

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,426
)
APPLICATION OF SOUTHWEST ROYALTIES,)
INC., FOR A NONSTANDARD GAS SPACING)
AND PRORATION UNIT AND AN UNORTHODOX)
GAS WELL LOCATION, LEA COUNTY,)
NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN
JAMI BAILEY, COMMISSIONER
ROBERT LEE, COMMISSIONER

November 8th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Wednesday, November 8th, 2000, 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.

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November 8th, 2000
Commission Hearing
CASE NO. 12,426

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A P P E A R A N C E S

FOR THE APPLICANT:

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 By: WILLIAM F. CARR

FOR THE COMMISSION:

STEPHEN ROSS
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* * *

1 WHEREUPON, the following proceedings were had at
2 9:55 a.m.:

3 CHAIRMAN WROTENBERY: Okay, now we're back to
4 Case 12,426. This is the Application of Southwest
5 Royalties, Inc., for a nonstandard gas spacing and
6 proration unit and an unorthodox gas well location in Lea
7 County, New Mexico. It is being heard before the
8 Commission today *de novo* at the request of the Applicant.

9 Call for appearances.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Southwest Royalties, and
13 I have witnesses.

14 CHAIRMAN WROTENBERY: Please stand and be sworn.
15 (Thereupon, the witness was sworn.)

16 CLIFTON MARTIN "MARTY" BLOODWORTH,
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. CARR:

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

23 A. My full name is Clifton Martin Bloodworth. I go
24 by my nickname Marty.

25 Q. Mr. Bloodworth, where do you reside?

1 A. I reside in Midland, Texas.

2 Q. By whom are you employed?

3 A. I'm employed by Southwest Royalties.

4 Q. Have you previously testified before the Oil
5 Conservation Commission?

6 A. No, sir.

7 Q. Would you review for the Commissioners your
8 educational background?

9 A. I have a bachelor of science degree in petroleum
10 engineering from Texas Tech; I received that in 1977. I
11 went to work after that for Mobil Oil Corporation, and I've
12 worked for Cotton Petroleum, Damson Oil Corporation, Cross
13 Timbers Oil Company, and currently Southwest Royalties, all
14 in petroleum engineering positions.

15 Q. Are you familiar with the Application filed in
16 this case on behalf of Southwest Royalties, Inc.?

17 A. Yes, I am.

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

20 A. Yes, I am.

21 Q. Have you made a technical study of the area which
22 is the subject of this Application?

23 A. Yes, I have.

24 Q. And are you prepared to review the results of
25 your work with the Commission?

1 A. Yes, I am.

2 MR. CARR: May it please the Commission, we
3 tender Mr. Bloodworth as an expert witness in petroleum
4 engineering.

5 CHAIRMAN WROTENBERY: His qualifications are
6 accepted.

7 Q. (By Mr. Carr) Would you briefly summarize what
8 Southwest Royalties seeks with this Application?

9 A. Southwest Royalties is seeking an order approving
10 a 200-acre nonstandard gas spacing unit comprised of the
11 south half, northeast quarter; northeast quarter, southeast
12 quarter; and south half, southeast quarter of Section 30,
13 Township 26 South, Range 37 East, Lea County, New Mexico;
14 and an unorthodox well location for our Eaves "B" Well
15 Number 20, located in an unorthodox location of 1414 feet
16 from the south line and 429 feet from the east line of the
17 Unit Letter I in Section 30.

18 Q. Mr. Bloodworth, in what pool do you propose to
19 recomplete the Eaves "B" Well Number 20?

20 A. Scarborough-Yates-Seven Rivers.

21 Q. And what rules govern the development of this
22 pool?

23 A. The rules governing the development of the
24 Scarborough-Yates-Seven Rivers Pool were set forth in Order
25 R-2999, dated November 23rd of 1965. The Commission found

1 the Scarborough Pool to be a separate common source of
2 supply from the Jalmat Gas Pool and contracted the
3 boundaries of the Jalmat Gas Pool to create the new pool.
4 The subject acreage was included in this new pool.

5 The Commission further provided for oil wells to
6 be spaced on 40 acres, no nearer than 330 feet to a
7 quarter-quarter line, and gas wells to be spaced on 640
8 acres, no nearer than 330 to a quarter-quarter line or 1980
9 from an outer boundary of the section.

10 Special rules were also adopted which allowed for
11 a nonstandard unit to be permitted. In order to qualify
12 for the nonstandard unit, the acreage had to be in
13 contiguous lots, the nonstandard unit had to be wholly
14 within a governmental section and contain less than a
15 standard unit, offset operators were to be notified and
16 given an opportunity to protest, and the requirement for
17 the 1980 feet for a gas well could be waived if the
18 unorthodox location resulted from a well that was drilled
19 to a deeper horizon.

20 Q. Mr. Bloodworth, is this a prorated pool?

21 A. No, it's not.

22 Q. And what is the current status of the Eaves "B"
23 Well Number 20?

24 A. The Eaves "B" Well Number 20 is a TA'd Seven
25 Rivers producer.

1 Q. And you propose to recomplete the well uphole
2 into the Yates formation?

3 A. Yes, sir.

4 Q. Could you identify what has been marked as
5 Southwest Royalties Exhibit Number 1?

6 A. Exhibit 1 was my application for administrative
7 approval of the unorthodox location.

8 Q. And when was this filed?

9 A. It was filed February 10th of 2000.

10 Q. And what action was taken on this Application?

11 A. The Commission set it for hearing on May 1st of
12 2000.

13 Q. And it was set for a Division Hearing?

14 A. Yes.

15 Q. Would you identify what has been marked as
16 Exhibit Number 2?

17 A. Exhibit Number 2 is the Division's letter setting
18 the case for hearing.

19 Q. And what reasons were given for setting the
20 matter for hearing?

21 A. The reasons were given that the well is close to
22 the Jalmat Gas Pool, and that there was a variance between
23 the special rules for this pool and the pools in the area,
24 and the ongoing controversy in the Jalmat Gas Pool, which
25 has resulted, in the Commission's words, of operators

1 trying to reorient acreage and seek smaller than
2 nonstandard gas proration units, only for the purpose of
3 contravening the 640 acres.

4 Q. Was notice of this administrative application
5 provided in accordance with Oil Conservation Division
6 rules?

7 A. Yes, it was.

8 Q. And was notice provided to all offsetting
9 operators toward whom the well was being moved?

10 A. Yes, it was.

11 Q. And who are we talking about when we talk about
12 those operators?

13 A. The offset operators are Gruy Management and
14 McCasland Management.

15 Q. Was notice also provided to all the owners in
16 Section 30 who are not included in this nonstandard unit?

17 A. That's correct. Conoco has acreage, shallow
18 acreage, in Section 30.

19 Q. And was any objection received to the
20 Application?

21 A. None was received.

22 Q. Are return receipts evidencing the notice
23 included in what has been marked as Southwest Exhibit
24 Number 1? Are there return receipts in Exhibit Number 1?

25 A. Yes, sir, there are.

1 Q. In preparation for today's hearing, did you
2 contact the affected parties?

3 A. Yes, I did.

4 Q. And what response did you receive?

5 A. I verbally notified each of the parties, of
6 McCasland and Gruy and Conoco.

7 Q. And what response did you receive to that
8 contact?

9 A. I received a waiver letter from Gruy Management,
10 the producing gas well that would be most closely affected
11 by this Application.

12 Q. And is a copy of that waiver marked Southwest
13 Exhibit Number 3?

14 A. Yes, it is.

15 Q. Let's go to what has been marked Exhibit Number
16 4, take that out. First explain what this exhibit shows
17 and then review the information on it for the Commission.

18 A. This map was prepared to show where the various
19 fields lie in respect to our well location. On the extreme
20 north is the blue, the Jalmat Pool. The orange is the
21 Rhodes Gas Pool, and the pink would be the Scarborough Pool
22 that we're currently discussing.

23 The yellow acreage shown in Section 30 is
24 Southwest Royalties' current leasehold. We're only asking
25 for the 200 acres that fit inside the boundary of the

1 Scarborough-Yates and that are contiguous. The other two
2 40s are outside the boundary of the unit; that's why we
3 haven't asked for those.

4 If you'll look and see, the Jalmat Pool is four
5 miles north of us, and the Rhodes field is separated by a
6 group. There are no wells between them.

7 And further, I'd call your attention to the
8 number of gas wells in Section 29 and Section 32 that
9 offset the acreage in 30 that this well is, we're
10 discussing.

11 Q. There are certain wells that are outside any of
12 the pools that are also shown on this exhibit; is that
13 correct?

14 A. Yes, sir.

15 Q. And what is the status of those wells? Are they
16 all plugged and abandoned?

17 A. Yes, they are, or temporarily abandoned pending
18 plugging.

19 Q. The proposed location is the well in the
20 southeast quarter of Section 30 which has a red circle
21 around it; is that right?

22 A. That's correct.

23 Q. What is the status of the other wells in Section
24 30?

25 A. All the other wells are shut in, either plugged,

1 temporarily abandoned. There is one disposal well in the
2 northern portion. There are no producers other than the
3 Number 8 well, which is the dot due south of the red
4 circle. It's currently a Seven Rivers high-water, low-oil-
5 cut producer.

6 Q. If this Application is approved, do you plan to
7 continue to produce that well?

8 A. We do not. We plan to plug and abandon it, or
9 temporarily abandon it.

10 Q. And where is this area in regard to the state
11 line?

12 A. The boundary on the bottom of the page is the
13 state line between Texas and New Mexico. That's why
14 Sections 31, 32 and 33 are not full sections; the state
15 line cuts through there.

16 Q. Let's go to Southwest Exhibit Number 5. Would
17 you identify what this is, please?

18 A. Southwest 5.

19 Q. Do you have Southwest 5? It is a small
20 printout --

21 A. Should be a small --

22 Q. -- of material from *Dwight's*.

23 CHAIRMAN WROTENBERY: I had two Number 4's for
24 some reason.

25 MR. CARR: That's what happens when you assemble

1 your exhibits when watching election returns.

2 THE WITNESS: Due to weather I was unable to get
3 in yesterday.

4 COMMISSIONER LEE: Can you tell me who owns the
5 25 Section, the lease on 25?

6 THE WITNESS: Southwest Royalties had operated
7 wells in Section 25, and they're currently being plugged
8 out.

9 COMMISSIONER LEE: 25 is owned by your company,
10 the lease?

11 THE WITNESS: Section 25 or -- There's a well
12 named 25 here.

13 COMMISSIONER LEE: No, Section 25 here, that's
14 30.

15 THE WITNESS: Section 25 is operated by Southwest
16 Royalty, but we're currently plugging it out.

17 COMMISSIONER LEE: You are intending to drill the
18 southeast corner of 30, right?

19 THE WITNESS: No, sir, it's a recompletion.

20 COMMISSIONER LEE: A recompletion. You want to
21 have a --

22 THE WITNESS: It's an existing wellbore. The
23 well was drilled in 1993 as a modern well. The rest of the
24 wells were developed in 1930 and on, and are not good
25 wellbores.

1 COMMISSIONER LEE: How about 36?

2 THE WITNESS: 36, the wells have all been plugged
3 out. We have not operated --

4 COMMISSIONER LEE: Who is operator?

5 THE WITNESS: There is none. I think when we get
6 to our structure map we'll explain that a little bit to you
7 also.

8 COMMISSIONER LEE: The structure map is done by
9 your geologist, right?

10 THE WITNESS: Right. The pink boundary of the
11 Scarborough was built, it's my understanding, to track the
12 reservoir. They didn't include 25 and 36 in those cut-out
13 pieces because they didn't feel like the reservoir went
14 there.

15 COMMISSIONER LEE: That's your conclusion?

16 THE WITNESS: It's my opinion, yes, from looking
17 at the records. I've recently plugged out the wells in 25
18 and have looked for any salvage possibilities in them. We
19 purchased this field from an independent, who purchased it
20 from an independent, who purchased most of it from Conoco.
21 We've all looked it over, picked it over. This well is
22 basically a salvage operation; we're trying to recoup some
23 investment in this section.

24 25, we found no other things to work on and we
25 plugged it. 36 was already plugged; Conoco plugged out

1 prior to our taking over.

2 Q. (By Mr. Carr) Let's go to Exhibit Number 5.
3 Would you identify that, please?

4 A. We made a search using *Dwight's* of the wells in
5 the area, in the immediate area, to give us an idea of what
6 the cumulative oil and gas production had been. Of
7 particular interest to us are the wells in Section 29.
8 These are in section order, so 29 should be about two-
9 thirds of the way down the page. The Well Number 21 would
10 be the first well in Section 29 we're interested in.

11 During the process of our plugging operation,
12 again, we were looking for salvage opportunities, and we
13 noticed the Parker A well in the Scarborough-Yates-Seven
14 Rivers in Section 29, Unit Letter D, had cum'd 12 BCF from
15 the Yates gas zone. And we further looked in Section 29 to
16 see if there had been any others. The federal "F" leases,
17 they've been, some of them, completed in the Yates only and
18 Yates-Seven Rivers, but it appears there's at least three
19 of these that are gas wells in Section 29, the same Yates
20 zone we're prospective in.

21 Also we looked in Section 32, which is that
22 offset section to us, to see what the wells look like
23 there, and we found quite a bit of gas had been produced
24 there. The Section 32 wells have produced around 2 BCF of
25 gas. Again, some of them are perforated only Yates, Yates-

1 Seven Rivers. But there are at least three or four gas
2 wells we can talk about a little further.

3 The purpose of this was to identify the volume of
4 gas that had been taken out of Section 29 and Section 32
5 that offset our Section 30.

6 Q. Let's go now to Exhibit Number 6. Will you
7 identify and review that?

8 A. We attempted to come back and recreate what the
9 C-102s were for the various wells. Since the original
10 spacing was for 640, we wanted to see if there had been a
11 640-spaced gas well in the 29, 30, 32, 31 area.

12 What we found, the Parker "A" well was given
13 anywhere from an 80 to a 320 when it was first produced in
14 1953. It was first produced before the rule, but in any
15 case the largest proration unit we found assigned to it was
16 320 acres.

17 Q. And that was the west half of Section 29?

18 A. The west half of Section 29, which adjoins our
19 Section 30.

20 We also found that two wells -- that O'Neill well
21 had originally had a 160 gas well unit, and Mr. Hartman at
22 one time had an F-2 well that was applied for a 160 unit.

23 Q. And you're talking about the southeast quarter of
24 29 now?

25 A. Yes, sir.

1 Q. Okay.

2 A. And the Dale Federal Well that falls outside the
3 Scarborough boundary was given a 40-acre proration unit.
4 The orange dot and the orange proration shapes are meant to
5 help you locate those.

6 In Section 32, Well Number O-3 had a 153-acre
7 original unit. The state line cut off the middle of the
8 section there. So what we're trying to show here is the
9 most offset sections. There has not been a 640-acre
10 completion.

11 And we went ahead to show you the status of the
12 wells in Section 30 to make it clear. The yellow acreage
13 is Southwest Royalties, at the top of Section 30, is an
14 A-4. That's a separate lease from the "B", has separate
15 ownership. That top 160 is an "A" lease. It has one
16 active disposal well, two plugged wells, and the fourth
17 well is pending plugging.

18 The B-15 well just south of there has been
19 plugged, Conoco's B-3 has been plugged, Southwest
20 Royalties' B-1 is pending plugging, the B-5 is TA pending
21 plugging, Conoco's B-16 is plugged, B-13 is plugged, B-2 is
22 plugged. There aren't any active completions in there.
23 Most of these were old wellbores, which brought us to the
24 B-20, which was drilled in 1993.

25 We're planning on assigning all our remaining

1 acreage to our well because the high-water-cut oil well was
2 not very economic to us.

3 Q. Now, you said the primary objective in the well
4 is the Yates formation, the Scarborough-Yates-Seven Rivers
5 Pool?

6 A. Yes, sir.

7 Q. Are there any secondary objectives?

8 A. No, there are not.

9 Q. Okay, let's go to your structure map, Exhibit
10 Number -- Let's go to Exhibit Number 7, and I ask you to
11 identify that, before we get to the structure map.

12 A. Exhibit 7 was prepared in response to a request
13 from Mr. Stogner for additional information on my original
14 administrative request.

15 I went over to the Hobbs office and looked in
16 their files to see what the original prorationing spacing
17 was for the wells, and I found that the Dallas McCasland --
18 If you want to keep this proration map available, it will
19 help. I found that Dallas McCasland in 1977 had applied
20 for a 40-acre gas proration on its State "O" Well Number 5.
21 That's the well due north of Well Number 3.

22 I ask you to bear with me. These are a little
23 bit out of order.

24 The O-3, as I previously mentioned, had 153 acres
25 on its original proration. The State O-4 well, which is to

1 the west of the O-3, again Dallas McCasland State O-4 was
2 asking for a 40-acre gas location in 1977, which is well
3 after the Scarborough rules were set.

4 There's also the J.I. O'Neill, Jr., in Section
5 29, the well that's marked F-1. It was originally
6 requested at 160. That's that 160 I showed there, in
7 Section 29. It was before the rules were set, but we also
8 have again the State "O" Number 6, 1978, after the rules
9 were set. McCasland again, a 40-acre, is asking for a gas
10 well again. And then the original Parker well was set at
11 80 acres pending additional investigation.

12 COMMISSIONER BAILEY: Where is the O-6 that you
13 just mentioned?

14 THE WITNESS: Ma'am?

15 COMMISSIONER BAILEY: Where is the O-6 you just
16 mentioned?

17 THE WITNESS: It's due west of the O-5. It's in
18 that section that says McCasland and Hanson, Section 32.

19 COMMISSIONER BAILEY: Hard to keep up with you
20 sometimes.

21 THE WITNESS: I'm sorry.

22 Q. (By Mr. Carr) When you're talking about a gas
23 well, how do you define a gas well?

24 A. 100,000 cubic feet to one barrel of oil.

25 Q. And when you talk about a gas well, you've

1 checked these to see that that's the rate at which they
2 were producing?

3 A. I believe they are.

4 Q. Let's go now to your structure map, Exhibit
5 Number 8, and I'd ask you to review the information on that
6 exhibit.

7 A. Okay, now I've got mine out of order. Here it
8 is.

9 The geologist, in response to my request to look
10 at the Yates to see if we even had a prospective Yates gas
11 well in the area, pulled the logs, we looked at the logs,
12 he prepared this structure for me.

13 And this shows -- his structure pretty much
14 follows, if you lay the pink Scarborough on top of it, his
15 interpretation, our interpretation is, the Scarborough
16 follows that structure, is a separate structure from the
17 Rhodes and from the Jalmat.

18 The yellow acreage again is Southwest Royalties
19 acreage in Section 30. The B-20 is circled there. We show
20 the Parker well as A, we'll identify it on a cross-section
21 that we have following. We built a cross-section from the
22 Parker to the B-20 and across the O wells.

23 But the purpose for this map was to show us, did
24 we have an opportunity in the Yates to produce? We felt
25 like being on a high in that gas zone would be advantageous

1 to us. We also found, as Commissioner Lee noticed, the
2 wells in Section 25 weren't prospective, that the structure
3 fell off on that side of the lease, and we believe about
4 midsection, mid-Section 30, the Yates is not prospective.
5 We felt like we had one opportunity at this high location
6 to make a gas well.

7 Q. Let's go to your cross-section, Exhibit 9. Let's
8 review this exhibit for the Commission.

9 A. We prepared a cross-section -- computers are
10 wonderful, they make nice large exhibits -- we prepared a
11 cross-section to show the upper Yates gas formation. As I
12 mentioned there, we have the Parker well starting on the
13 left-hand side in Section 29, then we come south to the
14 B-20 proposed well, and then we go on further south through
15 the O wells.

16 The perforations are marked there if you can see
17 them through the dark coloration there. The Parker well is
18 shot in that upper Yates zone that we're proposing to
19 complete in. That well was completed in 1957, and it had
20 an initial potential of 6.6 million feet of gas per day --
21 pretty good gas well -- and it's cum'd 12 billion feet of
22 gas out of similar rock to what we have in our well. Our
23 well was originally completed as the Seven Rivers, and
24 that's the potential that's shown there with it.

25 If you go on to the O-6 well, it shows the

1 perforations in the same upper Yates that we're talking
2 about and shows that McCasland potentialized this well at
3 three barrels of oil a day, 310 MCF a day, which would be a
4 gas well, on a 40-acre-spaced unit. And as of the last
5 Dwight's filing he had cum'd 150 million feet.

6 Moving over to O-5, he potentialized it for 300 MCF
7 of gas a day, again a 40-acre gas well, and he's cum'd 228
8 million feet.

9 Going on over to the O-3, which has been owned by
10 two different groups, it had an initial potential of 2.5
11 million feet of gas on that 150-acre unit, and it's cum'd
12 between the various operators 782 million feet of gas out
13 of originally a 150-acre unit, which could have been
14 shrunken down to a 40.

15 Then on to the O-4, we show it potentialized for
16 278 MCF a day out of this same zone, and it has cum'd 695
17 million feet of gas.

18 Q. Let's go now to what has been marked Southwest
19 Royalties Exhibit Number 10, and I'd ask you first just to
20 identify that.

21 A. Exhibit 10 is the Division Order for Case Number
22 12,426 that denied our application.

23 Q. Are the reasons for that denial set out in
24 Findings (12) through (18) of this order?

25 A. Yes, they are.

1 Q. Would you read for the Commission Finding Number
2 (12)?

3 A. Finding (12) says, "Southwest's evidence in
4 support of its application does not indicate that
5 additional reserves will be recovered that otherwise would
6 be unrecoverable, or that correlative rights..." would be
7 protected.

8 Q. Mr. Bloodworth, will additional reserves be
9 recovered if this Application is granted and the subject
10 well is recompleted in the Scarborough Pool?

11 A. Yes, they will.

12 Q. How many active wells in the immediate area --
13 Sections 29, 30, 32 -- are at this time producing from the
14 Scarborough field?

15 A. We have the one oil well, B-8, Gruy has the
16 Parker well, Mr. McCasland operates various wells in O and
17 F in Sections 32 and 29.

18 Q. Without a well in Section 30, the result of this
19 recompletion, will reserves be left in the ground under
20 Section 30 that otherwise can be recovered?

21 A. Yes, sir.

22 Q. By re-entering this well -- Why did you decide to
23 re-enter the well, instead of drilling a new well?

24 A. As originally mentioned, we're actively plugging
25 out the field and looking for some way to salvage our

1 investment. While we were plugging the wells in the A
2 Section, we noticed the Parker A well was producing gas.
3 We went to the Commission, pulled the records and thought,
4 Well, maybe there's some salvage zones there.

5 And then we looked at the rest of our wellbores
6 and determined that the B-20 had been drilled in 1993, it
7 was a good, modern completion with lots of cement, that we
8 felt would be attractive to recomplete. We checked, we
9 found the log, we found that it was in the same pay as the
10 Parker, it's high to the Parker, geologist looks at it.
11 But it's basically a salvage operation.

12 Q. Would you drill a new well for the reserves you
13 anticipate being at this location?

14 A. No, we would not.

15 Q. Would approval of this Application protect
16 correlative rights?

17 A. Yes, it would.

18 Q. You understand that correlative rights is defined
19 as the opportunity to produce your share of the reserves in
20 the pool, do you not?

21 A. Yes, sir.

22 Q. If this Application is denied, what impact would
23 it have on Southwest's opportunity to produce the remaining
24 reserves under Section 30?

25 A. Southwest was given no opportunity to complete in

1 the Yates gas zone. It's already completed in the Parker
2 offsets and the McCasland offsets.

3 Q. If the Application is approved, will the
4 opportunity of any other operator in the pool be impaired
5 to produce reserves under their tract?

6 A. No, they will not.

7 Q. Will Gruy be able to continue to produce the
8 reserves under offsetting Section 29?

9 A. Yes, they will.

10 Q. And they have waived objection to the
11 Application?

12 A. Yes, they have.

13 Q. Would you read Finding (13), please?

14 A. "Southwest did not present any evidence
15 indicating that the wells in the Scarborough-Yates...Pool
16 could not drain 640 acres."

17 Q. In your opinion, will wells in this pool drain
18 640 acres?

19 A. I don't believe they will.

20 Q. Are there 640 acres remaining to be drained by
21 any well in this pool?

22 A. Not to my knowledge, no.

23 Q. Are there 640 acres that would be productive
24 under Section 30?

25 A. No, it wouldn't be.

1 Q. Would you read Finding (14), please?

2 A. "The creation of a 200-acre non-standard gas
3 spacing and proration unit in the south half, northeast
4 quarter; northeast quarter, southeast quarter; and south
5 half, southeast quarter of Section 30 would promote
6 disorderly pool development by leading to the formation of
7 additional non-standard gas spacing and proration units in
8 Section 30; result in economic waste by encouraging the
9 drilling of unnecessary wells in Section 30 as a result of
10 the formation of additional non-standard gas spacing and
11 proration units; and cause inequitable drainage allowing
12 more than one well per 640..."

13 Q. Would approval of this Application and the
14 recompletion of the proposed well on a 200-acre unit, in
15 your opinion, result in disorderly development because of
16 nonstandard spacing and proration units in Section 30?

17 A. It would not.

18 Q. Will there be any additional development that you
19 can foresee in Section 30?

20 A. As we stated, this is a salvage project. All
21 acreage would be assigned to B-20 and complete and then
22 produce it to depletion.

23 Q. And so what you're seeking is to re-enter a well
24 and recover the remaining reserves that you may be able to
25 recapture by re-entering?

1 A. That's correct.

2 Q. Are there any 640-acre units that you've been
3 able to find in this pool?

4 A. There are none. When the pool was laid out,
5 there weren't any laid out.

6 Q. Would approval of the Application, in your
7 opinion, result in the drilling of unnecessary wells?

8 A. No, sir.

9 Q. Will there be any additional wells in this
10 immediate area drilled, in your opinion?

11 A. Not in -- There won't be any drilled in my
12 opinion.

13 Q. Is the re-entry of this existing wellbore the
14 most efficient and effective way available to you to access
15 remaining reserves under your tract?

16 A. Yes, sir, it is.

17 Q. Would approval of this Application cause
18 inequitable drainage by allowing more than one well per 640
19 acres?

20 A. I don't believe so.

21 Q. Are any of the offset wells drilled on tracts
22 containing 640 acres?

23 A. No, sir, they're not.

24 Q. In your opinion, is this pool approaching
25 depletion?

1 A. Yes, sir, it is.

2 Q. If you're not permitted to re-enter the well and
3 attempt to recover what's left under your acreage, would
4 some of these reserves ultimately be recovered by the
5 offsetting Gruy well?

6 A. Yes, sir, they would.

7 Q. And if the Application is denied would that, in
8 fact, result in inequitable drainage to Gruy?

9 A. It would.

10 Q. Could you read Finding (15), please?

11 A. "Further, the proposed unorthodox...well location
12 does not appear to protect the correlative rights of the
13 'affected persons.'"

14 Q. In your opinion, would the correlative rights of
15 affected persons be impaired?

16 A. They would not.

17 Q. When you say "affected persons", who do you mean?

18 A. Primarily Gruy and McCasland.

19 Q. Those are the parties toward whom this well is
20 being moved, compared to a standard location?

21 A. That's correct.

22 Q. And they have not objected to the location?

23 A. They have not.

24 Q. We've also noted Conoco, the only other interest
25 owner that would be excluded from a standard 640; is that

1 correct?

2 A. That's correct.

3 Q. Would you read Finding (16), please?

4 A. "Southwest did not present any evidence as to why
5 forced pooling in this case is not an option."

6 Q. What would be the impact on Southwest if you were
7 required to force-pool a standard 640-acre unit comprised
8 of all of Section 30?

9 A. In my opinion, we'd be forced to bring acreage in
10 that we don't think is prospective and reduce further the
11 interest that we currently have. As we showed on our map,
12 we don't feel like the west half of the section is even
13 prospective.

14 Q. Would we be sharing the reserves from this well
15 with what, in your opinion, is nonproductive acreage?

16 A. We would.

17 Q. And would that dilute your interest?

18 A. Yes, it would.

19 Q. Would it deny you the opportunity to produce what
20 is under your tract?

21 A. Yes, sir.

22 Q. What impact would force pooling have on your
23 correlative rights?

24 A. It would dilute our interest and not protect our
25 correlative rights.

1 Q. Would you read Finding (17), please?

2 A. "No affected party appeared at the hearing or
3 objected to this application."

4 Q. We agree with that one, right?

5 A. Yes, we do.

6 Q. And Finding (18) is a summary of the reasons
7 previously reviewed for the denial of the Application; is
8 that correct?

9 A. That's correct.

10 Q. Mr. Bloodworth, in your opinion will approval of
11 this Application and the recompletion of the Eaves "B" Well
12 Number 2, as proposed, prevent waste?

13 A. Yes, sir.

14 Q. Will it result in the recovery of oil and gas
15 that otherwise would be left in the ground?

16 A. Yes, sir, it would.

17 Q. Will approval of this Application and the
18 recompletion of the subject well protect correlative
19 rights?

20 A. Yes, it will.

21 Q. What will be the end result if the Application is
22 denied?

23 A. Our well will be plugged, and we won't recover
24 the reserves in it.

25 Q. In your opinion, will approval of this

1 Application otherwise be in the best interest of
2 conservation?

3 A. Yes, it would.

4 Q. Were Exhibits 1 through 10 either prepared by you
5 or compiled at your direction?

6 A. Yes, they were.

7 Q. Can you testify as to the accuracy of these
8 exhibits?

9 A. Yes, sir.

10 MR. CARR: May it please the Commission, we would
11 move the admission into evidence of Southwest Exhibits 1
12 through 10.

13 CHAIRMAN WROTENBERY: Southwest Exhibits 1
14 through 10 are accepted into the record.

15 MR. CARR: And that concludes my direct
16 examination of Mr. Bloodworth.

17 CHAIRMAN WROTENBERY: Thank you, Mr. Carr.
18 Questions?

19 COMMISSIONER BAILEY: Not at this time.

20 COMMISSIONER LEE: I just -- My brain is too
21 small to just suddenly get so many things here, and that
22 really annoys me because I don't even have the time to
23 study on this. So I don't know what to do.

24 CHAIRMAN WROTENBERY: What we can do is
25 deliberate on this particular matter and take the time to

1 review the exhibits, and we will have the transcript. And
2 if there's a need to follow up with requests for additional
3 information, we can do that as well.

4 COMMISSIONER LEE: Well, can we have a mechanism
5 to give this information to -- you know, especially this
6 additional information -- to us two days in advance?
7 Because --

8 MR. CARR: Commissioner Lee, I appreciate your
9 concern, and in more complicated cases than this recently
10 there's been a request from the Commission to prefile
11 testimony. That gives you an opportunity to look at the
12 record in advance, and it puts you in a position where
13 you've got a much better opportunity and not have to catch
14 them and immediately be ready to respond.

15 There's also available to you the opportunity to
16 look at this data and then, if you need additional input
17 from the Applicant, to re-open the case at the direction of
18 the Commission at a later time for your follow-up
19 questions.

20 Furthermore, in a case of this nature the rules
21 -- and we generally present three copies of the exhibits
22 when we present a case at the Division level, and they're
23 often in the file that is in place where you also may be
24 able to find information on the application in advance.

25 Clearly the situation you find yourself in, in

1 this kind of a forum, is what attorneys find themselves in,
2 cross-examining people when you have no discovery, that you
3 have to catch it fast and run. But there are mechanisms
4 available to you to deal with it, both in terms of a
5 continuance and a re-opening and also requiring prefiled
6 testimony.

7 COMMISSIONER LEE: I like this case, because you
8 want to maximize your production. I think -- I love it.
9 The problem is, during the hearing I found myself make
10 several mistakes, just reading through it.

11 So what can -- Mike, can you write a page summary
12 for us in advance? Because you're the boss, your name is
13 here. Michael Stogner, is that you?

14 MR. CARR: Maybe, Commissioner, I could respond.
15 One, I don't think -- Mr. Stogner wasn't the Examiner in
16 this case, but to put Mr. Stogner or any Examiner in the
17 position of writing a summary in advance would also
18 require, before you ask them to do that, that the evidence
19 be prefiled, because he would have nothing upon which to
20 respond, and -- I mean, you need to respect the role of an
21 Examiner as sort of a lower judge, that the opinion of the
22 lower judge is really contained in the Order.

23 I'm not trying to argue with you, I just think --

24 COMMISSIONER LEE: No.

25 MR. CARR: -- there's a procedural thing where

1 even the question to Mr. Stogner may not be too fair in
2 this forum.

3 CHAIRMAN WROTENBERY: I think, Commissioner Lee,
4 what we may need to do as these cases come up is talk in
5 advance about what process we'll use and try to determine
6 at that point how to -- you know, if it's an appropriate
7 circumstance, how to get some form of prefiled testimony or
8 a prefiled summary of the testimony that will be presented.

9 And I will say, in this case we have opportunity
10 now to study the information that was presented and ask
11 follow-up questions, if we need to, at a later time, either
12 -- We could do it in writing or we could re-open the
13 hearing and ask the witness to come back and elaborate if
14 we needed to.

15 But I share your concern about trying to --

16 MR. CARR: And I might also suggest --

17 CHAIRMAN WROTENBERY: -- absorb this information
18 so quickly.

19 MR. CARR: -- that when a case is set for *de novo*
20 just a request that exhibits be prefiled. I can't imagine
21 anyone appearing before you that wouldn't do that. I mean,
22 they're going to prepare the exhibits anyway, and -- If we
23 had this hearing in December, we'd have been preparing
24 exhibits on the 14th of December. If we were told to have
25 the exhibits prepared a week ago, we would have been doing

1 it a week ago instead of last night.

2 And so it doesn't impose an additional burden on
3 the operator or the Applicant; it would only make it easier
4 for you to do your job when you need that kind of
5 information.

6 COMMISSIONER LEE: No questions.

7 EXAMINATION

8 BY CHAIRMAN WROTENBERY:

9 Q. Okay, I do have a question about Finding Number
10 (8). While reading findings, would you go ahead and read
11 that one?

12 A. The one that says, "Additionally, Division
13 records indicate that the above-described McCasland" 4, 5
14 and 6 wells "are not gas wells"?

15 Q. Uh-huh. Are these the same McCasland --

16 A. Yes, ma'am.

17 Q. -- 4, 5 and 6 that are shown on your cross-
18 section in Exhibit Number 9?

19 A. Yes, ma'am, and I read from the Commission
20 records saying they applied for a gas well.

21 Q. Okay.

22 A. This came out of the Hobbs office records.

23 Q. Do you know what other information is available
24 in the Division records that indicates that they're oil
25 wells?

1 A. I do not know. Their cumulatives indicate
2 they're gas wells, their initial potentials indicate
3 they're gas wells, their original application said they're
4 gas wells. We find relying on *Dwight's* is not very
5 accurate, but I'm relying on the Commission records that
6 said they were gas wells, and they're --

7 Q. And this finding refers to Division records as
8 well.

9 A. I got these out of Hobbs. We did have some
10 problem with the C-102s, trying to find all of them. I
11 don't know if there's some other record I'm not aware of.
12 But all the records I have indicate they were gas wells.

13 CHAIRMAN WROTENBERY: Steve, is that something we
14 could take sort of official notice of, the Division records
15 that relate to the status of these wells? I mean,
16 certainly if we find anything we could provide it to Mr.
17 Bloodworth --

18 MR. ROSS: Well, yeah --

19 CHAIRMAN WROTENBERY: -- provide an opportunity
20 for response --

21 MR. ROSS: -- I assume Mr. Carr wants to make
22 sure that when we take official notice he knows what we're
23 taking official notice of.

24 MR. CARR: But I would state that we have no
25 objection to your taking notice of the records of the OCD

1 that relate to the status of these wells and the acreage
2 dedicated to them, and it would be helpful if you would
3 just let us know what those are, but --

4 CHAIRMAN WROTENBERY: Certainly. Well, if we
5 find anything we will let you know and provide a copy and
6 confirm that we have taken official notice of it.

7 Q. (By Chairman Wrotenbery) And would you repeat
8 for me your testimony about the special rules and
9 regulations for the Scarborough-Yates-Seven Rivers Pool?
10 You went through those pretty quickly, but you had
11 mentioned a provision that addressed nonstandard proration
12 units and then also, I believe, unorthodox locations, and I
13 didn't quite catch that.

14 A. Okay, there was a provision made that all the
15 acreage had to be contiguous, the nonstandard units had to
16 be contiguous. That's why we cut 40 acres out of our
17 request. There was also that they all had to be within one
18 governmental section, which were all within Section 30.
19 The offset operators are to be given notice and opportunity
20 to protest, which they didn't.

21 And the 1980 feet and 330-foot requirement could
22 be waived if the well were a recompletion of a well
23 originally drilled at a deeper horizon, which this one was.
24 This was originally a deeper oil well, bringing up the gas
25 zones. We feel like it fits under there also.

1 MR. CARR: Mr. Bloodworth, do you know if those
2 were part of the special rules for this pool or the general
3 rules of the Oil Conservation Division?

4 THE WITNESS: I took them out of the rulebook.

5 MR. CARR: From the general rulebook they were
6 taken?

7 THE WITNESS: Yes, sir. I just wrote them larger
8 so they were easier for me to read.

9 CHAIRMAN WROTENBERY: I don't believe I have any
10 other questions. Any follow-up?

11 COMMISSIONER BAILEY: No, I have a lot to digest
12 before I can even ask a question. It's one of those, I
13 don't know what to ask.

14 CHAIRMAN WROTENBERY: Okay. Then if you don't
15 have anything else, Mr. Carr, we'll -- Thank you, Mr.
16 Bloodworth, for your testimony.

17 MR. CARR: May it please the Commission, that
18 concludes our presentation in this case. And clearly when
19 we brought the matter in for administrative approval before
20 the Division there were questions and, we believe,
21 misunderstandings about what we were attempting to do in
22 terms of the salvage effort and trying to recomplete a
23 usable wellbore to recover what we believe will be the few
24 remaining reserves but will enable us to improve our
25 position as we go through the salvage effort, and I'm

1 talking about economically improving our position.

2 We believe that the evidence in the case shows
3 that the Application can be granted and that if it is done,
4 waste will be prevented, additional reserves will be
5 recovered, that the correlative rights of no interest owner
6 will be impaired.

7 To the extent we were unclear in our earlier
8 presentation that resulted in certain findings in the
9 Division's Order, we've attempted to correct that here
10 today. If there are further questions from the Commission,
11 we are certainly prepared to do whatever you require or
12 request, including returning to the -- coming back before
13 you at a later date.

14 But we do request that the Application be
15 granted. We believe in so doing you act consistent with
16 statute and rule, that you will prevent waste and will
17 protect the correlative rights of all interest owners.

18 CHAIRMAN WROTENBERY: Thank you, Mr. Carr, Mr.
19 Bloodworth.

20 We will take this case under advisement. And Mr.
21 Carr, we will notify you of any information in the Division
22 records of which we intend to take official notice.

23 Commissioners, I would entertain a motion to
24 close this meeting so we can begin our deliberations on
25 this case, for just a few minutes anyway.

1 COMMISSIONER BAILEY: I so move.

2 COMMISSIONER LEE: Second.

3 CHAIRMAN WROTENBERY: All in favor say "Aye".

4 COMMISSIONER BAILEY: Aye.

5 COMMISSIONER LEE: Aye.

6 CHAIRMAN WROTENBERY: Aye.

7 (Off the record at 10:42 a.m.)

8 (The following proceedings had at 11:03 a.m.)

9 CHAIRMAN WROTENBERY: Okay, we'll go back on the
10 record and I'll entertain a motion to go back into open
11 session.

12 COMMISSIONER BAILEY: I move we go back into open
13 session.

14 COMMISSIONER LEE: Second.

15 CHAIRMAN WROTENBERY: All in favor say "Aye".

16 COMMISSIONER BAILEY: Aye.

17 COMMISSIONER LEE: Aye.

18 CHAIRMAN WROTENBERY: Aye. We have deliberated
19 -- or begun our deliberations, I should say, on the case we
20 just heard, Case Number 12,426, the Application of
21 Southwest Royalties, Inc. We will be seeking some
22 additional information from the Applicant in that case. I
23 just for the record will note that that is the only matter
24 that we discussed while we were in closed session.

25 And I believe that concludes our agenda for

1 today. Is there anything else that we need to address? I
2 don't believe so, so I'll entertain a motion to adjourn.

3 COMMISSIONER BAILEY: I move we adjourn.

4 COMMISSIONER LEE: Second.

5 CHAIRMAN WROTENBERY: All in favor say "Aye".

6 COMMISSIONER BAILEY: Aye.

7 COMMISSIONER LEE: Aye.

8 CHAIRMAN WROTENBERY: Aye. Thank you very much,
9 everybody.

10 (Thereupon, these proceedings were concluded at
11 11:04 a.m.)

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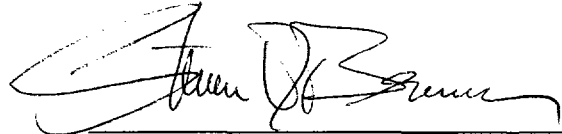
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission 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 November 12th, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002