upper unitized limit of
24 minus 150 for the gas oil contact, but it also supports our
25 approximate oil water contact of 325 subsea. I've chosen

1 these cross-sections because the well completions include a
2 Grayburg completion as well as a Eumont gas completion. I
3 have annotated the cumulative recoveries from these wells in
4 NBO and in NNCF gas and indicate by each well what the
5 well's production is. It's interesting to note that the gas
6 wells are virtually oil-free in their recoveries, whereas
7 the oil completions indicated by the green are oil
8 recoveries with reasonable gas or gas/oil ratios.

9 Q. Mr. Lindsey, based upon your study, do you find
10 reasonable geologic basis for the proposed upper limit of
11 the unit being minus 150 feet or the top of the Grayburg?

12 A. Yes, I do.

13 Q. Do you correspondingly find a justification on a
14 reasonable geologic basis for the base of the unit being the
15 minus 1,500 foot number?

16 A. Yes, I do.

17 MR. KELLAHIN: That concludes my examination of Mr.
18 Lindsey. I move the introduction of Exhibits 34 through 43.

19 HEARING EXAMINER: 34 through 43 are admitted.

20 Is the upper limit of the Arrowhead Grayburg the
21 same as it is in that unit to the northwest?

22 THE WITNESS: No, sir, it's not.

23 HEARING EXAMINER: Why is that?

24 THE WITNESS: The separate pools, separate structures
25 have different gas oil contacts. At Arrowhead it's minus

1 150, at EMSU it's minus 100.

2 HEARING EXAMINER: I believe it was Exhibit 37 where
3 you had the permeabilities in the log from the --

4 THE WITNESS: Yes, sir.

5 HEARING EXAMINER: -- EMSU. Are the zones A, B, C and
6 D different from the zones 1, 2, 3, 4, 5? If I understood
7 you correctly, you were showing type zones A, B, C and D.

8 THE WITNESS: That's correct.

9 HEARING EXAMINER: And the zones not A, B, C and D on
10 those exhibits were the better zones; is that correct?

11 THE WITNESS: That's correct. The -- on the low
12 permeability exhibit, number 37, I've highlighted the higher
13 gamma ray in yellow to stay consistent with our structural
14 cross-section to show that as being our ^{solisiclastics} (solisiclastic) zone, ^{HM}
15 which is a characteristically low permeable zone.

16 HEARING EXAMINER: There were some fairly high things
17 in there, so I was a little bit confused.

18 That's all the questions I have.

19 MR. STOVALL: No questions.

20 HEARING EXAMINER: Anything more? Mr. Lindsey, you may
21 be excused.

22 Let's take a five-minute break before we take the
23 next witness.

24 (Recess, 4:42 p.m. to 4:50 p.m.)

25 DENISE K. BECKHAM

1 the Witness herein, having been first duly sworn, was
2 examined and testified as follows:

3 DIRECT EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Ms. Beckham, would you please state your name and
6 occupation?

7 A. Yes, sir. My name is Denise K. Beckham. I'm a
8 landman for Chevron U.S.A. Inc. in Midland.

9 Q. Ms. Beckham, on prior occasions have you
10 testified before the division as a landman?

11 A. No, sir, I have not.

12 Q. Describe for us your educational and employment
13 experience as a landman.

14 A. Yes, sir. I received a bachelor of arts degree
15 in political science from Texas Tech University in 1976.
16 1977 I went to work for Gulf Oil Corporation, worked two
17 years in the geophysical unit. 1979 I was moved up to the
18 land department and have worked in various phases of land
19 work from 1979 to present.

20 Q. Have you been actively involved in all the land
21 work required for the formation of the Arrowhead Grayburg
22 Unit?

23 A. Sir, I was not an original part of the team. The
24 landman that was assigned to this has since left the
25 company. But I have been associated with the project since

1 October of '88.

2 Q. Have you been responsible for compiling a list of
3 the working interest owners and royalty owners for this
4 project and determining to your own satisfaction that it is
5 accurate?

6 A. Yes, sir, I have.

7 Q. And have you caused your company to prepare and
8 circulate proposed unit agreements and operating agreements
9 to all those parties?

10 A. Yes, sir, I have.

11 Q. As part of your duties have you tabulated the
12 current status of commitment of the working interest and
13 royalty owners to the unit?

14 A. Yes, sir, I have.

15 MR. KELLAHIN: We tender Ms. Beckham as an expert
16 petroleum landman.

17 HEARING EXAMINER: We accept Ms. Beckham's
18 qualifications.

19 Q. (By Mr. Kellahin) Let me have you go through with
20 me and identify the documents that you have prepared and
21 propose to introduce to the Examiner this afternoon. Let me
22 have you first start with Exhibit 44. Would you identify
23 and describe that?

24 A. Yes, sir. As Mr. Cotner has testified, although
25 there were less than ten percent federal lands in the unit,

1 as a courtesy we approached the BLM and asked for a meeting
2 and their preliminary approval. This is the letter asking
3 for such.

4 Q. Would you identify 45?

5 A. Yes, sir. This is the response we received from
6 the BLM. They did give us preliminary approval and agreed
7 that the subject lands would be arealogically suitable to
8 secondary recovery unit.

9 Q. Having obtained the BLM preliminary approval --
10 that's the letter of May 16th, 1990?

11 A. Yes, sir, it is.

12 Q. Let's turn now to Exhibit 46. Identify that for
13 us.

14 A. This is the cover letter which accompanied the
15 unit agreement and the unit operating agreement which were
16 mailed to all the working interest parties for their
17 comments.

18 Q. Identify and describe 47.

19 A. Yes, sir. This is our letter requesting a
20 meeting and preliminary approval of the Commission of Public
21 Lands for our waterflood unit.

22 Q. And Exhibit 48?

23 A. It's the reply from the State of New Mexico
24 Commission of Public Lands giving preliminary approval.

25 Q. Exhibit 49?

1 A. Yes, sir. This is a letter requesting the
2 division order sections of our major companies to provide us
3 with division order or paysheets of their royalty owners.
4 We provided them with Exhibits B and C so they could have an
5 appropriate view of what we considered the appropriate
6 ownership. At that time we requested verification of the
7 ownership and also further information so we could make a
8 more correct exhibit.

9 Q. Exhibit 50.

10 A. Yes, sir. From our previous letter requesting
11 comments from the working interest owners we received
12 comments back from eight of the major working interest
13 owners. We took those comments into advisement and revised
14 the agreements. These revisions were basically grammatical
15 and did not substantially change the content of the
16 instruments. We sent this letter out certified mailing to
17 those eight working interest owners for their approval of
18 the unit agreement and unit operating agreement. Attached
19 to this letter were, of course, the revised copies of the
20 agreements, also an address list showing the companies which
21 received them, a listing of the changes that were made in
22 the agreements and also verification of our certified
23 mailing.

24 Q. Identify and describe Exhibit 51.

25 A. Yes, sir. This is an example of a working

1 interest owners executed ratification and joinder to the
2 unit agreement and unit operating agreement, ratifying their
3 interest to such instruments.

4 Q. Exhibit 52.

5 A. This is a cover letter which sent out a revised
6 Exhibit A correcting some company names. An example of this
7 would be Tract 7, American Exploration was changed from KEC
8 Corp. There was a company change, and so we updated our
9 Exhibit A of the unit agreement.

10 Q. Identify and describe Exhibit 53.

11 A. Yes, sir. Upon negotiations and a reasonable
12 assurance of acceptance of the eight major working interest
13 owners companies of our agreements and revised agreements,
14 we then sent the rest of the working interest owners these
15 copies of the agreements for their review and approval.
16 Again, we have an address list stating the companies that
17 received those, a list of the changes that were made in the
18 agreements. Basically, this is the same as was sent out
19 under the November 28th and also verification of our
20 certified mailings. We had a hundred percent return in the
21 certified mailing.

22 Q. Identify and describe Exhibit 54.

23 A. This was a certified mailing to the lessee of
24 record, the owners of royalty and overriding royalty
25 interests. Accompanying this letter was a unit agreement,

1 their ratifications and a brochure explaining some
2 information about secondary recovery, a background of the
3 Arrowhead Grayburg Unit.

4 Q. Identify and describe Exhibit 55.

5 A. This is an example of an individual royalty owner
6 joinder and ratification of the unit agreement ratifying
7 their interest to the unit agreement.

8 Q. Exhibit 56?

9 A. Yes, sir. This is the brochure we sent to our
10 overriding royalty owners and royalty owners lessee of
11 records, as I said before, giving some explanation of the
12 history of the field, secondary recovery and some
13 questions. Just basic information about secondary recovery
14 in our unit.

15 Q. When the royalty and overriding royalty owner
16 receives the package, that person has the royalty brochure,
17 but they also have the tabulation sheet, Exhibit B, if you
18 will, out of the unit agreement so they can go through
19 there, find their tract, find their name and find their net
20 interest after application of the participation formula?

21 A. Yes, sir, that's correct, and we asked for
22 verification of that.

23 Q. Identify and describe Exhibit 57.

24 A. Yes, sir. This was a certified mailing of notice
25 of the applications of hearing that were filed on behalf of

1 Chevron. This letter went to the lessee of records, the
2 owner of royalty and overriding royal interests. It
3 contained a -- copies of all three of the applications that
4 were filed. Again, we have our address list and proof of
5 mailing with the certified cards, and we got an 89.8 percent
6 return of our certified mailing.

7 Q. Eighty-nine point --

8 A. Point 8.

9 Q. Identify and describe 58.

10 A. Yes, sir. We recently purchased an interest from
11 another operator of the A. L. Christmas Number 1 well. This
12 operator had some overriding royalty parties that he had not
13 filed of record until later on in the game and our previous
14 record checks had not picked them up. We realized that
15 these were lessee of records, and so we sent packages to
16 them. These packages basically consisted of the brochure,
17 the unit agreement, their ratifications and also the
18 applications.

19 Q. As you, over time, continue to update and keep
20 current your list of names and addresses of working interest
21 royalty and overriding royalty owners, it was your plan of
22 operation to provide the new parties with information by
23 which they could then participate in the action required for
24 their interests in the unit?

25 A. Yes, sir, it was.

1 Q. Identify and describe Exhibit 59.

2 A. Yes, sir. Although -- when we acquired the
3 operator's division order files, we found that there had
4 been several changes in the ownership of the overrides,
5 although these changes were not reflected of record in Lea
6 County, mainly because the wills had not been probated in
7 Lea County, but there had been several deaths, and so
8 subsequent heirs. We felt although these were not owners of
9 record in Lea County, that we should give them the courtesy
10 of giving them the information that we had given to other
11 owners, and this is the cover letter that accompanied that.

12 Q. Have you satisfied the division notice
13 requirements by providing notice of hearings to all parties
14 of record known to you by sending that notice at least 20
15 days before the hearing?

16 A. Yes, sir.

17 Q. But you have continued to supplement that notice
18 as additional people become known to you and provided them
19 notice of hearing?

20 A. Yes, sir, we have.

21 Q. Turn now to Exhibit 60. Would you identify that
22 for us?

23 A. Yes, sir. This is a program, a computer program,
24 that we have generated to keep track of the summary and
25 analysis of the committed interests under the unit. I can

1 explain it as -- the columns, we go across here gives the
2 tract number, percentage of participation, working interest
3 owner and their working interest percentage. The "Y"
4 indicates that they have ratified, indicates a "yes" to
5 their interest being committed. We have their
6 participation, their unit participation in this next
7 column. We also show the royalty owner, percentage of
8 royalty, and also if those tracts have been committed, and
9 also a percentage of the tract of the royalty that has been
10 committed to the unit.

11 Q. As of today -- or what is the date at which this
12 is compiled?

13 A. March 1, sir.

14 Q. This is accurate as of March 1st of this year?

15 A. Yes, sir.

16 Q. When we look at the bottom line of the tabulation
17 as of March 1st of this year, what percentage of the working
18 interest ownership has ratified or committed their interest
19 to the unit?

20 A. 87.02 percent.

21 Q. When we look at the royalty total here, it's the
22 92.2?

23 A. Yes, sir.

24 Q. Is that just royalty, or does that include
25 royalty and overriding royalty owners?

1 A. No, sir, that is royalty exclusively. We did
2 generate a number that -- inclusive of the overriding
3 royalty, and that generates a 82.5 percent, which is in
4 excess of the 75 percent.

5 Q. If you add in royalty and overrides together,
6 then it's the 82 plus percent?

7 A. Yes, sir.

8 Q. Let's turn now to Exhibit 61. Identify that for
9 me.

10 A. Yes, sir. That is the unit agreement for our
11 Arrowhead Grayburg unit.

12 Q. Now, this is the latest version of the unit
13 agreement that contains all the suggested changes?

14 A. Yes, sir, it is.

15 Q. That Chevron as operator has agreed to and has
16 recirculated to all the working interest owners?

17 A. Yes, sir, it is.

18 Q. As best you know, this represents the final,
19 finished proposed unit agreement?

20 A. Yes, sir, it does.

21 Q. When we look at Exhibit Number 62, identify that
22 for me, please.

23 A. It's the unit operating agreement for the
24 Arrowhead Grayburg Unit.

25 Q. And is that also a completed document at this

1 time?

2 A. Yes, sir, it is.

3 Q. You don't anticipate any further revisions or
4 changes to the language of the contract?

5 A. No, sir, not at this time.

6 Q. Have you made yourself familiar, Ms. Beckham,
7 with the Statutory Unitization Act, particularly the
8 necessary provisions set forth in Section 70-7-7?

9 A. Yes, sir.

10 Q. In which the statute identifies and specifically
11 describes the type of provisions that need to be in your
12 agreements in order to obtain division approval under the
13 Statutory Unitization Act?

14 A. Yes, sir.

15 Q. Let's go through that, if you will, with me and
16 identify for the Examiner your opinion and conclusion about
17 whether you have each of those items in your documents.

18 A. Yes, sir.

19 Q. If you'll look at 70-7-7, the first entry is a
20 legal description, obviously, of the unit area. And you
21 have that contained in your documents?

22 A. Yes, sir, it is.

23 Q. Have you satisfied yourself that it's accurate
24 and correct?

25 A. Yes, sir.

1 Q. There is a statement of the plan of operation or
2 the concept for operation contained in the documents, and it
3 sets forth the type of authority that they're giving the
4 operator?

5 A. Yes, sir.

6 Q. Subsection C is an allocation on a tract by tract
7 basis of the anticipated production. Where do we find that
8 in your documents?

9 A. Yes, sir. That is covered -- let's see, I
10 believe it's under Section 11, Plan of Operations.

11 Q. You also have a tabulation showing a breakout on
12 the unit agreement of the interest owners in terms of who
13 they are and what percentage they receive?

14 A. Yes, sir.

15 Q. When we look at subsection D, are there
16 provisions in your operating agreement for credits and
17 charges to make adjustments in the unit area for equipment
18 and other operational items?

19 A. Yes, sir. It's under Article 10 of the operating
20 agreement.

21 Q. Is that found also in your copus attachments in
22 your operating agreement?

23 A. Yes, sir.

24 Q. Do you keep your copus instructions current in
25 terms of your accounting procedures?

1 A. Yes, sir.

2 Q. It's the same kind of accounting procedures
3 typically utilized for all your unit operations?

4 A. Yes, sir, it's a standard form.

5 Q. Subsection E also talks about additional
6 provisions for cost of operations, including capital
7 investments. Where might we find that provision in your
8 documents?

9 A. Article 12 of the operating agreement.

10 Q. Subsection F talks about provisions for carrying
11 working interest owners either on a limited or a carried
12 basis. Do you have that kind of language in your documents?

13 A. Yes, sir. Although per se we do not have a
14 non-consent provision, we have instituted in our agreements
15 a provision for a lien that would provide for getting unit
16 expense back. It consists of a lien of a prime interest
17 rate plus a one percent per annum, plus any costs that are
18 incurred.

19 Q. You're not seeking then from the division
20 examiner a non-consent penalty factor up to the maximum of
21 -- I believe it's 200 percent against any non-consenting
22 working interest owners?

23 A. No, sir, we are not.

24 Q. Do you have a provision under subsection G
25 designating Chevron as the operator and providing for

1 supervision and conduct of unit operations?

2 A. Yes, sir, we do. That's found in our unit
3 agreement section 6.

4 Q. Subsection 8 talks about a voting procedure.
5 Where will we find that?

6 A. That's in the operating agreement, Article 43.

7 Q. I believe in response to an earlier question from
8 Mr. Stovall, Mr. Cotner said it was a 65 percent or greater
9 percentage of working interest owners to approve an AFE; is
10 that correct?

11 A. That's correct. That's the percentage for a
12 voting procedure for an affirmative vote, 65 percent.

13 Q. Do you have procedures in there for substituting
14 an operator or selection of a subsequent operator?

15 A. Yes, sir, Section 7 of the unit agreement.

16 Q. What is the timing of the proposed unit? Do you
17 have an anticipated time in which you will actually start
18 the unit?

19 A. Yes, sir. The effective date is dependent on the
20 date that the order is issued, plus, of course, our 75
21 percent of ratification for working interest and royalty,
22 and also it is a date that will be mutually agreed upon by
23 the commissioner, the AO division and the operator.

24 Q. In supervising the preparation of all these
25 documents, have you satisfied yourself that they are in

1 compliance with division rules and the requirements of
2 Statutory Unitization Act?

3 A. Yes, sir.

4 MR. KELLAHIN: That concludes my examination of Ms.
5 Beckham. We move the introduction of her exhibits
6 commencing with Exhibit 44 through 61.

7 THE WITNESS: If I could add that our unit agreement is
8 the sample form that is found in the state form book for a
9 unit agreement for the secondary recovery projects.

10 Q. (By Mr. Kellahin) And you meet the requirements
11 of both the BLM and the Commissioner of Public Lands as to
12 form and content of your agreement?

13 A. Yes, sir.

14 HEARING EXAMINER: Exhibits 41 through 62 are accepted
15 into evidence.

16 How do the proposed overhead costs in this unit
17 compare to, say, the one to the northwest there?

18 THE WITNESS: Yes, sir. They are less than the -- our
19 Eunice Monument. These rates have been agreed upon by seven
20 of the major working interest owners. They're also
21 approximately the same as the Shell's northeast Drinkard
22 unit, which is about five miles to the northeast of our
23 unit.

24 HEARING EXAMINER: That's deeper production too.

25 THE WITNESS: Yes, sir.

1 Q. (By Mr. Kellahin) What are your rates?

2 A. Our rates are 507 and 5,070.

3 HEARING EXAMINER: That's all I have.

4 EXAMINATION

5 BY MR. STOVALL:

6 Q. Are there any unleased tracts in this unit?

7 A. No, sir.

8 Q. What effort are you making to find -- I notice
9 there are several returned envelopes, undeliverable. Are
10 you continuing to attempt to locate those people?

11 A. Yes, sir, we are. One of the things that we have
12 done is if there any names, family members that we have
13 found in our searches, we have contacted these people and
14 have tried to search through and find relatives or people
15 that we think they may know, if they live in the same town,
16 that sort of thing. To my knowledge, right now I think
17 we've only had nine that have come back with addresses
18 unknown and undeliverable.

19 Q. That's rather amazing, considering all the fee
20 land you've got out there?

21 A. We did quite an extensive search before we did
22 our mail-outs. We did a lot of calling and verifying as to
23 where these parties were located, and I think it expedited
24 matters.

25 Q. Looking at Exhibit 60, I notice -- and it's

1 probably just my not being able to tie things together, but
2 there are a number of tracts; say, Tract 1-B shows zero
3 percent participation?

4 A. Yes, sir.

5 Q. It's my understanding that actually that only 18
6 and 20 were zero.

7 A. Well, sir, these tracts, most of these fall into
8 the aquifer zone, and that's why they generate a zero.

9 HEARING EXAMINER: Most of them what?

10 THE WITNESS: Most of them fall into the aquifer zone.
11 18 and 20 were zero generated in the oil column, but those
12 that have a zero are, for the most part, ones that fall into
13 the aquifer.

14 HEARING EXAMINER: So there's some other zero tracts
15 besides?

16 THE WITNESS: Yes, sir.

17 HEARING EXAMINER: I didn't know that either.

18 Q. (By Mr. Stovall) But all those people have
19 agreed, either working interest have agreed, or there are no
20 royalty problems similar to what you have --

21 A. No, sir.

22 MR. STOVALL: Mr. Kellahin, is this a record number of
23 the exhibits for a case?

24 MR. KELLAHIN: No, sir. I think Mr. Carr has
25 outperformed me on at least one occasion.

1 HEARING EXAMINER: Anything further?

2 MR. STOVALL: No.

3 HEARING EXAMINER: You may be excused, Ms. Beckham.

4 Thank you.

5 THE WITNESS: Thank you, sir.

6 HEARING EXAMINER: I did have one more question of Mr.
7 Cotner. The only question I have, you'd already answered it
8 once before, but I wanted to be sure that I understood that
9 on the injection wells, where you're going back into old
10 wells and the cement is not circulated to the surface behind
11 the long string, that you would plan to do that. Was that
12 your testimony?

13 MR. COTNER: I may have misunderstood the question. It
14 is not currently our plan to circulate the cement on a long
15 string, but if the commission were to make it a requirement,
16 we certainly would. We would insure that there was adequate
17 cement above the injection interval as to protect the fresh
18 water sands and shallower intervals from the injection. But
19 without being ordered to circulate cement on those wells, we
20 would not.

21 HEARING EXAMINER: That's all I had.

22 MR. COTNER: Thank you.

23 HEARING EXAMINER: Let's see --

24 MR. KELLAHIN: Mr. Examiner, as a last Exhibit 63, and
25 I've misplaced the stamp for the moment, is proposed

1 language to specifically address Mr. Pearce's clients'
2 situation in Tract 20 with the overriding royalty on zero
3 tracts. I've shared the draft language with Mr. Pearce
4 earlier, and what I propose to do is provide it now and then
5 include it in our draft order, with Mr. Pearce's concurrence
6 on the exact language. But this is at least a first effort
7 to deal with that issue.

8 HEARING EXAMINER: And you do plan to submit a draft
9 order?

10 MR. KELLAHIN: Yes, sir. I think it might be helpful
11 in this case to go ahead and do that.

12 MR. STOVALL: Order or orders. How many orders do you
13 anticipate?

14 MR. KELLAHIN: You'll need three.

15 HEARING EXAMINER: Anything further, Mr. Kellahin?

16 MR. KELLAHIN: No, sir.

17 HEARING EXAMINER: Cases numbers 101259 and 10260 and
18 10261 will be taken under advisement.

19 We'll recess until 8:15 tomorrow morning.

20 (The foregoing hearing was adjourned at the
21 approximate hour of 5:10 p.m.)
22
23
24
25

1 STATE OF NEW MEXICO)

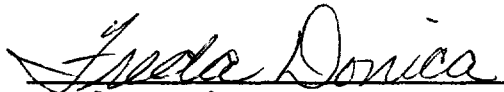
2 :

3 COUNTY OF SANTA FE)

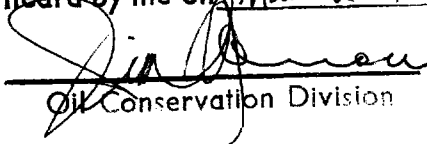
4 I, FREDA DONICA, RPR, a Certified Court Reporter, DO
5 HEREBY CERTIFY that I stenographically reported these
6 proceedings before the Oil Conservation Division; and that
7 the foregoing is a true, complete and accurate transcript of
8 the proceedings of said hearing as appears from my
9 stenographic notes so taken and transcribed under my
10 personal supervision.

11 I FURTHER CERTIFY that I am not related to nor employed
12 by any of the parties hereto, and have no interest in the
13 outcome hereof.

14 DATED at Santa Fe, New Mexico, this 5th day of
15 April, 1991.

16 
17 Freda Donica
18 Certified Court Reporter
19 CCR No. 417

20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Cases Nos. 10258, 10260, & 10261
23 heard by me on March 7, 1991.

24  Examiner
25 Oil Conservation Division