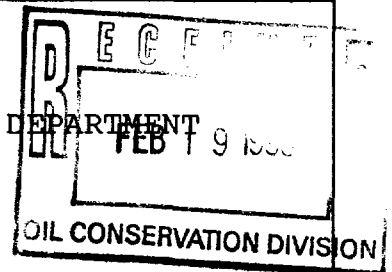


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



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

CASE NO. 11,922

APPLICATION OF PRIMERO OPERATING,)
INC., FOR COMPULSORY POOLING AND)
UNORTHODOX GAS WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 5th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 5th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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February 5th, 1998
 Examiner Hearing
 CASE NO. 11,922

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* * *

A P P E A R A N C E S

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 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 9:22 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,922.

5 MR. CARROLL: Application of Primero Operating,
6 Inc., for compulsory pooling and unorthodox gas well
7 location, Lea County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 on behalf of the Applicant, and I have two witnesses to be
13 sworn.

14 EXAMINER CATANACH: Additional appearances?
15 (Thereupon, the witnesses were sworn.)

16 MR. KELLAHIN: Mr. Examiner, this next pooling
17 case involves a re-entry of an existing wellbore. Primero
18 also seeks permission to have this location approved as an
19 unorthodox well location in the event they're successful
20 with their re-entry.

21 The pooling is unique because it is specific as
22 to an interval of about 2000 feet. It's conditioned based
23 upon the contractual arrangements that Primero inherited
24 from prior interest owners.

25 Mr. Grooms is my first witness. He's a landman,

1 and he'll testify about his efforts to consolidate the
2 interests. We are down to about three percent of parties
3 that we can't locate or, once located, can't reach an
4 agreement with. He's got voluntary agreement from
5 everybody else.

6 F. ANDREW GROOMS,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. For the record, sir, would you please state your
12 name and occupation?

13 A. My name is F. Andrew Grooms. I'm vice president
14 of land operations for Primero Operating, Incorporated.

15 Q. Mr. Grooms, on prior occasions have you testified
16 as a petroleum landman before the Oil Conservation
17 Division?

18 A. I have.

19 Q. Pursuant to your employment in your capacity with
20 Primero Operating, Inc., have you identified what, in your
21 opinion, are the interest owners that would participate in
22 the various spacing units if you're successful with this
23 re-entry?

24 A. Yes, I am.

25 Q. Are you familiar with the contracts and the

1 arrangements by which various other interest owners are
2 committed to participation?

3 A. Yes, sir.

4 MR. KELLAHIN: We tender Mr. Grooms as an expert
5 witness.

6 EXAMINER CATANACH: He is so qualified.

7 Q. (By Mr. Kellahin) Let me have you turn to
8 Exhibit 1. Let's take a moment and have you identify the
9 lease configurations that constitute the south half of
10 Section 26.

11 A. In a nutshell, there's two separate fee oil and
12 gas leases that cover the south half of Section 26,
13 Township 16 South, Range 35 East.

14 Southeast quarter is a held-by-production fee
15 lease which we are partners on, all depths.

16 The southwest quarter is yet another separate fee
17 lease which is held by production from shallower depths,
18 which is owned in different intervals by several of our
19 partners, et cetera. And basically you've got rights from
20 surface to 10,667 feet owned by one group.

21 Then because of prior farmout arrangements which
22 we inherited, you have a slice -- an interval slice in
23 there, from 10,667 to 12,658 where you have a little bit
24 different ownership scenario, and it happens to be that
25 particular interval which is the interest to us for this

1 proposed re-entry.

2 Q. The re-entry is located on Exhibit 1?

3 A. Yes, sir.

4 Q. And what is its footage?

5 A. The footage of the proposed re-entry is 330 feet
6 from the south line, 1815 from the west line of Section 26.

7 Q. That was drilled by Kennedy and Mitchell?

8 A. Yes, sir.

9 Q. And it was targeted for what formation?

10 A. The Devonian formation is where it was ultimately
11 completed.

12 Q. Okay. Your company has acquired the right to
13 re-enter that wellbore and to operate that well?

14 A. Yes, we have.

15 Q. Let's turn to the tabulation of interest owners.
16 If you'll look at Exhibit 2, let's look at the first page.
17 Describe for us what we're seeing on page 1 of Exhibit 2.

18 A. The first page of Exhibit 2 is a description of
19 the present working interest owners in the southwest
20 quarter of Section 26, the interval being 10,667 feet to
21 12,658 feet only.

22 Q. Okay. If we turn to page 2, what are we looking
23 at here?

24 A. Page 2 is a description of the working interest
25 owners in the southeast quarter of Section 26 as to all

1 rights.

2 Q. All right. And then the final page is what?

3 A. The final page is a consolidation of the weighted
4 working interest that exists when you combine the southeast
5 quarter along with the southwest quarter to obtain a south-
6 half proration spacing unit from the interval of 10,667 to
7 12,658.

8 Q. Have you provided a separate tabulation of the
9 various working interest owners, identifying them, showing
10 their percentage in a south-half spacing unit and the
11 current status of either their commitment to the well or
12 what your contacts have been?

13 A. Yes, I have.

14 Q. Let's turn to that exhibit. It's marked as
15 Exhibit 3. When we read down the status list, all the
16 parties on the first page are participating in some
17 fashion; is that correct?

18 A. That is correct.

19 Q. When we turn to the second page, we begin to see
20 those parties that you're asking the Division to be subject
21 to a compulsory pooling order. Identify those for us.

22 A. The parties which we seek to use the compulsory
23 pooling hearing for would be a company by the name of
24 Pelham, Inc., out of Houston, Texas. They've got a
25 1.25-percent working interest.

1 A gentleman by the name of Harry A rider, last
2 known address Indianapolis, Indiana, has a 1.25-percent
3 working interest.

4 A gentleman by the name of John L. Hern, last
5 address Houston, Texas, with a .00004983 gross working
6 interest. A gentleman by the name of Harold T. Wright, who
7 we located but have been unable to make any agreement with,
8 also of Houston, Texas, with a .00009966 gross working
9 interest.

10 And then finally on the last page, a Mr. Webb,
11 also of Houston, Texas, with once again a very minute
12 .00004983 working interest, which we've been unable to
13 locate.

14 Q. As to those companies or individuals where you've
15 posted "Can not locate", describe for us the efforts that
16 you've gone through to try to find those people or
17 companies.

18 A. Utilizing last known addresses, we have called
19 information in the cities where they live. We have checked
20 with three or four -- four different -- the CD ROM address
21 services available.

22 We have checked on the Internet, the Dex Yellow
23 Pages, things of that nature, as well as every industry
24 publication that we have our hands on that are commonly
25 used by people in the petroleum business.

1 Q. And at this point you've been unsuccessful in
2 locating the company or the individual shown posted by the
3 entry "Can not locate"?

4 A. That's correct.

5 Q. Let's describe for those other entries your
6 contacts with Mr. Wright, where you posted "No agreement-
7 will not respond". What do you mean by that?

8 A. On June 10th of 1997, I spoke with Mr. Wright.
9 He agreed to sell the small interest for a total of \$25,
10 which was probably about twice what it was worth. I sent
11 him a check.

12 He never sent a conveyance, he never signed it.
13 I called him back three or four times after that, left
14 messages on his telephone answering machine.

15 On June 15th and 16th is a verbal follow-up.
16 Then after I was unsuccessful in getting this gentleman to
17 return my phone calls I sent a certified letter to his
18 address, proposing the well re-entry that we are seeking.
19 And he obviously received the proposal, because the
20 certified mailing came back to us, but no response other
21 than that.

22 And then finally, I tried to call him on Monday,
23 January 5th, and received a recording that the number we'd
24 been calling was no longer in service.

25 Q. When we look at Exhibit 4, are we seeing the

1 letter that is a sample of the one that you sent to Mr.
2 Wright?

3 A. That is an identical copy of the letter that we
4 sent to all parties in the 320-acre spacing unit. It's
5 worded identically.

6 Q. All right. You've identified the proposal to
7 re-enter the well and provided an AFE to Mr. Wright?

8 A. Yes, I have.

9 Q. In addition, attached to Exhibit 4, you've shown
10 a copy of the green return receipt card in which it appears
11 that someone on behalf of Mr. Wright executed receipt of
12 his copy of the well proposal letter?

13 A. That is correct, signed by a Julia Wright.

14 Q. All right, sir. At this point do you have an
15 opinion as to whether you've exhausted all good-faith
16 efforts to obtain voluntary agreement from the remaining
17 outstanding interest owners?

18 A. Absolutely.

19 Q. Approximately what total working interest
20 percentage is involved in this pooling case?

21 A. It would be slightly less than three percent.

22 Q. Do you have a recommendation to the Examiner for
23 overhead rates to be charged in the pooling order, based
24 upon a monthly basis for drilling and producing wells?

25 A. Yes, sir, we do. We would recommend \$5000

1 drilling well rates and \$500 monthly producing well rates,
2 and that's just based slightly under what the Ernst and
3 Whinney guide would provide for wells drilled in southeast
4 New Mexico for gas horizons.

5 Q. Let me have you direct your attention to Exhibit
6 5. Have you submitted an application to re-enter this well
7 to the District Office, the Division, and have you obtained
8 approval from the Division for the re-entry?

9 A. Yes, we have. This permit was submitted on
10 December 5th, and the approval received from the NMOCD was
11 dated December the 16th.

12 MR. KELLAHIN: All right, sir.

13 Mr. Examiner, that concludes my examination of
14 Mr. Grooms. We'd move the introduction of his Exhibits 1
15 through 5.

16 EXAMINER CATANACH: Exhibits 1 through 5 will be
17 admitted as evidence.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Grooms, are you satisfied that you've
21 exhausted all reasonable methods by which to find some of
22 these interest owners?

23 A. Oh, absolutely. I think we've gone beyond what a
24 lot of people would have done to try to find people. We've
25 actually even had -- contacted several people in the

1 Houston area that we know in the business and asked them if
2 they knew these individuals and so on and so forth.

3 What several of these people are were owners of a
4 limited drilling partnership, limited partnership units.
5 And Kennedy and Mitchell dissolved itself as a corporation,
6 or the drilling partnership business, several years ago in
7 the early 1980s, and in so doing conveyed numerous,
8 numerous small interests to various partners.

9 And the situation is such that some of these
10 interests are so small and so fractionalized that these
11 people simply won't fool with them. They're just too
12 small.

13 They haven't kept much record of them, and they
14 haven't bothered to file anything in the county records
15 that would indicate where they've moved to or gone on to.

16 MR. CARROLL: Mr. Wright ever cash that \$25
17 check?

18 THE WITNESS: No. No, I checked with our
19 accounting person that handles that, and he never has
20 cashed it.

21 The \$25, by the way, was the price he requested.

22 EXAMINER CATANACH: Okay, that's all the
23 questions we have at this time.

24 MR. KELLAHIN: Mr. Phelps White is my next
25 witness, Mr. Examiner.

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

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. White, let's have you take a moment and let's
7 unfold Exhibit Number 6.

8 For the record, sir, would you give us your name
9 and occupation?

10 A. My name is Phelps White. I am co-owner and
11 president of Primero Operating.

12 Q. Do you have a technical degree, sir?

13 A. Yes, I've got a degree in Geology from New Mexico
14 State, 1979.

15 Q. Okay. You're proposing the re-entry of this old
16 Kennedy and Mitchell well?

17 A. Yes.

18 Q. Have you made a study of the various risks
19 involved in this re-entry?

20 A. Yes, I've done a lot of research on the wellbores
21 in the area, and this cross-section we've got was not
22 prepared by me but by a geologist we have.

23 Q. Have you reviewed the data that he's prepared and
24 satisfied yourself that it's true and accurate?

25 A. Yes, I have.

1 Q. In addition, as president of your company have
2 you made yourself knowledgeable about the risks involved in
3 re-entering this old wellbore?

4 A. Yes, I have.

5 Q. In addition, have you examined the opportunity to
6 re-enter other wells in the south half of Section 26 to see
7 if they were viable candidates for re-entry?

8 A. Yes, I have.

9 MR. KELLAHIN: At this point, Mr. Examiner, I
10 tender Mr. White as an expert witness.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Kellahin) Let's take a moment and look
13 at Exhibit 6. Let's look at the index map. Disregard the
14 structure map for a moment, and let's simply use this to
15 orient ourselves.

16 If we're looking at the line of cross-section
17 that's shown on the index map, where do we find the
18 re-entry well?

19 A. The re-entry well is the far right well.

20 Q. And so it will be the far right well on the
21 cross-section?

22 A. That's right.

23 Q. And it will be the northernmost well on the
24 locator map?

25 A. That's correct.

1 Q. If we're looking for Atoka production, that's the
2 re-entry target, is it not?

3 A. Yes, it is.

4 Q. That's your major re-entry target?

5 A. Yes.

6 Q. If we're looking for Atoka production in this
7 area, how far do we have to go and in what direction do we
8 have to proceed to find that production?

9 A. Well, it pinches out rapidly up on top of the
10 structure there and thickens back to the southwest.

11 Q. If we're looking at the wells in the cross-
12 section, track down the cross-section and find us the first
13 well that has been an Atoka producer.

14 A. The production -- cum productions are on the
15 bottom of each log here.

16 We've got one that made 19,000 barrels of oil and
17 half a BCF of gas, which would be down in the south half of
18 Section 36.

19 Q. If we're to proceed north and east of your
20 proposed re-entry, how far do we have to go to find Atoka
21 production?

22 A. There's none up there.

23 Q. Does that form part of the risk involved in the
24 re-entry, is the fact that you, despite your efforts, may
25 not be able to obtain Atoka production in this well?

1 A. Yes, it is.

2 Q. Let's look at -- set this aside for a moment, and
3 let's look at Exhibit 7 and see what your choices are for
4 re-entries in the south half of 26. Find for us the wells
5 that are candidates for re-entry, and then let's find the
6 one that you've chosen to re-enter.

7 A. Okay, we've chosen the Kennedy and Mitchell
8 Tilley 258 Number 3, the southernmost well in the section.
9 There are three other potential wellbores in the 320.

10 Q. Find those for us.

11 A. Okay. There's the Western Natural Gas Eidson "A"
12 Number 3, which would be in the northwest of the southwest
13 quarter.

14 We've got the Western Natural Eidson "B" 3, which
15 would be in the southwest of the southeast quarter.

16 And right adjacent to the well we want to
17 re-enter there's the Western Natural Gas Eidson Unit 2,
18 which would be in Unit N of the Section.

19 There are two other wellbores in the 320, but
20 they are currently producing in different zones.

21 Q. Summarize for us why you've selected the Tilley
22 258 Number 3 well as the re-entry well.

23 A. There's several reasons, one being that the
24 Tilley 3 well was drilled in 1982, therefore we've got
25 modern logs, and it was not plugged till 1992. All the

1 other wells were drilled in the Fifties and plugged in the
2 Sixties.

3 Also, when the other wells were plugged, the
4 casing was shot off way down in the open-hole section. The
5 Tilley well that we want to re-enter, the casing was shot
6 off, but it was up inside some other pipe, so that would
7 make it a lot less risky than going into open hole to try
8 to fish for casing.

9 Q. Is it reasonable to expect that you could drill a
10 new wellbore in the south half of this section to test for
11 Atoka production?

12 A. It's reasonable that you could. However, I don't
13 think that the type of rates we'd be looking for would
14 justify. We're looking at five times the cost to drill a
15 well, versus re-enter one.

16 Q. It would simply be too risky to do that?

17 A. That's right.

18 Q. The offset operator towards whom this existing
19 well encroaches, I believe, is a company by the name of
20 Echo?

21 A. Yes.

22 Q. Echo Production, Inc.?

23 A. That's right.

24 Q. Have you received --

25 A. Their well -- Their well is producing out of the

1 Mississippi environment.

2 Q. Have you received any objection from the offset
3 operator, then, to the re-entry of your proposed well?

4 A. No, we haven't.

5 Q. Let's look at the costs associated with the
6 different options available to you. If you'll turn to
7 Exhibit 8, identify and describe that exhibit.

8 A. This is an AFE that we've sent to partners on the
9 estimated cost to re-enter the Tilley well.

10 Q. Identify for us the total intangibles and
11 tangibles and then the total cost of the re-entry.

12 A. Intangible costs associated with unsuccessful
13 tests would be \$63,422. Tangible costs would be \$56,100.

14 Q. And if you're able to complete it successfully,
15 what's the total cost?

16 A. Total cost would be \$139,012.50.

17 Q. In addition to these costs, there is also value
18 associated to having a useful existing wellbore, is there
19 not?

20 A. Yes, that's right.

21 Q. Let's turn to Exhibit 9 and have you identify for
22 us, based upon your assessment of the status of that
23 wellbore, what is the useful value and how you have
24 identified or tabulated the various components of that
25 value.

1 A. Right now, the useful equipment in the wellbore
2 are 378 feet of 13 3/8 casing, 4714 feet of 8 5/8, and 7014
3 feet of 5-1/2-inch casing. I've valued these based on bids
4 that I've gotten from pipe companies.

5 These cement strings are also cemented in the
6 well, and I've gotten bids from cement company on what
7 these cement jobs would cost, and I feel that the wellbore
8 as it sits would be worth \$174,425.83.

9 Q. Now, let's compare that wellbore value estimate
10 to what it would cost if you were to drill a new well. If
11 you'll turn to Exhibit 10, identify and describe that for
12 us.

13 A. Exhibit 10 shows an AFE which is an estimated
14 cost to drill a new well. I show a dryhole cost of
15 \$540,302 dryhole, \$786,000 completed well cost.

16 Q. So there is a significant and substantial
17 economic savings to utilizing this existing wellbore at its
18 unorthodox location and to spend additional money on the
19 re-entry in an attempt to obtain the Atoka production?

20 A. Yes, sir.

21 Q. You would not drill a new well for this cost in
22 this spacing unit, would you, sir?

23 A. No, I would not.

24 Q. In addition to asking the Division to allow you
25 to recover from any nonconsenting interest owner the costs

1 of the re-entry, are you also asking that he award you
2 their proportionate share of the estimated value of this
3 wellbore as identified on Exhibit 9?

4 A. Yes, Exhibit 9 and then whatever we actually
5 spend in addition.

6 Q. Estimate for us the reasons for the risk involved
7 here, Mr. White.

8 A. Well, I would say there's probably a 50-percent
9 chance that we may or may not be able to tie into the
10 existing casing and the existing wellbore. And based on
11 the success rates in the area in this Atoka formation, I
12 think maybe there's a one-in-three chance that we may be
13 able to get a decent well.

14 Q. If you were to have to put a percentage to the
15 assessment of risk in terms of what the Division is allowed
16 to award for a risk factor penalty, which is cost plus 200
17 percent, what would that percentage be?

18 A. I think the maximum. That would still, by the
19 way, be less than drilling a new well, so...

20 Q. Let's turn to Exhibits 11 and 12 and have you
21 identify each of those for me.

22 A. Exhibit 11 is the wellbore diagram of the Eidson
23 2 well, which is the older well on the same proration unit
24 as our Tilley. And you can see the 5-1/2-inch casing is
25 cut off at 7700 feet. Base of the 9 5/8 intermediate

1 casing is at 4888 feet. Also, the 8 5/8 casing is cut off
2 at 335.

3 In order to re-enter this well and test the Atoka
4 we would have to tie into the 8 5/8 casing at 335 and then
5 run down and tie into the 5 1/2 at 7700 feet. Both those
6 operations are pretty risky, especially trying to get into
7 the deep 5-1/2-inch casing, lower. We don't know what
8 shape that hole is in now.

9 Q. The Eidson 2 well, then, is too risky for re-
10 entry?

11 A. I would say yes.

12 Q. All right, let's turn to Exhibit 12 and look at
13 the configuration of the proposed re-entry well.

14 A. Okay. It also has 5-1/2-casing shot off.
15 However, we do have 8 5/8 casing to the surface. 13 3/8 is
16 still intact. And according to records, they have cut
17 their 5-1/2-inch off at 4714, which is roughly 150 feet
18 inside of the intermediate casing. And this would be a
19 much more reliable wellbore to use to try to tie into.

20 This well was plugged in 1992, so the casing is
21 probably in a lot better shape also.

22 Q. What's the timing for your re-entry? What's your
23 schedule?

24 A. We're ready as soon as everybody agrees we can.

25 MR. KELLAHIN: Okay. That concludes my

1 examination of Mr. White. We move the introduction of his
2 Exhibits 6 through 12.

3 EXAMINER CATANACH: Exhibits 6 through 12 will be
4 admitted as evidence.

5 Mr. Kellahin, do we have any notice in this case
6 to offset operators?

7 MR. KELLAHIN: Yes, sir. Exhibit 13 is a
8 certificate of notice. The third page is the tabulation of
9 parties which we attempted to notify. Exhibit B is the
10 operator. There's a copy of the green card received by
11 Echo attached subsequent to that display.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. White, as far as the offset operator goes,
15 you have that listed as Echo Production, Incorporated?

16 A. That's right.

17 Q. What acreage do they hold or operate?

18 A. I would have to ask my partner to come up here,
19 the landman.

20 EXAMINER CATANACH: Okay. Let's hold off on
21 that. We'll call him back in a sec.

22 EXAMINATION

23 BY MR. CARROLL:

24 Q. Mr. White, what's Primero's working interest in
25 this unit?

1 A. We've -- We don't own any working interest,
2 actually. Primero is an operator. I don't know if that's
3 what you're asking. We've got control of all but three
4 percent, apparently, that are nonconsenting.

5 Q. Well, normally the Applicant has to own the right
6 to drill.

7 A. I'd have to, once again, pass that on to my
8 partner.

9 MR. KELLAHIN: I think pursuant to oper- --

10 MR. CARROLL: Is this the proper Applicant in
11 this case?

12 MR. KELLAHIN: We believe so, Mr. Carroll.
13 Primero is the designated operator pursuant to a joint
14 operating agreement in the southeast quarter of the
15 section. That is an agreement that provides for the
16 consolidation of acreage outside the contract area. It's a
17 little different than some JOAs.

18 And so this well is outside the JOA area, but the
19 JOA provides for them to operate it it's pooled with
20 acreage outside the contract area.

21 And we'll have to recall Mr. Grooms to give you
22 the details, but we believe they're proper applicant and
23 operator.

24 THE WITNESS: Between my partner and I, who are
25 owners of Primero, we've probably got close to a quarter

1 interest.

2 Q. (By Mr. Carroll) What interests are yours here,
3 this list on the third page of Exhibit 2?

4 A. Mine is under Slash Four Enterprises, should be
5 on there. And my partner's would be under Branex
6 Resources.

7 Q. And who's J. Phelps White, III?

8 A. My father.

9 Q. Mr. White, if I understood you right, you want to
10 be reimbursed for the fair market value of some equipment?

11 A. That's right. The equipment that is in the hole
12 already is going to be a direct savings to anyone who
13 participates in the deal -- or doesn't participate in the
14 deal, actually -- so we feel like that's a fair --

15 EXAMINER CATANACH: Who incurred these costs?

16 THE WITNESS: The previous Kennedy and Mitchell.

17 Q. (By Mr. Carroll) And what -- Was Kennedy and
18 Mitchell paid for this equipment?

19 A. No, they weren't.

20 Q. What were your expenditures to obtain this
21 equipment?

22 A. Well, I pass that to my partner also, but we
23 bought this lease from Devon Energy, who owned the lease at
24 the time we bought it.

25 Q. So Mr. Grooms would be the proper person to ask

1 how much investment in that lease --

2 A. That's right.

3 Q. -- that they incurred?

4 A. We feel like as operator of the lease that we're
5 in control of the equipment.

6 FURTHER EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. White, were all these wells that were on your
9 cross-section -- these are all Atoka producers?

10 A. Yes.

11 Q. Okay, so you're stepping out to the north and
12 east on your re-entry?

13 A. That's right. I take it back, the second well
14 there, that's a Mississippian producer.

15 Q. Second well from the left?

16 A. Second well from the left -- or from the right --

17 Q. Okay.

18 A. -- is not producing from the Atoka.

19 The closest Atoka would be the northeast quarter
20 of 34, there, and the logs that we have don't go over the
21 zone that was perforated.

22 Q. Okay. On your cross-section you've got shown
23 Atoka/Morrow. Is this actually Atoka or Morrow or both
24 or --

25 A. That is the nomenclature the geologist who

1 prepared the cross-section used. I don't know that you can
2 isolate the two. It's a thick sandbody that comes up
3 through there.

4 Q. You wouldn't happen to know the pool name or the
5 field name, would you?

6 A. No, but we've got a map that may show that. I
7 would be calling this a wildcat, but we've got a land plat
8 here.

9 I brought the information on the wellbores in our
10 half section. I didn't bring any of the other well files,
11 but -- I couldn't tell you right now.

12 Q. Okay, but the well in the northeast quarter of
13 Section 34 is producing from the same interval that you're
14 targeted?

15 A. Well, not exactly the same interval. Through --
16 The way this is correlated, the closest well that will be
17 producing from an interval that we plan to perforate is
18 actually back here on well Number 4, which would be
19 actually back here in the northwest quarter of 34.

20 The way the geologist grouped this was by the
21 tops that were reported. And as you can see, Number 4,
22 we're talking about the very top of the section that we'll
23 be producing out of, hopefully.

24 The Number 3 well is down somewhere in the middle
25 of the section. Now, as to which sand we're looking at

1 when it gets up to the top, I think it would be kind of
2 hard to correlate the thing up through there. I think
3 there's several sandbodies that come and go through that
4 interval.

5 Q. So the well in the northwest quarter, you believe
6 that's the closest well producing from the same --

7 A. Well, according to this cross-section, that's
8 correct.

9 If you want to call the gross interval, the
10 closest well would be up in the northeast quarter of 34.
11 But as far as if you just want to correlate directly into
12 the top of that division there, then the closest would be
13 Well Number 4.

14 Like I said, the sands come and go. We looked at
15 the tilley well. The log response looks favorable in the
16 section. I don't know that we could correlate it exactly
17 to another zone producing in the area.

18 One reason that we also like that wellbore is
19 that the old logs on the other wellbores are not -- you
20 can't isolate that sand quite as easy, and it may or may
21 not be there.

22 But we feel like we're better off to go
23 re-enter a zone that we do have some evidence that the sand
24 is there.

25 Q. Now, this well that you're re-entering, it was

1 never tested in this interval?

2 A. That's right. It was a Devonian well.

3 Q. Did it produce from the Devonian?

4 A. Yes, sir. Well, apparently they plugged it ten
5 years after they drilled it. They had reported 68 barrels
6 a day flowing rate when they completed the well.

7 I haven't looked at the cum production from the
8 Devonian, but as far as any records that are -- stayed with
9 the Commission, there were never any other zones tested in
10 the well.

11 EXAMINER CATANACH: Okay. That's all I have of
12 this witness.

13 We need to recall --

14 MR. KELLAHIN: Yes, sir.

15 EXAMINER CATANACH: -- the landman.

16 MR. KELLAHIN: While Mr. Grooms is coming back to
17 the stand, Mr. Carroll, there are some examples I can
18 provide you of where the Division has awarded existing
19 wellbore value for compulsory pooling cases.

20 If you're -- There's a number of them in the
21 Gavilan-Mancos cases we did several years ago in the San
22 Juan Basin. If those are useful, I'm happy to provide
23 them.

24 MR. CARROLL: Mr. Kellahin, I've been reviewing
25 the compulsory pooling statute. It says reimbursement

1 shall be limited to the actual expenditures. How do you
2 get around that language?

3 MR. KELLAHIN: Because the lease on which the
4 well was acquired, those interest owners were compensated.
5 In other words, Primero acquired the wellbore as part of
6 its payment of value for that lease.

7 And that's how we explained it in those Gavilan-
8 Mancos cases, that you didn't have to separately go out and
9 by the wellbore; you could simply acquire it in your lease
10 acquisition, and therefore it had value.

11 MR. CARROLL: So I guess there's going to be
12 testimony that the lease was acquired for at least \$175,000
13 or more?

14 MR. GROOMS: Yes, there will be. We have a proof
15 source, if you want it too.

16 MR. CARROLL: Pardon?

17 MR. GROOMS: Proof source also available, if
18 you'd like a copy to check. I have a copy of a check
19 available. I don't have it with me, I --

20 MR. KELLAHIN: Let's put the questions to Mr.
21 Grooms so we can get it on the record.

22 EXAMINER CATANACH: Okay. But Mr. Kellahin, if
23 you would provide those orders --

24 MR. KELLAHIN: I'd be happy to do that.

25 EXAMINER CATANACH: Okay.

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

EXAMINATION

BY EXAMINER CATANACH:

Q. Okay, the lease in question, Mr. Grooms, is the southwest quarter of Section 26; is that correct?

A. Yes, sir.

Q. And you did acquire this from whom?

A. Well, we acquired part of it from Devon Energy Corporation, because they owned rights from surface to 10,667. And then we purchased undivided working interest from other parties owning, in part, portions of the 10,667 to 12,658 interval, also, at a later date. There were two different acquisition efforts made here.

Q. Okay. And is this the only lease we're talking about? I mean, is this the only acreage included in this lease, is this southwest quarter?

A. Yes.

Q. That's the only thing that --

A. It's held by shallow production, another well we operate in zones above this.

EXAMINATION

BY MR. CARROLL:

Q. So Mr. Grooms, what was paid for Lease Number 1

1 and Lease Number 2?

2 A. We paid right at \$175,000 for lease number 1 and
3 the wellbores attached to it.

4 Lease Number 2 was purchased from Kaiser-Francis
5 Oil Company of Tulsa, Oklahoma, and as I recall, I want to
6 say that we paid \$30,000 to \$40,000 for that lease. And
7 the reason for the differential was, there was a plugging
8 liability we inherited there, and some other things, and
9 therefore the price was adjusted down accordingly.

10 Q. The price of Lease Number 1 was high because the
11 existing wellbore was valuable to you?

12 A. It had more wellbores on it, which we attributed
13 more value to it. It's basically a plugged-out Devonian
14 field, is what it amounts to, and we thought the wellbores
15 had value.

16 Q. Who did you obtain Lease Number 1 from again?

17 A. We bought it, in part, from Devon Energy
18 Corporation of Oklahoma City, and then we bought several of
19 the ex-Kennedy and Mitchell partners out also.

20 You asked a question earlier with respect to a
21 purchase from Kennedy and Mitchell, and I don't think it
22 was answered correctly. We did, in fact, also buy an
23 assignment from Kennedy and Mitchell, Inc., of what they
24 had remaining in this, and they were paid consideration for
25 some portion of this.

1 They only -- At the point in time that we bought
2 them out, though, they only had a small undivided interest.

3 This is a very cut-up tract, and what -- the
4 acquisition effort has entailed contacts with many, many
5 people buying small, undivided rights in different
6 intervals over, basically, a long period of time.

7 Q. And who's the record title owner of these two
8 leases now?

9 A. Well, the affiliated companies of Primero
10 operating, as well as other working interest partners. And
11 that was another question that you asked --

12 Q. Yeah, so it's Branex and Slash Four?

13 A. That's right. But Branex and Slash Four are
14 nonoperators under a 1982 APL joint operating agreement,
15 which covers -- One of them covers the southeast quarter of
16 26, the other covers the southwest quarter of 26, surface
17 to 10,667, as well as rights below 12,658.

18 And as to the operating rights that we acquired
19 within that interval that we also got, in part, from Devon,
20 it also would control that. There's language in that joint
21 operating agreement -- and by the way, it's becoming more
22 and more common with independent operators -- whereby the
23 nonoperating working interest partners have designated
24 Primero Operating as operator of the contract lands and has
25 made appointment of that company to deal with all

1 regulatory matters, including hearings before the OCD, as
2 well as the Texas Railroad Commission, where applicable.

3 The 30-some-odd wells that we operate in Texas
4 and southeast New Mexico, this is the case 100 percent of
5 the time. And in fact, with many smaller companies, you
6 basically have a designation whereby the nonoperating
7 working interest owners are designating an operator --
8 basically, that's what the JOA is for, they're being
9 designated as a manger, if you will, of the property in
10 question.

11 Q. I'm glad you brought that up. That brings me
12 back to my question of who's the proper applicant in this
13 case. The statute requires the owner of an interest in the
14 spacing unit to be the applicant, and in this case we don't
15 have the owner of an interest being the applicant; we have
16 the --

17 A. You have a party that's been designated --

18 Q. -- operating non-working interest.

19 A. You have a party that was designated by the
20 owners of the working interest in the spacing unit that, by
21 contract with the operator --

22 Q. Well, you can request that Primero be named
23 operator, but the proper applicant should be a working
24 interest owner.

25 MR. KELLAHIN: That's the situation we have with

1 Nearburg. They --

2 MR. CARROLL: Nearburg has always brought by
3 Exploration Company, which is the working interest owner,
4 and then you asked that the Producing Company be appointed
5 the operator.

6 MR. KELLAHIN: We did that several years ago. We
7 had been filing with their production company, which is the
8 non-owner, and we --

9 MR. CARROLL: I thought that --

10 MR. KELLAHIN: -- we changed that --

11 MR. CARROLL: My impression was that they've been
12 filing it on behalf of the working interest owner and then
13 requesting that producing company, the non-working interest
14 owner, be designated the operator.

15 MR. KELLAHIN: That's what we've been doing for
16 the last several years. Prior to that, they had allowed
17 the production company to file their pooling cases, and we
18 had this question before and decided the statute required
19 an interest owner, and so we changed the format of doing
20 it, just as you've described. And if it satisfies you
21 here, I'm happy to amend the Application.

22 I guess we can readvertise it, and we can name
23 one of Mr. White's companies or one of Mr. Grooms'
24 companies, which actually has an interest, if you want us
25 to do that.

1 MR. CARROLL: Well, somewhat form over substance,
2 but if we make an exception now --

3 MR. KELLAHIN: No, I understand your concern.

4 MR. CARROLL: -- and we change in the Nearburg
5 cases -- We want a working interest owner to be the
6 applicant --

7 MR. KELLAHIN: I understand.

8 MR. CARROLL: -- so we will require this to be
9 readvertised, and then you can request that Primero
10 Operating be designated the operator.

11 MR. KELLAHIN: It's an easy piece of paper to
12 handle, Mr. Carroll --

13 MR. CARROLL: Right --

14 MR. KELLAHIN: -- and I'll be happy to do that
15 for you.

16 MR. CARROLL: -- I just don't --

17 MR. KELLAHIN: I understand your concern. We'll
18 comply with that.

19 MR. CARROLL: Yeah, it really doesn't matter in
20 this case, but I can see some problems arising in other
21 cases.

22 MR. KELLAHIN: I don't want to give you a
23 precedent here that disturbs other cases that you're
24 deciding. So we'll pick one of these entities and simply
25 readvertise this for you.

FURTHER EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Grooms, can we talk about the offset operator, Echo Production?

A. Yes, sir.

Q. There is not a producing well in that north half of Section 36?

A. It's held by a communitization agreement whereby the northwest quarter, which is a fee oil and gas lease, is communitized with a State of New Mexico oil and gas lease located in the southwest quarter. That well, I believe, produces from the Mississippian formation.

However, Echo owns -- I believe they own all rights from surface all down, is actually what is controlled by the com agreement. And that's the reason that that acreage is held.

Q. So as far as you know, there's a 320-acre proration unit in existence, being the west half of that section?

A. Yes, sir.

Q. And that's for the Mississippian formation?

A. Yes, I believe that's what that well's producing from right now.

Q. Do you know who the owner of the northeast quarter of Section 36 is?

1 A. Among our affiliated companies here, being a 75-
2 percent working interest owner, there are some other --
3 well, not only in our affiliated companies but several of
4 the people that are participating in the well, it happens
5 to be a very cut-up tract.

6 There are several of these .0000-decimal-type
7 interests out there. Getting to be very common in Lea
8 County, by the way. They've created lots of problems for
9 companies.

10 But to answer your question as directly as I can,
11 sir, we're the majority interest owners in the northeast of
12 35. And several of these other people have varying decimal
13 -- small decimal numbers in there also.

14 Q. There are some interest owners in that northeast
15 quarter that are not aware of your Application today; is
16 that correct?

17 A. I don't think so. I don't think that's correct.
18 I think they're all aware of our Application today. I
19 don't believe that there is a working interest owner in the
20 northeast of 35 that would not be aware of this.

21 Q. Well, can you say that definitely?

22 A. I can -- I would -- I can't say that for a
23 hundred percent sure without looking at our takeoff work in
24 there. I'm quite sure that's correct, but under oath and
25 before testimony, I would want to see that before I told

1 you, sir, that absolutely that was the case.

2 Q. Okay --

3 MR. KELLAHIN: Mr. Examiner, we have to
4 readvertise it. Mr. Grooms and I will check the notices.

5 EXAMINER CATANACH: My concern, Mr. Kellahin, is,
6 the north half is a potential Atoka or Morrow proration
7 unit, and those interest owners should be notified of the
8 unorthodox location --

9 MR. KELLAHIN: No, I understood you.

10 EXAMINER CATANACH: -- so if there are not any
11 that were notified, I would suggest that you do that.

12 MR. KELLAHIN: We'll double-check.

13 Q. (By Examiner Catanach) A couple of questions,
14 Mr. Grooms, as to the -- again, back to the value of this
15 wellbore. The lease in question, the southwest quarter,
16 does it not contain other P-and-A'd wellbores?

17 A. Yes, it does.

18 Q. You've assigned the total value of the purchase
19 price of this lease to the wellbore you want to re-enter;
20 is that a fair statement?

21 A. You could choose to look at it that way, I
22 suppose. It lends itself -- It's the best possible
23 candidate for re-entry from a mechanical standpoint, in our
24 view.

25 And our other view in terms of assigning the

1 value in there is, if a party did not have the utilization
2 of that wellbore, how then would they be able to go in and
3 test that horizon? They'd have to drill a new well or
4 they'd have to own a wellbore.

5 Henceforth, when you're trying to determine
6 value, we think you have to come up with some number that
7 attributes worth to that cased hole and not having to drill
8 a new hole, et cetera. That's our methodology. It's no
9 more scientific than that, frankly, but that's the way
10 we're looking at it.

11 Q. Well, let me ask you this: Is the -- The
12 interest owners that are participating in your re-entry,
13 have they agreed to this proposal?

14 A. Well, the vast majority of them have already
15 participated in basically the purchase of these interests
16 through these various periods of acquisition that we've
17 gone through here, buying these small interests.

18 But that is not the case across the board. An
19 example would be ICA Energy out of Odessa, Texas.
20 Actually, their working interest arises in this spacing
21 unit by virtue of their ownership with us in the southeast
22 quarter of Section 26. So they technically did not pay
23 anything for that wellbore. We assigned value, sir, to the
24 fact that several of these people were very cooperative,
25 thought it was a good idea and said, Hey, fine, we'll sign

1 your AFE and we're ready to go. And that was worth
2 something to us there too.

3 Q. So for instance, ICA is participating in your
4 wellbore; is that correct?

5 A. That's correct.

6 Q. Have they agreed to pay their share of the value
7 of the wellbore?

8 A. No, they have not. And we have not proposed that
9 to them yet either. I want for the record -- They have
10 agreed, of course, to pay their cost to re-enter the well.
11 We have not proposed to them that we would charge them that
12 pro rata share yet.

13 Q. Is that going to be proposed to these working
14 interest owners?

15 A. That is something we'll discuss, absolutely.

16 FURTHER EXAMINATION

17 BY MR. CARROLL:

18 Q. Mr. Grooms, maybe I misunderstood what you just
19 said. You said the people that are participating have
20 already joined in the lease acquisition costs?

21 A. Some have, and some have not.

22 Q. And you're asking them again to pay for the
23 wellbore --

24 A. No.

25 Q. -- if it was acquired?

1 A. No. You've got to understand, what we have here
2 is a very cut-up operating-rights situation. We have
3 operating rights that have been acquired in here at
4 different periods of time.

5 We have people in the southeast quarter of 26
6 that would be participating in this effort that were not
7 part of the original acquisition group that were active in
8 the southwest quarter of Section 26. So therefore, for
9 example -- Let's take ICA as an example. They were not
10 part of our acquisition group in the southwest of 26, but
11 we inherited them as a partner when we bought Kaiser-
12 Francis out.

13 When that occurred, we had an operating agreement
14 covering the southeast of 26, and now we have this proposed
15 south-half spacing unit where we're amalgamating all the
16 interest in there to participate in that south-half spacing
17 unit.

18 But not everybody is in there at the same cost
19 basis, and ICA is the best example, where they happen to be
20 a non-op- -- a party of Kaiser-Francis who elected not to
21 sell out when we were in the area buying people out. They
22 stayed in and participated. So they never did participate
23 in any of the costs in the southwest of 26 whatsoever.

24 Q. I have another question. If you didn't have this
25 wellbore you're going to re-enter, if that didn't exist,

1 what would you have paid for this lease in the southwest
2 quarter?

3 A. Well, it's a fair question. We'd have to go
4 back, I guess, and just consider it. When we looked at
5 this property it was really with a multiple view. There
6 were some potential Abo re-entries in there that we had in
7 mind, and then we have, in fact, done one of those on the
8 rights above 10,667 at this point in time.

9 Mr. Examiner, I don't know what that answer would
10 be. It would be something we'd just have to think about.
11 It's a fair question. I really don't know.

12 Would we have purchased the lease if that
13 wellbore wasn't there? I think the answer is, we would
14 have.

15 Would we have paid the price that we paid? I
16 think we probably would have tried to adjust it down
17 somewhat. How much, I'm not sure. You know, because, you
18 know, how we looked at it at that time, you know, we had a
19 little bit different view of what we were doing in the
20 area.

21 Q. Well, you know, it seems -- You do have actual
22 expenditures, but we're attributing -- you're asking us to
23 attribute the whole \$175,000 purchase price to this
24 wellbore and asking to allow you to obtain reimbursement
25 from the working interest owners for that \$175,000.

1 And there is some value to -- There is a lot of
2 value to the lease --

3 A. Uh-huh.

4 Q. -- outside of the wellbore. And how to apportion
5 it, I don't know.

6 EXAMINER CATANACH: I don't know either.

7 THE WITNESS: Well, the question I would ask is,
8 regardless of whether somebody paid something or not -- I
9 mean, value is value.

10 If somebody owns an asset, for example, maybe
11 that they inherited from their father, and they get it for
12 free, and somebody's willing to pay them \$300,000 for it,
13 is -- What's the difference in the person that had to go
14 out and borrow \$250,000 and his net was only \$50,000 on the
15 sale of the asset? Value is value, and --

16 Q. (By Mr. Carroll) Mr. Grooms, I agree completely
17 with you, except that we're limited by statute, and the
18 statute refers to actual expenditures by the Applicant.
19 And no matter what the value is, we're limited to actual
20 expenditures.

21 Q. Okay.

22 A. And in this case, you paid a grand total of
23 \$175,000, and I don't think we can attribute that whole
24 \$175,000 to this wellbore, because there's value of that
25 lease, outside of the wellbore.

FURTHER EXAMINATION

BY EXAMINER CATANACH:

Q. I guess my only other question is a follow-up of an earlier question. You've not yet determined whether ICA Energy is going to be charged for the value of the wellbore. Well, why would they be treated differently than the nonconsenting working interest owners you're pooling today?

A. A couple of reasons. They, from a technical standpoint, bring a technical expertise to the matter. They've had an engineer that has considered some of the things, given us opinions, suggested ways in which the well might -- you know, we might consider recompleting the well, in conversations I've had with them. I suppose it's just a balancing of the equities there.

And one other thing I would point out, being a small operator, they've been a very pain-free partner. They've been wonderful people to work with. They pay their bills on time. And that makes a big difference.

You know, our world is different than that of a major oil corporation where the landman and the geologist and the engineer don't have a clue what the accounting department is doing, or who's paying the bills. We look at it differently. We see the money come, and we see it go. And so we value that.

1 EXAMINER CATANACH: Okay, anything else?

2 Mr. Kellahin, there being nothing further, I
3 guess we'll, I guess, probably need to continue it for four
4 weeks to get it readvertised, and if there's any additional
5 notice to do --

6 MR. CARROLL: And, Mr. Kellahin, you were going
7 to provide us with some evidence of actual cost, actual
8 expenditures?

9 MR. KELLAHIN: Yes, sir, we'll answer your
10 questions.

11 MR. CARROLL: And maybe a copy of the JOA too?

12 MR. KELLAHIN: Yes, sir.

13 EXAMINER CATANACH: Okay. There being nothing
14 further, we'll continue this case to the -- I believe it's
15 March 19th docket.

16 (Thereupon, these proceedings were concluded at
17 10:23 a.m.)

18 * * *

19
20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 11922,
heard by me on 2/8/92 1992.
23 David R. Catnach, Examiner
24 Oil Conservation Division
25

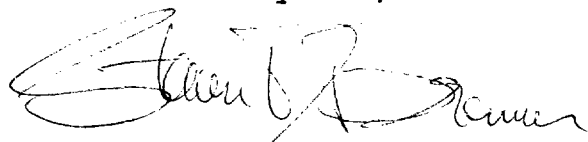
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL February 8th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998