

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. 12,905

APPLICATION OF PRONGHORN MANAGEMENT )  
CORPORATION FOR APPROVAL OF A SALTWATER )  
DISPOSAL WELL IN LEA COUNTY, NEW MEXICO )

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*Oil Conservation Division*

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

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

March 20th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Thursday, March 20th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

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March 20th, 2003  
 Commission Hearing  
 CASE NO. 12,905

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\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:31 a.m.:

3           CHAIRMAN WROTENBERY: At this point what we'd  
4   like to do is move on to Case 12,905. This is the  
5   Application of Pronghorn Management Corporation for  
6   approval of a saltwater disposal well in Lea County, New  
7   Mexico. This case is being heard *de novo* by the Commission  
8   upon the Application of Pronghorn Management Corporation.

9           And we'll call for appearances in this matter.

10          MR. PADILLA: Madame Chairman, my name is Ernest  
11   L. Padilla, appearing for Pronghorn Management Corporation.

12          CHAIRMAN WROTENBERY: Thank you, Mr. Padilla.

13          MR. OWEN: Madame Chairman, members of the  
14   Commission, Paul R. Owen of the Santa Fe law firm of  
15   Montgomery and Andrews, appearing on behalf of an  
16   interested party, DKD, LLC.

17          CHAIRMAN WROTENBERY: Thank you, Mr. Owen. And  
18   do you both have witnesses?

19          MR. PADILLA: I have two witnesses.

20          MR. OWEN: I have one witness, madame Chairman.

21          CHAIRMAN WROTENBERY: At this point we'll ask all  
22   three witnesses to stand and be sworn, please.

23          (Thereupon, the witnesses were sworn.)

24          CHAIRMAN WROTENBERY: Thank you. Gentlemen,  
25   would you like to make an opening statement?

1 MR. PADILLA: Yes, I would.

2 CHAIRMAN WROTENBERY: Please go ahead, Mr.  
3 Padilla.

4 MR. PADILLA: First let me give you a brief  
5 history of this case. This case came originally, it was  
6 filed administratively. As a result of that administrative  
7 proceeding, the Application was approved.

8 Sometime later DKD, the opposition in this party,  
9 applied on the basis that there had been no notice on DKD.  
10 At that time that was not, in fact, required because an  
11 assignment from Chesapeake Oil to DKD had not been filed of  
12 record, and our clients -- my client did not have any  
13 notice that the assignment had been made.

14 So later on in the Division Hearing that was not  
15 an issue, as I understood it, because we -- well, my  
16 client, could not have known that an assignment had taken  
17 place.

18 It is our position that the opposition in this  
19 case is essentially putting forth a case for convenience of  
20 necessity. The opposition, as the evidence will develop,  
21 is that it is more a question of another commercial  
22 operator of the saltwater disposal facility that is less  
23 than half a mile away, is opposing this Application solely  
24 on the basis that they're -- We don't know. We figure it's  
25 for the basis of simply eliminating competition.

1           The real question here is going to be, and we  
2 will demonstrate, that there is no adverse effect on  
3 correlative rights. The evidence will show that the  
4 formation, the injection formation, the interval, is  
5 essentially -- well, it is watered out, that there is no  
6 productive capability, there never has been any, and there  
7 will not be any in the future. So in terms of  
8 conservation, this case, we will show, should be approved.

9           Now, finally let me address a notice deficiency  
10 that was noted by the Division in its order denying this  
11 Application.

12           Notice was that surface owners who owned an acre  
13 were not notified. That was in fact true. In the interim,  
14 one of the partners of Pronghorn Management has purchased  
15 that one acre of land. So notice requirements as far as  
16 the surface owner should not be relevant any further.

17           This morning I was handed a brief, Pronghorn,  
18 relating to whether or not the Applicant may from a  
19 substantive point, not from a regulatory point, dispose  
20 their saltwater into minerals under which there is no oil  
21 and gas lease in Pronghorn Energy or Pronghorn Management.

22           That is also a misnomer. Testimony will show  
23 that the New Mexico State Land Commissioner is the  
24 administrator of the minerals underlying the surface of the  
25 saltwater disposal facility or proposed well, and that the

1 Commissioner will not issue as a matter of policy a  
2 saltwater disposal easement until the regulatory aspect, an  
3 order from the Oil Conservation Division, or now the  
4 Commission, is in hand.

5 So we are going to have a chicken-and-egg  
6 situation here. We cannot, as a necessary presentation  
7 here, show that we have a saltwater disposal easement from  
8 the Commissioner of Public Lands, but we will present  
9 testimony with what I have just stated, that condition  
10 precedent to getting an easement from the Commissioner of  
11 Public Lands is going to be an order from the Commission.

12 With that I'll close. Thank you.

13 CHAIRMAN WROTENBERY: Thank you, Mr. Padilla. I  
14 just wanted to ask a couple of preliminary questions on the  
15 notice issue that you raised and also the question of  
16 Pronghorn's right to dispose of saltwater in this zone.

17 As I understand it, you're going to show in your  
18 testimony today that Pronghorn or its partner in this  
19 operation has acquired the surface acreage?

20 MR. PADILLA: The one acre of surface that was a  
21 contention at the last hearing.

22 CHAIRMAN WROTENBERY: Okay, that is the acre on  
23 which this well is located; is that right?

24 MR. PADILLA: I don't believe it is. It was just  
25 within the one-half-mile circle. It's within the half

1 mile, and it lies within a half mile of the proposed  
2 injection well. But my clients at that time were unaware  
3 that this couple by the name of Moreno owned an acre of  
4 land, surface of land, out there.

5 CHAIRMAN WROTENBERY: Okay. So who owns the  
6 surface on which the well is located?

7 MR. PADILLA: As I understand it, it's the State  
8 of New Mexico.

9 CHAIRMAN WROTENBERY: Okay. There was in the  
10 materials I had looked at --

11 COMMISSIONER BAILEY: It's my understanding that  
12 the State of New Mexico does not own the surface --

13 CHAIRMAN WROTENBERY: Okay.

14 COMMISSIONER BAILEY: -- and that the  
15 Commissioner of Public Lands does not issue saltwater  
16 disposal easements where we do not own the surface.

17 CHAIRMAN WROTENBERY: Okay. You had --

18 MR. PADILLA: Madame Chairman --

19 CHAIRMAN WROTENBERY: -- as we requested,  
20 submitted the exhibits beforehand, and there was some  
21 information in one place that the State of New Mexico owned  
22 the surface, and then in another place it indicated or  
23 suggested that perhaps --

24 MR. PADILLA: My client has just corrected me and  
25 said the well is located on that one acre of land that they

1 have purchased.

2 CHAIRMAN WROTENBERY: Okay, and that's what your  
3 testimony will show today?

4 MR. PADILLA: Right.

5 CHAIRMAN WROTENBERY: Okay. That clears up that  
6 particular issue.

7 And then the other one was the one related to  
8 what kind of approval you needed from the Commissioner of  
9 Public Lands to conduct commercial saltwater disposal  
10 operations on this tract. And you indicated in your  
11 opening statement that perhaps you do need some approval,  
12 but --

13 MR. PADILLA: Well, since it's commercial in  
14 nature, as I understand the rules of the Land Commissioner,  
15 if you have -- well, Chesapeake has their oil and gas lease  
16 there. So Chesapeake could, under the oil and gas lease,  
17 dispose of saltwater on the lease produced from that lease.  
18 But when you bring third-party water from somewhere else,  
19 you have to have a saltwater easement and some kind of  
20 waiver from Chesapeake. Chesapeake has given us that  
21 waiver, and that will be part of our presentation as well.

22 CHAIRMAN WROTENBERY: Okay, and you have to have  
23 an easement from Chesapeake because they own what kind of  
24 interest in the property? And I would like to get this  
25 clarified because actually, had it been my understanding

1 that if you were talking about a disposal operation, that  
2 the easement you needed was from the surface owner, but  
3 there was some discussion in the materials about needing  
4 approval from the --

5 MR. PADILLA: Well --

6 CHAIRMAN WROTENBERY: -- Land Commissioner, as  
7 well as from Chesapeake, and --

8 MR. PADILLA: Well, as I understand this --

9 CHAIRMAN WROTENBERY: -- I'm trying to sort  
10 through all this.

11 MR. PADILLA: -- brief, and I've read it real  
12 quickly and I think I understand the argument, is that --  
13 the argument is that because it is a commercial saltwater  
14 disposal -- it will be a commercial saltwater disposal  
15 operation, that you necessarily have to have an ancillary  
16 type of right to dispose of the saltwater that doesn't  
17 arise from the oil and gas lease, because if it were water  
18 being disposed of from the oil and gas lease, then -- and  
19 Chesapeake was the operator of the saltwater disposal  
20 facility, I think it would be all right.

21 But if you're bringing the saltwater from  
22 somewhere off of the lease -- and that may be the case in  
23 this case -- then I think you have to have a saltwater  
24 disposal easement from the Commissioner of Public Lands,  
25 together with some waiver from the person --

1           CHAIRMAN WROTENBERY: Yeah, I would suggest you  
2 research that a little further. That doesn't fit with my  
3 understanding of the relationships between the various  
4 interest owners, if you're talking about disposal into a  
5 nonproductive zone. But that is an issue that the  
6 Commission would appreciate you briefing for us --

7           MR. OWEN: Madame Examiner --

8           CHAIRMAN WROTENBERY: -- after this particular  
9 proceeding, and we'll cover that at the end of the hearing,  
10 if you could. We'll give an opportunity for both parties  
11 to submit some briefing materials on those particular  
12 issues.

13          MR. OWEN: Madame Examiner, I have prepared a  
14 brief on -- and I haven't spent a whole lot more time with  
15 it than Mr. Padilla has. I filed it this morning. And I'm  
16 going to hand it to you in a minute, and it treats that  
17 issue. And I expect that Mr. Padilla will appreciate the  
18 opportunity to respond to that brief and that will be fine.

19          CHAIRMAN WROTENBERY: Uh-huh.

20          MR. OWEN: If you'd like me to give an opening,  
21 I'm more than happy to do so.

22                 It's our position that in order to operate a  
23 commercial saltwater disposal well it requires the  
24 permission of both the surface owner and a mineral lease or  
25 a mineral saltwater disposal easement dealing specifically

1 with the minerals, because you are impairing the mineral  
2 estate by injecting fluids into that estate, whether or not  
3 it is productive. There are hydrocarbons there which at  
4 some future date could be recoverable.

5 And I will -- This brief treats that issue and  
6 why it is not permissible to inject without having a  
7 specific lease from the owner of the minerals.

8 CHAIRMAN WROTENBERY: Okay. Thank you, Mr. Owen.  
9 We will request the submission --

10 MR. OWEN: Well, I can go ahead and --

11 CHAIRMAN WROTENBERY: -- of those briefs --

12 MR. OWEN: -- give you mine now, but again --

13 CHAIRMAN WROTENBERY: -- and then, Mr. Padilla,  
14 we will give you an opportunity to reply.

15 MR. PADILLA: Madame Chairman, I have a copy for  
16 the court reporter and we have one additional exhibit, 7,  
17 that we did not provide.

18 CHAIRMAN WROTENBERY: Okay. We have a new  
19 Pronghorn Exhibit 7. Did you provide a copy to Mr. Owen?  
20 Thank you.

21 Mr. Owen, did you want to say anything else by  
22 way of opening statement?

23 MR. OWEN: Very briefly, madame Examiner, which,  
24 as Mr. Brooks knows, is usually not that brief.

25 This matter did initially begin with an

1 administrative proceeding, and an approval was issued by  
2 the Division. However, it was determined that there was no  
3 notice to my client, DKD, LLC. DKD filed an objection, the  
4 Examiner set it for hearing. The approval was suspended.

5 At the hearing it turned out that in fact  
6 Pronghorn did not own the surface, in fact Pronghorn did  
7 not own the minerals, in fact Pronghorn did not provide  
8 notice to the surface owner, in fact Pronghorn did not  
9 provide notice to the mineral owner, in fact Pronghorn did  
10 not get the permission of the surface owner and did not get  
11 the permission of the mineral owner to inject.

12 Essentially, it was a case where I would be going to your  
13 house and throwing trash on your lawn without any of your  
14 knowledge or approval.

15 Since that time, Pronghorn has secured ownership  
16 of the surface, and that is not an issue at this hearing.

17 Since that time, Pronghorn has not obtained a  
18 mineral lease or assignment of a mineral lease from the  
19 mineral owner. The mineral owner is the State of New  
20 Mexico. The mineral lessee is Chesapeake. Mr. Padilla has  
21 stated that Chesapeake has the right to inject minerals.  
22 That's true. Pronghorn does not. There is no assignment  
23 of the lease from Chesapeake to Pronghorn.

24 There were other issues raised at the Division.  
25 There is the possibility of productive hydrocarbons from

1 the horizons into which Pronghorn proposes to inject, and  
2 we will continue to explore that issue at today's hearing.

3 There was an additional issue at the Division  
4 Hearing which was whether Pronghorn was a responsible  
5 operator, because of surface waste all around the subject  
6 area. Pronghorn has since that time cleaned up most of  
7 that waste, and we will not be pressing that issue at  
8 today's hearing.

9 Essentially the issue at today's hearing is, who  
10 owns the minerals and what right does Pronghorn have to  
11 inject into those minerals? And that is the point which we  
12 will be addressing at today's hearing.

13 CHAIRMAN WROTENBERY: Thank you, Mr. Owen.

14 Okay, Mr. Padilla, would you like to call your  
15 first witness?

16 MR. PADILLA: We'll call G.A. Baber at this time.

17 CHAIRMAN WROTENBERY: Good morning, Mr. Baber.

18 MR. BABER: Good morning.

19 GUY A. BABER, III,

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

22 DIRECT EXAMINATION

23 BY MR. PADILLA:

24 Q. Mr. Baber, please state your full name.

25 A. Guy Allen Baber, III.

1 Q. Mr. Baber, where do you live?

2 A. I live in Hobbs, New Mexico.

3 Q. Mr. Baber, what is your connection with the  
4 Applicant, Pronghorn Management Corp.?

5 A. I'm president of Pronghorn Management and  
6 operating manager.

7 Q. Mr. Baber, did you testify at the Division  
8 Hearing and had your credentials accepted as a matter of  
9 record as a practical oilman?

10 A. Yes, sir.

11 MR. PADILLA: Ms. Chairman, we tender Mr. Baber  
12 as a practical oilman for purposes of the testimony in this  
13 case.

14 CHAIRMAN WROTENBERY: Any objection?

15 MR. OWEN: Madame Chairman, it's our  
16 understanding that the Applicant is going to present a  
17 petroleum engineer, and we do note that this witness is not  
18 a petroleum engineer, and his testimony on that subject  
19 should be limited to recognize that he is not an expert in  
20 that matter.

21 CHAIRMAN WROTENBERY: Thank you. And Mr.  
22 Padilla, you are offering him as a --

23 MR. PADILLA: -- practical oilman.

24 CHAIRMAN WROTENBERY: -- practical oilman?

25 MR. PADILLA: And certainly as an officer in the

1 Applicant corporation.

2 CHAIRMAN WROTENBERY: Well, we'll accept his  
3 qualifications as a practical oilman and officer in the  
4 corporation. And Mr. Owen, if you will watch for us, I  
5 assume you will object if you hear some expert opinion that  
6 you do not believe he's qualified to give.

7 MR. OWEN: I'd be happy to, madame Examiner.

8 Q. (By Mr. Padilla) Mr. Baber, you've already heard  
9 me talk about the history of this Application, but can you  
10 briefly make that -- recite a brief historical background  
11 of this Application, how you decided to do this project?

12 A. We were in the process of having to plug out some  
13 wells, Wells 1 and 4, and Well Number 3 had already been  
14 plugged on the State "T" lease, and we were trying to  
15 decide maybe something we could do with the well other than  
16 plugging it. We didn't really want to plug it prematurely,  
17 and we came up with the idea on the saltwater disposal, had  
18 this zone of interest in the San Andres and Glorieta that  
19 we thought possibly would make a viable disposal well, and  
20 talked with some interested parties in the area and  
21 proceeded to file the Application for SWD.

22 Q. What happened with the Application?

23 A. We filed the Application, submitted the notices  
24 that we thought were proper, and the Application was  
25 accepted, SWD-836 was accepted.

1 Q. Okay, let's cut to the chase here. Let's get to  
2 Exhibit Number 1 and have you identify that for the  
3 Commission, please.

4 A. This is the Application for authorization to  
5 inject, the C-108 that we submitted April 5th of 2002.

6 MR. OWEN: Madame Examiner -- Do you have an  
7 extra copy, Mr. Padilla?

8 MR. PADILLA: Sure.

9 Q. (By Mr. Padilla) Who's the Applicant shown on  
10 that C-108?

11 A. The Applicant would be Pronghorn Management  
12 Corporation.

13 Q. Nothing has changed with regard to that, to the  
14 Applicant?

15 A. No, sir.

16 Q. In fact, has anything changed -- Has this C-108  
17 changed in any regard to the one you filed originally,  
18 initially?

19 A. No, it has not.

20 Q. Okay. So this is still the same C-108 that was  
21 used for the administrative application?

22 A. Yes, sir.

23 Q. Okay. Let's turn to the second page. Is that  
24 your signature there?

25 A. Yes, sir.

1           Q.    Let's go to the third page, and tell us what that  
2    is.

3           A.    This is the information submitted for what the  
4    injection well will look like, what size tubing will be in  
5    the hole, it would be internally plastic-coated tubing,  
6    what type of packer, what depth the packer will be set. In  
7    addition, additional data is the name of the injection  
8    formation, the San Andres to the Glorieta, and what pool  
9    that the lease is in now, and then how we're going to  
10   abandon the Wolfcamp with a cast iron bridge plug and  
11   cement on top of that.

12          Q.    Okay, are you looking at the schematic at this  
13   point?

14          A.    No, sir, I'm still on the page we were talking  
15   about.

16          Q.    Looking at Item Number 5, the question is, give  
17   the names and depths of any oil and gas zones underlying or  
18   overlying the proposed injection zone in this area. And  
19   the Grayburg and Paddock are listed as the overlying and  
20   underlying formations; is that correct?

21          A.    Yes, sir.

22          Q.    Did those two formations produce any oil and gas?

23          A.    They're nonproductive. They're just the  
24   formation tops in this geographical section that are above  
25   the San Andres and below the Glorieta.

1           Q.    Going to item number 2 there, the name of the  
2 injection formation, the San Andres and the Glorieta is  
3 what you have there. Generally, can you tell the  
4 Commission where the tops and bottoms of those two  
5 formations are?

6           A.    Generally, the top of the San Andres runs around  
7 5000 feet, and the Glorieta will be around about -- right  
8 around 6500 feet.

9           Q.    The bottom?

10          A.    Yes, sir.

11          Q.    The base?

12          A.    The base.

13          Q.    Okay. Is the San Andres and Glorieta productive  
14 in that area?

15          A.    No, sir.

16          Q.    Let's go on to the schematic, and tell the  
17 Commission what that shows.

18          A.    This is the wellbore schematic as we perceive it  
19 will look like after our work is done, after we've done our  
20 cementing and plug work and run our cement bottom log and  
21 have it approved with the Oil Commission. This is the  
22 schematic that hopefully the wellbore will look like when  
23 we have our work complete.

24          Q.    Now, the bottom of that page, the injection  
25 interval shows 6000-6200 feet?

1           A.    Yes, sir.

2           Q.    Has that changed?

3           A.    Yes, sir, we would like to have it at 6400 feet,  
4 as advertised, 6000 to 6400 feet.

5           Q.    And when did that change?

6           A.    It changed from our Application to -- it looked  
7 like to me from when we went from the approved application  
8 till we came up here to the first hearing. I visited Mr.  
9 Jones, Will Jones, with the Oil Commission. He was  
10 reviewing our Application and he called me up and was  
11 visiting with me, and he said it looks like there should be  
12 -- there's a zone there from 6200 to about 6400 that should  
13 be of interest or should possibly take fluid.

14                   And at that time I said, Well, let me look at the  
15 logs, and I'll get back with you.

16                   So I looked at my logs, and he was correct that  
17 we needed -- possibly needed to have additional footage in  
18 this zone. And at that point in time I didn't think it  
19 was, you know, that big a deal because we were obviously  
20 still in the San Andres and the Glorieta, with the San  
21 Andres and Glorieta being, you know, somewhere around 1500  
22 feet or so, vertical depth.

23                   MR. PADILLA: Ms. Chairman, I notice that I  
24 didn't give a copy of the exhibit to the Commission's  
25 counsel.

1 MS. LEACH: Thank you.

2 MR. PADILLA: Sorry.

3 Q. (By Mr. Padilla) Is this still the picture as  
4 you propose to do this project?

5 A. The picture, it would be this perforation --  
6 would entail some perforations down to the 6400 foot. This  
7 shows 6000 to 6200 foot, but it -- the 6000 to 6400 foot  
8 still again in the San Andres and Glorieta interest, zone  
9 of interest.

10 Q. Let's go on to the next page. What is that?

11 A. This again is the wellbore schematic of what we  
12 perceive the wellbore to look like and equipment that will  
13 be in the hole once the work is complete.

14 Q. Just a slightly larger version of the one on the  
15 previous page, right?

16 A. Yes, that's correct.

17 Q. Okay, let's go on to the next page. What is  
18 that?

19 A. This is additional information attached with our  
20 C-108 that's required, that we were required to submit.

21 Q. Let's direct your attention to Roman numeral VII.  
22 What does that Roman numeral VII show?

23 A. This shows what we're hoping that we'll be able  
24 to take in and inject, 1500 barrels of fluid a day. It  
25 will be a closed system. We project our average pressures

1 will be around 500 pounds with possibly maximum pressure of  
2 1000 pounds. We will be taking in produced water from the  
3 area, probably most of it trucked in. And then we included  
4 a water analysis of fresh water, and then some analysis of  
5 the saltwater disposal water that we might be taking into  
6 our disposal system.

7 Q. Roman Numeral VIII --

8 CHAIRMAN WROTENBERY: Mr. Baber, I'm sorry to  
9 interrupt, but while we're on number VII let me just ask  
10 quickly, what do you mean when you say it's a closed  
11 system?

12 THE WITNESS: That will be -- There's no open  
13 tops, no open tanks in the closed system, and we will  
14 possibly have to pump fluid into the hole. Everything will  
15 be closed, everything will be --

16 CHAIRMAN WROTENBERY: How will water be delivered  
17 into the system? What will the driver do?

18 THE WITNESS: We'll have tanks there, and they'll  
19 just unload their hose, connect to our tanks, open up the  
20 valves and then pump into our tanks. And then from our  
21 tanks we will either -- you know, we'll have the well open,  
22 and we'll either have our pump hooked up or -- hopefully  
23 for some time, maybe the well will be on a vacuum. So it  
24 will all be contained and enclosed.

25 CHAIRMAN WROTENBERY: Thank you --

1 COMMISSIONER LEE: So you --

2 CHAIRMAN WROTENBERY: -- for that clarification.

3 Oh, I'm sorry, Dr. Lee?

4 COMMISSIONER LEE: So you don't have an open  
5 pump?

6 THE WITNESS: No, sir.

7 COMMISSIONER LEE: Are you going to retrieve that  
8 oil?

9 THE WITNESS: Pardon me, I didn't understand you,  
10 Commissioner Lee.

11 COMMISSIONER LEE: The disposal pump, you don't  
12 need to have a settlement?

13 THE WITNESS: No, sir. No, we will not have any  
14 open pits or pond or anything of that nature.

15 COMMISSIONER LEE: Are you going to retrieve the  
16 condensate?

17 THE WITNESS: Yes, sir, we possibly will, if  
18 there's a -- if that's available to us.

19 COMMISSIONER LEE: Do you have a filter facility?

20 THE WITNESS: We'll have a filter facility,  
21 heater treater, whatever surface equipment is necessary to  
22 take care of treating the condensate oil, whatever might be  
23 brought to us in that manner.

24 COMMISSIONER LEE: Do you have a plant?

25 THE WITNESS: A plan?

1 COMMISSIONER LEE: Or a facility?

2 THE WITNESS: We do not have the surface  
3 facilities -- I do not have a schematic of that as of yet.

4 COMMISSIONER LEE: Thank you.

5 CHAIRMAN WROTENBERY: Thank you, Mr. Baber.

6 Q. (By Mr. Padilla) Roman numeral VIII, that 6000  
7 to 6200, it's not accurate here. It should be 6400?

8 A. Yes, sir.

9 Q. Okay. That also identifies the Ogallala  
10 formation as being the freshwater aquifer in the area?

11 A. That's right.

12 Q. And you'll have some more following in this  
13 exhibit indicating the freshwater sources in the area?

14 A. Yes, sir.

15 Q. Okay, let's go on to the next page. Would you  
16 tell us what that shows?

17 A. This is the half-mile radius, as required, of the  
18 wells that are in this area.

19 Q. Are any of those wells productive in the San  
20 Andres or Glorieta?

21 A. No, sir.

22 Q. Where are these wells completed?

23 A. They're Wolfcamp or the Strawn formation, which  
24 is a quite a bit deeper horizon.

25 Q. Is the DKD well shown in here?

1 A. Yes, it is.

2 Q. Would you tell the Commission where it is?

3 A. It's the Watson 1-6.

4 Q. About how far away is it --

5 A. From the --

6 Q. From your proposed injection well?

7 A. Right at 2000 feet.

8 Q. What is on the next page? There's another,  
9 bigger circle there. What is that?

10 A. These are wells that are in the two-mile area.

11 Q. Are any wells in that two-mile area productive in  
12 the San Andres or Glorieta?

13 A. No, sir.

14 Q. Let's go on to the page following the two-mile.  
15 What is shown on that?

16 A. These are the wells that we've -- that are in a  
17 half-mile radius, that we show that are -- what zone  
18 they're in and what their status is, as far as active or  
19 inactive or P-and-A, plugged and abandoned.

20 Q. Are there any wells that were completed -- any of  
21 these wells ever completed anywhere near the San Andres or  
22 the Glorieta?

23 A. No, sir.

24 Q. Let's go on to the next page. What does that  
25 indicate, show?

1           A.    This is a list of the wells in the half-mile  
2 radius that shows how the wells are drilled, what size  
3 casing was run, what depth casing was run to, where cement  
4 was circulated to or where the top of the cement is.

5           Q.    In all the prior proceedings before the Oil  
6 Conservation Division, was there any question as to whether  
7 the cement on any of these wells was inadequate or  
8 problematic?

9           A.    Not that I have seen.

10          Q.    Did the Division tell you in any way that there  
11 was a problem that you had to rework the wells in order to  
12 do saltwater injection?

13          A.    The only well we'd have to rework is the State  
14 "T" Number 2.

15          Q.    And that is an injection well?

16          A.    That is our proposed injection well, yes, sir.

17          Q.    Okay. Following that, following the three pages  
18 of that well data, there are a number of C-103s. What are  
19 those intended to show?

20          A.    These are subsequent reports of the C-103s that  
21 the wells were properly abandoned and approved by the Oil  
22 and Gas Commission.

23          Q.    And a schematic for each of those wells is also  
24 shown; is that right?

25          A.    The schematic shows how the well was plugged,

1 where the cement plugs are and how the wells look today in  
2 a plug-and-abandonment status.

3 Q. In terms of this Application, is there anything  
4 contained in the C-103s of the wells in the one-half-mile  
5 circle that would indicate that -- or would be adverse to  
6 saltwater injection?

7 A. No, sir.

8 Q. Down the line here, there's some freshwater data.  
9 Can you tell us what the first saltwater -- or State  
10 Engineer's data sheet indicates?

11 A. These are the wells that are in the Section 6  
12 area, and shows what depth water is in feet, shows minimum  
13 40 feet, maximum of 65 feet, and average depth is 56 feet.

14 Q. How many wells are --

15 A. There's 20 wells.

16 Q. And the average depth is 56 feet?

17 A. Yes, sir.

18 Q. Okay, what else -- what follows that page?

19 A. And this is an analysis of the water, groundwater  
20 in the area.

21 Q. Can you tell the Commission what kind of water is  
22 being produced from those wells?

23 A. Well, it looks -- fresh water, it doesn't look  
24 like there's any problem with it.

25 Q. In terms of the saltwater proposal that you have

1 before the Commission and this fresh water, is there any  
2 danger of contaminating freshwater sources?

3 A. I don't believe so. All the water zones are  
4 protected with cement and casing throughout all the wells  
5 that we looked at.

6 Q. Let's go back and take one well, let's take the  
7 first well and show the Commission how that -- on the first  
8 C-103, let's do a schematic one, and tell us how that well  
9 is cemented to avoid contamination of the shallow levels.

10 A. The first C-103?

11 Q. The first C-103. And let's turn to the  
12 schematic.

13 A. That would be the State "C" Number 2, Charles B.  
14 Gillespie.

15 Q. Charles B. Gillespie, State "C" Number -- Well, I  
16 have the "C" Number 1 -- Number 2, I'm sorry.

17 A. All these wells are required -- a majority of the  
18 wells are required, where your 13-3/8-inch casing is set at  
19 366 feet, that takes care of isolating the water zones.  
20 And then you cement it. This well had been cemented with  
21 250 sacks of cement, and it shows that it has been  
22 circulated back to surface.

23 Q. Back to the surface?

24 A. Yes, sir.

25 Q. And the freshwater aquifers, or sources, would be

1 above that 366 feet?

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

3 Q. Okay.

4 CHAIRMAN WROTENBERY: Mr. Padilla, just for the  
5 record let's get this clarified, because on the schematic  
6 it does say that it's the State "C" Well Number 1, although  
7 on the C-103 it refers to the State "C" Well Number 2. Are  
8 we looking at the same well on these two sheets?

9 MR. PADILLA: That's a good question, Mr. Baber.

10 THE WITNESS: I can't tell you. I noticed that  
11 myself. I can't tell you whether that's the same well or  
12 not, but I can tell you that all the wells in this area  
13 have the same type of casing program and cementing program  
14 as far as setting your 13-3/8-inch surface casing and  
15 circulating cement to surface.

16 And the approximate depths, we can go through  
17 these. The next one, the State "B" Number 3, and it is  
18 Well Number 3, 13-3/8 is set at 375 feet, and 275 sacks of  
19 cement and it is circulated.

20 The State "B" Number 1, the next one, would be  
21 the same type of program, 13-3/8-inch casing set at 365  
22 feet, which I think you'll find throughout the section or  
23 half-mile radius area of interest.

24 CHAIRMAN WROTENBERY: Mr. Baber, did you prepare  
25 these schematics based on the information on the C-103

1 or --

2 THE WITNESS: These are a matter of record with  
3 the Oil Commission.

4 CHAIRMAN WROTENBERY: Okay.

5 Q. (By Mr. Padilla) Okay, let's go back to the page  
6 that follows -- well, the Cardinal Laboratories page. What  
7 does that show?

8 A. That shows you the quality of the water in the  
9 area.

10 Q. And what is the quality of the water in the area?

11 A. Well, I'm not a water expert or water analysis,  
12 but --

13 Q. Well, as far as you know.

14 A. -- it looks -- I mean, the water looks fine.  
15 There's no problem with the water.

16 Q. It's potable?

17 A. Yes, sir.

18 Q. Okay, following that is a list of oil and gas  
19 pools. What is that supposed to show?

20 A. This is a list of pools that are in the area, not  
21 necessarily in this specific area but in southeast New  
22 Mexico, possible water that would be transported into our  
23 lease, showing the -- you know, what the content of the  
24 chlorides is and, you know, obviously water with high total  
25 dissolved solids.

1 Q. In terms of compatibility for injection, are any  
2 of these pools incompatible -- water produced from those  
3 pools incompatible with the saltwater injection in your  
4 proposed well?

5 A. Not that I know of.

6 Q. Okay, what is the Roman numeral VIII page?

7 A. This is a list of geographical tops that we had  
8 gathered in southeastern New Mexico, specifically in the  
9 area of the well for our Application.

10 Q. For example, the Grayburg does not exist in that  
11 area; is that right? As far as you know?

12 A. As far as I know, yes.

13 Q. Okay, finally we have a list of offset operators  
14 and landowners. Who did you notify about this Application?

15 A. We notified as listed, the State Land Office, and  
16 then we notified the offset operators at the time of  
17 Chesapeake Operating; Charles B. Gillespie, Jr.; Pronghorn  
18 Management; and Energen Resources.

19 Q. Was DKD a person that you -- How did you arrive  
20 at who the offset operators -- Let me ask that first.

21 A. It's a matter of record.

22 Q. And was DKD an operator at the time?

23 A. No, sir, they were not operator of record at the  
24 time.

25 Q. Why is that? Why did you not give notice to DKD?

1           A.    Because they were not -- we were not required to.  
2   They were not an offset operator at the time.  Chesapeake  
3   was the offset operator at the time of our Application.

4           Q.    What is your knowledge of when DKD became an  
5   operator in your area?

6           A.    They became -- as far as operator of -- as far as  
7   assignment, the assignment was recorded on May 14th, 2002.

8           Q.    When was your Application made to the OCD?

9           A.    April 5th, 2002.

10          Q.    Did any of these operators, Chesapeake, Charles  
11   Gillespie, Energen Resources Corporation -- did any of them  
12   object to your Application?

13          A.    No, sir, they did not.

14          Q.    Did the Land Office object to the Application?

15          A.    No, sir, they did not.

16                CHAIRMAN WROTENBERY:  Mr. Baber, how did you  
17   notify them?  What did you send them?

18                THE WITNESS:  A letter, a certified letter with  
19   our legal notice.  And as required, we publish it in the  
20   newspaper.

21                CHAIRMAN WROTENBERY:  Thank you.

22                THE WITNESS:  They have a 15-day grace period,  
23   waiting period.

24                CHAIRMAN WROTENBERY:  Thank you.

25                MR. PADILLA:  Ms. Chairman, members of the

1 Commission, we ask that the Commission take administrative  
2 notice of the file of the saltwater disposal -- the  
3 administrative saltwater disposal application, and also of  
4 the proceeding before the Oil Conservation Division.

5 CHAIRMAN WROTENBERY: Let me just ask you a quick  
6 question. Is there anything in the Application that we  
7 haven't reviewed already here this morning?

8 MR. PADILLA: I think the correspondence to the  
9 various operators would be in the file.

10 CHAIRMAN WROTENBERY: Okay, thank you, Mr.  
11 Padilla.

12 Any objection, Mr. Owen?

13 MR. OWEN: I don't have any objection to that,  
14 except for the fact that we don't have the contents of the  
15 notice letters which were sent to these offset operators,  
16 which will be an issue in my cross-examination.

17 MR. PADILLA: I think he can develop it by cross  
18 if he has a problem with something.

19 MR. OWEN: We don't have the documents in front  
20 of us, so it's difficult for me to cross. If they're going  
21 to be admitted into the record, then I'd like to have them  
22 before us.

23 CHAIRMAN WROTENBERY: Well, would you like to go  
24 get them in a minute? We can take a break?

25 MR. OWEN: That will be fine.

1           CHAIRMAN WROTENBERY: Okay, then yes, we'll take  
2 notice of those materials.

3           Q.    (By Mr. Padilla) Mr. Baber, do you have anything  
4 else concerning the C-108 itself?

5           A.    I don't believe so.

6           Q.    Okay, let's turn to what we have marked as  
7 Pronghorn Exhibit Number 2 and have you identify those,  
8 please.

9           A.    These are the subsequent reports, the C-103s that  
10 we have filed for the State "T" Well Number 1, State "T"  
11 Well Number 3 and State "T" Well Number 4.

12          Q.    What wells are these, Mr. Baber?

13          A.    These are the wells that are in this area of  
14 interest that were brought up in our last testimony that  
15 we've properly plugged and abandoned and have the approved  
16 C-103s of record now.

17          Q.    At the Division hearing there was testimony from  
18 the opposition stating that you hadn't cleaned up the area.  
19 Do these C-103s address that issue?

20          A.    Yes, the Commission has approved our C-103s.

21          Q.    And is the surface cleaned up?

22          A.    Yes.

23          Q.    In all three locations?

24          A.    Yes.

25          Q.    Okay. Let's move on to Exhibit Number 3 and have

1 you identify that, please?

2 A. This is the warranty deed that Mr. Dale Gandy,  
3 Gandy Corporation, purchased the surface in the area of  
4 concern, of interest for our saltwater disposal operation.

5 Q. Was this the -- Were the grantors in this deed,  
6 Felipe A. Moreno and Adelaida P. Moreno, were they the  
7 people who own the surface that was at issue at the  
8 Division Hearing?

9 A. Yes, sir, they are.

10 Q. Let me have you jump to Pronghorn Exhibit Number  
11 7 and have you identify that, please.

12 COMMISSIONER LEE: Do we have that?

13 CHAIRMAN WROTENBERY: Yes, Mr. Padilla handed us  
14 Pronghorn Exhibit Number 7 at the beginning of this  
15 proceeding.

16 Q. (By Mr. Padilla) Is that the Gandy Corporation  
17 -- Well, number one, first let me ask you, what is Exhibit  
18 7?

19 A. This is our letter agreement with the proposed  
20 State "T" Number 2 saltwater disposal well.

21 Q. Is that like a partnership agreement, or what is  
22 it?

23 A. What it is, basically, Pronghorn Management  
24 Corporation will be the operator, and then as set out,  
25 Gandy Corporation will have with the purchase of the

1     \$12,500 to Pronghorn Management and the \$12,500 to Marks  
2     and Garner, he purchased 50 percent working interest in  
3     this project, leaving Pronghorn with 25 percent and Marks  
4     and Garner with 25 percent working interest.

5           Q.     So Gandy is your partner, essentially?

6           A.     Yes.

7           Q.     Okay. And Gandy now owns the surface that was at  
8     issue --

9           A.     That's correct.

10          Q.     -- at the Division hearing?

11          A.     That's correct.

12          Q.     Okay. Let's turn to Exhibit Number 4 and have  
13     you identify that for the Commission, please.

14          A.     This is a letter with my conversation from  
15     Chesapeake, in addition to the notice that we sent them, if  
16     they didn't have any objection to. I've talked to Lynda,  
17     and she talked to what we were trying to get accomplished  
18     and presented to see if she'd have a problem with sending  
19     us this type of letter and signing it, documenting that  
20     they don't have a problem at all with what we're trying to  
21     do out in the San Andres and Glorieta formation and with  
22     our permit to dispose.

23          Q.     Do you have any other proposals, Chesapeake at  
24     this time?

25          A.     Since then I've been visiting with her and trying

1 to get the oil and gas assignment for this particular 40-  
2 acre tract.

3 Q. Over how much -- Over what interval?

4 A. The first proposal is from all depths, but we've  
5 talked about -- It's according to what she can get through  
6 to her supervisors. It may be all depths, it may limit us  
7 from the surface to the 6500-foot interval, which would be  
8 the base of the Glorieta.

9 Q. Do you anticipate any problem not being able to  
10 get some kind of assignment?

11 A. In our conversation she said that she does not  
12 see any problems with it, other than timing. They're in  
13 the middle of some divestitures and acquisitions, and time  
14 is short for them. This obviously is probably not a  
15 priority for them.

16 COMMISSIONER BAILEY: The letter does not  
17 indicate her position in the Chesapeake organization. Can  
18 you tell me what her job title is that she would be able to  
19 write this letter?

20 THE WITNESS: She's a landman --

21 COMMISSIONER BAILEY: Okay.

22 THE WITNESS: -- and up there in the top right-  
23 hand corner, certified petroleum landman and ESA.

24 COMMISSIONER BAILEY: Okay, thank you. I didn't  
25 see it up there.

1           Q.    (By Mr. Padilla) Mr. Baber, do you have anything  
2 to add to your testimony?

3           A.    What I have to add is, we're trying to do the  
4 best we can, and we have a concept here that we think will  
5 prevent the premature abandonment of a well. I believe  
6 there's a need for additional disposal wells in this area.  
7 I believe that, Mr. Dale Gandy believes that. He's  
8 expressed to me, obviously, that there's a need --

9           Q.    What does Mr. Gandy do?

10          A.    He's the owner of Gandy Corporation, which  
11 transports, among other things, saltwater disposal --  
12 excuse me, saltwater. He's a trucking contractor.

13               MR. PADILLA: Pass the witness.

14               CHAIRMAN WROTENBERY: Mr. Padilla, would you like  
15 to move the introduction of Exhibits --

16               MR. PADILLA: I sure would --

17               CHAIRMAN WROTENBERY: -- 1 through 4 and 7?

18               MR. PADILLA: -- I'm glad you told me.

19               CHAIRMAN WROTENBERY: Okay.

20               MR. PADILLA: We tender Exhibits 1 through 4 and  
21 7.

22               CHAIRMAN WROTENBERY: Any objection, Mr. Owen?

23               MR. OWEN: No objection.

24               CHAIRMAN WROTENBERY: Okay, Exhibits 1 through 4  
25 and 7 are admitted into evidence.

1           And at this point we might take a short break so  
2   that Mr. Owen can retrieve the file. Let me ask Ms.  
3   Davidson, do you have a copy of the -- or the set of the  
4   file on the Division Hearing and the Administrative Order?

5           MS. DAVIDSON: I wouldn't have the  
6   administrative. I would have the Division Hearing.

7           CHAIRMAN WROTENBERY: Okay. Then we'll work  
8   through the break, then, to retrieve copies of those  
9   materials of which we took notice.

10          And we'll take a 10-minute break, or 15? What  
11   would the Commission prefer?

12          COMMISSIONER BAILEY: I don't smoke anymore, so  
13   10 will be fine.

14          (Laughter)

15          CHAIRMAN WROTENBERY: Okay, we'll come back in 10  
16   minutes, thank you.

17          MR. OWEN: Madame Examiner, it may not --

18          CHAIRMAN WROTENBERY: Yes, Mr. Owen?

19          MR. OWEN: It may not be necessary. My cross-  
20   examination may be sufficient. Depending on what he says  
21   we may want to recess later, but --

22          CHAIRMAN WROTENBERY: Well, I would like a break  
23   right now, if you don't mind. Thank you.

24          (Thereupon, a recess was taken at 10:25 a.m.)

25          (The following proceedings had at 10:39 a.m.)

1 CHAIRMAN WROTENBERY: Okay, I think we can get  
2 back on the record. And Mr. Owen?

3 MR. OWEN: Thank you, madame Examiner.

4 CROSS-EXAMINATION

5 BY MR. OWEN:

6 Q. Mr. Baber, you indicated that you're in the  
7 process of trying to obtain a lease assignment from  
8 Chesapeake; is that right?

9 A. Yes, it is.

10 Q. Why?

11 A. There's been several issues addressed, and this  
12 seems to be one of them, and to clear up some issues we're  
13 trying to get the oil and gas assignment.

14 Q. You're aware that DKD operates the saltwater  
15 disposal well adjoining this one; is that right?

16 A. I'm aware that DKD operates a disposal well.

17 Q. And has -- DKD obtained an assignment from  
18 Chesapeake; is that right?

19 A. I think that's right.

20 Q. And DKD did that before they sought and obtained  
21 a saltwater disposal well approval; is that right?

22 A. I don't know what DKD did, what their procedure  
23 was.

24 Q. Is it your position here today that you do not  
25 need to have a mineral lease or an assignment of a mineral

1 lease before you can inject saltwater?

2 A. It's my position that I believe I've done  
3 everything --

4 MR. PADILLA: Objection in terms of whether he's  
5 asking him for a legal conclusion. I think the Division  
6 Chair has asked us to brief this issue, so I think that's  
7 asking him a legal conclusion. To that extent, I object.

8 CHAIRMAN WROTENBERY: I think he just asked for  
9 his understanding, and to that extent we'll allow the  
10 question.

11 MR. PADILLA: His understanding, that's fine.

12 THE WITNESS: It's my understanding and my  
13 position that I've done everything I should have to do from  
14 a regulation standpoint and legal standpoint to have this  
15 SWD approved.

16 Q. (By Mr. Owen) When you initially submitted your  
17 Application, you only asked for approval to inject to 6200  
18 feet, correct?

19 A. Would you restate that, please?

20 Q. You asked for approval to inject from 6000 to  
21 6200 feet in your original Application; is that right?

22 A. That's correct.

23 Q. And the notice that you sent to the adjoining  
24 leasehold operators only noticed 6000 to 6000 feet; is that  
25 right?

1           A.    That's correct.

2           Q.    You have never sent notice to those adjoining  
3 operators extending the approval to 6400 feet, have you?

4           A.    I have not sent notice to the operators, but 6000  
5 to 6400 feet has been in all the documents that we've had  
6 from the first hearing since.  It's been a matter of public  
7 record.

8           Q.    Was it in any document which you sent to any  
9 adjoining leasehold operator?

10          A.    I don't believe so.

11          Q.    Okay.  I want you to turn to your C-108, and I  
12 think you indicated that there is no Grayburg or Glorieta  
13 or -- I'm sorry, San Andres or Glorieta production in the  
14 area; is that right?

15          A.    That's correct.

16          Q.    You're taking saltwater for disposal into this  
17 well from wells in the area; is that right?

18          A.    That's right.

19          Q.    Okay.  I want you to turn to -- Near the back you  
20 have a list of pools that's two pages long.  Do you have  
21 that in front of you?

22          A.    Yes, I do.

23          Q.    I want you to turn to the second page of that  
24 list of pools.

25               CHAIRMAN WROTENBERY:  I'm sorry, the

1 Commissioners are lost here, at least two of us are. Which  
2 one are you talking about? Okay, got you.

3 Q. (By Mr. Owen) The Grayburg is the formation  
4 immediately above or below one of your injection  
5 formations; is that right?

6 A. That's correct.

7 Q. Okay. And on that second page of that list of  
8 pools you have the Skaggs-Grayburg and the East Hobbs-  
9 Grayburg as pools from which you're going to accept  
10 saltwater; is that right?

11 A. Possibly. This is just a list of the pools in  
12 the area, this is not exactly a list of where our water  
13 will be coming from.

14 Q. So there's some Grayburg production in the area?

15 A. Well, in southeastern New Mexico, yes.

16 Q. Okay. And you're taking water from wells in the  
17 area, right?

18 A. Well, hopefully we will be.

19 Q. And this represents the pools from which you're  
20 taking water; is that right?

21 A. Possibly.

22 Q. Okay. And listed on that list is also the  
23 Littman-San Andres, Lovington-San Andres and West  
24 Lovington-San Andres; is that right?

25 A. Yes.

1 Q. And that indicates that in fact there is San  
2 Andres production in the area; is that right?

3 A. We're talking production in the area of --  
4 basically a two-mile area --

5 Q. There is --

6 A. -- that we've addressed here in this two-mile  
7 radius, this half-mile radius and this two-mile radius,  
8 that's also in this C-108 Application.

9 Q. There's no current production from the San Andres  
10 within two miles; is that right?

11 A. That's right.

12 Q. But there is San Andres production in the larger  
13 area around the disposal well; is that right?

14 A. There's production in Lea County, New Mexico, in  
15 the San Andres, yes.

16 Q. And nobody's tested the San Andres for production  
17 in the two-mile area, have they?

18 A. As far as I know, they have not.

19 Q. Okay. You indicated that --

20 A. Let me back up on that. You know, this would be  
21 a question that Mr. Larry Scott would be better to answer.

22 Q. Mr. Baber, Mr. Scott will have that opportunity.

23 A. Okay, thank you. You know, your question on has  
24 the San Andres been tested is according to what your  
25 definition of testing is.

1           Q.    Mr. Baber, your attorney had the opportunity to  
2 ask you questions, and you had the opportunity to answer  
3 them. I would ask you to extend me the same courtesy and  
4 answer the questions which I present to you.

5           A.    Okay.

6           Q.    Thank you.

7           COMMISSIONER LEE: We need to take a break.

8           CHAIRMAN WROTENBERY: Do you need to take a  
9 break?

10          COMMISSIONER LEE: Yeah, let's take a break.

11          CHAIRMAN WROTENBERY: Okay, five minutes?

12          COMMISSIONER LEE: Five minutes.

13          CHAIRMAN WROTENBERY: Okay, thank you.

14          (Thereupon, a recess was taken at 10:45 a.m.)

15          (The following proceedings had at 10:50 a.m.)

16          CHAIRMAN WROTENBERY: Okay, we'll go back on the  
17 record. Mr. Owen?

18          MR. OWEN: Thank you, madame Examiner.

19          Q.    (By Mr. Owen) Mr. Baber, you testified that  
20 there are 20 freshwater wells in that section where your  
21 disposal well is located; is that right?

22          A.    Yes.

23          Q.    And I think you also testified that there's no  
24 danger of contamination of any of the existing wellbores;  
25 is that right?

1           A.    I think that's right, yes, sir.

2           Q.    Do you know if there's any production from any  
3 adjoining zones, the Grayburg or any of the other zones  
4 around the Glorieta or San Andres in the area?

5           A.    Could you ask that again, please?

6           Q.    Do you know if there's any production from any of  
7 the adjoining zones -- for example, the Grayburg -- that  
8 are close vertically to the Glorieta or the San Andres?

9           A.    I do not think there is.

10          Q.    Do you know if your injection will be confined to  
11 those formations or if it will migrate out of those  
12 formations?

13          A.    It will be confined into the San Andres and  
14 Glorieta.

15          Q.    Is there any sort of geologic shelf which will  
16 confine that water from migrating upward into other  
17 formations?

18          A.    We'll have our casing in place and our cement in  
19 place.

20          Q.    That's simply at the wellbore; is that right?

21          A.    It's at the wellbore, and that's what -- The  
22 casing and cement is the wellbore, and of course the cement  
23 is outside the casing.

24          Q.    And then you're injecting into the formation  
25 outside of the cement; is that right?

1           A.    That's right.

2           Q.    Do you know if there's anything above the  
3   Glorieta or San Andres to prevent the water from migrating  
4   upward into other formations?

5           A.    I don't know that.

6           Q.    Okay.  You testified that you cleaned up the  
7   surface facilities associated with the State "T" Number 1,  
8   Number 3 and Number 4; is that right?

9           A.    Yes.

10          Q.    Is there one tank left out there associated with  
11   the State "T" Number 1?

12          A.    There's a tank out there, yes.

13          Q.    Do you have plans to clean that up?

14          A.    Yes.

15          Q.    When?

16          A.    Hopefully when we have our SWD approved and we  
17   can move it over there on that acreage.

18          Q.    Why don't you turn to the C-103, which is  
19   Pronghorn Exhibit Number 2?  Do you have that in front of  
20   you?

21          A.    Yes.

22          Q.    Under the form, number 12, you have nine steps  
23   that you took to plug this well; is that right?

24          A.    That's correct.

25          Q.    And number 9 states that you erected a dryhole

1 marker and cleaned the location; is that right?

2 A. That's correct.

3 Q. But you haven't taken that tank off yet, right?

4 A. The tank is there, yes.

5 Q. So the clean location isn't exactly correct, is  
6 it?

7 A. I don't know.

8 Q. I want to go back to your conversations with  
9 Chesapeake. I think you said that your understanding is,  
10 you've received all the necessary approvals to inject  
11 saltwater into this well; is that right?

12 A. Yes.

13 Q. But you're still pursuing the assignment from  
14 Chesapeake; is that right?

15 A. Yes.

16 Q. But you don't have any need for that assignment;  
17 is that right?

18 A. I don't know if I do or not. I don't think it'll  
19 hurt our situation.

20 Q. How much money is Chesapeake asking for?

21 A. We -- I don't know.

22 Q. Is Chesapeake going to give it to you for free?

23 A. I don't know.

24 Q. Have they sent you a form for approval?

25 A. No, they have not.

1 Q. Has Ms. Townsend indicated that she has the  
2 authority to simply give you a lease?

3 A. No.

4 Q. Do you know if she is an officer or director of  
5 Chesapeake Operating, Inc.?

6 A. I don't know.

7 Q. Do you have any documents which indicate that she  
8 has the authority to give you the approval to inject into  
9 the subject formation?

10 A. We had this -- my conversation with her, and she  
11 approved it with her -- the necessary people, and she  
12 responded with the letter that she wrote us.

13 Q. Has she given you any documents which state that  
14 she has the power to bind Chesapeake Operating, Inc.?

15 A. I don't know.

16 Q. Okay. I want to turn to the back of your C-108.  
17 The second page to the back is the legal notice; is that  
18 correct?

19 A. Yes.

20 Q. And that is the legal notice that you sent to the  
21 offset leasehold operators?

22 A. Yes.

23 Q. And that legal notice states that the injection  
24 formation is the San Andres and Glorieta from 6000 to 6200  
25 feet; is that right?

1 A. Yes.

2 Q. You haven't sent anything else to the offset  
3 leasehold operators, have you?

4 A. No.

5 MR. OWEN: Thank you, Mr. Baber. No further  
6 questions, madame Examiner.

7 CHAIRMAN WROTENBERY: Commissioners?

8 EXAMINATION

9 BY COMMISSIONER BAILEY:

10 Q. Mr. Baber, have you or anyone in your employ  
11 directly contacted State Land Office personnel to ascertain  
12 whether or not you have any obligations to the Commissioner  
13 of Public Lands?

14 A. Yes, ma'am.

15 Q. And with this contact with State Land Office  
16 personnel, what did they tell you?

17 A. Mr. Padilla contacted the State Land Office, and  
18 the information that I received is, they would not be able  
19 to grant a saltwater easement until we had our SWD  
20 authority to inject approved.

21 Q. But they are requiring you to have an SWD  
22 easement approved from the Land Office?

23 A. As I understand it.

24 CHAIRMAN WROTENBERY: Mr. Padilla, would you --

25 MR. PADILLA: Do you want me to testify or --

1 CHAIRMAN WROTENBERY: Well, if you would --

2 COMMISSIONER BAILEY: I can answer that, if --

3 MR. PADILLA: Let me tell you, I met with Joseph  
4 Lopez, who's in charge of this -- of saltwater disposal  
5 easements. I told him that Chesapeake had an oil and gas  
6 lease on the acreage, but the water would be hauled from  
7 outside the lease, and he indicated to me that a saltwater  
8 disposal easement would be required.

9 I also told him that we had this letter from  
10 Chesapeake having no objection to saltwater disposal  
11 operations. And he said, I still can't do anything for  
12 you.

13 COMMISSIONER BAILEY: Did Mr. Lopez understand  
14 that it was split estate?

15 MR. PADILLA: I didn't tell him anything about  
16 who owned the surface or who owned the minerals.

17 COMMISSIONER BAILEY: That's a very important  
18 point, as far as the Land Office requirements are involved.

19 MR. PADILLA: My understanding of the Land Office  
20 rules was that if you're injecting in the mineral estate  
21 then that mattered considerably.

22 COMMISSIONER BAILEY: I would suggest that you  
23 contact Mr. Lopez and explain the split estate to find out  
24 what the requirements are, if any, by the Commissioner of  
25 Public Lands.

1 MR. PADILLA: Is the Commissioner trying to tell  
2 me that she has a different understanding of what the rule  
3 is?

4 COMMISSIONER BAILEY: Yes.

5 MR. PADILLA: Okay, because I had understood, and  
6 my interpretation of the rules were that -- and having been  
7 counsel to the Commissioner of Public Lands a long time ago  
8 -- that the minerals were a primary interest, especially in  
9 this kind of a situation where there's saltwater injection.

10 COMMISSIONER BAILEY: I think it's very important  
11 for both parties to contact either Mr. Lopez or one of the  
12 Land Office attorneys and explain that it is split estate,  
13 because that is a very different situation than when the  
14 public lands owns both the surface and the minerals.

15 I think that this is a point of contention that  
16 needs to be clarified by the source, which would be the  
17 Land Office.

18 MR. PADILLA: Okay, I understand that. But I  
19 also understand that there's a point of -- I view the Oil  
20 Conservation Division and the Commission as regulatory  
21 bodies and that that land issue is a separate issue and --  
22 it's simply a different issue.

23 I don't want to have a misunderstanding, I guess,  
24 that the OCD authority requires a condition precedent of  
25 having some kind of saltwater easement before coming here.

1                   COMMISSIONER BAILEY: If one of the important  
2 points for either case is whether or not there is a  
3 permanent requirement from the Land Office in this  
4 situation, then I think that point needs to be clarified by  
5 going to the Land Office for an understanding of whether or  
6 not there is a need for a permit, or what the situation is  
7 for split-estate requirements.

8                   CHAIRMAN WROTENBERY: And I might just comment  
9 here, you're right, Mr. Padilla, the Oil Conservation  
10 Division and the Oil Conservation Commission can't decide  
11 questions of title, cannot decide who has the right to  
12 property in particular instances.

13                   We do go so far as to determine whether an  
14 Applicant has at least a good-faith claim to the right to  
15 use a well in the manner in which it's proposed to be used  
16 in this particular Application, and so to some extent we do  
17 delve into these issues. And certainly DKD is challenging  
18 this permit Application by raising some of these issues of  
19 the right of Pronghorn to operate this well as a commercial  
20 disposal well.

21                   So at some sort of basic level we need some  
22 clarification on these points.

23                   It does appear to me that there's a lot of  
24 confusion here among the parties about who owns what  
25 interests in the various estates at this location and what

1 easements are needed and what easements are not necessary.  
2 It would help us to have some clarification from the  
3 parties on this point.

4 We've gotten the brief from Mr. Owen on some of  
5 these issues.

6 In your response, Mr. Padilla, I think it would  
7 be helpful for you to share with us as much as you can your  
8 understanding of the answer to some of these legal  
9 questions.

10 MR. PADILLA: I've been caught in this kind of  
11 thorny issue between getting a business lease from the Land  
12 Office for saltwater operations on the surface, some kind  
13 of skimming facility --

14 CHAIRMAN WROTENBERY: Uh-huh.

15 MR. PADILLA: -- and a challenge from someone  
16 else who operates saltwater disposal facilities --

17 CHAIRMAN WROTENBERY: Uh-huh.

18 MR. PADILLA: -- of a similar nature. And so  
19 it's a question of chicken and the egg, and -- you know, I  
20 don't want to have that kind of thing.

21 If the integrity or the viability of this from a  
22 regular standpoint is inadequate or that we've failed to  
23 provide notice, I can understand that kind of problem. But  
24 if we have misinterpreted or we have to do more exploration  
25 at the State Land Office as to what those requirements are,

1 then I think that's a separate issue.

2 MR. OWEN: Madame Examiner --

3 CHAIRMAN WROTENBERY: Yes, Mr. Owen.

4 MR. OWEN: -- the question is very akin to  
5 whether you can grant a permit to drill to an operator who  
6 has no state land lease and has no right to the minerals  
7 underlying the area where they're going to drill their  
8 well.

9 Whether the State Land Office requires a separate  
10 saltwater disposal permit I think is immaterial to whether  
11 this Division can grant authority to inject substances into  
12 the mineral estate when, in fact, that applicant has no  
13 right to use the mineral estate.

14 You do not -- As a practical matter, in order to  
15 drill a producing well, the Division requires that the  
16 Applicant have the right to drill on that acreage. In this  
17 case --

18 CHAIRMAN WROTENBERY: Well, the Division requires  
19 that the Applicant may take good-faith claim to the right  
20 to drill. We cannot decide whether they have the right to  
21 drill or not, so --

22 MR. OWEN: I think that's a distinction which  
23 is --

24 CHAIRMAN WROTENBERY: Right.

25 MR. OWEN: -- worth pointing out, madame

1 Examiner.

2 CHAIRMAN WROTENBERY: Right.

3 MR. OWEN: And as we pointed out in the brief,  
4 it's our position that in fact this Applicant has no good-  
5 faith right to the minerals underlying the subject acreage.  
6 Whether a separate saltwater disposal easement for surface  
7 purposes is required or not is not -- or does not bear on  
8 the issue of whether in fact the Applicant has the right to  
9 use the minerals, which we contend it does not.

10 CHAIRMAN WROTENBERY: Thank you, Mr. Owen.

11 Mr. Padilla, I would just hope that you would  
12 explore this issue with the Land Office --

13 COMMISSIONER BAILEY: And Mr. Owen.

14 CHAIRMAN WROTENBERY: -- in the course of -- and  
15 Mr. Owen as well.

16 COMMISSIONER BAILEY: Yes.

17 CHAIRMAN WROTENBERY: -- in the course of  
18 drafting your brief on the issue for the Commission.

19 MR. PADILLA: I will do that.

20 CHAIRMAN WROTENBERY: Thank you.

21 MR. PADILLA: I don't think --

22 CHAIRMAN WROTENBERY: Did you have anything else?

23 COMMISSIONER BAILEY: Yes, I'd like to caution  
24 Mr. Owen that in a case of split estate the Land Office  
25 does have policy on whether or not there is a requirement

1 for saltwater disposal.

2 And I do believe that you need to discuss this  
3 with the Land Office, as well as Mr. Padilla --

4 MR. OWEN: I will do so.

5 COMMISSIONER BAILEY: -- so that you have an  
6 understanding.

7 MR. OWEN: Thank you, madame Commissioner.

8 CHAIRMAN WROTENBERY: Do you have any more  
9 questions of Mr. Baber?

10 COMMISSIONER BAILEY: No, that's all.

11 CHAIRMAN WROTENBERY: Any questions of Mr. Baber?

12 COMMISSIONER LEE: No.

13 CHAIRMAN WROTENBERY: I don't believe I had  
14 anything else.

15 Mr. Padilla, did you have any follow-up?

16 MR. PADILLA: No, I think we've gone over this  
17 thing on direct testimony, so I'm just going to leave it  
18 alone. I have no questions.

19 CHAIRMAN WROTENBERY: Thank you. Thank you, Mr.  
20 Baber, for your testimony.

21 THE WITNESS: Thank you. I might add, all my  
22 efforts have been good-faith efforts.

23 CHAIRMAN WROTENBERY: Thank you.

24 MR. PADILLA: We'll call Larry Scott at this  
25 time.

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LARRY R. SCOTT,

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

DIRECT EXAMINATION

BY MR. PADILLA:

Q. Mr. Scott, please state your full name, please.

A. Larry Ray Scott.

Q. Where do you live, Mr. Scott?

A. Hobbs, New Mexico.

Q. What do you do for a living?

A. I'm an engineer and a partner in Lynx Petroleum Consultants, Incorporated. We're an independent production company and consulting firm.

Q. Mr. Scott, have you previously testified before the Oil Conservation Division or Commission and had your credentials accepted as a petroleum engineer?

A. On several occasions and various issues, yes.

MR. PADILLA: We tender Mr. Scott as an expert in petroleum engineering.

CHAIRMAN WROTENBERY: Any objection, Mr. Owen?

MR. OWEN: No objection.

CHAIRMAN WROTENBERY: Okay, we accept Mr. Scott's qualifications.

Q. (By Mr. Padilla) Mr. Scott, have you performed a study in connection with this Application for saltwater

1 disposal?

2 A. Yes, sir, I have. If you will look at page 3 of  
3 Exhibit 5 --

4 Q. Okay, you prepared Exhibit 5; is that --

5 A. That is correct.

6 Q. Okay. What is Exhibit 5?

7 A. Exhibit 5 is -- Well, it's several things. It's  
8 log cross-sections, it's an outline of my proposed  
9 testimony, and page 3 is a copy of an ownership map showing  
10 the acreage that I reviewed and the proposed disposal well  
11 location.

12 COMMISSIONER LEE: We don't have it.

13 CHAIRMAN WROTENBERY: Mr. Padilla, I think we're  
14 missing the attachments. We have a two-page proposed  
15 outline of testimony.

16 MR. PADILLA: I think earlier this week we  
17 submitted a whole complete set, a replacement for -- But I  
18 can give you some now.

19 CHAIRMAN WROTENBERY: Yes, that would be helpful.  
20 Okay, I've got one now.

21 MR. OWEN: Do you want to take this one, because  
22 it's got your Post-It note?

23 CHAIRMAN WROTENBERY: Oh, okay. Okay, I think  
24 we're covered.

25 MR. PADILLA: Are we covered? I have another one

1 here.

2 CHAIRMAN WROTENBERY: Mr. Ross could use one.

3 Q. (By Mr. Padilla) What is Exhibit 5?

4 A. Well, Exhibit 5 is an outline of my proposed  
5 testimony. It's an ownership map showing the area that I  
6 reviewed, and it is several log cross-sections that I used  
7 to base my water-saturation calculations on.

8 Q. What conclusions did you reach from this study  
9 that you performed?

10 A. Well, I started with a review of the production  
11 records in those two sections. We have CD-ROM data that is  
12 derived from C-115s that showed no production from any of  
13 the 16 wellbores in Section 6 or any of the 19 wellbores in  
14 Section 1, in either the San Andres or the Glorieta, and  
15 all 35 of these wellbores did, in fact, penetrate both  
16 formations and were producing from either the Wolfcamp or  
17 the Pennsylvanian-Strawn.

18 Q. Let's go to the ownership map and identify  
19 exactly what the scope of your study was.

20 A. It would be the area enclosed in the red box on  
21 my exhibit.

22 Q. What sections do those include?

23 A. That's Section 1 of 16 South, 36 East, and  
24 Section 6 -- or excuse me, 1 of 16-35 and 6 of 16-36.

25 Q. Mr. Scott, are those long sections, or --

1           A.    Yes, those are extended sections, approximately  
2 one and one half miles north to south by one mile east to  
3 west.

4           Q.    And those are Township 1; is that --

5           A.    Yes, that's correct.

6           Q.    And where is the disposal well in relation to  
7 that ownership map?

8           A.    It's in approximately the center of that square,  
9 and identified by an arrow and the "Proposed Disposal  
10 Location" notation.

11          Q.    Okay. Let's start out with -- You have some  
12 bullet points here. Why don't you start out at the top,  
13 and let's go for the first one and tell us what that is.

14          A.    Okay, 16 wellbores that penetrate the San Andres  
15 and Glorieta in Section 6. All completions were in deeper  
16 horizons, and we have no production reported from either  
17 the San Andres or Glorieta in any well.

18          Q.    What did you look at to arrive at -- In addition  
19 to what you have attached to this Exhibit 5, what did you  
20 look at in order to make your study?

21          A.    Again, I reviewed production data that's derived  
22 from the OCD's C-115s, and I looked at the scout ticket  
23 data that is reported to Halliburton Energy Services for  
24 drilling, completion and rework operations in the same  
25 area.

1 Q. What do the scout tickets show?

2 A. Well, the scout tickets showed a total of 42  
3 either completed wells or completion attempts in the two  
4 sections. I could not find any DST data, any production  
5 test data, any wireline test data or other tests  
6 specifically oriented toward the 6000 to 6400-foot San  
7 Andres and upper Glorieta intervals.

8 Q. Are we done with the first bullet point?

9 A. That covers pretty much through the first four.

10 Q. Okay, let's go to number 5. What do you say in  
11 that?

12 A. Okay, with no test data to work with, we did have  
13 electric logs on the acreage in question, and I had to  
14 locate formation water resistivities for subsequent  
15 calculations. These formation water resistivities came  
16 from the Lovington fields in the San Andres and Glorieta,  
17 and that indicates formation water in the San Andres at  
18 about .165 ohm and in the Glorieta at .086 ohm, with both  
19 of those corrected to bottomhole temperature.

20 Q. What does that mean? I mean for somebody like  
21 me?

22 A. Oh, those numbers are used in water saturation  
23 calculations to determine from the electric logs whether  
24 the zones are oil- or water-bearing.

25 Q. What did you discover as a result of that?

1           A.    The basal San Andres and upper Glorieta in this  
2 acreage area is wet. On one of the logs our water  
3 saturations ran to 94 percent. On a modern log that we had  
4 in the area, the Watson 1-6, in the two zones of best  
5 permeability, we had water saturations of 57 percent and 49  
6 percent in the upper and lower zones.

7           Q.    What does that mean?

8           A.    The zones are wet, they won't produce commercial  
9 quantities of oil and gas.

10          Q.    Did you find any shows of oil and gas in any of  
11 these wells that penetrated this --

12          A.    As noted in -- I guess it would be page 5,  
13 there's a microlog of the State "T" Number 2, and Texas  
14 Pacific noted during the drilling of that well a slight  
15 show with very fine samples. And subsequently they  
16 recommended additional evaluation of this zone as more  
17 wells were drilled in the area.

18          Q.    Is the State "T" Number 2, is that the disposal  
19 well?

20          A.    That's correct.

21          Q.    Was there any attempt in the State "T" Number 2  
22 to further test or do anything with regard to the San  
23 Andres or the Glorieta?

24          A.    Well, in a review of the TPOC records, they did  
25 look at that zone --

1 Q. When you say TPOC, what --

2 A. Texas Pacific Oil Company, I believe is the name  
3 of the outfit. In subsequent correspondence in those  
4 files, I believe they looked at the zone in the Number 3  
5 and 4 wells and concluded that the 5- to 10-percent dead  
6 oil stain that they were seeing coming through those zones,  
7 they did not believe from a qualitative standpoint that the  
8 zone was commercially productive.

9 Q. Okay, let's get back to the bullets, the bullet  
10 points. Where are we now? Are we on the one that starts  
11 with the State "T" Number 2?

12 A. That would be a paragraph treatment of my water-  
13 saturation calculations in the proposed injection well, two  
14 primary zones of permeability. We did not have a direct  
15 measurement of porosity here, so we made an extremely high  
16 estimate and still ended up with water saturations in the  
17 zone of 98 percent in the upper interval and 62 percent in  
18 the lower.

19 Q. When you say you made an extremely high estimate,  
20 is that being conservative or --

21 A. What I was attempting to do was use a worst-case  
22 number to try to make the water saturation in the zone look  
23 as low as possible, to make the oil saturation look as high  
24 as possible.

25 Q. And your result was what?

1           A.    It's still wet.

2           Q.    Meaning what?

3           A.    It's my opinion that a perforation test of that  
4    zone would produce water.

5           Q.    Okay, what does the next bullet point say?

6           A.    Similar calculations on a more modern log suite  
7    on the Watson 1-6, which is the well currently being used  
8    as an injection well by DKD.

9           Q.    And what does that indicate?

10          A.    Again, very high water saturations through the  
11    zones of permeability.

12          Q.    Where does this zone, or where does the San  
13    Andres and the Glorieta lie in terms of the disposal well,  
14    updip or downdip? I mean, the DKD disposal well, where --

15          A.    Well --

16          Q.    Well, let me ask that question again. I think  
17    that was a little confusing.

18                In terms of being updip or downdip, the similar  
19    zone in the disposal well of DKD, where do we lie in terms  
20    of water and that sort of thing?

21          A.    The Watson 1-6 is structurally approximately 20  
22    feet downdip from the proposed injection well.

23          Q.    So what does that mean?

24          A.    Oil floats on water and won't run downhill. If  
25    it's wet at the location of the proposed injection well it

1 will also be wet downdip.

2 Q. Okay. So that means, as far as I gather, that if  
3 -- there big Morrow propensity to be oil on the proposed  
4 saltwater injection well, and then the DKD well?

5 A. That would be correct.

6 CHAIRMAN WROTENBERY: Mr. Scott, I'm sorry, where  
7 is the DKD well?

8 THE WITNESS: It would be -- On the ownership map  
9 it's the Watson 1-6, and it will be approximately 2000 feet  
10 southeast of the proposed disposal location. There's two  
11 plugged wells on that ownership map, and then a well with  
12 Number 1 below that, and that's the Watson 1-6.

13 Q. (By Mr. Padilla) Can you point that well out on  
14 the Commissioner's map?

15 CHAIRMAN WROTENBERY: Please do.

16 THE WITNESS: The Watson 1-6 will be the one  
17 right there.

18 CHAIRMAN WROTENBERY: This one here.

19 THE WITNESS: There you go.

20 CHAIRMAN WROTENBERY: Thank you, Mr. Scott. And  
21 what zone is that well injecting into?

22 THE WITNESS: I'm not sure. I think it's the  
23 Wolfcamp, though. It was the zone that was completed and  
24 produced. Someone might be able to help.

25 CHAIRMAN WROTENBERY: We'll cover that later, I'm

1 sure. I just was wondering if you knew.

2 Q. (By Mr. Padilla) Are we done with that second-  
3 to-the-last bullet?

4 A. Yes, we are, sir.

5 Q. Okay. And I think you've already testified about  
6 the last bullet, or is that --

7 A. Yes, we've discussed that.

8 Q. Okay, let's go to the top of the second page.  
9 What does that say?

10 A. Well, that paragraph deals with the subsequent  
11 evaluation that was done -- that is, subsequent to the  
12 drilling of the State "T" 2, where they were particularly  
13 interested in samples through this interval because of that  
14 earlier show.

15 Q. And what resulted in the State 2 and Number 3?

16 A. No fluorescence or stain was noted in the  
17 drilling samples of the Number 3.

18 Q. Do you have anything to add to the conclusions  
19 that you testified to earlier?

20 A. Just in summary, there were 35 wellbores and 42  
21 completions. No tests of the zone, no production  
22 established from the zone. All of our calculations from  
23 electric logs indicate that the zone is wet, and the  
24 qualitative evaluations by the original operator, they  
25 thought the zone was wet. I believe the zone, at least in

1 these two sections, has been adequately evaluated, and I  
2 believe it to be water-bearing.

3 Q. Did you do a study of the San Andres and the  
4 Glorieta beyond the area shown on the ownership map?

5 A. No, sir, I did not. But I am generally familiar  
6 with that production in Lea County.

7 Q. Is there any San Andres or Glorieta production in  
8 this immediate area?

9 A. Not to my knowledge, no.

10 Q. Where would you say would be the closest San  
11 Andres-Glorieta production?

12 A. Well, the west Lovington-San Andres field would  
13 be approximately six miles south and off this map.

14 Q. Okay, do you have anything else on Exhibit 5?

15 A. No, sir.

16 Q. Let's go on to Exhibit 6. Would you tell the  
17 Commission what that is? What is that, Mr. Scott?

18 A. Mr. Baber requested that I perform some very  
19 basic calculations on the effects of SWD operations on the  
20 south offset wells, and these are those calculations.

21 Q. What do you say in those calculations? What was  
22 the result of the calculations?

23 A. Well, with the assumed data in items number 1  
24 through 4, I calculated that approximately 5 million  
25 barrels and nine years of operation at 1500 barrels a day

1 would be required to sweep water to a wellbore 1320 feet  
2 south of the proposed location.

3 Q. Mr. Scott, do you have an opinion as to whether  
4 correlative rights will be impaired by this saltwater  
5 injection well?

6 A. Yes, sir, I do. I do not believe correlative  
7 rights will be impaired by this operation.

8 Q. Do you believe that this Application is in the  
9 best interests of conservation of oil and gas?

10 A. Yes, I do.

11 Q. And for what reason?

12 A. Economical disposal options are a valuable  
13 commodity in our industry, and this will provide one more  
14 option.

15 MR. PADILLA: That's all I have, pass the  
16 witness. And we tender Exhibits 5 and 6.

17 CHAIRMAN WROTENBERY: Any objection?

18 MR. OWEN: No objection.

19 CHAIRMAN WROTENBERY: Okay, Exhibits 5 and 6 are  
20 admitted into evidence. Mr. Owen?

21 MR. OWEN: Thank you.

22 CROSS-EXAMINATION

23 BY MR. OWEN:

24 Q. The San Andres and the Glorieta have not been  
25 tested yet, have they?

1           A.    That's not the correct statement, sir.

2           Q.    Has any drill stem test been performed on either  
3 of those zones?

4           A.    No.

5           Q.    Has any production test been performed on any of  
6 those zones?

7           A.    No.

8           Q.    Okay. On Exhibit Number 5, your porosity  
9 assumption is 18 percent; is that right?

10          A.    That's correct, sir.

11          Q.    And on Exhibit Number 6 your porosity assumption  
12 is 15 percent; is that right?

13          A.    That is correct, sir.

14          Q.    Of course, porosity could be higher than that; is  
15 that right?

16          A.    Higher than -- ?

17          Q.    Do you know exactly what the porosity is in that  
18 formation?

19          A.    Well, we have a direct measurement of the  
20 porosity in the formation in the Watson 1-6.

21          Q.    Do you have a measurement of the porosity in this  
22 well?

23          A.    No, sir, we do not.

24          Q.    Do you know exactly what the porosity is in this  
25 disposal well?

1 A. No, sir, I do not.

2 Q. It might be higher than your assumption of either  
3 15 or 18 percent; is that right?

4 A. I would think that to be very highly unlikely.

5 Q. And it might be lower than your assumption of 15  
6 or 18 percent; is that right?

7 A. That is much more likely the case.

8 Q. And if it's lower, then the water sweep is going  
9 to be faster than if it is higher?

10 A. That would be correct.

11 Q. So it's your testimony that in fact the porosity  
12 could be lower than the 15 percent assumed in your August  
13 20th letter; is that right?

14 A. That is correct, it could be lower.

15 Q. Therefore, the water could reach the south offset  
16 faster than the nine years indicated in your August 20th  
17 letter?

18 A. Obviously those calculations were based on very  
19 simplified assumptions.

20 Q. Okay. And it's your testimony that these two  
21 zones in this area are wet; is that right?

22 A. That would be correct.

23 Q. Does wet mean 100-percent water?

24 A. Virtually, yes.

25 Q. Now, you've got a 98-percent and 62-percent water

1 saturation. What's in the other 2 percent or 38 percent in  
2 that formation?

3 A. In most instances it would be some form of  
4 hydrocarbon.

5 Q. So in one of these tests, based on the electric  
6 log, you could have as much as 38-percent hydrocarbons in  
7 one of these zones?

8 A. That would be correct.

9 Q. And the barrier to commercial production is the  
10 disposal of all that water that would be produced with  
11 those hydrocarbons; is that right?

12 A. Assuming you're making any hydrocarbon.

13 Q. There could be as much as 38-percent hydrocarbon  
14 in that well; is that right?

15 A. But that doesn't necessarily mean that that  
16 hydrocarbon will move to the wellbore.

17 Q. It's possible, isn't it?

18 A. No.

19 Q. Now much of that 38 percent of hydrocarbon will  
20 be recovered?

21 A. It would be my opinion, virtually none.

22 Q. Why?

23 A. Because the relative permeability of that rock  
24 will preclude hydrocarbon movement to the wellbore with  
25 water-saturation numbers of this magnitude.

1 Q. And once that water is removed from the  
2 reservoir, the hydrocarbon will flow to the wellbore; is  
3 that right?

4 A. Unlikely.

5 Q. Nobody's tested it, though, have they?

6 A. That would be correct.

7 Q. And there is oil in that zone, isn't there?

8 A. That would be correct.

9 Q. Okay. Within Exhibit Number 5, you referred to a  
10 microlog from Texas Pacific.

11 A. Yes, sir, that would be page 5, I believe, of my  
12 exhibit.

13 Q. And you said there is a show of oil on the  
14 microlog; is that right?

15 A. Yes, sir, that is correct.

16 Q. And you said what zone it was, and I'm sorry, I  
17 don't remember. Can you tell me which zone it was?

18 A. This is the basal San Andres.

19 MR. OWEN: Basal San Andres, okay.

20 That's all the questions I have, madame Examiner.  
21 Thank you, Mr. Scott.

22 CHAIRMAN WROTENBERY: Commissioners?

23 EXAMINATION

24 BY COMMISSIONER BAILEY:

25 Q. Is there any possibility of interference with the

1 DKD well with injection into your proposed zones?

2 A. Interference from the two injection-well  
3 standpoints?

4 Q. Right.

5 A. It would be highly unlikely. I believe they're  
6 several thousand feet below the proposed interval.

7 Q. Okay, the logs are cut off at a bad spot here.  
8 Can you explain to me the ceiling zones that would prevent  
9 migration of fluids outside of the injection interval?

10 A. There are zones of low permeability immediately  
11 above the -- well actually, I'd probably call it 6200 feet.  
12 There are zones of very low permeability in the San Andres  
13 formation. I did not investigate a floor low-permeability  
14 barrier, so I can't answer the question on the bottom side.

15 COMMISSIONER BAILEY: Thank you.

16 CHAIRMAN WROTENBERY: Commissioner Lee?

17 COMMISSIONER LEE: (Shakes head)

18 COMMISSIONER BAILEY: Any follow-up?

19 MR. PADILLA: I don't have any follow-up  
20 questions.

21 CHAIRMAN WROTENBERY: Thank you very much for  
22 your testimony, Mr. Scott.

23 MR. PADILLA: That's all I have, we rest.

24 CHAIRMAN WROTENBERY: Thank you, Mr. Padilla.

25 Mr. Owen?

1 MR. OWEN: I have one witness, and I would really  
2 like to get all of you out of here before lunch, madame  
3 Examiner.

4 CHAIRMAN WROTENBERY: We'd appreciate that, Mr.  
5 Owen.

6 COMMISSIONER LEE: Take your time.

7 CHAIRMAN WROTENBERY: Your name, sir?

8 MR. WATSON: My name is Danny Ray Watson.

9 CHAIRMAN WROTENBERY: Nice to see you, Mr.  
10 Watson.

11 MR. WATSON: Thank you.

12 MR. OWEN: Madame Examiner, before we begin I  
13 would like to point out that the last exhibit that I have,  
14 Exhibit Number 4, contains an additional letter which was  
15 not attached to my prehearing statement, but which is in  
16 substantially the same form as the preceding letter, simply  
17 with an updated title search.

18 CHAIRMAN WROTENBERY: Thank you. And has it been  
19 marked at this point?

20 MR. OWEN: It's got an exhibit mark -- should  
21 have an exhibit mark on it. It should have been stapled to  
22 the last page.

23 CHAIRMAN WROTENBERY: I've got -- I think this is  
24 all I had. Is that -- Okay.

25 MR. OWEN: Is that contained in the packet which

1 I just gave you?

2 CHAIRMAN WROTENBERY: Oh.

3 MR. OWEN: -- stapled to the preceding page.

4 CHAIRMAN WROTENBERY: Thank you, got it. Yes,  
5 it's part of Exhibit Number 4.

6 MR. OWEN: Madame Commissioner, I call Mr. Danny  
7 Watson.

8 DANNY RAY WATSON,  
9 the witness herein, after having been first duly sworn upon  
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. OWEN:

13 Q. Would you please tell us your full name?

14 A. It's Danny Ray Watson.

15 Q. And where do you live?

16 A. I live in Tatum, New Mexico.

17 Q. Who do you work for?

18 A. I work for myself, Danny's Hot Oil Service.

19 Q. Do you have any other companies that you're  
20 associated with?

21 A. Yes, I also own DKD.

22 Q. What do you do with DKD?

23 A. DKD is a commercial SWD public disposal.

24 Q. Is that saltwater disposal?

25 A. Yes, it is.

1 Q. Is the name of your company DKD, LLC?

2 A. That is correct.

3 Q. Have you previously testified before this  
4 Division?

5 A. Yes, I have.

6 Q. Why don't you give us a very brief overview of  
7 your background in oil and gas matters?

8 A. I grew up in the oilfield, I've had four  
9 producing oil and leases, I've run a series of different  
10 kind of trucking businesses, and again currently I'm in the  
11 hot oil business and disposal business.

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

14 A. Yes, I am.

15 Q. Do you own either surface or mineral rights in  
16 the subject area?

17 A. Yes, I do, both of them.

18 Q. All right. I want you to turn to DKD Exhibit  
19 Number 1. Can you tell me what that is?

20 A. Yes, that's a change of operator from Chesapeake  
21 Operator to DKD, LLC.

22 Q. What's the date on that?

23 A. 2-1 of '02.

24 Q. Is that the effective date?

25 A. Yes, it is.

1 Q. And when did you actually sign it?

2 A. 4-1-02, it looks like.

3 Q. Okay. And attached to that is an assignment.  
4 Can you tell me what that is?

5 A. Yes, this is an assignment from Chesapeake  
6 Operating to DKD for all rights, title and interest on a  
7 state lease that they have acquired.

8 Q. And at the time of the Division Hearing, this  
9 assignment had not yet been signed by Chesapeake. Has it  
10 since been signed by Chesapeake?

11 A. Yes, it has.

12 Q. And are the signatures reflected in this copy of  
13 the exhibit?

14 A. Yes, they are.

15 Q. And has it been recorded in the Lea County  
16 records?

17 A. Yes, they have.

18 Q. Does this indicate that DKD, LLC, is the operator  
19 of the minerals directly offsetting the injection well  
20 proposed by Pronghorn?

21 A. Yes, it does.

22 Q. Who owns the surface on which your injection well  
23 is located?

24 A. I own all of the surface for 50 acres around.

25 Q. Okay. And do you operate any wells on that

1 acreage?

2 A. Yes, just this disposal.

3 Q. This disposal well?

4 A. Yes.

5 Q. I want you to turn to DKD Exhibit Number 2. Can  
6 you tell me what that is?

7 A. Yes, this is where I received my authority to  
8 begin injecting water in the saltwater disposal.

9 Q. When was it issued? On the last page, Mr.  
10 Watson.

11 A. All right. April 26th, 2002.

12 Q. And are you injecting saltwater into that  
13 wellbore under this order?

14 A. Yes, I am.

15 Q. When did you start?

16 A. Approximately July the 3rd, 2002.

17 Q. Do you have any interest in the minerals uphole  
18 of your injection zone?

19 A. Yes, I own all -- According to the lease, I have  
20 all rights, title and interest to the minerals.

21 Q. In all zones?

22 A. In all zones.

23 Q. Have you considered developing for producing  
24 purposes any of the zones uphole of your injection zone?

25 A. There's a very good possibility in the near

1 future.

2 Q. And why are you opposing this Application?

3 A. I'm opposing this Application because they don't  
4 appear to have the statement or lease, they don't appear to  
5 have anything in perspective. The other reason is, I had  
6 hoped and planned on possibly drilling into the shallower  
7 stuff and producing it at a later date.

8 Q. And why does this Application concern your plans  
9 to drill and produce shallower zones?

10 A. Because, as you know, there is some production  
11 approximately six miles south of me in some of these zones.  
12 I think they have currently found some zones west of me  
13 approximately eight to ten miles.

14 Q. In the same zones that Pronghorn proposes to  
15 inject into?

16 A. That's what I understand, yes.

17 Q. Okay. Do you know who controls the minerals  
18 underlying Pronghorn's proposed injection well?

19 A. Chesapeake Operating at the present time.

20 Q. How do they control those minerals?

21 A. They leased them from the State of New Mexico,  
22 and they now have the lease on that acreage there.

23 Q. Chesapeake does?

24 A. Yes, they do.

25 Q. Is that Exhibit Number 3?

1 A. Yes, it is.

2 Q. What is Exhibit Number 3?

3 A. Exhibit Number 3 is where Chesapeake has leased  
4 all of the rights on the Section 6, Township 16, 36 East.

5 Q. Did Pronghorn Management previously have any  
6 interest in those minerals?

7 A. It's my understanding that they had those and  
8 they let them lapse, and Chesapeake picked them up.

9 Q. Is Chesapeake's lease current?

10 A. Yes, it is.

11 Q. How is it held?

12 A. They currently have a well by the name of  
13 Chesapeake Little 6 Number 1 that is producing at the  
14 current time.

15 Q. Is that in Section 6?

16 A. Yes, it is.

17 Q. The same section that this proposed injection  
18 well is on?

19 A. Yes, it is.

20 Q. And does this lease, which is Exhibit Number 3,  
21 include the minerals under the injection well that  
22 Pronghorn proposes in this case?

23 A. Yes, it does.

24 Q. Have you had any discussions with Chesapeake  
25 about whether Chesapeake has assigned its mineral interests

1 or right to inject to anyone else?

2 A. I called them back approximately June, and I  
3 talked to Lynda Townsend at that time. She said there was  
4 no other assignments at that time. I have tried to contact  
5 her approximately three more times, with no return calls.

6 Q. Okay. And have you investigated the Lea County  
7 records to see whether there are any recorded leases of  
8 these minerals?

9 A. Yes, I have.

10 Q. Do the results of those searches appear in  
11 Exhibit Number 4?

12 A. That is correct.

13 Q. And what is Exhibit Number 4?

14 A. Exhibit Number 4 is where I went down to search  
15 the public records at the courthouse. And as you can see,  
16 on January the 3rd, 2003, there was nothing recorded from  
17 Chesapeake to anyone else other than to DKD.

18 I got a more current one and checked it out to  
19 February the 13th of 2003, and to my knowledge to date  
20 there is still no letter assignment other than to DKD.

21 Q. Now, I want you to -- Do you have Pronghorn's  
22 exhibits in front of you?

23 A. No, I do not.

24 Q. Okay. I've handed you Pronghorn Exhibit Number  
25 4. Have you seen that before?

1           A.    Not until this came up. I got it maybe a week  
2 ago, through you.

3           Q.    Who is that letter from?

4           A.    The letter's from Chesapeake, representative  
5 Lynda Townsend.

6           Q.    Have you ever spoken with Ms. Townsend?

7           A.    Yes, I have.

8           Q.    Did you negotiate with Ms. Townsend when you  
9 secured your mineral lease from Chesapeake?

10          A.    Yes, I did.

11          Q.    Did Ms. Townsend tell you anything about her  
12 authority to lease the minerals to you?

13          A.    Based on the conversation that we had, she could  
14 give me this as a letter of intent. But as far as getting  
15 a letter of assignment or anything, or a bill of sale such  
16 I have, it had to go through their legal department.

17          Q.    And what did you do as a result of that  
18 conversation?

19          A.    I had to persuade them -- It took a considerable  
20 amount of time, but I finally got it persuaded to where the  
21 legal counsel did give it to me.

22          Q.    And what did they give you?

23          A.    They gave me a letter of assignment, plus the  
24 assignment itself on Lots 13 and 14, I believe.

25          Q.    And is that the assignment that's contained in

1 DKD Exhibit Number 1?

2 A. Yes, it is.

3 Q. Does that contain signatures other than Ms.  
4 Townsend's signature for Chesapeake?

5 A. Apparently everyone's but Lynda Townsend's, I  
6 believe.

7 MR. OWEN: Okay. No further questions.

8 CHAIRMAN WROTENBERY: Thank you, Mr. Owen.  
9 Mr. Padilla?

10 MR. PADILLA: I have a few.

11 CROSS-EXAMINATION

12 BY MR. PADILLA:

13 Q. Mr. Watson, you testified that there were two --  
14 There was San Andres production six miles to the south and  
15 eight miles to the west of the proposed injection well. Do  
16 you know whether that San Andres formation is geologically  
17 connected with the San Andres underlying the proposed  
18 injection well?

19 A. No, sir, I'm not an engineer. I'm not sure.

20 Q. You haven't done anything to determine whether  
21 there's any geologic connection between those pools to the  
22 south and to the west?

23 A. Not at the current time.

24 Q. Why is it that you have not brought any geologic  
25 or engineering evidence to this hearing to demonstrate to

1 the Commission that the San Andres underlying your well is  
2 economically viable for production from the San Andres?

3 A. Basically because of lack of financing.

4 Q. Well, you're here today, this seems like an  
5 important hearing to you?

6 A. Yes, sir.

7 Q. And you're making the suggestion to us that your  
8 correlative rights will be impaired. Why is it that you  
9 did not spend the money or obtain evidence to show that the  
10 San Andres is economically viable in your well?

11 A. Like I say, lack of finances, because it --  
12 putting in the DKD disposal is pretty expensive.

13 Q. How much did you spend to make an injection well  
14 of the Watson 1-6?

15 A. How much did I spend, sir?

16 Q. Yes.

17 A. \$187,000.

18 Q. If you're going to recomplete in the San Andres,  
19 what would you have to do, using the same wellbore?

20 A. Oh, I'd have to plug off underneath and come up  
21 the hole.

22 Q. Are you going to do that, having spent that much  
23 money to complete it for saltwater disposal?

24 A. Oh, no, sir.

25 Q. Do you intend to drill a new well to the San

1     Andres?

2           A.    Very good possibility.

3           Q.    How much would a well like that cost?

4           A.    I'm going to have to estimate, around \$200,000.

5           Q.    About half a million?

6           A.    I just -- \$200,000 is what I think it would take,  
7     probably, to drill it.

8           Q.    Have you done an AFE for drilling that well?

9           A.    No, sir, I have not done one.

10          Q.    Have you prepared a C-101 for permission to  
11     drill?

12          A.    No, sir.

13          Q.    Do you have any plans concerning proposed  
14     drilling operations on your lease?

15          A.    I do have some plans eventually. Not in the near  
16     future but eventually, yes.

17          Q.    Have you done a study as to what the effect of  
18     the proposed saltwater disposal well will have on your  
19     business, in your saltwater disposal business?

20          A.    Restate that, please, sir.

21          Q.    Well, have you done some kind of economic study  
22     as to whether or not the proposed saltwater injection well  
23     is going to affect your business adversely? That is, your  
24     saltwater disposal operation?

25          A.    Oh, I'm sure it will affect it, yes.

1           Q.    Is that why you're here today, to propose that  
2           well, with this Application?

3           A.    No, sir, not really.

4           Q.    Well, why are you here?

5           A.    Because they can't seem to understand that I  
6           don't want them injecting in a zone that I may want to  
7           produce out of eventually.

8           Q.    Did you hear the testimony of Mr. Scott?

9           A.    Yes.

10          Q.    Have you ever drilled into a wet formation?

11          A.    Yes, sir. Well, I never have drilled, no, sir.

12          Q.    Well, what happens when you -- Do you know enough  
13          about what happens when you drill into a wet formation?

14          A.    I do understand, I've been in the oilfield long  
15          enough, you have to move lots of water to get a little bit  
16          of oil.

17          Q.    How much oil do you expect to recover from a  
18          proposed well in the San Andres on your lease?

19          A.    Oh, I don't know about the cumulative barrels.  
20          But if it come up 10 percent I probably could make it work.

21          Q.    Ten percent oil, 90 percent water?

22          A.    Yes, sir.

23          Q.    You don't know whether it's completely watered  
24          out?

25          A.    No, I have no way of knowing.

1 Q. Well, I don't believe you answered my question  
2 earlier. Did you make a study of what effect on your  
3 saltwater disposal operation the proposed well would have?

4 A. Yeah, pretty well, I pretty well know what it  
5 would do to it.

6 Q. What would it do?

7 A. Well, it would cut my business somewhat.

8 Q. How much?

9 A. Probably 35 percent, 40.

10 Q. What does that mean in terms of money?

11 A. Oh, if I was making \$1000 a month, I'd be making  
12 \$600.

13 Q. Well, I'm asking actual effect. Say 35 percent,  
14 what does that translate to on a monthly basis?

15 A. Thirty-five percent would probably run around  
16 \$3500 a month.

17 Q. Do you still owe money for the saltwater  
18 disposal --

19 A. Yes, sir --

20 Q. -- investment you made?

21 A. -- some, yes, sir.

22 Q. Do you have a saltwater disposal easement from  
23 the Land Commissioner's Office?

24 A. Yes, I do.

25 Q. You're paying royalties to the Land Commissioner?

1           A.    Yes, sir.

2           Q.    When did you get your saltwater disposal easement  
3 from the Land Office?

4           A.    I got it just a very few weeks after I received  
5 the permit from the OCD.

6           Q.    So you got the OCD permit first, right?

7           A.    That is correct.

8           Q.    Did you have to file a copy of Exhibit 2 with  
9 your application for saltwater disposal easement with the  
10 Land Commissioner?

11          A.    I believe I did, but it's been a while back.  I  
12 do not remember exactly.

13          Q.    My point is that you had to have this saltwater  
14 disposal order from the OCD before you applied with the  
15 Land Commissioner for a saltwater disposal easement, right?

16          A.    That's the way I did it.

17          Q.    And that makes sense, right?

18          A.    As far as I know.

19               MR. PADILLA:  I don't have any further questions.

20               CHAIRMAN WROTENBERY:  Thank you, Mr. Padilla.

21               Mr. Owen, before you and I forget again, I think  
22 we need to introduce the exhibits into evidence.

23               MR. OWEN:  Thank you, madame Examiner.  I move  
24 the admission of DKD Exhibits Numbers 1 through 4.

25               CHAIRMAN WROTENBERY:  Any objection, Mr. Padilla?

1 MR. PADILLA: No.

2 CHAIRMAN WROTENBERY: Okay, DKD Exhibits Number 1  
3 through 4 are admitted into the record.

4 Commissioners, do you have any questions?

5 EXAMINATION

6 BY COMMISSIONER BAILEY:

7 Q. Sure. How much do you charge per barrel for  
8 disposal?

9 A. I currently charge 35 cents a barrel, at the  
10 current time.

11 Q. The lease that you have, Exhibit Number 3,  
12 the lease to Chesapeake, on the second page, paragraph  
13 number 7 --

14 A. Yes, ma'am.

15 Q. -- are you aware that this paragraph means the  
16 assignment which you have recorded here with the County is  
17 not recognized by the Commission, that you did not get an  
18 approval for your assignment for Chesapeake from the Land  
19 Office?

20 A. I apologize, but I believe I have one in my  
21 office.

22 Q. Do you? Because this assignment, bill of sale  
23 and conveyance that you have as part of Exhibit Number 1 is  
24 not an approved assignment or recognized by the Land  
25 Office.

1 A. Oh, it's not at the current time?

2 Q. Never has been.

3 A. Okay.

4 Q. Okay, so if this is all you have, I caution you  
5 that the Land Office does not recognize that you have any  
6 rights or obligations to that land until you get an  
7 assignment approved by the State Land Office.

8 A. Okay, I will look at that whenever I get back,  
9 but I am reasonably sure I have something from the Land  
10 Office.

11 Q. Okay, because this does not do it, this exhibit,  
12 and it --

13 A. Okay, yes ma'am.

14 Q. -- does not reflect any assignment from the  
15 Commissioner.

16 A. Yes, ma'am, okay.

17 COMMISSIONER BAILEY: That's really all I have.

18 CHAIRMAN WROTENBERY: Commissioner Lee?

19 COMMISSIONER LEE: No.

20 EXAMINATION

21 BY CHAIRMAN WROTENBERY:

22 Q. Mr. Watson, I just wanted to make sure we covered  
23 one item here. Your Exhibit Number 1 has a C-104-A, and  
24 attached to this C-104-A what has been a list of wells that  
25 you were transferring. There's nothing on this form itself

1 that indicates what well this form covers. Am I correct in  
2 understanding that this was the C-104-A for the Watson 6  
3 Well Number 1?

4 A. Yes, ma'am.

5 Q. Was there any other well associated with this  
6 transfer?

7 A. That was the only well that was on my property,  
8 and that was it.

9 Q. Thank you.

10 A. I believe there was one in the previous hearing,  
11 but I don't know. I'm pretty sure there was --

12 Q. The attachment was --

13 A. Yes --

14 Q. -- here?

15 A. -- the attachment that you're asking.

16 CHAIRMAN WROTENBERY: Thank you, I have no  
17 further questions.

18 Mr. Owen, do you have any follow-up?

19 MR. OWEN: I may. No, madame Examiner -- madame  
20 Chairman.

21 CHAIRMAN WROTENBERY: Thank you.

22 MR. OWEN: I've been calling you Examiner all  
23 day, and I apologize.

24 CHAIRMAN WROTENBERY: That's fine, that's the  
25 role I'm playing today.

1 MR. OWEN: Madame Chairman.

2 CHAIRMAN WROTENBERY: Thank you.

3 In that case, gentlemen, if you would like to  
4 present a written closing you're welcome to do that. We  
5 certainly would like to receive the briefing materials on  
6 the questions that have been raised concerning the right of  
7 Pronghorn to use this well for commercial disposal  
8 purposes. Mr. Owen has already submitted a memorandum.

9 COMMISSIONER BAILEY: He may want to amend it  
10 after talking with the Land Office.

11 CHAIRMAN WROTENBERY: So how long do you think it  
12 would take you to get that material together for us?

13 MR. PADILLA: Fifteen days, is that good enough?

14 CHAIRMAN WROTENBERY: That sounds fine. How  
15 about April 4th? I think that might be approximately 15  
16 days.

17 MR. OWEN: Madame Chairman, I do not want to  
18 present a problem to the Applicant here. I have a trial  
19 starting April 1 down in Lovington, for which I'm going to  
20 be fairly consumed over the next week in preparation, and  
21 the trial itself starts April 1. I don't want to -- I'm  
22 not trying to raise this for purposes of delay, but if  
23 there's anything we can workout --

24 COMMISSIONER BAILEY: Well, how about the middle  
25 of the following week, the 9th of April?

1 MR. OWEN: That would be fine.

2 CHAIRMAN WROTENBERY: If we could get those  
3 materials in on the 9th, we would appreciate it.

4 MR. OWEN: And what exactly would you like? A  
5 brief from each of us, or just simply from Mr. Padilla?

6 CHAIRMAN WROTENBERY: Well, certainly from Mr.  
7 Padilla, because you've already submitted something. But  
8 as Commissioner Bailey has suggested, after your visit with  
9 the Land office you may want to supplement what you have  
10 submitted as well. So we'll certainly accept a supplement  
11 on behalf of DKD.

12 MR. OWEN: Thank you madame Chairman.

13 CHAIRMAN WROTENBERY: Thank you.

14 Any other matters that we need to cover today?

15 MR. PADILLA: That's it.

16 CHAIRMAN WROTENBERY: If not, then we'll take  
17 this case under advisement. Thank you very much,  
18 gentlemen.

19 MR. OWEN: Thank you, madame Chairman.

20 CHAIRMAN WROTENBERY: Thank you to the witnesses.

21 (Thereupon, these proceedings were concluded at  
22 12:05 p.m.)

23 \* \* \*

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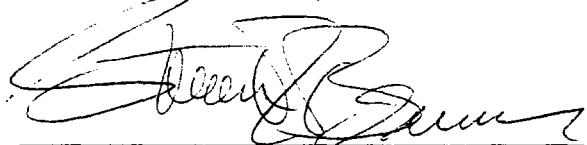
## CERTIFICATE OF REPORTER

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 March 23rd, 2003.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006