

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. 11,993

APPLICATION OF JOHN H. HENDRIX)
 CORPORATION FOR COMPULSORY POOLING,)
 LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 9th, 1998

Santa Fe, New Mexico

98 JUL 23 AM 8:27

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 9th, 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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July 8th, 1998
Examiner Hearing
CASE NO. 11,993

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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

FOR ANN YEAGER HANSEN AND HENRY YEAGER:

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

ALSO PRESENT:

MARK W. ASHLEY
NMOCD Environmental Geologist
2040 South Pacheco
Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 9:03 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,993.

5 MR. CARROLL: Application of John H. Hendrix
6 Corporation for Compulsory Pooling, Lea County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent John H. Hendrix
11 Corporation in this matter, and I have one witness.

12 EXAMINER STOGNER: Any other appearances?

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
14 representing Ann Yeager Hansen and Henry Yeager,
15 Y-e-a-g-e-r.

16 I have no witnesses.

17 EXAMINER STOGNER: Again, who are you
18 representing? Ann Yeager Hansen and who else?

19 MR. BRUCE: And Henry Yeager. Hansen is spelled
20 H-a-n-s-e-n.

21 EXAMINER STOGNER: -- s-e-n, okay.

22 Any other appearances?

23 Okay, will the witness please stand to be sworn
24 at this time?

25 (Thereupon, the witness was sworn.)

1 EXAMINER STOGNER: Is there any need for opening
2 statements, or should we just get started?

3 MR. CARR: Not really an opening, just one thing
4 I'd like to point at the beginning.

5 We're talking about and presenting an application
6 for compulsory pooling of certain acreage in Lea County,
7 New Mexico.

8 On July the 2nd, John H. Hendrix Corporation was
9 able to reach an agreement with Conoco to use an existing
10 wellbore on the property. We will be discussing that
11 during the course of the hearing.

12 We will have to file an amended application
13 following the hearing and we'll at that time have to ask
14 that the case be continued for four weeks.

15 But since the witnesses were here and I have
16 discussed this with Mr. Bruce and with you, Mr. Examiner,
17 and with your permission we will go forward and present the
18 case today.

19 EXAMINER STOGNER: Mr. Bruce?

20 MR. BRUCE: I have no objection.

21 EXAMINER STOGNER: To what Mr. Carr just said,
22 or --

23 MR. BRUCE: Correct.

24 EXAMINER STOGNER: Okay. Mr. Carr?

25 MR. CARR: Thank you, Mr. Stogner.

1 DAMIAN G. BARRETT,
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. CARR:

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

7 A. Damian G. Barrett.

8 Q. Mr. Barrett, where do you reside?

9 A. Midland, Texas.

10 Q. By whom are you employed?

11 A. I'm self-employed. My company is Baqash

12 Resources.

13 Q. And how do you spell "Baqash"?

14 A. B-a-q-a-s-h.

15 Q. And what is your position with Baqash? Or -- Is
16 it your company?

17 A. It's my company.

18 Q. What is the relationship between Baqash and John
19 H. Hendrix Corporation?

20 A. I'm a consultant for John H. Hendrix Corporation
21 in the purpose for this hearing.

22 Q. Have you previously testified before this
23 Division?

24 A. Yes, I have.

25 Q. Briefly summarize your educational background,

1 please.

2 A. I have a BS in mechanical that I obtained in 1982
3 and an MS in petroleum engineering that I obtained in 1990.

4 Q. And since graduation, for whom have you worked?

5 A. I've worked for Conoco in various positions from
6 1983 to 1996 and then independent from 1996 to present.

7 Q. Are you familiar with the Application filed in
8 this case?

9 A. Yes, I am.

10 Q. And are you familiar with the status of the lands
11 in the proposal being made here today by John H. Hendrix
12 Corporation?

13 A. Yes, I am.

14 MR. CARR: Mr. Stogner, are the witness's
15 qualifications as an expert in petroleum engineering
16 acceptable?

17 EXAMINER STOGNER: Any objection?

18 MR. BRUCE: No, sir.

19 EXAMINER STOGNER: So qualified.

20 Q. (By Mr. Carr) Mr. Barrett, would you briefly
21 state what John H. Hendrix Corporation seeks with this
22 Application?

23 A. Yes, pooling from 7000 feet, the approximate top
24 of the Abo formation to the base of the Strawn formation,
25 in Section 16, Township 20 South, Range 37 East, for the

1 northeast quarter of the northwest quarter for all
2 formations developed on 40-acre spacing, including the
3 Southeast Monument-Abo Pool; and the east half of the
4 northwest quarter for all formations developed on an 80-
5 acre spacing, including the Cass-Pennsylvanian Pool.

6 And these spacing and proration units will be
7 dedicated to either the Wood State Well Number 4, which
8 Hendrix has proposed to drill at a standard location 660
9 feet from the north and 2310 from the west line, Unit C of
10 Section 16, or to the re-entry of a wellbore we're
11 attempting to acquire from Conoco.

12 Q. Has John H. Hendrix Corporation recently reached
13 an agreement with Conoco for the purchase of the existing
14 wellbore on this acreage to be utilized for the development
15 of the spacing and proration unit that you propose to pool?

16 A. Yes, we reached an agreement on July 2nd, 1998,
17 whereby Hendrix will acquire the Conoco State CC 16 Number
18 1, located at 330 feet from the north line and 2080 feet
19 from the west line in Unit C.

20 And I'll note at this time that this location is
21 unorthodox on the 80-acre spacing.

22 Q. And you'll also have to get approval of that
23 before you can go forward with the wellbore?

24 A. That's correct. This well was drilled in 1996
25 and will need to be abandoned in the Tubb formation

1 whenever that process is taken care of.

2 One problem in the area is lost circulation in
3 the Grayburg-San Andres, and this can incur substantial
4 cost overruns while drilling. Conoco experienced these
5 problems in drilling the State CC 16 Number 1 and lost
6 circulation in the Grayburg on that well.

7 By being able to use this relatively new
8 wellbore, Hendrix can save about \$94,136 in drilling costs
9 and will be able to avoid possible problems which could
10 substantially increase the costs of drilling above those
11 costs set out in the AFE to drill a new well.

12 Q. So the reason for trying to use a wellbore are
13 not only to lower your costs, but you can avoid the
14 potential lost-circulation problem in the Grayburg and San
15 Andres?

16 A. That's right.

17 Q. If you use this new wellbore, who, in fact, will
18 benefit?

19 A. All who participate will benefit by having lower
20 costs, and they'll benefit indirectly from the assurance
21 that we'll not incur cost overruns during the drilling of
22 the well due to the lost circulation in the Grayburg and
23 San Andres.

24 And those who remain nonconsent will also
25 benefit, for the risk penalty will apply to lower costs.

1 Q. Now, you have prepared a new AFE for this well
2 that reflects the lower costs, using the existing wellbore
3 and re-entering that wellbore?

4 A. Yes, I have. It will be presented as Exhibit
5 Number 8.

6 Q. Will this new AFE become the basis for any post-
7 hearing decisions that those owners who will be subject to
8 pooling are going to have to make concerning whether or not
9 to participate in the well?

10 A. Yes, it will.

11 Q. And this agreement was reached on July the 2nd?

12 A. That's correct.

13 Q. Does Hendrix request that the costs of acquiring
14 this wellbore be included in the cost to which the risk
15 penalty will, in fact, apply.

16 A. Yes, we do.

17 Q. Why is that?

18 A. We're carrying 50 percent of the ownership in the
19 proposed well, with Conoco being in the well. And if we
20 cannot apply the risk penalty to the cost of acquiring this
21 well, we'll have to drill a new well. Without being able
22 to include the costs we can't economically justify carrying
23 the nonconsent owners in a situation where we will provide
24 the wellbore and only recover a risk penalty based on our
25 cost for drilling 400 feet.

1 Q. And if you're unable to, in fact, have the risk
2 penalty apply to the costs of the acquisition of the well,
3 then you would economically be forced to go back and just
4 drill the well so you could, in fact, share those costs
5 with other interest owners and share the risk?

6 A. That's correct.

7 Q. What impact does the acquisition of this wellbore
8 have on the risk associated with the drilling of a
9 commercial well on this spacing unit?

10 A. Well, the risk of making a commercial well is
11 unchanged. It still is a risk situation to drill this
12 well.

13 All we achieve by acquiring the wellbore is the
14 ability to reduce the -- reduce and control the costs
15 associated with our attempt to test the Abo and Strawn
16 formations under these spacing units.

17 Q. And will John H. Hendrix Corporation file an
18 amended Application and request that it be set on the
19 August 6th Division hearing, seeking compulsory pooling of
20 the acreage which is the subject of this case, providing
21 for authorization to utilize the -- to re-enter the Conoco
22 well, in addition to, if necessary, drill the --

23 A. Yes.

24 Q. And again, you're going to do this just because,
25 one, you're trying to control your costs, but if you're

1 unable to get the risk penalty out of the purchase of the
2 well, you'd have to go back and drill the well?

3 A. That's correct.

4 Q. Not use the -- a wellbore?

5 A. That's right. We need both options because this
6 is a high-risk well.

7 Again, the economics of going with a new well or
8 re-entry depends on the percentage of voluntary joinder in
9 this well and whether the penalty in this case is made
10 applicable to the costs associated with the acquisition of
11 this wellbore. And we'll only know those questions when we
12 can decide which option to pursue, once the order is given,
13 and then --

14 Q. Let's go to the exhibit book you've prepared for
15 this case, and I'd ask you to go first to what is marked
16 Exhibits 1 and 2 and identify those for Mr. Stogner.

17 A. Okay. Exhibit 1 is a pool map that shows the
18 Abo. And in here I've got down on this the Southeast
19 Monument-Abo, it's 40 acres, and its special rules are
20 10,000 GOR.

21 Q. The special pool rules do not provide for special
22 spacing in the Abo?

23 A. That's correct.

24 Q. All right, let's go to the second page. What is
25 this?

1 A. The second exhibit is for the Cass-Penn Pool, and
2 its special pool rules are 80-acre spacing and 150 feet of
3 center of the quarter quarter section.

4 Q. And those were adopted by Order R-2825 in
5 December of 1964; is that right?

6 A. That's correct.

7 Q. All right. Let's go to Exhibit Number 3. Would
8 you identify and review that?

9 A. Okay. Exhibit Number 3 shows the subject land,
10 the 80 acres, the offset operators and the different
11 wellbores that are in here. It also shows the proposed
12 Wood State Number 4 location in Unit Letter C and the
13 existing location of the State CC 16 Number 1 wellbore.

14 Q. What is the status of the acreage in the east
15 half of the northwest of Section 16?

16 A. This is State acreage.

17 Q. The primary objectives in the well are just the
18 Abo and the Strawn?

19 A. That's correct.

20 Q. Okay. Let's go to Exhibit Number 4. Would you
21 identify it and review this?

22 A. Exhibit Number 4 is the ownership breakdown for
23 the east half of the northwest quarter, Section 16. And it
24 goes through with the varying interests, with the bottom
25 two, Mr. and Mrs. Roger Hansen, having 25 percent. And

1 then the last one, Dr. Henry Yeager, has 25 percent. These
2 are the two parties that are not voluntarily committing to
3 this venture.

4 Q. And the remaining 50 percent is voluntarily
5 committed to the well?

6 A. That's correct.

7 Q. When did Hendrix commence his efforts, or its
8 efforts, to obtain the voluntary participation of all
9 interest owners in this well?

10 A. January 13th, 1998.

11 Q. And in your opinion, has a good-faith effort been
12 made to reach agreement with the Yeagers and the Hansens?

13 A. Yes. We've been attempting to reach agreement,
14 as we mentioned, since January.

15 Exhibit Number 5 is a chronology of all the
16 various phone calls and letters that were sent to the
17 Yeagers and the Hansens, and -- for the development of this
18 acreage. And with that in here is mentioned how they have
19 been offered an opportunity to sell or participate.

20 Q. Is Exhibit Number 6 a copy of correspondence that
21 was sent to these owners just as supporting data for the
22 chronology which was marked as Exhibit Number 5?

23 A. That's correct.

24 Q. Let's move to Exhibit Number 7, the AFE. And
25 first, is Exhibit -- Exhibit Number 7 is the AFE for the

1 original proposed well, the drilling of the Wood State
2 Number 4; is that correct?

3 A. That's correct.

4 Q. Would you review the totals on this AFE, please?

5 A. Yes, I would. The dryhole costs are down at the
6 bottom, which total \$302,375. And the completed costs --
7 or the completion costs, are \$297,325. And this total is
8 written out to the side, which is \$599,700.

9 Q. Now, if we go to the re-entry, that's Exhibit
10 Number 8?

11 A. Correct?

12 Q. Will you review that, please?

13 A. Yes. Again, there are -- I've included in here
14 the Conoco State CC 16 Number 1 wellbore for \$320,000,
15 including all of the dryhole costs.

16 Down at the bottom in the left column is a total
17 of \$399,500. The completion costs are \$106,064, for a
18 total at the bottom of \$505,564.

19 Q. And when you compare the figures on Exhibits 7
20 and 8, that's where you come up with the approximately
21 \$94,000 savings by going to the re-entry?

22 A. That's correct.

23 Q. Are the costs which you're proposing for the
24 drilling of the well consistent with the costs charged by
25 other operators for drilling similar wells in the area?

1 A. Yes, they are.

2 Q. Could you generally describe for the Examiner the
3 general setting within which either the Wood State Number 4
4 will be drilled or the re-entry will be undertaken?

5 A. Yes, I can. This is in eastern Lea County. It's
6 on the western flank of the Southeast Monument-Abo field.
7 It's approximately a mile from the Monument-Abo and the
8 Skaggs-Abo fields.

9 Production in the area is from several different
10 formations: the Eumont, the Grayburg, the San Andres, the
11 Paddock, Blinebry, Tubb, Drinkard, Abo and Strawn
12 formations. So there's several formations.

13 However, the Wood lease that John H. Hendrix
14 Corporation has lease on right now covers only 7000 feet
15 and below. It limits the formations available in this
16 proposed well to the Strawn and Abo.

17 Most wells in the vicinity have been completed in
18 more than one pay zone, however -- And that's to reduce the
19 risk of being commercial -- of not being commercial, in
20 this area.

21 Q. Is Hendrix Exhibit Number 9 a geological summary
22 of the technical portion of your presentation here today?

23 A. Yes, it is.

24 Q. Let's go to Exhibit Number 10, your Strawn
25 structure map. Would you review that for the Examiner?

1 A. Yes, the -- This the Strawn structure map. The
2 box enclosed with the red hachure is the 80 acres in
3 question. On the western flank of the structure in Section
4 15 and 23 is where more mature production is there. And
5 what we see on this map is a dry hole immediately to the
6 west of this 80 acres.

7 The red dots to the north of this 80 acres and to
8 the east of this 80 acres is noncommercial, dry or
9 noncommercial in the Strawn.

10 Q. Before we go to the Abo, I think we ought to go
11 take the cross-sections and look at them. Would you --
12 They're in the pocket in the back of the exhibit packet,
13 Mr. Examiner.

14 And Mr. Barrett, would you first refer to your
15 structural cross-section A-A' and review that for Mr.
16 Stogner?

17 A. This is the north-to-south cross-section, with
18 north being on the left.

19 Well Number 1 is the Van Etten Number 13.

20 Well Number 3 is the Amerada Hess State Q Number
21 7, and it shows the various tests in the Strawn formation.

22 Well Number 1, it has the Strawn perms as marked
23 on the cross-section there. They acidized it, and they had
24 a high IP of 270 barrels of oil per day, 194 MCF, 270
25 barrels of water a day. It cum'd 10 MBO and 42 million and

1 was uneconomic for them there.

2 The Well Number 3, the State Q Number 7, also
3 tested the Strawn. However, no results were actually
4 reported. It was just listed as uneconomic, and they moved
5 uphole, continuing the tests there.

6 The one key thing to point out on this cross-
7 section are the porosity stringers in the Strawn are very
8 thin, usually only about a foot thick, and they come and go
9 and are very erratic.

10 Q. Let's go to Exhibit Number 12, cross-section
11 B-B', and again I'd ask you to review this for Mr. Stogner.

12 A. Okay, this is the west-to-east cross-section,
13 west being on the left-hand side, starting with the first
14 well, Conoco's West Cass 16 State Number 1, going to the
15 east, the Hansen State Number 3 for Marathon.

16 And again in the Strawn formation, the West Cass
17 16 State Number 1's main objective was the Strawn, and
18 that's what they called their DST within the Strawn, however
19 it appears to me it was in the Abo. But they considered it
20 noncommercial, and that's why this was a dry well. They
21 didn't run casing or do any further testing.

22 Then on the Hansen State Number 3, the far
23 eastern well, they also tested the Strawn there, again with
24 uneconomic results. And it again shows the small porosity
25 stringers for the Strawn.

1 Q. All right, Mr. Barrett, let's now go and look at
2 the Atoka formation, and I'd ask you to identify and review
3 John H. Hendrix Corporation Exhibit 13.

4 A. Okay, this is the Abo structure map. Again, the
5 red hachure shows the 80 acres. You again have the dry
6 hole to the west of the 80 acres, then you have the same
7 two red dots to the north and east of the 80 acres that are
8 dry or noncommercial in the Abo.

9 We do have a producer directly to the east of
10 this 80 acres, and I'll discuss that when we go to the
11 cross-section in just a minute.

12 EXAMINER STOGNER: Excuse me, Mr. -- I'm sorry.

13 THE WITNESS: Yes.

14 EXAMINER STOGNER: Excuse me. Mr. Carr, did you
15 ask about the Abo or the Atoka when you questioned him on
16 this?

17 MR. CARR: I hope I said Abo.

18 EXAMINER STOGNER: Okay.

19 MR. CARR: I may not have.

20 EXAMINER STOGNER: Thank you.

21 MR. CARR: Yes, sir.

22 Q. (By Mr. Carr) Are you ready to go to the cross-
23 sections of the Abo formation as reflected on those
24 exhibits?

25 A. Yes, I am.

1 Q. All right. Let's go to what has been marked as
2 Exhibit Number 11, the cross-section A-A', the one we
3 looked at a minute ago --

4 A. That's right.

5 Q. -- and would you review the information as it
6 relates to the Abo formation?

7 A. Yes, I will. Again, this is the north-south
8 cross-section, showing the Abo in the Van Etten Well Number
9 13, the first well to your left. They didn't do any
10 testing, they didn't see anything worth testing in that
11 wellbore.

12 Then in the Well Number 3, which is the State Q
13 Number 7 well to the south, you can see there was multiple
14 perforations and stimulations that were taking place over
15 roughly a three-month period with some very heavy
16 stimulating going on in there. And that well is pumping at
17 93 barrels a day, 214 MCF. There's no *Dwight's* production
18 data on this well at this time because it's too new of a
19 completion.

20 Q. All right, let's go now to B-B', Exhibit Number
21 12.

22 A. Again, this is the east-west cross-section,
23 starting with the Well Number 1 again, the West Cass 16
24 State Number 1.

25 They didn't see anything worth testing in this

1 wellbore. Again, that was the dry hole.

2 Moving to Well Number 3, which is the Hansen
3 State Number 7, this well is the well that I was talking
4 about on the structure map that has a green dot next to it.
5 They perforated it, stimulated it, had a good IP on it.

6 However, the decline rates have been high.
7 They're 62 percent for the oil and 65 percent for the gas.

8 So at this time it's a new well. It's hard to
9 tell whether it's going to be a commercial well or not.
10 However, the IP was good, but heavy and sharp decline
11 rates.

12 Then in the fourth well, the Hansen State Number
13 3, they perforated it, got a low gas rate for the IP and
14 considered it uneconomic and moved on up the hole to test
15 further.

16 Again, I'm going to point out, with the Abo in
17 here, very erratic on the porosity. Structure is not the
18 controlling point here; it's more porosity, is what
19 controls it. And with these stringers that are just a foot
20 or two thick, they come and go very quickly, can come or go
21 in just a 40-acre location like we see between the Hansen
22 Number 3 and the Hansen Number 7 wellbores.

23 Q. Mr. Barrett, would you now go to your cum
24 production map, Exhibit Number 14, and review that for Mr
25 Stogner?

1 A. Yes. On this cum production map, I have the
2 Strawn cumulative production numbers in green. The red --
3 or I'm sorry, the purple numbers are the Abo cum production
4 numbers, with the first number you see there being oil in
5 thousands of barrels, and gas is the second number in
6 million cubic feet.

7 With that, shown in Section 9 there, that's the
8 Van Etten Number 13 well, noncommercial with 10,000 barrels
9 and 42 million cubic feet.

10 The Hansen State -- Well, I'll stay with the
11 Strawn to start with.

12 You move down in Section 15, and there -- The
13 important point here is that there is a Strawn well that
14 made 121,000 barrels and 2 BCF to the north. And directly
15 to the south of it, one 40-acre location away, it made 5000
16 barrels and 7 million cubic feet of gas. It was a
17 noncommercial well.

18 Same to the well -- with the well to the east of
19 that; it's noncommercial also.

20 Then going back to the Abo, you've got the same
21 thing to the east in Section 15. You've got a well that
22 made 133,000 barrels and 5 BCF. Directly to the south of
23 it, it made zero oil and 20 million cubic feet of gas.

24 So you've got a commercial well to the north and
25 a dry hole to the south, or a noncommercial well to the

1 south.

2 So again, it points to the fact that these
3 porosity stringers come and go and can make a difference
4 between an uneconomic well and an economic well.

5 Q. Are you prepared to make a recommendation to the
6 Examiner as to the risk penalty that should be assessed
7 against nonconsenting interest owners in these tracts?

8 A. Yes, I am.

9 Q. What is that?

10 A. It's 200 percent.

11 Q. And upon what summary do you base that
12 recommendation?

13 A. Again, the erratic nature of the porosity in both
14 the Strawn and the Abo formations, and again that the
15 rights here are only below 7000 feet, which include just
16 the Strawn and Abo formations and not all the other
17 formations that are typically productive, shallower.

18 Q. Do you believe there's a chance that you could
19 either drill or re-enter a well as proposed and, in fact,
20 have a venture that would not be a commercial success?

21 A. Yes.

22 Q. Have you made an estimate of the overhead and
23 administrative costs incurred while drilling this well,
24 while re-entering the well, and also while producing it if
25 it is a successful well?

1 A. Yes, I have.

2 Q. And what are those?

3 A. Those are \$3500 a month while drilling, \$350 a
4 month while producing.

5 Q. And how do these compare to Ernst and Young
6 figures?

7 A. These are much less than figures from Ernst and
8 Young.

9 Q. Do you recommend that these be incorporated into
10 any order that results from this hearing?

11 A. Yes, I do.

12 Q. Does John H. Hendrix Corporation seek to be
13 designated operator of the proposed well?

14 A. Yes.

15 Q. Is John H. Hendrix Corporation Exhibit Number 12
16 an affidavit which confirms that notice of this Application
17 has been provided as required by OCD rules?

18 A. It's Exhibit Number 15. And Yes, I do.

19 Q. And to whom was notice provided?

20 A. All owners who have an interest which is subject
21 to pooling in this case.

22 Q. In your opinion, will granting of the Application
23 and the development of the acreage that John H. Hendrix
24 Corporation is proposing be in the best interest of
25 conservation, the prevention of waste and the protection of

1 correlative rights?

2 A. Yes, I do.

3 Q. And how soon does John H. Hendrix Corporation
4 propose to go forward with development of the acreage?

5 A. As soon as regulatory approvals are received.

6 Q. Were Exhibits 1 through 15 either prepared by you
7 or compiled under your direction and supervision?

8 A. Yes, they were.

9 MR. CARR: At this time, Mr. Stogner, we would
10 move the admission into evidence of John H. Hendrix
11 Corporation Exhibits 1 through 15.

12 EXAMINER STOGNER: Any objection?

13 MR. BRUCE: No, sir.

14 EXAMINER STOGNER: Exhibits 1 through 15 will be
15 admitted into evidence at this time.

16 MR. CARR: And that concludes my direct
17 examination of Mr. Barrett.

18 EXAMINER STOGNER: Thank you, Mr. Carr.

19 Mr. Bruce, your witness.

20 EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Barrett, what is the primary zone in this
23 well, primary zone of interest?

24 A. The primary zone -- Well, it's both the Strawn
25 and the Abo.

1 Q. What are the pool rules in the Abo?

2 A. Currently, with the one that's closest to us,
3 it's the Southeast Monument Abo Pool and it's a 10,000-to-1
4 GOR -- Well, it's the special pool rule.

5 Q. Forty-acre spacing?

6 A. Forty-acre spacing.

7 Q. The re-entry that you're talking about, the
8 Conoco well, that well is still in the northeast quarter of
9 the northwest quarter of the section, is it not?

10 A. That's correct.

11 Q. And one of the benefits there is, you'll have
12 less risk of lost circulation?

13 A. That's correct.

14 Q. Looking at your Exhibit 13, Mr. Barrett, I think
15 on one of your exhibits you said that -- Looking at the
16 well in the northwest quarter of the southeast quarter,
17 that's Amerada Hess?

18 A. That's correct.

19 Q. And what were the initial rates on that well?

20 A. It was ninety- -- pumping at 93 barrels of oil
21 per day, 214 MCF a day and 52 barrels of water a day.

22 Q. And you don't have any further information on
23 that?

24 A. That's correct.

25 Q. You have an open circle in the southwest quarter

1 of the northeast quarter. What is that well?

2 A. That well is the Hansen State Number 8. And
3 again, that well is too new to have any information on.

4 Q. Do you have any initial completion data on that
5 well?

6 A. I do have it, but I don't have it with me.

7 Q. What about the well in the southeast quarter of
8 the northeast quarter? What is that well --

9 A. That's the same thing, and I can't remember the
10 well number on that one.

11 Q. It's a Marathon well?

12 A. Yes, that's correct.

13 Q. Completed in the Abo?

14 A. Yes.

15 Q. As is the Number 8 well?

16 A. That's correct.

17 Q. Okay. What is the current producing rate of the
18 Hansen Number 7 well in the northwest of the northeast?

19 A. It's -- well, it's, like I said -- Let's see.
20 All I've got on here is the IP, and then on the cum
21 production map I just show that it's cum'd 24,000 barrels
22 to date, 234 million cubic feet of gas.

23 Q. You don't have any current producing rates on it?

24 A. That's correct, I don't.

25 Q. Does it appear to you that the Marathon well, the

1 Number 7 well, will pay out?

2 A. It's like I said, with the high decline rates you
3 could make it such that it doesn't. It's so new that it's
4 hard to say what it will do.

5 Q. When was that well completed?

6 A. It was completed -- Let's see. I'm going to say
7 it was in -- I don't have the exact date. I thought I did
8 on here. But it was sometime last year, middle of last
9 year, I believe.

10 Q. So mid-1997?

11 A. That's correct.

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

13 I would like to make a brief statement at the
14 end.

15 EXAMINER STOGNER: Thank you, Mr. Bruce.

16 Mr. Carr, do you have any --

17 MR. CARR: No, I do not.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Barrett, Exhibit Number 4, this is an
21 undivided interest of the 50 percent of Hansen and Yeager;
22 is that correct?

23 A. That's correct.

24 Q. So the -- this interest represents both 80- and
25 40-acre proration units?

1 A. That's correct.

2 Q. Okay, when I go to Exhibit Number 8, the first
3 dry hole cost shown under "Drilling Intangibles" -- and
4 that's by the Conoco State CC 16 Number 1 wellbore, there's
5 a \$320,000 figure.

6 A. Uh-huh.

7 Q. What actually is that figure representing?

8 A. That figure is representing the amount that it
9 costs Conoco to drill and equip -- or drill and case that
10 well to completion of 6950 feet.

11 Q. And when did Conoco do that?

12 A. That was April -- I believe the date was April
13 2nd, 1996.

14 Q. So it's not adjusted -- That is a real figure?

15 A. That's correct.

16 Q. I'm not to assume that that's what John Hendrix
17 Corporation is paying Conoco for that wellbore?

18 A. I'm sorry, can you --

19 Q. Is that the price in which John Hendrix is paying
20 Conoco for that wellbore?

21 A. Consideration will be in that amount.

22 Q. That is what Hendrix is paying Conoco for that
23 well?

24 A. Well, it will be shared by everyone that
25 participates, that figure will.

1 Am I making sense?

2 Q. No. Is that the bill-of-sale cost that Hendrix
3 is paying for that well?

4 A. Well, since Conoco is now in the wellbore, they
5 will -- their portion of that will be taken out of that
6 number, Hendrix's portion will be out of that, and if the
7 Yeagers and Hansens chose to participate their portion
8 would come out of that as well. Each --

9 Q. Okay, so that -- Okay.

10 A. Each percentage. This would be an AFE that would
11 be sent to all participating parties.

12 Q. And Conoco has what percent?

13 A. I said it was --

14 Q. -- 18.75?

15 A. That's right.

16 Q. How is this well presently completed, as far as
17 casing? What size of casing is that?

18 A. It's 5-1/2-inch casing to 6950 feet.

19 Q. Now, in your original proposed well to be
20 drilled, what was the size of casing that was going to be
21 run in that all the way down to the Strawn?

22 A. Five-and-a-half-inch.

23 Q. Now, what -- You're not going to be able to run
24 5-1/2 all the way down. Is there going to be a 4-inch
25 liner or something?

1 A. That's -- Yes, there's money in there for a 4-
2 inch liner.

3 Q. Is it Hendrix's plan to dually complete the
4 Strawn and the Abo from this wellbore?

5 A. That remains to be seen, as far as what is done,
6 and with 4-inch you really can't run two strings of tubing
7 in there, so it would be very difficult to do that.

8 Q. Okay, I'm trying to get a grasp on what one
9 should consider as far as risk goes, or what is used to
10 come up with this risk-penalty figure.

11 You have stated earlier in your geological that
12 both the Abo and the Strawn going after some proposed
13 production on the outer boundary of a structure is somewhat
14 risky. I'd like to go back to the actual drilling of a
15 well and what risk should be taken in at that point.

16 A. And are you talking about just costs? I'm not
17 sure --

18 Q. No, I'm talking about the percentage. You're
19 seeking a 200-percent risk, and that would have been the
20 same for a well that was already drilled, as opposed to a
21 well to be drilled; is that right?

22 A. That's correct.

23 Q. Okay. But you stated in there that there was
24 lost circulation in the Grayburg?

25 A. That's correct.

1 Q. Okay, that risk is no longer there, is it not,
2 with this existing wellbore?

3 A. That's correct. Now, that's just a mechanical
4 risk. The risk of finding the Abo or the Strawn in
5 commercial quantities is still no different, whether
6 there's a wellbore there already, because the wellbore TD'd
7 at 6950. You did not have a look with logs, you did not
8 drill through or have a look with logs below 6950, and both
9 the Strawn and the Abo are below 6950.

10 Q. Okay. So I've got a mechanical risk, and I'm
11 assuming the other was a geological risk?

12 A. That's correct.

13 Q. Okay.

14 A. You've reduced your mechanical risk with having a
15 wellbore there already, but you still have a complete
16 geologic risk on both of them, both wells. And all that
17 the mechanical risk does is reduce your costs, as was shown
18 by the two AFEs.

19 Q. So wouldn't there be a risk in that mechanical
20 risk if you drilled through there in that lost-circulation
21 interval, isn't there a chance you could lose the whole
22 wellbore, or -- as far as a well that was being drilled; is
23 that correct?

24 A. That is a possibility, which again would increase
25 the costs of the drilling and make the differential between

1 the two wellbores more costly.

2 So again, for the nonconsenting parties it would
3 increase the amount of money or the amount of time before
4 they were able to get back into the wellbore.

5 Q. Is my risk -- is the mechani- -- Let's talk about
6 the mechanical risk of recompleting this existing well with
7 the slimhole. Is there an added mechanical risk or -- to
8 go below that 6950 figure?

9 A. There very well can be. Again, 4-inch liner is
10 very slim to work in. You have difficulty with tools in
11 there.

12 Q. I'm sorry, with what?

13 A. Well, you can have difficulty with your smaller
14 tools in there. So there are other mechanical risks that
15 go with the smaller hole.

16 The other consideration as far as risk, you will
17 have to squeeze off the existing Tubb perforations, you
18 have possibility of those leaking. There's a variety of
19 mechanical risks here as well.

20 EXAMINER STOGNER: Any other questions of this
21 witness?

22 MR. CARROLL: Yes, I have a couple.

23 EXAMINATION

24 BY MR. CARROLL:

25 Q. What's the current status of that Conoco CC 16

1 Number 1 well?

2 A. It's producing out of the Tubb.

3 Q. And looking at Exhibit 8, I think you said
4 \$320,000 was the Conoco cost of drilling and equipping the
5 well?

6 A. Well, it was just drilling to casing point, or
7 drilling to TD and casing. That did not --

8 Q. And then there's a couple costs listed at the
9 bottom that would be paid to Conoco for the existing
10 equipment?

11 A. That's correct.

12 Q. So the total is about \$385,000 paid to Conoco?

13 A. Well -- Yes, there's \$320,000 for the wellbore,
14 for -- they've got tubing, downhole pump and rods. That's
15 \$13,730. And the they have a facility in place, \$51,834.

16 And again, all of these costs would be shared by
17 everybody that participates. This is an AFE that would go
18 to everyone that participates.

19 MR. CARROLL: That's all I have.

20 FURTHER EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Would Conoco still be the operator of the Tubb
23 production?

24 A. Yes, they will. And that's if that arrangement
25 can be worked out. It still is not a finalized deal.

1 Q. Is that arrangement uncommon or unheard of, or --
2 with the two operators owning a wellbore, or operating a
3 wellbore?

4 A. I haven't seen that much of it, but I have heard
5 that it has happened.

6 EXAMINER STOGNER: Any other questions?

7 MR. CARR: No further questions.

8 EXAMINER STOGNER: You may be excused.

9 Mr. Bruce, do you have a closing statement?

10 MR. BRUCE: Yes, Mr. Examiner.

11 My clients are here to request that a reduced
12 penalty be applied in the event that they go nonconsent in
13 this well. This is based on two factors.

14 First of all, the re-entry.

15 In two recent orders, the Division has set a
16 penalty on a re-entry at 100 percent. I will get those
17 order numbers for you, but the cases involved Primero
18 Operating, and another one involved Chi Energy. That was
19 due to the lower risk, the lower mechanical risk involved
20 in re-entering the wellbore. Mr. Barrett has said that re-
21 entering the wellbore will do away with lost-circulation
22 problems, and we think that reduces the risk.

23 Secondly, there is offset production in the east
24 half of Section 16. I would ask you to take administrative
25 notice of Division files for wells in Units B, G, H and J

1 of Section 16.

2 The well in Unit B, a Marathon well, initially
3 produced at 182 barrels of oil per day, 1782 MCF of gas per
4 day. That was the immediate offset to this well.

5 The well in Unit G initially produced 68 barrels
6 of oil per day and 1854 MCF of gas per day.

7 And a well in Unit J produced 93 barrels and 214
8 MCF of gas per day.

9 The maps presented by Mr. Barrett show that
10 this -- his proposed location should be equivalent to the
11 wells in the west half of the northeast quarter of Section
12 16. We believe based on this data, a reduced penalty in
13 the range of 50 to 100 percent is justified.

14 Thank you.

15 EXAMINER STOGNER: I'm sorry, what was those
16 figures?

17 MR. BRUCE: The -- For a penalty, 50 to 100
18 percent.

19 EXAMINER STOGNER: Thank you, Mr. Bruce.

20 Mr. Carr?

21 MR. CARR: May it please the Examiner, John H.
22 Hendrix Corporation is here today seeking an order pooling
23 the subject acreage. And, as we've noted, we'll be filing
24 an amended Application seeking authorization to either
25 drill a new well on the acreage or to re-enter an existing

1 Conoco well.

2 We would request that a full penalty of 200
3 percent be applied to those interest owners who don't
4 voluntarily agree to participate in the well.

5 The benefits of using the existing Conoco well
6 are that costs should be better able to be controlled by
7 John H. Hendrix Corporation, and everyone will benefit, and
8 the results of -- of going that route, because if the costs
9 are controlled, the chances of an overrun are substantially
10 reduced.

11 But this is a very high-risk venture. It's a
12 high-risk venture because of, as Mr. Barrett, has
13 testified, the erratic nature of the formations that we're
14 trying to produce, and also the economics of the effort,
15 compounded by the fact that we only own rights below 7000
16 feet, we only are looking at the Strawn and the Atoka, we
17 don't have upper zones that could improve the economics or
18 potentially be bailout zones if we're unsuccessful in the
19 Strawn and the Atoka.

20 We do reduce the mechanical risk of having a
21 problem of lost circulation in the Grayburg-San Andres, but
22 there is increased mechanical risk having to work within a
23 4-inch liner and also having to address problems with
24 existing Tubb perforations in the well.

25 Furthermore, because of the risks involved, our

1 Application that we will file will seek authority, in the
2 alternative, either to drill a well or to re-enter. And
3 the reason, very simply, is that the economics just won't
4 justify the re-entry unless we're able to also apply the
5 full 200-percent risk penalty to the cost of the
6 acquisition of the well.

7 The decision, really, is yours. And this is new
8 in certain respects, I submit. The cases that you've seen
9 before, where there have been a reduced penalty, you've
10 allowed in the case of certain wells for Merrion 100
11 percent because they were old wells and there was a salvage
12 value used.

13 Here, however, we've got an opportunity to, we
14 think, deal with a complicated problem in drilling by using
15 the existing wellbore. We're able to better control our
16 costs, and we think everyone should benefit.

17 If you decide that that's an appropriate way to
18 go, that's the way we'll go.

19 If you decide that the penalty is inappropriate,
20 the economics will dictate the drilling of the straight
21 hole.

22 So, as so often we do, we're tendering this now
23 to you and request that you consider our Application and
24 our request for a full 200-percent penalty.

25 EXAMINER STOGNER: Thank you, Mr. Carr.

1 There's four things to discuss at this point, or
2 to go on with this case, continue and readvertise for
3 August the 6th, and that would include not only an NSL but
4 the --

5 MR. CARR: The re-entry.

6 EXAMINER STOGNER: -- possible re-entry of the
7 existing well.

8 Also, there's going to be some additional
9 notification because of the nonstandard location --

10 MR. CARR: That's correct.

11 EXAMINER STOGNER: -- and I'm assuming that
12 you'll make that a part of the Application, as opposed to
13 filing administratively.

14 MR. CARR: We will.

15 EXAMINER STOGNER: Now, between now and August
16 6th I'm going to also state that there should be continued
17 negotiation between both parties. I still think that the
18 best thing in this matter is to come up with a mutually
19 agreeable agreement, as opposed to leaving that question
20 here.

21 Also, subsequent to the August 6th hearing,
22 should it be necessary that we call that again and not
23 dismiss it because the parties have agreed, then I would
24 like a rough-draft order from both of the --

25 MR. CARR: Okay.

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EXAMINER STOGNER: -- considering that. And

hopefully that won't be necessary. I can write a dismissal pretty easy.

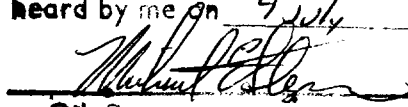
Okay, is there anything else in Case Number 11,993?

Then this matter will be continued and readvertised for the August 6th. At that time it will be called.

Let's take a ten-minute recess at this time.

(Thereupon, these proceedings were concluded at 9:53 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11993
heard by me on 4 July 1998
 Examiner
Of Conservation Division

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 July 12th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998