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November 1, 2001

HAND DELIVERED

Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Attention: Florene Davidson

Re: New Mexico Oil Conservation Division Case 12587:
Application of Sapient Energy Corp. for an unorthodox well location and non-standard proration unit or in the alternative a 160-acre non-standard proration unit, Lea County, New Mexico.

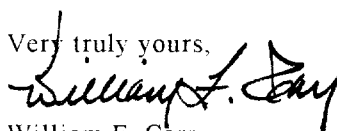
New Mexico Oil Conservation Division Case 12605:
Application of Sapient Energy Corp. for special pool rules, Lea County, New Mexico.

Dear Ms. Davidson:

Pursuant to Mr. Ross's letter of October 23, 2001 enclosed for filing in the above-referenced cases are the Consolidated Pre-Hearing Statement of Chevron U.S.A. Production Company and Conoco, Inc. Also enclosed is a complete set of the exhibits which Chevron and Conoco will present in their case in chief at the November 6, 2001 Oil Conservation Commission hearing.

By copy of this letter, I have provided copies of this Pre-Hearing Statement and all exhibits to Commissioners Lori Wrotenbery, Jamie Bailey, and Robert Lee and to W. Thomas Kellahin, Esq., attorney for Sapient Energy, Corp.

Very truly yours,



William F. Carr
Attorney for Chevron U.S.A. Production
Company and Conoco, Inc.

Lori Wrotenbery, Chairman (By Hand Delivery)
Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

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Jami C. Bailey, Commissioner (By Hand Delivery)
Oil Conservation Commission
New Mexico State Land Office
310 Old Santa Fe Trail
Santa Fe, New Mexico 87504

Dr. Robert Lee, Commissioner (By Federal Express)
Oil Conservation Commission
c/o New Mexico Petroleum Recovery Research Center
801 Leroy Place
Socorro, New Mexico 87801

W. Thomas Kellahin, Esq. (By Hand Delivery)
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117 North Guadalupe
Santa Fe, New Mexico 87501

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

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

**APPLICATION OF SAPIENT ENERGY CORP.
FOR AN UNORTHODOX WELL LOCATION
AND (i) TWO NON-STANDARD 160-ACRE
SPACING UNITS, OR IN THE ALTERNATIVE
(ii) ONE NON-STANDARD 160-ACRE SPACING
AND PRORATION UNIT, LEA COUNTY, NEW MEXICO. CASE NO. 12587**

**APPLICATION OF SAPIENT ENERGY CORP.
FOR SPECIAL POOL RULES, LEA COUNTY,
NEW MEXICO. CASE NO. 12605**

**CONSOLIDATED PRE-HEARING STATEMENT OF
CHEVRON U.S.A. PRODUCTION COMPANY AND CONOCO, INC.**

This Pre-hearing Statement is submitted by Holland & Hart LLP and Campbell & Carr, as required by the Rule 1208.B of the Rules of the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT:

Sapient Energy Corp.

ATTORNEY:

W. Thomas Kellahin, Esq.
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

OPPOSITION PARTIES:

Chevron U.S.A. Production Company
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Conoco, Inc.
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ATTORNEYS:

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STATEMENT OF CASE

APPLICANT:

In Case 12587, Sapiient Energy Corp. seeks approval of an unorthodox gas well location for its Bertha J. Barber Well No. 12 at an unorthodox location 330 feet from the North line and 660 feet from the East line of Section 7, Township 20 South, Range 37 East to be dedicated to a non-standard 160-acre gas proration and spacing unit consisting of either (i) the E/2 E/2 of this section, or in the alternative, (ii) the E/2 NE/4 of Section 7 and the W/2 NW/4 of Section 8 for production from the West Monument-Tubb Gas Pool. Sapiient requests that the order be retroactive to the date of first production from the Barber Well (September 9, 1999). In addition, should the Division approve a non-standard 160-acre spacing and proration unit consisting of the E/2 E/2 of Section 7, then Sapiient seeks the approval of a

second non-standard 160-acre spacing and proration unit consisting of the W/2 E/2 of this section.

In Case 12605, Sapient Energy Corp. seeks the promulgation of special pool rules for the West Monument-Tubb Gas Pool, including provisions for 80-acre spacing and designated well location requirements.

OPPOSITION PARTIES:

Chevron U.S.A. Production Company and Conoco, Inc. will appear and present testimony in opposition to the applications of Sapient Energy, Inc.

Sapient operates the Bertha J. Barber Well No. 12 (“the Barber Well”) which is located at an unorthodox gas well location 330 feet from the North line and 660 feet from the East line of Section 7, Township 20 South, Range 37 East, NMPM. Since September 1999 the Barber Well has produced from the Tubb formation, West Monument-Tubb Gas Pool.

THE SPACING UNIT:

Division Rule 104.C (3) governs the development of the West Monument-Tubb Gas Pool. It provides that wells “... shall be located in a spacing unit consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and shall be located no closer than 660 feet to any outer boundary of such unit” Sapient has not obtained an exception to this rule and, therefore, the spacing unit for the Bertha J. Barber Well No. 12 (“the Barber Well”) is the NE/4 of Section 7.

Chevron and Conoco are working interest owners in the W/2 NE/4 of Section 7. The Chevron and Conoco acreage is within the standard 160-acre spacing unit comprised of the NE/4 of Section 7 which is dedicated to the Barber Well pursuant to Division Rule 104.C(3). Sapient has produced and sold natural gas from the Barber Well since September 1999 but refuses to pay Chevron or Conoco for their respective shares of the production.

These cases were presented to a Division Examiner on March 1, 2001. In ruling for Chevron and Conoco, the Oil Conservation found that Sapient is “...illegally producing this well.” Chevron and Conoco seek an order (i) affirming the decision of the Division and, (ii) as was ordered by the Division, directing Sapient to shut-in the well “...until such time as all production from this well has been appropriately re-allocated to all of the mineral interest owners in the standard 160-acre unit comprising the NE/4 of Section 7....”

THE UNORTHODOX WELL LOCATION:

The Barber Well is located 330 feet from the North line and 660 feet from the East line of Section 7 and therefore is 50% closer to the north line of Section 7 than allowed by Division rules. This location encroaches on Chevron operated properties to the North in Section 6.

In October 2000, Chevron filed an application pursuant to Division Rule 104 seeking approval of an unorthodox well location in the Tubb formation its G. C. Matthews Well No. 12 located 330 feet from the South line and 990 feet from the East line of offsetting Section 6. Approval of this application would enable Chevron to offset drainage from the Barber Well with a well the same distance from the common boundary between the Sapient and Chevron spacing units. On October 31, 2000, Sapient objected to Chevron's proposed unorthodox location. With this objection, Sapient forced the Chevron application to be set for hearing and, most importantly, enabled Sapient to continue to produce the Barber Well and drain the Chevron tract without a Chevron well to compete for these reserves. After a delay of almost three months during which Sapient continued to produce and drain the Chevron acreage, and on the day before the scheduled hearing on the Chevron application, Sapient withdrew its application.

Sapient seeks approval of certain non-standard spacing units in Section 7. Chevron and Conoco oppose this request because approval of these units would carve out of the standard spacing unit for this well productive acreage owned by Chevron and Conoco. This acreage has been drained by the Barber Well. If Sapient's application is approved, Chevron and Conoco would be required to drill an additional well in the NW/4 NE/4 of Section 7 to produce what is left of these reserves. This would be an unnecessary well, would cause economic waste and impair the correlative rights of the interest owners in the W/2 E/2 of this section.

Sapient seeks retroactive approval of its application for non-standard spacing units in Section 7. Chevron and Conoco oppose this request. Retroactive approval of the Sapient applications would be Commission endorsement of Sapient's attempt to confiscate reserves owned by Chevron and Conoco. The Sapient requests would let Sapient keep what it has produced in the past -- when neither Chevron or Conoco could have drilled in the W/2 NE/4 of Section 7 because the Division will only allow one operator per spacing unit. Granting this request would impair the correlative rights of Chevron and Conoco and would unjustly enrich Sapient simply because it disregarded the Rules of the Division..

Sapient seeks the adoption of Special Pool Rules including provisions for 80-acre spacing. This request is inconsistent with the technical data on the reservoir and is designed to enable Sapient to continue to drain Chevron and Conoco reserves and retain all production proceeds.

SHUT-IN OF THE BARBER WELL:

After the entry of Division Order No. R-11652 in which Sapient was ordered to shut-in the Barber Well, Sapient attempted to obtain a stay of the order on the grounds that the well would be damaged if shut-in. Chevron and Conoco requested that if the well was allowed to produce, Sapient post a bond to assure that it could ultimately pay the owners in the spacing unit their share of production proceeds from the Barber Well and also requested that all future production proceeds be placed in escrow until this matter was resolved. Sapient would not agree to either post a bond or place future proceeds in escrow. Instead, it continued to produce the well and keep all production proceeds for itself. On October 15, 2001 the Commission entered Order No. R-11652-A denying the motion for stay. On October 17, 2001, Sapient finally shut-in the well.

PROPOSED EVIDENCE:

The exhibits to be presented by Chevron and Conoco in their case in chief have been pre-filed with the Commission and copies have been provided to Sapient.

CHEVRON AND CONOCO WILL PRESENT THE FOLLOWING WITNESSES:

Tim Denny 5 Exhibits Approximately 20 Minutes

Chevron and Conoco land and geological exhibits will address the following issues:

OWNERSHIP:

Chevron and Conoco Exhibit No. 1 is an orientation map which shows the acreage which is the subject of this hearing. It shows the working interest ownership in each of the tracts which are the subject of this hearing and in offsetting properties.

BACKGROUND FACTS:

Chevron and Conoco Exhibit No. 2 is a chronology of the events concerning the development of the Tubb formation in Section 7 and offsetting tracts.

GEOLOGY:

Chevron and Conoco Exhibit No. 3 is a Cross Section which shows the Tubb structure and correlative interval and the gas-oil contact in the Tubb reservoir.

Chevron and Conoco Exhibit No. 4 is a Structure Map on the top of the Tubb. This exhibit depicts the northwest-southeast trending high through the Section 6 and shows the gas-oil contact in the reservoir (based on the lowest perforations in the Barber Well). The Chevron and Conoco acreage in this geologic structure is being drained by the Barber Well

Chevron and Conoco Exhibit No. 5 is an Isopach Map of the correlative interval in the Barber Well. It shows that the reservoir quality exists in the N/2 of Section 7 in the Tubb formation and that the Chevron and Conoco acreage and contributes production to the Barber Well..

Robert Lowe 5 Exhibits Approximately 25 Minutes

Chevron and Conoco will present the following engineering exhibits:

Chevron and Conoco Exhibit No. 6 is a decline plot for the Sapient Barber Well showing its historic production and the gas volumes produced from the well.

Chevron and Conoco Exhibit No. 7 consists of three production plots for Marathon Oil Company operated wells (Barber wells 16, 17 and 18) in Section 5 of Township 20 South, Range 37 East, NMPM. These production plots demonstrate that the steady increase in the GOR's for the Tubb wells in this reservoir is not the result of solution gas but expansion of the gas cap.

Chevron and Conoco Exhibit No. 8 presents volumetrics and decline curve analyses for the Sapient Barber Well. It sets out the reservoir parameters used to calculate initial gas in place. It shows that the Chevron and Conoco acreage is being drained by the Barber well for with a calculated ultimate recovery from the well of 2.2 BCF

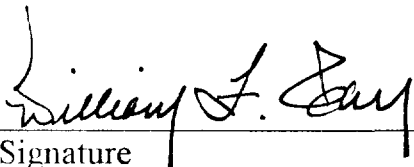
the drainage radius of the well is 1485 feet and the drainage area is 159 acres.

Chevron and Conoco Exhibit No. 9 is an overlay for the Structure Map and Isopach Map (Exhibit Nos. 4 and 5) which shows the drainage areas for the Barber Well based on initial pressures and on estimated recoverable reserves. This exhibit demonstrates that the Barber Well is draining the W/2 NE/4 of Section 7 where Chevron and Conoco own reserves.

Chevron and Conoco Exhibit No. 10 is an overlay which shows how many new and unnecessary wells would have to be drilled to protect the correlative rights of the owners in this portion of the Tubb formation if the Division grants the application of Sapient for Special Pool Rules including 80-acre spacing in Case 12605.

PROCEDURAL MATTERS

Chevron and Conoco will request that Cases 12587 and 12605 be consolidated at the time of hearing.

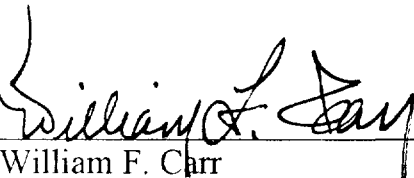


Signature

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of November, 2001, I have caused to be hand-delivered a copy of our Pre-Hearing Statement in the above-captioned case to the following counsel of record:

W. Thomas Kellahin, Esq.
117 North Guadalupe Street
Santa Fe, New Mexico 87501



William F. Carr