

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

ORIGINAL

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

APPLICATION OF MARSHALL & WINSTON, <sup>-Bruce</sup> CASE NO. 14538  
INC., TO CANCEL AN OPERATOR'S  
AUTHORITY AND TERMINATE A SPACING  
UNIT AND APPROVE A CHANGE OF  
OPERATOR, LEA COUNTY, NEW MEXICO.

APPLICATION OF DAVID H. ARRINGTON <sup>-Carv</sup> CASE NO. 14497  
OIL & GAS, INC., FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 2, 2010 10:07 a.m.

Santa Fe, New Mexico

BEFORE: TERRY WARNELL, Hearing Examiner  
DAVID K. BROOKS, Legal Advisor

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This matter came on for hearing before the New  
Mexico Oil Conservation Division, TERRY WARNELL,  
Hearing Examiner, and DAVID K. BROOKS, Legal  
Advisor, on Thursday, September 2, 2010, at the New  
Mexico Energy, Minerals and Natural resources  
Department, 1220 South St. Francis drive, Room 102,  
Santa Fe, New Mexico.

REPORTED BY: Paul Baca  
Paul Baca Court Reporters  
500 Fourth Street, NW - Suite 105  
Albuquerque, New Mexico 87102

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1           THE EXAMINER: I believe the next case is  
2 Case No. 14538, application of Marshall & Winston,  
3 Inc., to cancel an operator's authority and  
4 terminate a spacing unit and approve a change of  
5 operator, Lea County, New Mexico.

6           Call for appearances.

7           MR. BRUCE: Mr. Examiner, Jim Bruce, of  
8 Santa Fe, representing the applicant. And I think  
9 this needs to be consolidated with the David H.  
10 Arrington Oil & Gas case.

11           MR. CARR: Which is Case 14497. They  
12 involve the same property.

13           May it please the Examiner?

14           THE EXAMINER: Yes.

15           MR. CARR: I'd like to enter my  
16 appearance. William F. Carr, of the Santa Fe office  
17 of Holland & Hart. We represent David H. Arrington  
18 Oil & Gas, Inc., in both of these cases, and I have  
19 three witnesses.

20           THE EXAMINER: Okay. So let's also read  
21 in here that we're going to also be hearing  
22 simultaneously case No. 14 -- what was it,  
23 Mr. Bruce?

24           MR. CARR: 14497, Mr. Examiner.

25           THE EXAMINER: 14497, Application of

1 David H. Arrington Oil & Gas, Inc., for compulsory  
2 pooling, Lea County, New Mexico.

3 MR. BROOKS: Which case number is that?

4 THE EXAMINER: That's over on page 9,  
5 Case 14497 at the very bottom there.

6 MR. BROOKS: Okay. That's No. 22?

7 THE EXAMINER: Yes, No. 22.

8 MR. BRUCE: Mr. Examiner, I have two  
9 witnesses.

10 THE EXAMINER: Mr. Carr, do you have any  
11 witnesses?

12 MR. CARR: Yes, I have three.

13 THE EXAMINER: We need all the witnesses  
14 to stand, state their name and be sworn.

15 (Monty W. Kastner, Arturo C. Carrasco,  
16 Brian C. Ball, Kevin Hammit and John D. Savage were  
17 duly sworn by the court reporter.)

18 MR. CARR: May it please the Examiner?  
19 I have a brief opening statement.

20 THE EXAMINER: Please.

21 MR. CARR: In this case, Mr. Examiner,  
22 David H. Arrington Oil & Gas, Inc., seeks an order  
23 for compulsory pooling in the Morrow formation and  
24 other formations developed in 320 acre spacing under  
25 the south half of Section 26, Township 15 South,

1 Range 34 East.

2 The purpose of Mr. Arrington's application  
3 is to attempt reentry in the Morrow Formation.

4 The evidence will show that in this  
5 320-acre spacing unit, 80 of those acres is owned by  
6 Marshall & Winston, and they own the tract on which  
7 the well is located.

8 Arrington has leased the remainder of the  
9 acreage in the 320-acre spacing unit that is the  
10 subject of today's hearing.

11 The well on this acreage was drilled in  
12 2004 to test deep gas and produce for a time from  
13 the Morrow formation. That well was paid for by  
14 Arrington and Marshall & Winston, and David H.  
15 Arrington Oil & Gas is the Division-designated  
16 operator of the well.

17 The well ceased producing several years  
18 ago, and the leases and the joint operating  
19 agreement covering this property have expired.  
20 Arrington re-leased the interest in this tract, and  
21 it acquired a surface easement from the surface  
22 owner. So it has access to the wellbore.

23 Today Arrington believes the Morrow  
24 remains prospective, unless they can reenter the  
25 well before shallower zones are tested in the well.

1 These zones are not going to be tested, and  
2 recoverable Morrow reserves could be lost.

3 Marshall & Winston proposes to complete  
4 the well uphole in the Cisco. And before they do  
5 that, we're simply asking for an opportunity to test  
6 the Morrow.

7 We're also prepared to state on the record  
8 and my witnesses will confirm that in this effort,  
9 Arrington will exercise not to do anything to the  
10 well that would jeopardize its later use to access  
11 shallower formations.

12 And I have three witnesses.

13 MR. BRUCE: Mr. Examiner, just very  
14 briefly, Marshall & Winston's position is that the  
15 Morrow attempt will not be economical.

16 Furthermore, there was not a good-faith  
17 effort made to obtain the voluntary joinder of  
18 Marshall & Winston in this well. And therefore,  
19 pooling should be denied.

20 If, however, the Division does approve the  
21 pooling application of David H. Arrington,  
22 Marshall & Winston would request two things.

23 One was referred to by Mr. Carr, that  
24 nothing be done to the well that would harm or  
25 increase the cost of Marshall & Winston's proposed

1 reentry of the Cisco Canyon.

2 And furthermore, as you know, starting  
3 last year sometime, pooling orders contained a  
4 one-year period for the commencement of operations.  
5 We would request that that time period be  
6 considerably shortened, perhaps to the older  
7 standard of approximately 90 days.

8 Since this is a reentry, I don't believe  
9 that there is a need for a one-year period because  
10 if the reentry is uneconomic, Marshall & Winston  
11 would like to move forward as quickly as possible  
12 with its recompletion attempt. Thank you.

13 THE EXAMINER: Thank you.

14 MR. CARR: At this time I would call my  
15 first witness, Mr. Monty Kastner.

16 MONTY W. KASTNER,  
17 having been previously duly sworn, testified as  
18 follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

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

23 A. Yes. It's Monty W. Kastner.

24 Q. Okay. Spell your last name.

25 A. It's K-A-S-T-N-E-R.

1 Q. Mr. Kastner, where do you reside?

2 A. I live in Midland, Texas.

3 Q. By whom are you employed?

4 A. By David H. Arrington Oil & Gas.

5 Q. What is your current position with

6 David H. Arrington Oil & Gas?

7 A. I'm Vice President of Land and Legal.

8 Q. Have you previously testified before the

9 New Mexico Oil Conservation Division?

10 A. I have not.

11 Q. Would you review, for Examiners Warnell

12 and Brooks, your educational background and your

13 work experience?

14 A. Most recently, from February of 2008, I've

15 been with David H. Arrington Oil & Gas in Midland,

16 Texas. Prior to that, I owned a consulting firm,

17 and we consulted for Chesapeake Energy in the

18 Barnett shale.

19 Prior to that, our primary customer was

20 Burlington Resources. Prior to moving to

21 Fort Worth, Texas, I continued in the oil and gas

22 consulting business in Denver, Colorado.

23 And prior to that, I held several

24 positions with Texas Pacific Oil & Gas, later

25 Ruback's Oil Company. Those positions were

1 exploration manager, division land manager, and land  
2 manager for the US.

3 I attended Casper College for three years.  
4 And that's a brief summation of my experience and  
5 educational background.

6 Q. Are you familiar with the applications  
7 filed in these cases?

8 A. Yes, I am.

9 Q. And are you familiar with the status of  
10 the lands and the applications that are the subject  
11 of this hearing?

12 A. Yes, I am.

13 MR. CARR: We tender Mr. Kastner as an  
14 expert witness in petroleum land matters.

15 MR. BRUCE: No objection.

16 THE EXAMINER: So recognized.

17 Q. (By Mr. Carr) Mr. Kastner, would you  
18 briefly state what it is that David H. Arrington  
19 Oil & Gas, Inc., seeks with its application?

20 A. We would like to obtain a pooling order  
21 that pools the entire half Section 26, Township 15  
22 South, Range 34 East, Lea County New Mexico, to  
23 reenter the wellbore and attempt to reestablish  
24 production in the Upper Morrow section.

25 Q. And you're talking about pooling the south

1 half of this section for formations on 320?

2 A. That's correct, the south half of  
3 Section 26.

4 Q. And would you also seek to pool the  
5 southeast quarter if in fact you encounter a  
6 formation on 160 acres?

7 A. Yes, we would.

8 Q. What is the well to which you propose to  
9 have this dedicated?

10 A. It's our Green Eyed Squealy Worm Well  
11 No. 1.

12 Q. And where is that located?

13 A. It's situated 1,974 feet from the south  
14 line and 1,129 feet from the east line of  
15 Section 26, 15 South, 34 East.

16 Q. This would be a reentry?

17 A. Yes, it would.

18 Q. And is it Arrington's position that you  
19 should attempt to recomplete the Morrow prior to  
20 using this wellbore for production from shallower  
21 formations?

22 A. Yes, it would be.

23 Q. How many wells does David H. Arrington  
24 operate in New Mexico?

25 A. We have 53 wells that are either operated

1 or permitted.

2 Q. And how many of those are deep gas wells?

3 A. Thirteen wells that are deep gas wells.

4 Q. Is the Green Eyed Squealy Worm one of  
5 those wells?

6 A. Yes, it is.

7 Q. Did you pick the name Green Eyed Squealy  
8 Worm?

9 A. I did not.

10 Q. Let's go to Arrington Exhibit No. 1.  
11 Would you identify that and review that for the  
12 Examiners?

13 A. That is a plat that we prepared that shows  
14 the south half of Section 26 with a topographic  
15 overlay that shows some of the well sites in the  
16 area.

17 The green outline shows the exclusive  
18 access to the south half of Section 26. The red  
19 outline shows the additional surface access across  
20 the south half of Section 26 to our location.

21 The acreage depicted in yellow is David H.  
22 Arrington Oil & Gas leasehold interest. The acreage  
23 being the north half of the southeast quarter  
24 depicted in green is Marshall & Winston's mineral  
25 interests.

1           And you can see where we've identified the  
2   Green Eyed Squealy Worm, there is kind of a  
3   waft-type patch in the green.

4           Q.     Does this exhibit also identify the  
5   easement to the well?

6           A.     Yes, it does. In green, coming from the  
7   south blue line, that is David H. Arrington Oil &  
8   Gas exclusive easement.

9                   To the edge of the section line, the red  
10   line is a later easement that grants us access to  
11   the well site.

12          Q.     Let's go to David H. Arrington Exhibit  
13   No. 2. Would you identify and review the  
14   information on this exhibit?

15          A.     That's a chronological index of documents  
16   and events that we have in our files. It may not be  
17   everything, but it's what we have in our files.

18          Q.     Okay. Review generally for the Examiners  
19   the history of your efforts to develop this acreage.

20          A.     As you go down through there, it's rather  
21   lengthy. It goes through the oil and gas leases,  
22   the elections by the participants at the time.

23                   Probably the most interest was when the  
24   well was spudded. The well was spudded on  
25   January 29, 2004. It was completed March 15th of

1 2004, and ready to produce generally on May 10th of  
2 2004.

3 Q. And who was the operator of that well?

4 A. David H. Arrington Oil & Gas.

5 Q. When the well was initially drilled, did  
6 Marshall & Winston participate in the drilling of  
7 the well?

8 A. Yes, they did.

9 Q. And in terms of the cost of the  
10 development, were they shared by Arrington,  
11 Marshall & Winston, and others?

12 A. That's correct.

13 Q. Who paid the largest share of actually the  
14 drilling cost for this well?

15 A. David H. Arrington did.

16 Q. Did it produce from the Morrow formation?

17 A. Yes, it did.

18 Q. And how long did it produce?

19 A. It produced up until about March of 2007.  
20 It produced intermittently until October of 2007,  
21 according to our records.

22 Q. And has it produced since that time?

23 A. It has not.

24 Q. What is the status of the leases and the  
25 JOA that Mr. Arrington and others had governing this

1 south half spacing unit?

2 A. The original oil and gas leases have all  
3 expired by their own terms, as has the Joint  
4 Operating Agreement covering the south half of  
5 Section 26.

6 Q. Has Mr. Arrington acquired new leases on  
7 acreage in the south half of the section?

8 A. Yes, we have.

9 Q. And what is the current status of the  
10 ownership of the south half of that section?

11 A. Within the south half of Section 26,  
12 David H. Arrington Oil & Gas owns 75 percent of the  
13 working interest. Marshall & Winston, by virtue of  
14 their mineral interest, would own 25 percent of the  
15 14 acres.

16 Q. When did Mr. Arrington propose the reentry  
17 of this well?

18 A. That was done -- let's see if I have that  
19 date right in front of me here. That was done in  
20 March of 2010.

21 Q. Was that a proposal to complete in the  
22 Morrow or the Cisco?

23 A. That was a workover for the Cisco.

24 Q. And what response did you receive from  
25 Marshall & Winston?

1           A.     We did receive a written response, but we  
2     received a verbal response that there was no  
3     interest in participation from Marshall & Winston.

4           Q.     And what happened internally at David  
5     Arrington at that time?

6           A.     I had asked our production foreman to go  
7     out to the wellsite and take an inventory of the  
8     equipment on site. And we revisited the Green Eyed  
9     Squealy Worm in house to determine if we should  
10    reexamine the Morrow formation before the well was  
11    abandoned.

12          Q.     Did you determine that it would be prudent  
13    to try to reestablish production in the Morrow prior  
14    to moving uphole?

15          A.     Yes, we did.

16          Q.     And will Arrington call an engineering  
17    witness to review the considerations related to that  
18    determination?

19          A.     Yes, we will.

20          Q.     What is David H. Arrington Exhibit No. 3?

21          A.     That's an easement that grants us access  
22    from the road to the south. I apologize, I don't  
23    have the name of the road. But it's an exclusive  
24    easement for the access across the south half of  
25    Section 26 from the surface owner to the wellbore,

1 and if the surface owner has rights to the wellbore,  
2 the right to use that.

3 Q. The surface is severed from the mineral  
4 and has stayed under this acreage; has it not?

5 A. That's correct.

6 Q. And the easement is broad in its terms; is  
7 that correct?

8 A. That's correct.

9 Q. And the intent was to be able to access  
10 the well without any surface issue if in fact you're  
11 allowed to reenter it to reestablish production in  
12 the Morrow?

13 A. That's correct.

14 Q. The primary objective in your reentry  
15 attempt is the Morrow Formation?

16 A. That is correct.

17 Q. In this pooling application, what  
18 interests are subject to pooling?

19 A. The interest of Marshall & Winston.

20 Q. Are the other interests in this south half  
21 proposed unit owned by Arrington and committed to  
22 the reentry?

23 A. Yes, they are.

24 Q. Could you identify and review Arrington  
25 Exhibit No. 4 and just simply state what this is?

1           A.     This was the proposal to Marshall &  
2     Winston to reenter the well and do a Cisco workover  
3     procedure.

4           Q.     Since that time, have you proposed the  
5     reentry in the Morrow?

6           A.     Yes, we have.

7           Q.     And have you received a response from  
8     Marshall & Winston to that?

9           A.     We have not.

10          Q.     In your opinion, have you made a  
11     good-faith effort to obtain Marshall & Winston's  
12     voluntary participation in this reentry attempt?

13          A.     I believe we have.

14          Q.     Could you identify what has been marked  
15     Arrington Exhibit No. 5?

16          A.     That's the Authority for Expenditure to  
17     reenter the wellbore and reestablish Morrow  
18     production.

19          Q.     And is this AFE limited to just the costs  
20     associated with the reentry attempt in the Morrow?

21          A.     Yes, it is.

22          Q.     And what are the totals, as set forth on  
23     that exhibit?

24          A.     The total cost of the AFE is \$160,650.

25          Q.     Is Arrington Oil & Gas willing to expend

1 this sum to take one last look at the Morrow  
2 formation?

3 A. Yes, we are.

4 Q. Are these costs in line with what is  
5 charged by other operators for similar recompletion  
6 attempts?

7 A. I would defer to our engineering counsel  
8 to answer that.

9 Q. Have you made an estimate of overhead and  
10 administrative costs to be assessed if in fact the  
11 well is successful in this reentry attempt?

12 A. We have.

13 Q. And what are they?

14 A. They are 8,000 for a drilling well rate,  
15 \$800 per month for producing oil.

16 Q. And do you recommend these figures be  
17 incorporated in any order that results from today's  
18 hearing?

19 A. I do.

20 Q. Does Arrington request that the overhead  
21 and administrative costs set by this order  
22 periodically be adjusted in accordance with COPAS  
23 procedures?

24 A. We do.

25 Q. Do you request that a risk charge be

1 imposed on Marshall & Winston if they do not  
2 participate in the reentry attempt?

3 A. We do.

4 Q. And this risk would then apply, of course,  
5 only to the costs associated with the reentry?

6 A. That Is correct.

7 Q. Okay. Does David H. Arrington Oil & Gas  
8 seek to remain operator of this well?

9 A. We do.

10 Q. And is Exhibit No. 6 an affidavit with  
11 attached letters confirming that notice of today's  
12 hearing has been provided in accordance with the  
13 rules of the OCD?

14 A. It is.

15 Q. And were Arrington Exhibits 1 through 8  
16 either prepared by you or compiled under your  
17 direction or supervision?

18 A. They were prepared under my supervision.

19 Q. Can you testify as to their accuracy?

20 A. Yes, I can.

21 MR. CARR: At this time, may it please the  
22 Examiners, we move the admission of Arrington  
23 Exhibits 1 through 6.

24 THE EXAMINER: Exhibits 1 through 6 are  
25 admitted.

1 (Arrington Exhibits 1 through 6,  
2 inclusive, were admitted.)

3 MR. CARR: That concludes my direct  
4 examination of Mr. Kastner.

5 MR. BROOKS: I think you addressed this  
6 issue, but I have forgotten. Marshall & Winston,  
7 did they own an interest in this property under the  
8 prior leases before this well was drilled?

9 THE WITNESS: Before the Green Eyed  
10 Squealy Worm?

11 MR. BROOKS: Yes.

12 THE WITNESS: I don't know that. I assume  
13 it's a mineral interest. I don't know when they  
14 came into title.

15 MR. BROOKS: Okay. So their interest is  
16 in unleased mineral interests?

17 THE WITNESS: That's correct.

18 MR. BROOKS: Okay. Thank you.

19 THE EXAMINER: Mr. Bruce.

20 CROSS-EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Kastner, if you would look at your  
23 Exhibit 2 and get your Exhibit 6 out also. I'm  
24 looking at Exhibit 6. And I didn't count them, but  
25 maybe a dozen or 14 people were notified of the

1 hearing?

2 A. That's correct.

3 Q. Were all of these unleased mineral  
4 interest owners?

5 A. They were.

6 Q. If I look at your Exhibit 2, especially  
7 the last page, you only list four leases that are --  
8 they're additional leases?

9 A. Yes. Yes, they are.

10 Q. Okay.

11 A. We would be happy to provide those.

12 Q. I notice that if you look at once again  
13 page 1 and then the second-to-the-last page of  
14 Exhibit 2, you started looking at the June Speight  
15 interest on the Estate of June Speight. And then  
16 Bobby V. Ell and his wife and Charles E. Savage, you  
17 started re-leasing in this area approximately two  
18 years ago, correct?

19 A. That's correct.

20 Q. Okay. So Arrington knew at that time that  
21 all of these prior leases had expired?

22 A. That's correct.

23 Q. Have the old leases ever been released of  
24 record?

25 A. Yes, we have. We filed a release. I

1 don't know if it's been recorded yet, but we  
2 provided that release.

3 Q. And when was that release dated?

4 A. Well, probably August 26th. It was fairly  
5 recent. I don't have the date right in front of me.

6 Q. Fairly recently?

7 A. Fairly recent, yes, within the last two  
8 weeks.

9 Q. Is there any reason why releasing these  
10 leases took so long?

11 A. Workload, not a high priority.

12 Q. Looking at your Exhibit 4, this is a well  
13 proposal on an AFE for Cisco Canyon completion,  
14 correct?

15 A. That's correct.

16 Q. Is there a proposal for the Morrow?

17 A. I believe we that proposal went out. I  
18 don't have the date in front of me. That went out  
19 the same date as --

20 Q. Why do you not have your well proposal for  
21 the Morrow in this package of exhibits?

22 A. I believe that was done -- it was attached  
23 to the affidavit, if I'm not mistaken. If you'll  
24 bear with me just a minute.

25 The proposal to reenter and recomplete in

1 the Morrow was sent out on May 20th of 2010. And  
2 we'll be happy to provide the Commission with copies  
3 of those letters.

4 Marshall & Winston received copies of that  
5 proposal. It went out under my signature.

6 Q. Was the proposal to reenter the Morrow  
7 also sent out to any of the unleased mineral  
8 interest owners?

9 A. Yes, it was.

10 Q. Were the proposal letters sent to  
11 Marshall & Winston and Winston Partners the same as  
12 the well proposal sent out to the other unleased  
13 mineral interest owners?

14 A. I believe the form letter was the same.

15 MR. BRUCE: And I would like to see copies  
16 of those letters, Mr. Examiner.

17 MR. CARR: We will provide those.

18 MR. BRUCE: That's all I have of this  
19 witness, Mr. Examiner.

20 THE EXAMINER: Mr. Brooks.

21 MR. BROOKS: I believe I do not have any  
22 questions at this point.

23 THE EXAMINER: I have no questions.

24 MR. CARR: At this time, we would call  
25 Brian Ball.

1 BRIAN C. BALL,  
2 having been previously duly sworn, testified as  
3 follows:

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Would you state your name for the record,  
7 please?

8 A. Brian C. Ball.

9 Q. Spell your last name.

10 A. B-A-L-L.

11 Q. Mr. Ball, where do you reside?

12 A. Midland, Texas.

13 Q. By whom are you employed?

14 A. David H. Arrington Oil & Gas.

15 Q. And what is your current position with  
16 David H. Arrington Oil & Gas?

17 A. I am the exploration manager, and I'm a  
18 Certified Professional Geologist.

19 Q. Have you previously testified before the  
20 New Mexico Oil Conservation Division?

21 A. No, sir.

22 Q. Are you familiar with the applications  
23 filed in this cases?

24 A. Yes, sir.

25 Q. Could you review for the Examiners your

1 educational background and your work experience?

2 A. I graduated from the University of  
3 Wisconsin - Madison in 1979 with a Bachelor's in  
4 Geology and Geophysics. I graduated from East Texas  
5 State University in Commerce, Texas, with a Master's  
6 degree in 1981.

7 I began my career with Gulf Oil in  
8 Midland, worked there for four years. I worked  
9 Southeast New Mexico, West Texas. And I went to  
10 work for independent oil, Hartman, also in Midland,  
11 primarily focused in New Mexico.

12 And then I lived in Midland and worked for  
13 Unocal for 17 years and worked West Texas and  
14 Southeast New Mexico.

15 For David, I've worked for David for five  
16 years. And I've worked West Texas, Southeast New  
17 Mexico, South Texas, East Texas, Arkansas,  
18 Mississippi and Alabama.

19 And I'm a Certified Professional Geologist  
20 in Texas, Arkansas and Mississippi. And I've  
21 testified at the Texas Railroad Commission and at  
22 the Arkansas Oil & Gas Commission.

23 Q. Have you prepared exhibits for  
24 presentation in this case?

25 A. Yes, sir.

1           MR. CARR: We tender Mr. Ball as an expert  
2 witness in petroleum geology.

3           THE EXAMINER: Any objection?

4           MR. BRUCE: I have no objections.

5           THE EXAMINER: So moved.

6           Q.    (By Mr. Carr) Mr. Ball, the primary  
7 objective in this area is the Morrow formation,  
8 correct?

9           A.    Yes, sir.

10          Q.    Would you refer to what has been marked as  
11 Arrington Exhibit No. 7, identify this and review it  
12 for the Examiner?

13          A.    Exhibit No. 7 is just the well log of the  
14 Green Eyed Squealy Worm No. 1. This was a prospect  
15 that David H. Arrington drilled back in 2004. And  
16 the objective was the Upper Morrow Sands.

17                And as you can see on the log here, what  
18 I'm showing, this is the well. On the left side we  
19 have our laterolog, and on the right is the porosity  
20 log with density/neutron.

21                I've marked the top of the Morrow  
22 Clastics. And there are two objectives which were  
23 found in the well: The Upper Morrow Sand, which is  
24 about 10 feet of pay; the Lower Morrow Sand, which  
25 is approximately 20 feet of pay. And both of those

1 were perforated in the well.

2           Reviewing the well log, doing a little  
3 analysis, the lower portion appears that it did  
4 contain some water. We produced both oil, water and  
5 gas from the well.

6           The initial IP was 1.347 million cubic  
7 feet of gas per day, 36 barrels of oil and  
8 58 barrels of water. Cumulative production is over  
9 397 million cubic feet of gas, 11,000 barrels of  
10 oil, and 17,000 barrels of water.

11       Q.     From your log analysis, do these zones  
12 remain potentially productive?

13       A.     Yes, they do.

14       Q.     And do all the zones look equally  
15 productive to you?

16       A.     I would feel the upper zones in the Upper  
17 Morrow part were probably the main productive zones,  
18 but all of them should contribute hydrocarbons to  
19 the well.

20       Q.     From just a geologic review of the  
21 formation, the Morrow formation, as it appears on  
22 this log, is there anything that would suggest to  
23 you it isn't worth an attempt to try and reestablish  
24 production in this zone?

25       A.     No. It is worth an attempt.

1 Q. Was Arrington Exhibit 7 prepared by you?

2 A. Yes, sir.

3 MR. CARR: At this time we move the  
4 admission of David H. Arrington Exhibit No. 7.

5 THE EXAMINER: Exhibit No. 7 is admitted.

6 (Arrington Exhibit 7 was admitted.)

7 MR. CARR: That concludes my direct of  
8 Mr. Ball.

9 MR. BRUCE: I have no questions of  
10 Mr. Ball.

11 MR. BROOKS: Mr. Ball, do you know why  
12 this Morrow was abandoned previously?

13 THE WITNESS: It started producing quite a  
14 bit of water, and it was not economic at that time.

15 MR. BROOKS: Okay. Is it because of  
16 changes in the market, or is it because of some new  
17 approach to how this well would be produced that you  
18 made this analysis?

19 THE WITNESS: Well, I think the way we're  
20 going to go in and work over the well, and the  
21 market is better than it was at that time.

22 MR. BROOKS: Okay. Thank you.

23 THE EXAMINER: So the market, what was the  
24 price of gas when this well was shut in?

25 THE WITNESS: I don't know exactly what it

1 was.

2 THE EXAMINER: And what price did you put  
3 into your economic equation?

4 THE WITNESS: \$4.

5 THE EXAMINER: Would it be fair to say  
6 that the price back in 2007 --

7 THE WITNESS: '6.

8 THE EXAMINER: '6?

9 -- was more or less than that \$4?

10 THE WITNESS: It may have been. I don't  
11 know.

12 THE EXAMINER: It was one or the other?

13 THE WITNESS: Definitely.

14 THE EXAMINER: Looking at your log --

15 THE WITNESS: Yes.

16 THE EXAMINER: I mean your gas just jumps  
17 right out there at you. What is it that you think  
18 you missed, or are you looking at the same zones?

19 THE WITNESS: Well, we're looking at  
20 exactly the same zones. And we're just basically  
21 feeling that we've got water in there. And if we  
22 could pump the water down, then we could bring the  
23 gas on. We have not tried that on this well.

24 THE EXAMINER: So these logs were dated --  
25 I'm sure it's on there someplace --

1 THE WITNESS: From 2004.

2 THE EXAMINER: 2004?

3 And you have no current logs on the well?

4 THE WITNESS: No, sir. This is the only  
5 one.

6 MR. CARR: I have no further questions.

7 May it please the Examiners? At this time  
8 we would call Art Carrasco.

9 ARTURO C. CARRASCO,  
10 having been previously duly sworn, testified as  
11 follows:

12 DIRECT EXAMINATION

13 BY MR. CARR:

14 Q. Would you state your full name for the  
15 record, please?

16 A. My full name is Arturo C. Carrasco.

17 Q. Can you spell Carrasco?

18 A. C-A-R-R-A-S-C-O.

19 Q. Where do you reside?

20 A. Midland, Texas.

21 Q. And by whom are you employed?

22 A. David Arrington.

23 Q. And what is your position with David  
24 Arrington?

25 A. I work as an engineering operations

1 manager.

2 Q. Have you previously testified before the  
3 New Mexico Oil Conservation Division?

4 A. No, sir.

5 Q. Could you review for the Examiners your  
6 educational background and your work experience?

7 A. My educational background. I got a  
8 Bachelor's in civil engineering from New Mexico  
9 State in 1980.

10 I probably went to work for Halliburton  
11 and was there at Halliburton for 26 years, working  
12 as an engineer, as a petroleum engineer. During  
13 those 26 years, in that time frame, I spent several  
14 years working in-house as a technical advisor for  
15 companies such as Exxon, Marathon, Collingsworth.

16 And I worked in different areas of the  
17 country. Most of my field experience was in  
18 Southeast New Mexico.

19 And then after that, I went ahead and  
20 retired from Halliburton and went to work for David  
21 Arrington about three and a half years ago.

22 Q. Have you previously testified before the  
23 Oil Conservation Division?

24 A. In Texas, yes.

25 Q. But not in New Mexico?

1           A.     Not in New Mexico.

2           Q.     Are you familiar with the applications  
3     filed in this cases?

4           A.     Yes, I am.

5           Q.     Have you prepared exhibits for  
6     presentation here today?

7           A.     Yes, I have.

8                   MR. CARR: We tender Mr. Carrasco as an  
9     expert petroleum engineering witness.

10                  MR. BRUCE: No objection.

11                  THE EXAMINER: Mr. Carrasco, when did you  
12     first become familiar with the Green Eyed Squealy  
13     Worm?

14                  THE WITNESS: When I initially came to  
15     work with David Arrington was about the time that  
16     production had kind of ceased on this well. We went  
17     and looked at it. There was an obstruction in the  
18     tubing. We then went in to find out what it was.  
19     And it turned out to be a real musky material, like  
20     paraffin.

21                  And at that point, they went ahead and  
22     they did a workover on the well. I went in with  
23     cold tubing, cleaned it out, and noticed that it  
24     would make some gas and oil, and it would make some  
25     water also. It would not flow on its own.

1           Q.     (By Mr. Carr) Did you run a bottom hole  
2     pressure buildup on the well?

3           A.     We ran a buildup on the well, and it  
4     showed a bottom hole pressure of 4,650 pounds. So  
5     it indicated that the well still had some production  
6     potential.

7           Q.     Did you attempt to frac the well at that  
8     time?

9           A.     At that point, I did attempt to frac the  
10    well, since it had just been completed with a tubing  
11    conveyed perforating.

12                   And during that frac job, being the way  
13    the well was configured, with the DCP guns still  
14    sitting across the lower interval, I believe, it  
15    appeared that a lot of that frac may have gone down.

16                   But at some time during that frac job, the  
17    oil head pressure increased. And I think at that  
18    time is when we went ahead and communicated with the  
19    bottom section. And the well was screened out, but  
20    we did get about half of our profit in it.

21                   We proceeded to go ahead and wash it out  
22    with cold tubing, clean it out, and ended up putting  
23    it on production. It would make some gas, but it  
24    was having trouble flowing. It just made a lot of  
25    water with it also.

1 Q. And the well last produced when?

2 A. I believe October '07.

3 Q. And have you worked on the well since that  
4 time?

5 A. No, sir, I have not.

6 Q. Let's go to your Exhibit No. 8. Would you  
7 identify this and review it for the Examiners,  
8 please?

9 A. Exhibit No. 8 is a simple workover  
10 prognosis to run artificial lift in this well.

11 Q. And when was this prepared?

12 A. It was prepared in May of 2010.

13 Q. Are you familiar with what were the  
14 reasons you were asked to take a look at the well?

15 A. Yes, I am.

16 Q. And what are those?

17 A. The reason was it appeared that -- well,  
18 you know, we had lost the lease, whatever. And it  
19 appeared that the option was to go up the hole to do  
20 a workover of the Cisco.

21 And at that time we decided to take  
22 another relook at the Morrow, see if there was  
23 anything new or different that we could do to  
24 reestablish production.

25 And at that point, you know, we realized

1 and noticed that in the industry, a lot of people  
2 were putting artificial lifts on these Morrow wells  
3 and making some commercial wells -- reestablishing  
4 some commercial production.

5 We actually had a well, which was about  
6 4 miles over, called the Bill's Hopper No. 2, I  
7 believe, that we actually did this.

8 We had a well that would not flow.  
9 Production had ceased on it. And we installed an  
10 artificial lift on it and brought it back up to  
11 about a quarter million a day and made it commercial  
12 again.

13 So we thought we'd go ahead and take a  
14 relook at the Green Eyed Squealy Worm.

15 Q. And the production history for the Bill's  
16 Hopper No. 2 Well is what is marked as Arrington  
17 Exhibit No. 9; is that correct?

18 A. That's correct.

19 Q. And when was the artificial lift put on  
20 this well?

21 A. The artificial lift was put on this well  
22 in approximately October, December of '07.

23 Q. Is it producing now?

24 A. Yes, it is.

25 Q. And is this basically the analog for what

1     you're proposing to do in the Green Eyed Squealy  
2     Worm?

3             A.     It is.

4             Q.     Exhibit No. 8, the workover prognosis,  
5     basically it shows that you intend to put artificial  
6     lift on the well?

7             A.     It does.

8             Q.     What will you do with the water?

9             A.     We'll take it to commercial disposal.

10            Q.     If your initial work on the well is  
11     favorable, is it possible that you would go back and  
12     try and address some of the downhole problems and  
13     plug off the lower horizon?

14            A.     Yes, it is.

15            Q.     In your opinion, would a reentry attempt  
16     in the Morrow Formation be in the best interest of  
17     conservation and prevention of waste and the  
18     protection of correlative rights?

19            A.     Yes, it is.

20            Q.     If you do not attempt to recomplete in the  
21     Morrow at this time, will it be economically  
22     possible to go back and try and establish Morrow  
23     production at a later date?

24            A.     Conventional oilfield procedures, you  
25     start at the bottom and work up. I would say it

1 would be more economical to do it now, than to try  
2 to come back later.

3 Q. And if there is no attempt and there are  
4 reserves, these reserves will be wasted?

5 A. I believe they will be.

6 Q. And if work on this well in an attempt to  
7 reenter the Morrow, if permitted to do so, will  
8 Arrington exercise care not to do anything to it to  
9 jeopardize the later use of this wellbore for  
10 shallower horizons?

11 A. Yes, we will.

12 Q. How soon do you plan to commence  
13 operations on this well?

14 A. Oh, I would say we could probably have it  
15 done by the end of the fourth quarter of this year.

16 Q. Would 90 days be an adequate time for you  
17 to get into the well and attempt the workover and  
18 start the workover attempt?

19 A. Yes, it would.

20 Q. Okay. Were Exhibits 7 through 9 prepared  
21 by you or compiled under your direction?

22 A. Yes, they were.

23 MR. CARR: At this time we'd move the  
24 admission into evidence of Arrington Exhibits 7  
25 through 9.

1 MR. BRUCE: No objection.

2 THE EXAMINER: Exhibits 7 through 9 are  
3 admitted.

4 (Arrington Exhibits 7, 8 and 9 were  
5 admitted.)

6 MR. CARR: That concludes my direct  
7 examination of Mr. Carrasco.

8 MR. BRUCE: Just a couple of questions.

9 CROSS-EXAMINATION

10 BY MR. BRUCE:

11 Q. Looking at your Exhibit 8, the final page.

12 A. Okay. Yes, sir.

13 Q. Are the Lower Morrow Sands behind the  
14 plug?

15 A. No, they're not.

16 Q. Your wellbore sketch shows that the  
17 original plug was set at 13,050, and it slid down.  
18 Is that the base of the Morrow?

19 A. It slid down to the bottom set of  
20 perforations.

21 Q. But that's not the base of the Morrow?

22 A. No, it's not.

23 Q. Okay. So the very lower Morrow zones are  
24 below that, right?

25 A. The very lower Morrow is below 13,050.

1 Q. 13,050 or 13,100?

2 A. 13,050.

3 Q. In your workover procedure, you're not  
4 going to remove that plug, are you?

5 A. No, we're not. With the initial fill or  
6 paraffin or whatever was in there, we filled that  
7 with some sort of a plug also.

8 Plus also, when we did the initial frac  
9 job on that upper zone, when it screened out, the  
10 bottom of the casing filled with provent, which was  
11 cleaned out to the top of the finish. And so we  
12 have a proper plug in the wellbore at the time.

13 Q. In looking at the perforated intervals,  
14 which perforations were fracked?

15 A. The perforations that were fracked was  
16 12,993 to 13,004.

17 Q. Not the other ones?

18 A. No, sir.

19 Q. As of November '06, what zones were  
20 producing? Was the well producing from all of the  
21 perforated intervals?

22 A. The well was producing from 12,993 to  
23 13,004. And being that there is no physical plug  
24 between the top and bottom perfs, I'm not sure if  
25 anything came out of the bottom or not.

1 Q. You were the completion engineer for  
2 Arrington Oil & Gas in July of 2007; were you not?

3 A. July of 2007? Yes, I was.

4 Q. And did you write a memo to the working  
5 interest owners saying at that time it would be  
6 uneconomical to reenter and restimulate the Upper  
7 Morrow interval?

8 A. At that time, that was the convention,  
9 yes.

10 Q. Have you or has anyone else at Arrington  
11 calculated the expected economics and reserves of  
12 the recompletion procedure?

13 A. I have not, no, sir.

14 Q. Has anyone else at Arrington?

15 A. Not to my knowledge.

16 MR. BRUCE: That's all I have,  
17 Mr. Examiner.

18 THE EXAMINER: Mr. Brooks.

19 MR. BROOKS: When was the Morrow zone in  
20 the Green Eyed Squealy Worm abandoned?

21 THE WITNESS: The lower one or the upper  
22 one?

23 MR. BROOKS: The upper. The upper is what  
24 we're talking about now, right?

25 THE WITNESS: Right. When production

1     ceased.

2                 MR. BROOKS: I should say -- yeah, that's  
3     actually the question. It hasn't been plugged, as I  
4     understand it. It's simply not producing?

5                 THE WITNESS: Not producing since  
6     October of '07.

7                 MR. BROOKS: Okay. And in response to  
8     Mr. Bruce's question, you said at that time you  
9     believed or you recommended that the effort to work  
10    over and reestablish production in that zone would  
11    be uneconomic, right?

12                THE WITNESS: Yes. At that time, we were  
13    not looking at an artificial lift. We were looking  
14    at just trying to go in and swab it every now and  
15    then to try and reestablish production.

16                MR. BROOKS: What has changed now?

17                THE WITNESS: What has changed now is in  
18    talking, you know, going to SPA meetings and talking  
19    to various other engineers in Midland, you know, we  
20    hear that other folks have gone in there and added  
21    artificial lifts to try and get rid of some of this  
22    water.

23                Realizing we still have some good bottom  
24    hole pressure, we thought we might able to just go  
25    ahead and add artificial lift and remove some of the

1 head off of the well that was keeping it from  
2 producing.

3 MR. BROOKS: All right. You knew what  
4 your bottom hole pressure was then, didn't you? Or  
5 has your information on that changed since '07.

6 THE WITNESS: No, it hasn't changed.

7 MR. BROOKS: So what you're saying is you  
8 learned more about what can be done with this type  
9 of well?

10 THE WITNESS: Correct.

11 MR. BROOKS: Okay. Now, Mr. Ball said  
12 something about the price of gas. Actually, the  
13 price of gas is lower now than it was in '07; is  
14 that not correct?

15 THE WITNESS: Correct, it was.

16 MR. BROOKS: So it's the economics? If  
17 it's better, it's because of better procedures, not  
18 because of a better market?

19 THE WITNESS: Correct.

20 MR. BROOKS: That's all I have.

21 THE EXAMINER: What about that finish that  
22 you're showing here on Exhibit 8?

23 THE WITNESS: When the well was originally  
24 completed, when it was originally drilled, they  
25 perforated the bottom two intervals, and they

1 swabbed on them and made a lot of water. It was  
2 uneconomical.

3 They real quickly set a cast iron bridge  
4 plug above those perforations, put 10 foot of cement  
5 on top of it, and then proceeded to run a TCP  
6 perforating job on the Upper Morrow, went ahead and  
7 perforated it.

8 During the initial test, they decided it  
9 needed to be acidized. And in the process of  
10 shifting the TCP guns off, dropping them off so they  
11 could go ahead and run their acid job, the guns did  
12 not shift off.

13 So they went in there with a tubing  
14 cutter, and they cut the tubing right above the guns  
15 and dropped them off on the bottom. And actually  
16 they were dropped, and they landed on top of that  
17 cast iron bridge plug.

18 Subsequently after that, they did an acid  
19 job on the well, which created a real high pressure.  
20 And they assumed that the cast iron bridge plug  
21 released and everything went to bottom.

22 And at that point, after the well was  
23 acidized, it produced some gas initially. And at  
24 that point they decided just to leave it in that  
25 configuration.

1 THE EXAMINER: So that's not drill pipe in  
2 there, that is --

3 THE WITNESS: That is tubing and TCP  
4 perforating, yes.

5 THE EXAMINER: No other questions.

6 MR. CARR: That concludes our  
7 presentation.

8 MR. BRUCE: I call Mr. Hammit to the  
9 stand.

10 KEVIN HAMMIT,  
11 having been previously duly sworn, testified as  
12 follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

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

17 A. It's Kevin Hammit.

18 Q. And where do you reside?

19 A. Midland, Texas.

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

21 A. I work for Marshall & Winston, Inc., as VP  
22 Land.

23 Q. Have you previously testified before the  
24 Division?

25 A. I have not.

1 Q. Would you summarize your educational and  
2 employment background for the Examiner?

3 A. Certainly. I graduated from Eastern New  
4 Mexico University in 1976. I started work in the  
5 oil and gas business as a land man, in 1982 as a  
6 contract land man, day work, that sort of thing.

7 I continued to do that and remained  
8 self-employed until 1987, when I went under contract  
9 to Exxon Corporation in their Divestitures Group for  
10 two years. And then in September of 1989, I was  
11 offered a position with Marshall & Winston. I  
12 accepted, and I've been here ever since.

13 Q. Does your area of responsibility at  
14 Marshall & Winston include Southeast New Mexico?

15 A. Yes, it does.

16 Q. And are you familiar with the land matters  
17 involved in this application?

18 A. Yes, I am.

19 Q. And have you compiled an exhibit package  
20 from the land and other records of Marshall &  
21 Winston regarding the Green Eyed Squealy Worm?

22 A. Yes, I have.

23 MR. BRUCE: Mr. Examiner, I tender  
24 Mr. Hammit as an expert petroleum land man.

25 MR. CARR: No objection.

1 THE EXAMINER: So recognized.

2 Q. (By Mr. Bruce) Mr. Hammit, we've handed  
3 out Exhibit 1, which is a large package of  
4 information. Before we go further, the two bottom  
5 sections which are paper clipped together, that is  
6 simply backup information. And you don't plan on  
7 going through that?

8 A. That is correct. Those, at this point in  
9 time, would not be anything critical, I don't  
10 believe.

11 Q. So what you'd ask the Examiners to look at  
12 is the paper-clipped portion of this exhibit  
13 package?

14 A. That would be right.

15 Q. First of all, to start off, in the south  
16 half of Section 26, what does Marshall & Winston  
17 own?

18 A. We own 75 percent of the mineral interests  
19 in the north half of the southeast quarter of  
20 Section 26. And we also own the oil and gas lease  
21 covering Winston Partners' 25 percent mineral  
22 interests in that tract.

23 Q. Okay. So Marshall & Winston owns  
24 100 percent of the working interest in the north  
25 half of the southeast quarter of Section 26?

1 A. That is correct.

2 Q. And that is the acreage on which the  
3 subject well was located?

4 A. That is correct.

5 Q. Let's, Mr. Hammit, run through the  
6 paper-clipped portion of this data. You've got a  
7 number of items stapled. I don't think we need to  
8 go through them in great detail.

9 But first of all, in the original drilling  
10 and the recompletion attempts of the well, did  
11 Marshall & Winston participate as a working interest  
12 owner?

13 A. Yes, we did. Besides having a mineral  
14 interest in the proration unit, we also had a  
15 working interest.

16 Q. Okay. And so you participated in the well  
17 and paid your proportionate share of the well costs?

18 A. That is correct.

19 Q. What is Exhibit 1? I mean the first page  
20 of Exhibit 1.

21 A. The first page is a chart showing  
22 production for the Green Eyed Squealy Worm.  
23 According to these records, it went down in January  
24 of 2006.

25 There was a recompletion attempt in March

1 of 2007. It produced just a nominal amount of MCF  
2 at that time, and there has been no production from  
3 that well since.

4 Q. So it's been nonproductive for about three  
5 and a half years?

6 A. That would be correct.

7 Q. What is the next page, the land plat?

8 A. I have a land plat that was provided to us  
9 by Arrington at the time that we saw their proposal  
10 to drill the well in the area. It's a land plat  
11 outlining the subject area. And in there is that  
12 south half of 26, where the Green Eyed Squealy Worm  
13 was drilled.

14 Q. Now, there's a brown outline. What was  
15 that?

16 A. The outline around there was an area of  
17 mutual interest.

*AMI area of Mutual Interest*

18 Q. And has that EMI expired?

19 A. Yes, the <sup>AMI</sup>EMI expired a long time ago. It  
20 expired previous to the oil and gas leases that the  
21 Green Eyed Squealy Worm was drilled under.

22 Q. And what is the next page, the form C-101?

23 A. This was the original application to drill  
24 that Arrington put together for the drilling of the  
25 Green Eyed Squealy Worm.

1 Q. In the south half of Section 26?

2 A. That is correct. That is what it covered.

3 Q. Next there's a letter dated March 17,  
4 2004. What is that?

5 A. This was the casing point election on that  
6 Green Eyed Squealy Worm. We, at that time, elected  
7 to participate in the completion of the well.

8 Q. And what is the next page, the Sundry  
9 Notice?

10 A. That would be a Sundry Notice -- let's  
11 see. This would be the completed operations of the  
12 well. And let's see. This may be the original.

13 Q. That was for the original completion  
14 attempt?

15 A. The original completion attempt, you're  
16 correct.

17 Q. And the next stapled-together pages?

18 A. It looks like this is the completion  
19 report for the Green Eyed Squealy Worm as it was  
20 originally drilled and completed in the Morrow  
21 formation.

22 Q. And at least initially, it was a pretty  
23 good well?

24 A. Yes, it was. We considered it to be  
25 successful at the time.

1 Q. And what is the next page?

2 A. After the --

3 Q. Completion.

4 A. After the well ceased production in 2006,  
5 we received an AFE in an attempt to reestablish  
6 production from the Morrow formation.

7 That came under a letter dated March 23,  
8 2007. And Marshall & Winston did agree, by signing  
9 the AFE, and participated in that recompletion  
10 attempt in the Morrow.

11 Q. So that recompletion was approximately  
12 \$140,000?

13 A. That is correct.

14 Q. And Marshall & Winston did pay its share  
15 of that?

16 A. Yes, we did. We were in that recompletion  
17 attempt.

18 Q. The next page is a memo from Arrington  
19 Oil & Gas. What does that reflect?

20 A. Well, this is following the recompletion  
21 attempt in the Morrow. We received a status update  
22 from Mr. Carrasco concerning that attempt.

23 This is a July 3, 2007, memo. And in that  
24 memorandum, it was indicated that the work in trying  
25 to reestablish production from the Morrow was not

1       successful.

2           Q.       It was not successful, in that Arrington  
3       did not recommend another attempt in the Upper  
4       Morrow, correct?

5           A.       That is in that memorandum. Yes, it is.

6           Q.       Now the memo, in the final paragraph,  
7       recommends a Cisco test, correct?

8           A.       It said that they would recommend going to  
9       the Cisco interval for a completion attempt in that  
10       zone.

11          Q.       Was a formal proposal regarding a Cisco  
12       completion sent out to the working interests?

13          A.       Yes, there was, under a --

14          Q.       Was that the next --

15          A.       That is the next packet there, a letter  
16       dated July 23, 2007. There was an AFE submitted to  
17       Marshall & Winston for a completion attempt in the  
18       Cisco formation, which we did execute and agree to  
19       participate in.

20          Q.       Okay. So Marshall & Winston did agree to  
21       participate in the Cisco recompletion?

22          A.       That is correct.

23          Q.       Was that ever done?

24          A.       It was not.

25          Q.       Now in Arrington's exhibits there was a

1 proposal only for the Cisco completion, I believe  
2 sent out to Marshall & Winston sometime in March,  
3 referring back to their exhibits?

4 A. Okay. That sounds correct.

5 Q. And did Marshall & Winston inform  
6 Arrington that it was not interested in that?

7 A. I believe that was an informal proposal.  
8 I don't think there was anything in writing to us.  
9 We did not at that time wish to participate in an  
10 attempt by Arrington to recomplete in the Cisco  
11 formation.

12 Q. Let's go to the next letter in this  
13 packet. It's a letter from Arrington Oil & Gas to  
14 Marshall & Winston, dated May 20, 2010.

15 What is this?

16 A. This is the proposal to recomplete in the  
17 Morrow formation in that Green Eyed Squealy Worm.

18 Q. Now, Mr. Hammit, looking at the second  
19 sentence, could you read that into the record,  
20 please?

21 A. The second sentence?

22 Q. The second sentence, yes.

23 A. "We invite to you participate in the  
24 operation, based on your interest in the original  
25 designated pooled unit, being the south half of

1 Section 26, Township 15 South, Range 34 east, and  
2 the terms of the original JOA."

3 Q. Was the JOA valid at that time?

4 A. No. It would have terminated on its own  
5 volition well before then.

6 Q. A number of years before this letter was  
7 sent out?

8 A. Quite a while.

9 Q. Do you know why Arrington proposed  
10 participating under an expired JOA?

11 A. I do not.

12 Q. Look at the next letter, the May 5th  
13 letter from Marshall & Winston.

14 A. Well, we were attempting to access the  
15 wellbore to do a completion of our own in the Cisco  
16 formation.

17 We had commenced work on that well before  
18 now, but this was our formal approach to the OCD to  
19 obtain designation as operator under the well -- or  
20 excuse me, an ATD, an application to drill, so that  
21 we could reenter that wellbore to attempt to  
22 establish production from the Cisco formation.

23 Q. Now, this request was denied, correct?

24 A. That is correct.

25 Q. Because the operator of record was still

1     Arrington?

2           A.     That is correct. We had approached  
3     Arrington to get a change of operator. They would  
4     not provide that.

5                     So we were unable to proceed with any  
6     activities in regards to establishing production for  
7     the Cisco formation or attempting a completion  
8     there.

9           Q.     Now, in the original JOA, what was  
10    Marshall & Winston's approximate working interest  
11    percentage?

12          A.     According to the JOA, we had a 26 percent  
13    and change working interest in the south half of  
14    Section 26.

15          Q.     And that would have been as to all depths  
16    from surface to the base of the Morrow?

17          A.     That is correct. It covered all depths.

18          Q.     Now, you're proposing -- Marshall &  
19    Winston wants to do a recompletion in the Cisco  
20    Canyon. What would be Marshall & Winston's working  
21    interest in a Cisco Canyon completion at this time?

22          A.     It would be 100 percent.

23          Q.     Okay. And then there's a final part of  
24    this packet, Mr. Hammit. What does this reflect?

25          A.     This is a takeoff that we obtained, dated

1 August 27th of this year, an update of the south  
2 half of Section 26 as to minerals ownership and  
3 leasehold ownership at that time, according to the  
4 records in Lea County, New Mexico.

5 By this takeoff -- and again, it was of  
6 record at the time -- it does reflect that in the  
7 south half -- excuse me. The north half of the  
8 southeast quarter reflects Marshall & Winston's  
9 ownership of that tract and that Arrington has  
10 leased a number of mineral interest owners the  
11 remainder of the south half of Section 26.

12 Q. Now, in looking at the additional oil and  
13 gas leases that Arrington obtained, it starts  
14 sometime in 2008, correct?

15 A. Yes. I believe that was the first lease  
16 taken by Arrington that is currently still in force.

17 Q. And so obviously, Arrington was aware that  
18 the leases had expired some time ago?

19 A. Yes.

20 Q. Did Marshall & Winston request that its  
21 old leases be released and that Arrington recognize  
22 that the JOA be terminated?

23 A. We did make that request.

24 Q. And what happened with that request?

25 A. We were not provided a release of the oil

1 and gas lease nor a release of the JOA.

2 At that time we pursued an action to the  
3 state courts of New Mexico to obtain that release of  
4 oil and gas lease, release of JOA. And last week we  
5 did obtain that release of lease and release of JOA.

6 Q. That was in Lea County District Court that  
7 that action was filed?

8 A. That is correct.

9 Q. And it wasn't until you filed that that  
10 Arrington agreed to terminate of record the JOA?

11 A. That is correct.

12 Q. At this time, insofar as the request of  
13 Marshall & Winston, do you request that the  
14 application of Arrington to force pool these  
15 interests be denied?

16 A. Yes, that is what we would like.

17 Q. Would you also request that the Division  
18 recognize Marshall & Winston as operator of the  
19 well?

20 A. Yes, we do.

21 Q. In your opinion, is the granting of  
22 Marshall & Winston's application and the denial of  
23 Arrington's application in the interest of  
24 conservation and the prevention of waste?

25 A. We do believe so.

1 Q. And with respect to the paper-clipped  
2 portions of Exhibit 1, just very briefly, what is  
3 that data?

4 A. The uppermost one here is background to  
5 the documentation with Mr. Arrington or with  
6 Arrington Oil & Gas with regards to the terms of our  
7 participation with him in the original drilling of  
8 the Green Eyed Squealy Worm.

9 Q. And it includes the original JOA?

10 A. Yes, the original JOA is included in  
11 there.

12 Q. And then the second part is a package of  
13 what looks like title opinions?

14 A. Title opinions, various title opinions  
15 that were prepared for Arrington for the drilling  
16 and production related to the Green Eyed Squealy  
17 Worm.

18 Q. That's just additional information?

19 A. It is just background information that  
20 might be beneficial.

21 Q. And again, Exhibit 1 was prepared by you?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I move the  
24 admission of Exhibit 1.

25 MR. CARR: No objection.

1 THE EXAMINER: Exhibit 1 will be admitted.

2 (M&W Exhibit 1 was admitted.)

3 MR. BRUCE: I'm handing you Exhibit 2,  
4 which is a Notice of Affidavit.

5 And I move the admission of Exhibit 2.

6 MR. CARR: No objection.

7 THE EXAMINER: Exhibit 2 is admitted.

8 (M&W Exhibit 2 was admitted.)

9 MR. BRUCE: I have no further questions of  
10 the witness.

11 CROSS-EXAMINATION

12 BY MR. CARR:

13 Q. Mr. Hammit, since May you have known that  
14 Arrington was proposing a reentry attempt on the  
15 Morrow; is that correct?

16 A. That is correct.

17 Q. And you had requested that there be formal  
18 releases of underlying leases in the Joint Operating  
19 Agreement; is that right?

20 A. We did make that request, yes.

21 Q. And it was in a District Court proceeding  
22 or as a result of that, you testified, that you  
23 finally obtained these releases?

24 A. Yes.

25 Q. In that District Court proceeding, weren't

1 you also seeking an injunction to prevent Arrington  
2 from conducting operations on the well?

3 A. Yes, we were.

4 Q. And in the settlement of that dispute, you  
5 also dismissed that demand so that it could be  
6 decided here; did you not?

7 A. That is correct.

8 Q. So while you were going to court to get  
9 the releases, it was also part of a complaint where  
10 you were trying to get an order that wouldn't allow  
11 Mr. Arrington to do this recompletion; is that  
12 correct?

13 A. We were concerned about the situation with  
14 the wellbore. We were concerned that Arrington  
15 would commence -- since Arrington was operator of  
16 the Green Eyed Squealy Worm Well, that operations  
17 would take place in the wellbore.

18 Q. Okay. David H. Arrington Oil & Gas was  
19 the designated operator when the well was drilled?

20 A. That is correct.

21 Q. And when it was produced?

22 A. Yes.

23 Q. And in the OCD records, Arrington is still  
24 the designated operator?

25 A. Yes.

1 Q. You're asking that operations be  
2 transferred, that he be removed as operator?

3 A. Yes.

4 Q. What is the basis for that request? Is it  
5 imprudent operating practices or a lack of ownership  
6 in the Cisco spacing?

7 A. It is because we wanted to go attempt a  
8 recompletion in the Cisco zone.

9 Q. I think I'm ~~safe in saying Marshall &~~  
10 ~~Winston isn't interested in participating in a~~  
11 ~~recompletion attempt of the Morrow~~; is that right?

12 A. You are correct.

13 Q. And if you do not participate and if  
14 Arrington is authorized to do that, the \$160,000 to  
15 accomplish that would be paid only by Arrington?

16 A. You're right.

17 Q. And you're interested in assuring that if  
18 this acreage is pooled, it isn't a long-term  
19 pooling, but it would only be effective for 90 days?

20 A. Yes, that is right.

21 Q. Back at the time of the earlier  
22 recompletion, was artificial lift applied to the  
23 well?

24 A. I am not aware. I do not believe so.

25 Q. Okay. And at this time, it's your

1 understanding that Marshall & Winston has  
2 100 percent of the north half of the southeast?

3 A. That is correct.

4 Q. And that the remainder of the south half  
5 is under lease to an independent?

6 A. By our takeoff, by the last update we have  
7 from the County records as of August 27th, I think  
8 that the remaining acreage out of that south half of  
9 the section is what we have under control. I think  
10 that Arrington had the vast majority, and things may  
11 have taken place since then.

12 MR. CARR: That's all I have. Thank you.

13 THE EXAMINER: David.

14 MR. BROOKS: The spacing unit would be the  
15 same for the Cisco as it would be for the Morrow;  
16 would it not?

17 THE WITNESS: It would not be.

18 MR. BROOKS: It would not be? What would  
19 be the spacing unit?

20 THE WITNESS: Forty acres. It's an oil  
21 zone.

22 MR. BROOKS: Okay. So it's prospected for  
23 oil and not for gas?

24 THE WITNESS: That is correct.

25 MR. BROOKS: Okay. So there would not be

1 a necessity for compulsory pooling?

2 THE WITNESS: There would not be. Since  
3 we have leasehold ownership of the full 80 acres, we  
4 would have 100 percent of the ownership in that.

5 MR. BROOKS: Thank you.

6 THE EXAMINER: Thank you.

7 MR. BRUCE: I call Mr. Savage to the  
8 stand.

9 JOHN D. SAVAGE,  
10 having been previously duly sworn, testified as  
11 follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Will you state your name?

15 A. John D. Savage.

16 Q. And where do you reside?

17 A. In Midland, Texas.

18 Q. What is your occupation?

19 A. I'm a Registered Professional Engineer,  
20 reservoir.

21 Q. And what is your relationship to  
22 Marshall & Winston in this case?

23 A. They've hired me to look at the remaining  
24 reserves in the Morrow zone in the Green Eyed  
25 Squealy Worm.

1 Q. And have you also conducted an economic  
2 study regarding a completion?

3 A. Yes.

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

6 A. Yes, I have.

7 Q. And were your credentials as an expert  
8 reservoir engineer accepted as a matter of record?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I would tender  
11 Mr. Savage as an expert in reservoir engineering.

12 MR. CARR: No objection.

13 THE EXAMINER: So recognized.

14 Q. (By Mr. Bruce) Mr. Savage, before we get  
15 into your exhibits, what risk factors do you see in  
16 the recompletion attempt that Arrington proposes?

17 A. Well, this wellbore has been basically  
18 shut in for four and a half years, and so it's been  
19 sitting with water on the formation. It's a  
20 successful attempt in those conditions.

21 They have already tried to do it and  
22 failed. And it's not sure that they will be  
23 successful.

24 Q. You don't dispute that there is gas in the  
25 upper Morrow formation underlying this acreage?

1           A.     No.

2           Q.     It might produce some gas, but it will  
3     surely produce a lot of water, from what you've  
4     seen?

5           A.     My economics includes dollars for  
6     saltwater disposal. And the economics -- actually,  
7     the lease operating expenses of this well may be  
8     such that it won't be economic at the rates it will  
9     produce.

10          Q.     Okay. So it costs extra to operate the  
11     well when it produces water of this quantity?

12          A.     It costs more money.

13          Q.     Let's run through your exhibits,  
14     Mr. Savage. First of all, what does Exhibit 3  
15     reflect?

16          A.     That's my reserves projection on a  
17     rate/time basis. It's my opinion on how the well  
18     will produce in the future if the workover is  
19     successful.

20          Q.     And based on that, did you then prepare an  
21     economics report?

22          A.     The next exhibit is a two-page exhibit,  
23     and it's just the lease economics.

24                 The first page is the data that went into  
25     the economics as to the oil and gas prices, the

1 expenses, the economics surrounding a 100 percent  
2 working interest. It's fairly self-explanatory, in  
3 looking at it.

4 The pricing that I used were August 30,  
5 2010, pricing, oil and gas NYMEX pricing, adjusted  
6 for the historical difference for this well between  
7 NYMEX and the actual price received.

8 Q. And in preparing this exhibit, you  
9 accepted the AFE prepared by Arrington?

10 A. Yes. That's what this is based on.

11 Q. But you did add in costs, overhead  
12 operating costs?

13 A. The lease operating expenses. The well  
14 hadn't produced for four and a half years, and I  
15 estimated what the operating costs would be.

16 If I'm shy, then of course this well may  
17 end up being noneconomic if my LOA is shy.

18 Q. And what is the conclusion on the second  
19 page of this report, insofar as economics go?

20 A. It says on a discounted 10 percent basis,  
21 a 100 percent working interest will receive \$90,000  
22 if they spend 160.

23 Q. Okay. Over how many years?

24 A. That lifetime is -- the economics cut it  
25 off. My projection -- if the economics would let my

1 projection get to the reserves I was trying to get  
2 to, it would be much longer. But in this case, it's  
3 about 7.25 years.

4 Q. Okay, seven years. And the operator would  
5 recover approximately \$90,000?

6 A. Yes, uh-huh.

7 Q. Now, when water is produced, is there a  
8 chance of, in the near or long-term future, a  
9 workover or two regarding the well?

10 A. Well, putting a lift on it, you're going  
11 to normally have some sort of a workover in the  
12 future. There's no way I can project that, and it's  
13 not in the economics.

14 Q. But if that did occur, how would that  
15 affect the economics?

16 A. Well, today, with the pooling costs and  
17 all that, it would wipe out your economics.

18 Q. There would be no return at all?

19 A. It's likely to cost you money, instead of  
20 make money.

21 Q. Well, let's go into how you evaluated this  
22 proposal. What is Exhibit 5?

23 A. Exhibit 5, because of the way I see this  
24 reservoir, I have a cross-section of three wells:  
25 The Maxwell 26-1 in the northeast part of the

1 Section 26, the Squealy Worm in the southeast, and  
2 the Maxwell Trust Well in the northwest.

3 And this map shows --

4 Q. Exhibit 5 show the three wells?

5 A. -- shows the three wells and the  
6 cross-section that's on Exhibit 6.

7 Q. Okay. And the reservoir, in your opinion,  
8 is continuous across that area?

9 A. In my opinion, it's a competitive  
10 reservoir.

11 Q. What is Exhibit 7?

12 A. Exhibit 7 is my attempt to do an isopach  
13 of the 13,000-foot sand. And I concern myself with  
14 the volumetrics in the north and south in  
15 Section 26.

16 And from that, you can see that the Trust  
17 Well will be the dominant well if they complete in  
18 the sand. And they are currently not completed in  
19 the sand.

20 Q. Okay. So that's the well in the southwest  
21 quarter/northwest quarter of Section 26?

22 A. Yes.

23 Q. And it's producing from the Morrow?

24 A. It's producing from Morrow zone.

25 Q. But not the same zone as the Green Eyed

1 Squealy Worm Well produced from?

2 A. No, but that zone is there.

3 Q. What are Exhibits 8, 9 and 10, put  
4 together?

5 A. Those are just the three logs that are on  
6 the cross-section exploded, showing the 13,000-foot  
7 sand.

8 Exhibit 8 is the log from the Maxwell 26,  
9 the well to the north. It only has a 2-foot zone,  
10 between 4 and 5 percent porosity, but obviously  
11 connected -- and I'll show -- obviously connected to  
12 this reservoir and producing from it.

13 Q. And that well is currently producing?

14 A. Uh-huh.

15 And then the middle one, Exhibit 9, is the  
16 Squealy Worm, a much better well than the Maxwell  
17 26-1.

18 And then the Maxwell Trust is Exhibit 10.  
19 And it is a much better well than the Squealy Worm.  
20 You can see the porosity is much higher in this  
21 well.

22 Q. And this well is not currently completed  
23 in that zone?

24 A. No.

25 Q. What is the current status of that Maxwell

1 Trust well?

2 A. It's currently producing about 150 MCF a  
3 month, about 5 MCF a day. They're going to be  
4 recompleting it pretty soon. That's my judgment.

5 Q. Okay. There's no reason not to recomplete  
6 it?

7 A. Before they leave that well, they're going  
8 to recomplete it, yes.

9 Q. Okay, let's go on to Exhibit 11. What  
10 does that reflect?

11 A. This is the only well that's currently  
12 producing in that zone, and that's the Maxwell 26-1.  
13 It is the well that indicated to me that it is truly  
14 producing out of that well.

15 When I did the volumetrics on the 26-1,  
16 they had some lower zones perforated. But in my  
17 opinion, there's no pay there. Just like I don't  
18 think, in my opinion, there's any pay in the lower  
19 zones in the Squealy Worm.

20 Q. Okay.

21 A. And that production is coming from this  
22 well.

23 And if you look at the performance of this  
24 well, it came on in 2002 and produced alone in the  
25 reservoir until May of '04, which I have indicated

1 on the exhibit.

2 Right after the Squealy Worm came on, this  
3 well lost production. And when the Squealy Worm had  
4 a problem in December of '05 and went off  
5 production, then this well started coming back. It  
6 started producing more gas.

7 Q. It actually increased in production?

8 A. It did.

9 Q. And this is not a cold gas well that would  
10 do that?

11 A. No. It's obvious that this well is  
12 competing with the Squealy Worm. And it's very  
13 obvious, when you look at the production, the  
14 Squealy Worm at the time was much dominant, and it  
15 was taking about 75 percent of the gas out of this  
16 reservoir when the two wells were producing.

17 Q. Would you anticipate, even if a  
18 recompletion was successful to start producing gas  
19 from the Green Eyed Squealy Worm, that it would be  
20 that dominant in this area of the reservoir again?

21 A. With the water problem that they have, and  
22 they only have 5 feet of pay, they're going to lose  
23 the ability to flow in some of those feet of pay  
24 with that water. We don't know where that water is  
25 coming from, in particular.

1           If it's coming from that zone or well, you  
2   can speculate where that water is going to come  
3   from.

4           But my opinion is you're going to lose at  
5   least a third of the ability to flow in that well.  
6   And that's reflected in my projections.

7           Q.     And finally, what is Exhibit 12?

8           A.     That's just a summary projection of the  
9   production from this 13,000-foot sum in Section 26.  
10   It has the Squealy Worm coming on in 2004, and the  
11   production prior to that is from the Maxwell 26-1.

12          Q.     And why did you include that exhibit?

13          A.     I just wanted to show that it was in a  
14   competitive reservoir, that there are two wells in  
15   it. And I just wanted to show the total production  
16   coming out of that particular reservoir.

17                 I used it also in calculating what the  
18   yellow line there tells me at the point of cum  
19   production to date. And what's to the right of that  
20   yellow line would be the reserves coming out of this  
21   zone and what these wells will be competing for.

22          Q.     Would you also anticipate, if the Maxwell  
23   Trust Well is recompleted in this zone, that that  
24   would have an effect on this curve?

25          A.     It will be a dominant well. It will

1 produce better than the Squealy Worm. It will be  
2 very harmful to the 26-1. It will be harmful to the  
3 Squealy Worm, and it will be the dominant well. And  
4 my projection will change.

5 MR. BRUCE: Mr. Examiner, if I may  
6 approach the witness?

7 Q. (By Mr. Bruce) One question. The prior  
8 witness, Mr. Savage, was gas pricing now, as opposed  
9 to when the subject well was recompleted. What is  
10 the gas pricing scenario in those two?

11 A. What he's showing is a gas price chart  
12 that I gave him. We're a consulting firm, and we  
13 keep oil and gas prices and have for a number of  
14 years.

15 And this is just a chart of NYMEX gas  
16 prices from the Wall Street Journal. And I handed  
17 it to Mr. Bruce to show him the pricing environment  
18 back when they were doing the initial workover and  
19 their pricing environment in the current situation.

20 Q. What are those prices, roughly?

21 A. Back in '06 and '07, the average price was  
22 \$7 in '06, and \$7.12 in '07. These are NYMEX  
23 prices. We weren't realizing these on the wellhead,  
24 but it's relative.

25 And in '09 -- I don't have an average for

1 '10. I can get to it, but I don't have it on this  
2 chart. In '09, it was 4.15. And currently it's  
3 about the same, if you can see this, if you want to  
4 make this an exhibit.

5 MR. BRUCE: Mr. Examiner, we don't have  
6 any extra copies of that.

7 THE WITNESS: I have copies also.

8 MR. CARR: We have no objection to that.

9 MR. BRUCE: I submit Exhibit 13.

10 (Discussion off the record.)

11 Q. (By Mr. Bruce) Overall, Mr. Savage, what  
12 is your opinion of the proposed reentry submitted by  
13 Arrington Oil & Gas?

14 A. Well, it's risky. When I looked at their  
15 analogue, that well was not producing much water at  
16 all. It was a black-and-white. You couldn't see  
17 where the water is, which one of those curves is  
18 water. But it's not making very much water, so it's  
19 really a different situation.

20 And when they brought that well back on,  
21 if you looked at the rates, it came back on at  
22 50 percent of the rate that it was when it started  
23 to have a problem.

24 And actually, in my situation, the way  
25 I've built mine, ultimately I'm at 50 percent. But

1 I have an impairment of a third because of the  
2 situation that I see here, where this is a dominant  
3 well. It's going to be at a higher rate.

4 But I when I looked at that, I smiled  
5 because I wanted to see their economics, because we  
6 had a similar opinion about what it might come back  
7 on.

8 But the risks in this well are much  
9 higher. I don't know what they are in the analog.  
10 But in this well, with the water situation, we've  
11 got a lot more risk.

12 Q. When you mention the analog well, you're  
13 talking about a well they use for comparison or  
14 supporting their --

15 A. Yes, their Exhibit 8.

16 Q. And again, if a single workover is  
17 performed on this well, it's completely uneconomic,  
18 in your opinion?

19 A. Say that again.

20 Q. If the well is recompleted, but then you  
21 have a workover down the line --

22 A. Oh, you're likely to not make any money at  
23 all.

24 Q. Were Exhibits 3 through 13 prepared by you  
25 or under your supervision?

1           A.     Yes.

2           Q.     And in your opinion, is the granting of  
3     Winston & Marshall's application in the interest of  
4     conservation and the prevention of waste?

5           A.     My opinion is the well is not needed to  
6     produce the reserves.

7                     Now, who gets the economic benefit, of  
8     course, is a different issue. But it is not needed  
9     to produce these reserves.

10           MR. BRUCE: Mr. Examiner I would move the  
11     admission of Exhibits 3 through 13.

12           MR. CARR: No objection.

13           THE EXAMINER: Exhibits 3 through 13 are  
14     admitted.

15                     (M&W Exhibits 3 through 13, inclusive,  
16     were admitted.)

17           MR. BRUCE: No further questions.

18                     (Proceedings in recess from 11:39 to  
19     1:13.)

20           THE EXAMINER: Okay. Let's go back on the  
21     record with our docket. We're right in the middle  
22     or someplace near the end, I guess, of Case No.  
23     14497 and Case No. 14538.

24

25

1 CROSS-EXAMINATION

2 BY MR. CARR:

3 Q. Mr. Savage, it's been a while since your  
4 direct testimony, and I want to be sure I remember  
5 what you said.

6 My recollection is you testified that if  
7 Mr. Arrington was able to establish production in  
8 the Green Eyed Squealy Worm Well, if he  
9 reestablished production, that could impact the two  
10 existing Morrow wells; is that right?

11 A. It would impact the one existing -- well,  
12 it would. But one of them is not producing, so it  
13 wouldn't have any kind of an impact on that.

14 Q. But the producing well could be impacted?

15 A. Oh, yes.

16 Q. Do you understand that if they reestablish  
17 production in this well, that their intent is to  
18 drain remaining Morrow reserves in the south half of  
19 Section 26?

20 A. I understand.

21 Q. And if conversely, they're not allowed or  
22 given the opportunity to try and establish  
23 production and there is production there, that could  
24 be drained, could it not, by the well to the north?

25 A. In my opinion, it will be drained.

1 Q. From Section 26?

2 A. From the well that's producing from it.

3 Q. Would drain --

4 A. Yes.

5 Q. -- from south half of 26?

6 A. Yes. Just as when this well was  
7 producing, it was a dominant well. It was drawing  
8 gas from where the well to the north is.

9 Q. Do you understand that Arrington is  
10 seeking an opportunity to try and reestablish  
11 production of the Morrow?

12 A. Yes.

13 Q. And I gather, from your testimony, that  
14 you don't like the proposal very well?

15 A. No. I was asked to give them an opinion  
16 of reserves. And in discussing risk, you know, I  
17 think I have an opinion of risk. It wasn't what  
18 they wanted from me, as far as the job is concerned.

19 But certainly the risk in this procedure,  
20 particularly since they failed the first time, for  
21 somebody who wants to put money in it, there is a  
22 lot of risk in it.

23 Q. You wouldn't recommend that Marshall &  
24 Winston participate, would you?

25 A. No, I would not.

1 Q. And that's because you consider it a  
2 high-risk venture?

3 A. That's right.

4 Q. And you've had experience with the Morrow;  
5 have you not?

6 A. Yes.

7 Q. And isn't it fair to say that with the  
8 Morrow, as with other formations, you really don't  
9 know what you're going to be able to do until you  
10 try?

11 A. That's right.

12 Q. You don't consider this an economic  
13 attempt; is that fair to say?

14 A. When you take the risk factors involved,  
15 it is not economical.

16 Q. You understand that if Marshall & Winston  
17 doesn't draw, Arrington is the only one who would be  
18 paying for this opportunity to test it?

19 A. Sure, yes.

20 MR. CARR: That's all I have. Thank you.

21 MR. BROOKS: If I understood your  
22 testimony correctly, you did not dispute that there  
23 are remaining gas reserves in the Morrow that could  
24 be produced from reactivating this --

25 THE WITNESS: That's right, sir.

1 MR. BROOKS: And you believe that if that  
2 is not done, they will eventually be drained by  
3 other wells in the vicinity; is that correct?

4 THE WITNESS: I believe so.

5 MR. BROOKS: That's all I have.

6 THE EXAMINER: Thank you.

7 I have a question here on I believe it was  
8 your Exhibit No. 9.

9 THE WITNESS: Uh-huh.

10 THE EXAMINER: That's the well we're  
11 talking about here today mainly that we couldn't  
12 possibly say without smiling or laughing or  
13 something. I think I went to school with this guy  
14 back in the late '60s.

15 That looks like about 12 feet of pay  
16 there?

17 THE WITNESS: Out of that zone, this well  
18 is producing about 30 or 40 barrels of water a day.  
19 And I think it comes from the lower part of that  
20 zone there.

21 In the Morrow, it depends on what you call  
22 pay. Most of the production that's coming from that  
23 well is coming from the upper part of that, where  
24 the porosity is in the 10- to 12 percent range.

25 THE EXAMINER: And that's M zone, around

1 13,000?

2 THE WITNESS: Yeah. I do not think  
3 that -- I don't consider this pay down here below,  
4 in the zones that they call the Lower Morrow. I  
5 think the production that's coming from the Squealy  
6 Worm is coming from the 13,000-foot zone.

7 THE EXAMINER: Okay. So you're calling  
8 that Lower Morrow between 13,050 and --

9 THE WITNESS: Yes, sir.

10 THE EXAMINER: And in the depth tract  
11 there, those are perfs, I guess?

12 THE WITNESS: This was a log that I  
13 downloaded off the Commission site. And it had  
14 already, apparently when it was going to the State,  
15 been marked up.

16 THE EXAMINER: But you would think that  
17 those are indicated perforations?

18 THE WITNESS: Yes.

19 THE EXAMINER: All right, thank you.

20 Then I had another question, one that kind  
21 of threw me. One of your charts, Exhibit 12.

22 THE WITNESS: Uh-huh.

23 THE EXAMINER: For my clarification, can  
24 you tell me again what we're looking at there? And  
25 can you tell me what the different colors are, the

1 blue, the green, the red?

2 THE WITNESS: Yes. There are multiple  
3 streams here. The red stream is the gas production,  
4 and then the extension off of that is a projection  
5 of future performance.

6 THE EXAMINER: Uh-huh.

7 THE WITNESS: The next stream down, the  
8 green stream, is oil.

9 Then you have a light black -- it's a  
10 gray-type stream. And that is oil cut.

11 And then you have a light blue, and that's  
12 the GOR. And then you have a dark blue, and that's  
13 water.

14 I apologize for not having those labeled.  
15 But when you put the labels on there and they  
16 overlap like that, then it's hard to see those.

17 THE EXAMINER: That's no problem. And  
18 then that little step function down there?

19 THE WITNESS: That's well count.

20 THE EXAMINER: Okay. I have no further  
21 questions.

22 MR. BRUCE: I have nothing further in this  
23 matter.

24 MR. CARR: I do have a closing.

25 THE EXAMINER: Go ahead.

1 MR. CARR: May I proceed?

2 THE EXAMINER: Yes, you may.

3 MR. CARR: May it please the Examiners?

4 Hearings of this nature, these  
5 proceedings, are authorized and governed by the  
6 Oil & Gas Act. And my role, as an attorney before  
7 you, is to navigate a case through your statutes and  
8 rules.

9 David H. Arrington Oil & Gas, Inc.,  
10 appears before you seeking to approve an order, and  
11 I believe we're entitled to it under the Oil & Gas  
12 Act.

13 There's more than one owner in this Morrow  
14 spacing unit. One has the right to drill and  
15 reenter. That's Mr. Arrington. He has the right to  
16 do this.

17 We have not reached voluntary agreement.  
18 That's obvious. And when you meet these three  
19 preconditions, you come to hearing. And the  
20 Division <sup>rules</sup> ~~poets~~ prevent waste and protect correlative  
21 rights. This case presents a correlative rights  
22 question.

23 Correlative rights is defined by the Oil &  
24 Gas Act as the opportunity for each interest owner  
25 in a spacing unit to produce their just and fair

1 share of the reserves under that space unit. The  
2 key word is "opportunity."

3 Because, as Mr. Savage admitted, there are  
4 reserves under this acreage that will be drained,  
5 unless we are given our statutory opportunity to go  
6 out there and avail ourselves of the opportunity by  
7 trying to reestablish production in this wellbore,  
8 which is a wellbore the bulk of which we paid for  
9 and a wellbore that presents the only economic way  
10 for us to now go and determine if we can reestablish  
11 production in the Morrow in this well, as we did in  
12 the Bill's Hopper Well.

13 Mr. Savage admits you won't know until you  
14 try. Well, we want to try. And if we make a good  
15 well, yes, it will have an impact on others.

16 But if we're denied that opportunity,  
17 reserves that we have been guaranteed the  
18 opportunity to try to produce are going to be  
19 produced by an offsetting well, and our correlative  
20 rights are violated.

21 We're only asking for 90 days to get out  
22 there and get started and diligently pursue this and  
23 try and reestablish Morrow production under the  
24 spacing unit, that if we're denied this opportunity,  
25 to the extent it is there -- and I think we agree

1     there are some that can't be wasted or captured by  
2     someone who doesn't own it today.

3             We ask that our application be granted.  
4     We ask that the application to remove us as operator  
5     be denied. And we will state on the record, as I've  
6     been authorized by Arrington to do, that we will do  
7     nothing in this reentry attempt that would be  
8     designed to in any way jeopardize the availability  
9     of this wellbore for later reentry.

10            THE EXAMINER: Okay.

11            Mr. Bruce.

12            MR. BRUCE: Mr. Arrington comes before you  
13     today, Mr. Examiner, with a pooling case in which he  
14     requests a Morrow test, but in which three things  
15     happen regarding the well proposal.

16            Yet the only testimony it presented here  
17     today was on a Cisco Canyon recompletion, which is  
18     not even relevant to this whole matter.

19            The proposal letter which was submitted  
20     actually by Marshall & Winston is a letter in which  
21     Arrington requests Marshall & Winston to participate  
22     under the terms of a JOA which had terminated  
23     several years ago.

24            And in addition, the record will show that  
25     it sent out the Morrow proposal letter, such as it

1 was, and then notified Marshall & Winston a couple  
2 days later of the hearing. They tried to get this  
3 to hearing in June.

4 In addition, from a technical standpoint,  
5 it submitted no reserve or economic data. As a  
6 result, it has not made a good-faith effort to pool  
7 the acreage, which is required under the Oil & Gas  
8 Act, and it cannot support its assertion that its  
9 application will prevent waste.

10 The only economic testimony is that this  
11 whole proposal is uneconomic. Therefore,  
12 Arrington's application should be denied, and  
13 Marshall & Winston's application should be granted.

14 THE EXAMINER: Very well. Thank you.

15 With that, then we'll take under  
16 advisement Case No. 14497 and Case No. 14538.

17 MR. BRUCE: Mr. Examiner, one thing.  
18 Again, Arrington has promised to submit to us all of  
19 the proposals letters to the various interest  
20 owners. I would like to get those within the next  
21 few days.

22 MR. CARR: We will do that. I'm happy to  
23 do that.

24 (The hearing of the above case, the foregoing is  
25 a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_,  
heard by me on \_\_\_\_\_.

1 STATE OF NEW MEXICO

2 COUNTY OF SANTA FE

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REPORTER'S CERTIFICATE

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I, Paul Baca, New Mexico Certified Court

Reporter No. 112, do hereby certify that I reported

the foregoing proceedings in stenographic shorthand,

that I did administer the oath to the witness, and

that the foregoing pages are a true and correct

transcript of those proceedings and was reduced to

printed form under my direct supervision.

I FURTHER CERTIFY that I am neither

employed by nor related to any of the parties or

attorneys in this case and that I have no interest

in the final disposition of this case.



PAUL BACA

Certified Court Reporter No. 112

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