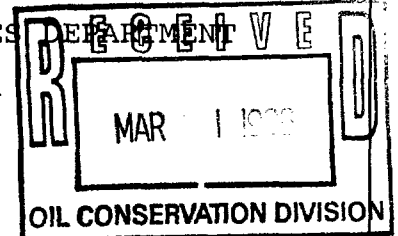


STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )

CASE NO. 11,460

APPLICATION OF SANTA FE ENERGY )  
RESOURCES, INC., FOR A UNIT AGREEMENT, )  
LEA COUNTY, NEW MEXICO )

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 7th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 7th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

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 Examiner Hearing  
 CASE NO. 11,460

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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 2040 South Pacheco  
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## FOR THE APPLICANT:

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 218 Montezuma  
 P.O. Box 2068  
 Santa Fe, New Mexico 87504-2068  
 By: JAMES G. BRUCE

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:20 a.m.:

3 EXAMINER STOGNER: Call next case, Number 11,460.

4 MR. CARROLL: Application of Santa Fe Energy  
5 Resources, Inc., for a unit agreement, Lea County, New  
6 Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce from the  
9 Hinkle law firm in Santa Fe, representing the Applicant. I  
10 have two witnesses to be sworn.

11 EXAMINER STOGNER: Any other appearances in this  
12 matter?

13 Will the witnesses please remain standing and be  
14 sworn at this time?

15 (Thereupon, the witnesses were sworn.)

16 JOE W. HAMMOND,  
17 the witness herein, after having been first duly sworn upon  
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your full name and city of  
22 residence for the record?

23 A. Joe W. Hammond, and I live in Midland, Texas.

24 Q. And who do you work for?

25 A. I'm currently a contract employee for Santa Fe

1 Energy Resources, Inc.

2 Q. And a contract employee in what capacity?

3 A. As a senior landman.

4 Q. Have you previously testified before the  
5 Division?

6 A. No, I haven't.

7 Q. Would you please outline your educational and  
8 employment background?

9 A. I graduated from the University of Oklahoma with  
10 a petroleum land management degree in 1977, and I've worked  
11 continuously in the oil and gas business since then,  
12 working for Cotton Petroleum, Bell North Petroleum, ARCO  
13 Oil and Gas and now Santa Fe Energy.

14 Q. And in all those companies you worked as a  
15 landman?

16 A. Yes, I did.

17 Q. And are you familiar with the land matters  
18 involved in this case?

19 A. Yes, I am.

20 MR. BRUCE: Mr. Examiner, I tender Mr. Hammond as  
21 an expert petroleum landman.

22 EXAMINER STOGNER: Mr. Hammond is so qualified.

23 Q. (By Mr. Bruce) Briefly, Mr. Hammond, what does  
24 Santa Fe seek in this case?

25 A. We seek approval for the formation of the Tomcat

1 Unit, which is a 3840 exploratory unit.

2 Q. Would you refer to your Exhibit 1 and describe  
3 the lands which are in the proposed unit?

4 A. Yes, it's in Lea County, New Mexico, Township 23  
5 South, Range 32 East, Section 8, the east half; Section 17,  
6 the east half; Section 20, the east half; Section 15, 16,  
7 21 and 22, all of those sections; and Section 28, the north  
8 half.

9 Q. And Exhibit 1 is a land plat of that unit area?

10 A. Yes, it is.

11 Q. What percentages of the land are federal, state  
12 and fee?

13 A. The federal acres equate to 81.25 percent of the  
14 unit, the state acres equate to 17.70833 percent of the  
15 unit, and fee acres equate to 1.04167 percent of the unit.

16 Q. What is Exhibit 2?

17 A. Exhibit 2 is the proposed unit agreement form.

18 Q. And is this the standard form agreement  
19 promulgated by the Commissioner of Public Lands and used by  
20 the Commissioner and the BLM?

21 A. Yes, it is.

22 Q. And does the unit agreement cover all formations?

23 A. Yes, it does.

24 Q. Who are the working interest owners in the unit?

25 And I'd refer you to your Exhibit 3.

1           A.    There's several, and Exhibit 3 lists them.

2                   Santa Fe Energy; Penwell Energy, Inc.  Then  
3   you've got several Yates companies involved.  Meridian Oil  
4   is in there, some other -- Jennings companies, Strata  
5   Production Company and Texaco.

6           Q.    Which of these interest owners have agreed to  
7   ratify the unit at this time?

8           A.    Santa Fe Energy Resources, along with Penwell  
9   Energy, Inc., and I have a -- I've got discussions going on  
10   with the Yates companies, with Meridian Oil, and I've  
11   talked with everybody in the unit.

12          Q.    Okay.  And you anticipate some additional  
13   approvals after the hearing?

14          A.    Yes, I do.

15          Q.    Has the form of the unit agreement been  
16   preliminarily approved by the Commissioner of Public Lands  
17   and by the Bureau of Land Management?

18          A.    Yes, it has, and I have letters from each of  
19   those indicating the approvals.

20          Q.    And are those Exhibits 4A and 4B?

21          A.    Yes, they are.

22          Q.    What is Exhibit 5?

23          A.    Exhibit 5 is the unit -- is the proposed unit  
24   operating agreement.

25          Q.    Okay.  And it's a standard AAPL form?

1           A.    Again, yes, it's a standard form, accepted by  
2 both the state and the BLM.

3           Q.    What is the cost or -- Let's say, what is the  
4 target of the initial unit well, or what depth will it be  
5 drilled to?

6           A.    The total depth is 15,950 feet.

7           Q.    And will that formation --

8           A.    That will drill to the Morrow.

9           Q.    What is the estimated well cost?

10          A.    \$1,340,000, with a completed well cost of  
11 1,709,000.

12          Q.    And that's reflected on your Exhibit 6, the AFE?

13          A.    Yes, it is.

14          Q.    Were Exhibits 1 through 6 prepared by you or  
15 compiled from company records?

16          A.    Yes, they were.

17          Q.    And in your opinion, is the granting of this  
18 Application in the interests of conservation and the  
19 prevention of waste?

20          A.    It is, yes.

21          Q.    One final thing, Mr. Hammond. Do you have any  
22 lease expiration deadlines that you need to attend to?

23          A.    There is a lease expiration deadline coming up on  
24 a couple of the federal leases, due to expire March 31st of  
25 this year --



1 Q. Okay, so you --

2 A. -- just a few weeks.

3 Q. You would appreciate prompt approval of any  
4 Division order?

5 A. Yes. Yes, I would.

6 MR. BRUCE: Mr. Examiner, at this time I move the  
7 admission of Santa Fe's Exhibits 1 through 6.

8 EXAMINER STOGNER: Exhibits 1 through 6 will be  
9 admitted into evidence at this time.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. Hammond, which of the federal leases are due  
13 to expire on the 31st?

14 A. Okay, I'll read off the -- Kind of toward the  
15 bottom of the unit there, you see Tract Number 5, which is  
16 a large 1000-acre unit in Section -- It covers parts of  
17 Sections 20, 21 and 22. And then also Tract 4, which  
18 covers the southeast quarter of Section 17 right to the  
19 north. Approximately -- yeah, 1320 acres, I believe.

20 Q. So just those two federal acreages --

21 A. Yes.

22 Q. -- are due to expire on the 31st?

23 A. That's correct, yes.

24 Q. But it's a substantial amount of acreage?

25 A. Yes, it's a substantial -- a very substantial

1 amount of acreage.

2 Q. On your Exhibit Number 1, do you have the initial  
3 well located?

4 A. No, I do not. It would be in the northwest  
5 quarter of Section 21.

6 Q. Now, you have a well plotted on there, but that's  
7 an old P-and-A. Is this going to be an initial well, or  
8 the re-entry of that one?

9 A. No, it will not be the re-entry of that one. It  
10 would be -- I can give you the footage location. It would  
11 be -- The proposed well is scheduled to be 1980 from the  
12 north and 1980 from the west, which would put it a little  
13 south and east of that well symbol that's on there, Section  
14 21, in there.

15 I think the geological exhibits that's coming up  
16 has the proposed location on it.

17 Q. Okay, I'm sorry, I was looking for Exhibit Number  
18 4B -- that was your initial approval by the State Land  
19 Office -- but I don't seem to be able to find it.

20 MR. BRUCE: I have an extra here, Mr. Examiner.

21 (Off the record)

22 Q. (By Examiner Stogner) It appears that the State  
23 has two tracts of land. And on the fee acreage, that one  
24 40-acre fee, who is the owner of that mineral -- I should  
25 say royalty?

1           A.    I believe his name is Charlie James, but I've got  
2 to double-check to be sure.  Yes, his name is Charlie  
3 James.

4                   And yes, the two state tracts are Tract 11 and  
5 Tract 12.

6           Q.    And has Mr. James agreed to pool his interest in  
7 this unit?

8           A.    I have not talked with -- Well, we have a lease  
9 from Mr. James, so his interest is leased, but he is the --  
10 He would be the royalty interest owner.  In other words, we  
11 own his working interest in that 40 acres.

12          Q.    Okay, you own his working interest.

13          A.    Yes.

14          Q.    He still owns this one-eighth royalty?

15          A.    Yes, that is correct.

16          Q.    And has that one-eighth royalty been put into  
17 this unit?

18          A.    No, and -- Well, I have not talked to him, no.

19          Q.    But you have talked to the other royalty  
20 interests, being the State and the --

21          A.    Yes, I have.

22          Q.    -- United States government?

23          A.    Yes, I have.

24          Q.    But you have not talked to him?

25          A.    No, I haven't.

1 Q. Okay. The initial well is going to be a 320-acre  
2 Morrow test, I assume?

3 A. Well, if we were using standard 320-acre units,  
4 yes, it would be -- It would probably cover the north half  
5 of Section 21.

6 Q. Which would include his acreage?

7 A. Yes, it would.

8 Q. So he'd participate -- or -- I'm sorry.

9 A. Yeah, he would not --

10 Q. He would not participate --

11 A. Yeah.

12 Q. -- his interest would be included in that initial  
13 well, not as a unit --

14 A. -- working interest owner, but as a royalty  
15 owner.

16 Q. But even his royalty interest would not be  
17 included in the unit; it would be included in the 320-acre  
18 proration unit, would it not?

19 A. Yes, it would.

20 Q. Okay. And any subsequent wells drilled within  
21 the unit, his acreage would not participate as a royalty  
22 interest like the federal and the BLM? Because you have  
23 not approached him as a royalty interest?

24 A. No, I have not. I guess --

25 Q. And I wonder why you haven't approached -- You've

1 approached the other royalty interests, but not this one.  
2 Isn't that standard, to approach all royalty interests when  
3 you form a unit? Maybe I'm missing something. Please  
4 explain.

5 A. It may be standard. I --

6 Q. But not with Santa Fe?

7 A. No, it is -- I can't say whether it's standard or  
8 not.

9 It was my impression that I needed to approach  
10 the BLM and the state because of their working interest,  
11 because of their ownership of the state and federal lands  
12 within the unit, and I may need to go approach Mr. James.

13 But -- In other words, his working interest is  
14 held by Santa Fe Energy.

15 Q. And he has agreed to lease that?

16 A. Yes, he has.

17 Q. And I understand that.

18 A. Yeah.

19 Q. I was just wondering about him as a royalty  
20 interest owner.

21 A. I guess I'm not clear whether I should approach  
22 him -- whether I should have approached him or not.

23 EXAMINER STOGNER: Any other questions of this  
24 witness? Mr. Bruce?

25 MR. BRUCE: Just one follow-up.

## FURTHER EXAMINATION

1 BY MR. BRUCE:

2 Q. Mr. Hammond, because the state and the federal  
3 government own the vast majority of royalty interest, you  
4 have first approached them. Otherwise unitization would  
5 not occur; is that correct?  
6

7 A. That is correct.

8 Q. Will you approach Mr. James?

9 A. Yes, I will.

10 MR. BRUCE: Thank you, Mr. Examiner.

11 EXAMINER STOGNER: Okay. No other questions.

12 You may be excused.

13 CURTIS ANDERSON,

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

## DIRECT EXAMINATION

17 BY MR. BRUCE:

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

19 A. My name is Curtis Anderson.

20 Q. And where do you reside?

21 A. In Midland, Texas.

22 Q. Who do you work for and in what capacity?

23 A. I'm a geologist for Santa Fe Energy Company.

24 Q. Have you previously testified before the Division  
25 as a petroleum geologist?

1 A. Yes, I have.

2 Q. And were your credentials as an expert petroleum  
3 geologist recognized as a matter of record?

4 A. Yes.

5 Q. And are you familiar with the geology involved in  
6 this unit?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender Mr. Anderson  
9 as an expert geologist.

10 EXAMINER STOGNER: Mr. Anderson is so qualified.

11 Q. (By Mr. Bruce) Mr. Anderson, first, what is  
12 Exhibit 7?

13 A. Exhibit 7 is a synopsis of the geology of the  
14 proposed unit area.

15 Q. And this was submitted to the Bureau of Land  
16 Management and the State Land Office, with their -- with  
17 the unitization proposal?

18 A. That's correct.

19 Q. Let's move on and discuss the geology of this  
20 area a little bit more.

21 Referring to your Exhibit 8, what is the primary  
22 zone of interest in the initial unit well?

23 A. Okay, the objective formation for the unit well  
24 is the Atoka limestone bank.

25 And what Exhibit Number 8 shows is the production

1 in the particular area that the unit is located in. The  
2 unit is designated here by a dashed red outline. The scale  
3 of this map is 1 to 4000.

4 The proposed unit location, which is in the  
5 northwest quarter of Section 21 of 23 South, 32 East, in  
6 Lea County, is in the northwest quarter of Section 21 and  
7 is a red square.

8 In 23 South, 31 East, just across the line to the  
9 west in Eddy County, you'll notice a producing area that's  
10 the Sand Dunes producing field. It produces from a number  
11 of different formations, one of which is the Atoka  
12 limestone bank. The Atoka production is denoted in purple.

13 Cross-section A-A', which would be A towards the  
14 left of the cross-section -- the cross-section that I'm  
15 referring to is Exhibit Number 9 -- the first well on the  
16 left is an example of a commercial well that does produce  
17 from the Atoka limestone bank and demonstrates that  
18 particular horizon in the area.

19 It ties -- The cross-section ties commercial  
20 production in Section 26 of 23 South, 32 East, to the  
21 proposed unit. And we can see that the well in Section 26  
22 did produce 21 BCF from this zone.

23 There are other wells in that particular Township  
24 23 South, 31 East, that do produce from this horizon. The  
25 two wells in Section 17 are going to produce about 5 BCF



1 from the zone, a well in Section 33 had tested commercial  
2 quantities from the zone.

3 And this sets up the potential for the particular  
4 zone in the area and outlines the unit, although the unit  
5 is an exploratory objective.

6 Q. Okay. Why don't you move on to your cross-  
7 section?

8 A. I already referred to the cross-section. What I  
9 do is try to tie a commercial well -- which is on the left  
10 end of the cross-section. That's the Texas American Oil  
11 Corp Todd Federal 26 Number 1, which is perforated in the  
12 Atoka limestone bank, has produced 21 BCF of gas. We tie  
13 this through the proposed location, which is in the center  
14 part of the cross-section, indicated by the red square at  
15 the top, and we anticipate getting a like thickness of  
16 carbonate in that particular interval.

17 Q. Was the Skelly well in Section 18 -- was that  
18 productive?

19 A. The subsurface control that we've got nearest the  
20 unit, which includes the three other wells on the cross-  
21 section, were not productive from that particular unit.  
22 They were considerably thinner and tight.

23 Q. Would you move on to your Exhibit 10 and identify  
24 that for the Examiner?

25 A. Exhibit Number 10 is an isopach map in which I

1 isopached the total thickness or the net clean carbonate  
2 within the Atoka limestone bank. This is taken from the  
3 gamma ray of the logs involved.

4           What it shows is, if you look back over to the  
5 west in 23 South, 31 East, you'll notice again some purple  
6 wells that produce from this particular formation or have  
7 tested this formation, and especially the well that's on  
8 the cross-section in Section 26 over there that has in  
9 excess of 60 feet -- in fact, has 67 feet of Atoka  
10 limestone bank.

11           One of the producing parameters for this horizon  
12 in this area, and it's deposited on the Atoka shelf, it's a  
13 phylloid algal reef development. The production, the  
14 commercial production, comes from secondary porosity  
15 development in vugs and microfractures.

16           And what we've found on this particular part of  
17 the Atoka shelf is that you need in excess of 50 feet of  
18 this carbonate developed, in conjunction with a structural  
19 nosing of some sort. And we'll find both of those present  
20 at, for instance, the Todd well in Section 26.

21           Q.    Okay. Before we move on to the structure map,  
22 does this map show the -- or define the unit boundaries?

23           A.    Yes, it does. The -- on this particular part of  
24 the Atoka shelf, we have found that we need at least 50  
25 feet of this carbonate to make commercial production.

1           Q.    And so the unit boundary is delineated by the 50-  
2 foot contour line?

3           A.    That's correct.

4           Q.    You mentioned structural nosing. Why don't you  
5 move on to your Exhibit 11, the structure map, and discuss  
6 that for the Examiner?

7           A.    Now, the structure map is drawn on the top of the  
8 lower Atoka, which is a correlative marker just below the  
9 Atoka limestone bank and reflects the structure on that  
10 horizon.

11                    You'll notice a nosing across the Section 26 well  
12 over in the Todd area. As you follow it through the  
13 proposed unit area, you also notice a structural situation  
14 there and a nosing which is similar and on strike with the  
15 Todd well.

16           Q.    In your opinion, will the unitization lead to the  
17 orderly development of the Atoka formation in this area?

18           A.    Yes.

19           Q.    And were Exhibits 7 through 11 prepared by you?

20           A.    Yes.

21           Q.    And is the granting of this Application in the  
22 interests of conservation and the prevention of waste?

23           A.    Yes, it is.

24                   MR. BRUCE: Mr. Examiner, at this time I'd move  
25 the admission of Santa Fe's Exhibits 7 through 11.

1 EXAMINER STOGNER: Exhibits 7 through 11 will be  
2 admitted into evidence.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Anderson, this secondary vuggy porosity in  
6 the Atoka formation that you mentioned --

7 A. Yes, sir.

8 Q. -- is that what you're trying to show in your  
9 cross-section marked in blue in the Atoka clastic interval?

10 A. Okay, the -- I really don't demonstrate the --  
11 It's hard to demonstrate on electric logs, the vuggy  
12 nature, because it really doesn't show up as anything that  
13 you can read with these logs.

14 What I've found that you have to do to  
15 demonstrate the potential of this particular zone is just  
16 consider the total carbonate, and that's what I've  
17 indicated in blue.

18 Q. The wells, the two wells that you show in the  
19 cross-section, over toward the west, that would be the  
20 Texas American Oil Corp Todd well and then that Federal  
21 Sand 18 Skelly well?

22 A. Yes, sir.

23 Q. Did they both have or indicate that the vuggy  
24 porosity was present in the Atoka formation in those wells?

25 A. I think the Texas American Todd 26, by

1 association -- and I did not see a core, and there wasn't a  
2 core taken in that particular wellbore. Santa Fe has  
3 drilled in that Sand Dunes area a number of wells, each of  
4 which we used this particular zone as a main target. And a  
5 large percentage of those wells we did core, and we did  
6 drill stem test.

7 And by association with the production from that  
8 well, we can say that what we've found in these other wells  
9 is that you need the vuggy nature and the microfractures.  
10 And since the Texas American Todd well did produce, we  
11 assume that it has it.

12 Q. Is it your intention to core this well, the  
13 initial well in the unit?

14 A. Our plans currently are not to core this zone.  
15 We did not include that on the AFE. But that's just a --  
16 It's a good idea, is what I'm trying to say. I just didn't  
17 think of it.

18 Q. You're probably going to be out there whenever  
19 they drill through that zone to watch the drilling rates.

20 A. We have either myself or a representative that  
21 has done this work for us in the past, in this area, has  
22 done a number of these things for us, yes.

23 Q. Do you notice a drilling break as you're going  
24 through those vuggy intervals?

25 A. Yes, sir, this particular limestone is encased in

1 almost 100-percent shale, and there is a noticeable break  
2 from the shale into the limestone. And when you do have  
3 the vuggy porosity present, it does drill a little better  
4 than just the clean limestone would.

5 And generally we'll get -- depending on our mud  
6 properties, we'll get some kind of an indication of  
7 hydrocarbons, whether it be a gas show on the chromatograph  
8 or whatever.

9 Q. Now, you showed Morrow and Atoka potential on  
10 your exhibits. Is there any potential for Wolfcamp,  
11 Delaware in this proposed unit?

12 A. I don't hold out much hope for the Wolfcamp, but  
13 there is excellent Bone Springs and Delaware in this area,  
14 and that is an objective, secondary objective, for us in  
15 this unit.

16 Q. Now, it shows to be four -- at least four  
17 P-and-A'd wells within that unit boundary or structure.  
18 Could you enlighten me a little bit on those wells?

19 A. Yes, sir. Individually, all of these wells that  
20 are located in Section -- within the unit boundary in  
21 Section 15, in Section 20 and Section 21, were shallow  
22 Delaware tests that went deep enough to test the Ramsey  
23 sand, which is the top part of the Bell Canyon member of  
24 the Delaware formation. So it just topped the Delaware, it  
25 didn't drill all the way through it.

1           The main objective in recent drilling out here  
2       has been Delaware sands that are developed at the base of  
3       the Delaware, so those weren't deep enough.

4           Now, the well in the north half of Section 28 is  
5       misabeled on these exhibits, and I should have brought  
6       this up before. That well, that dryhole symbol in the  
7       northwest quarter of Section 28 was re-entered last year by  
8       Yates, deepened to the Bone Springs, and has made a Bone  
9       Springs producer. Whether it's commercial hasn't been  
10      determined at this point, but it is producing from the Bone  
11      Springs.

12           Q.    It is producing, or capable of producing?

13           A.    I believe it is producing. And my guess is that  
14      it's right around ten barrels a day.

15           EXAMINER STOGNER: That brings up an interesting  
16      thing, Mr. Bruce. You may want to cover it with your other  
17      witness somehow.

18           That well is going to be brought into the unit,  
19      and what is going to occur to the Bone Springs and how is  
20      that going to affect this unit as a whole?

21           Okay, as far as geology I have no other  
22      questions.

23           Mr. Bruce?

24           MR. BRUCE: I don't have any questions of Mr.  
25      Anderson.

1           If you would like to ask Mr. Hammond a few  
2 questions about that, I know he's talked with the BLM, and  
3 the BLM sees no problem in bringing that tract into the  
4 unit, but -- and I don't know if there have been any  
5 discussions about investment adjustments, et cetera.

6                     JOE W. HAMMOND (Recalled),  
7 the witness herein, having been previously duly sworn upon  
8 his oath, was examined and testified as follows:

9                                 EXAMINATION

10          BY EXAMINER STOGNER:

11                 Q.    Okay, Mr. Hammond, do you want to address that?  
12                 You can do it from right there, but please talk loud.

13                 A.    First of all, let me -- I'm trying to locate the  
14                 BLM approval letter.

15                 Q.    That would be Exhibit 4A?

16                 A.    Yes, Exhibit 4A. And you have all of the copies  
17                 that they sent to us, and in order for -- and I think  
18                 it's -- if you look through the copies that are attached to  
19                 the approval letters, they wanted to add, and we have  
20                 added, a paragraph that is stated that's -- that they  
21                 wanted to add to the unit agreement called "Handling  
22                 Existing Wells". And again, it's -- If you look, it's on  
23                 page 26, that is attached to the unit -- to the BLM  
24                 approval letter.

25                 Q.    Okay, I have that.



1           A.    And that has been added to the formal agreement  
2   that you have as Exhibit 2.  And that, I believe, discusses  
3   how that well will be -- whether it will or will not affect  
4   the unit area, has not yet been determined, I think, is  
5   what this paragraph is saying.

6           Q.    Hang on just a second there.

7           A.    Yeah, and --

8           Q.    Okay, please continue.

9           A.    And I have talked to Armando Lopez at the BLM  
10   specifically about this question, and in fact, the -- I am  
11   aware that Yates Petroleum, who owns that tract, has also  
12   talked with him about that.

13                   And the BLM is saying that since that well is  
14   marginal, that at this time it is not going to affect how  
15   the unit is put together.  Basically what they're saying is  
16   that they'll look at this well at a later date and then  
17   they'll defer the decision as to whether or not this well  
18   will establish a participating area.  What they're doing  
19   is, they are delaying that decision until they make a  
20   determination whether this well is marginal or not.

21           Q.    Marginal or commercial?

22           A.    Well, commercial or not.

23           Q.    Okay.  Now, has -- Yates has not yet agreed to  
24   join in the unit; is that correct?

25           A.    That is correct.

1 Q. Okay, and they are the present operator of the  
2 well?

3 A. Yes, they are.

4 Q. Does Santa Fe have working interest in that well  
5 at this time?

6 A. No, we do not.

7 Q. Did the State Land Office add that type of  
8 paragraph? Are they aware of the situation out there?

9 A. I know they didn't add that type of paragraph. I  
10 cannot say for sure if they are aware of it or if they are  
11 not. I don't recall.

12 Q. This is just a preliminary approval on Exhibit  
13 4B; is that correct?

14 A. That is correct, yeah.

15 Q. I'm sure they'll be made aware of it prior to  
16 the --

17 A. That is correct.

18 EXAMINER STOGNER: Okay. I have no other -- Mr.  
19 Bruce?

20 MR. BRUCE: I just have one question.

21 EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Hammond, originally this unit was proposed  
24 for a smaller area excluding Section 28 and some other  
25 acreage; is that correct?

1 A. That is correct.

2 Q. And Section 28 and the other acreage was added at  
3 the BLM's request?

4 A. Specifically at the BLM request. This -- Yeah,  
5 the boundaries of the unit changed --

6 Q. Okay.

7 A. -- which brought in that north half of Section 28  
8 at that time.

9 MR. BRUCE: Thank you, Mr. Hammond.

10 EXAMINER STOGNER: I have no questions of either  
11 Mr. Hammond or Mr. Anderson at this time.

12 Anything further, Mr. Bruce?

13 MR. BRUCE: No, sir.

14 EXAMINER STOGNER: Does anybody else have  
15 anything further in Case 11,460?

16 Then this case will be taken under advisement.  
17 I'll keep in mind the expiration dates.

18 MR. BRUCE: Thank you.

19 (Thereupon, these proceedings were concluded at  
20 8:58 a.m.)

21 \* \* \*

22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
24 the Examiner hearing of Case No. 11460,  
25 heard by me on 3/1/80, 1980.

\_\_\_\_\_, Examiner  
Oil Conservation Division

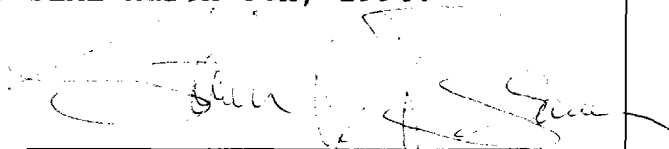
## CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL March 8th, 1996.

  
\_\_\_\_\_  
STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 1998