

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:)
)
 APPLICATION OF DAVID H. ARRINGTON OIL)
 AND GAS, INC., FOR COMPULSORY POOLING,)
 DIRECTIONAL DRILLING AND AN UNORTHODOX)
 WELL LOCATION, LEA COUNTY, NEW MEXICO)
)

CASE NO. 12,079

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 5th, 1998

Santa Fe, New Mexico

98 NOV 19 PM 2:43

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 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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November 5th, 1998
 Examiner Hearing
 CASE NO. 12,079

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A P P E A R A N C E S

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 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:29 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case,
4 12,079, the Application of David H. Arrington Oil and Gas,
5 Inc., for compulsory pooling, directional drilling and an
6 unorthodox well location, Lea County, New Mexico.

7 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 David H. Arrington Oil
11 and Gas, Inc., in this matter.

12 My witnesses are Dale Douglas and Bill Baker. I
13 would request that the record reflect that Mr. Douglas and
14 Mr. Baker have previously been sworn and that their
15 credentials have been accepted and made a matter of record.

16 EXAMINER CATANACH: The record shall so reflect.

17 Any other appearances in this case?

18 Okay, Mr. Carr?

19 MR. CARR: Mr. Catanach, several months ago in
20 Case 11,994, Mr. Arrington obtained an order from the
21 Division pooling the middle laydown -- one-third laydown
22 unit in an irregular section. And since that time,
23 additional information has become available in the
24 reservoir.

25 And so this case and the following case, 12,080,

1 are cases in which Mr. Arrington is proposing to develop
2 the southern third of this irregular section, the two
3 standup units.

4 Yesterday afternoon there were discussions
5 between Mr. Arrington and Ocean Energy concerning the
6 development of a western unit. That is Case 12,080, and
7 there are concerns about the appropriate well location for
8 that spacing unit. And when that case is called, we will
9 request that that case be continued for two weeks, to
10 enable us to continue our negotiations with Ocean.

11 In the meantime, we're prepared to go forward
12 with this case, and it is, in fact, a stand-alone case. It
13 is a case for a standup spacing unit in the southern third
14 of this irregular section, and by virtue of approving this,
15 in fact, you will be superseding the previous pooling order
16 for the laydown unit.

17 EXAMINER CATANACH: Okay.

18 DALE DOUGLAS,

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Mr. Douglas, are you familiar with the
24 Application filed in this case on behalf of David H.
25 Arrington?

1 A. Yes, sir, I am.

2 Q. And are you familiar with the status of the lands
3 which are the subject of this Application?

4 A. Yes, sir, I am.

5 Q. Could you briefly review for Mr. Catanach Mr.
6 Arrington's prior efforts to develop this acreage? And you
7 may want to refer to Exhibit 1 as you do this.

8 A. Okay. In Case Number 11,994 we had acquired a
9 pooling order on this irregular section. If you'll refer
10 to Exhibit 1, Section 3, you'll notice on the first page
11 there's the middle 320. This is a 960-acre section. The
12 middle 320 was the tract that was pooled under that Case
13 Number 11,994 for a Morrow test of that 320 acres.

14 Since that acreage was pooled, we obtained
15 additional -- this is a fairly active area, and we obtained
16 additional geological information that made us alter our
17 interpretation of this area and felt like the appropriate
18 thing to do was to reorient or dissolve that unit and have
19 two standup 320s instead of one laydown 320 in the middle
20 of the section.

21 Q. Would you briefly review for Mr. Catanach what
22 Mr. Arrington seeks with its Application in Case 12,079?

23 A. Yes, sir, we're seeking an order pooling all the
24 minerals from the surface to the base of the lower
25 Mississippian formation under the following spacing units

1 in Section 3.

2 And if you'll look and refer to the second page
3 of Exhibit 1, there is a plat that outlines that 320-acre
4 tract.

5 The legal description for that is lots 9, 10, 15
6 and 16 in the southeast quarter of Section 3, which would
7 be the 320-acre spacing.

8 For 160-acre spacing we would ask for the
9 southeast quarter. There is already an existing Strawn
10 producer in the north half of the southeast quarter, and
11 that well was drilled and is operated by Amerind, and it
12 was drilled subject to a pooling order, R-10,791. That
13 well is still producing, so therefore we're not asking for
14 any pooling on that 80-acre tract.

15 And then we're asking for the northeast of the
16 southeast quarter, which is the drillsite 40, for all 40-
17 acre spacing, which would be lying below the base of the
18 Strawn formation.

19 Q. Now, as we go through this case, Amerind has not
20 been named as a party subject to pooling, have they?

21 A. That's correct.

22 Q. And you are negotiating with them a voluntary
23 agreement for the development of this spacing unit?

24 A. That is correct.

25 Q. The pool units which you've just described, to

1 what well are they going to be dedicated?

2 A. Be dedicated to the Arrington Parachute Adams
3 Well Number 1. It's to be directionally drilled from a
4 surface location of 1859 feet from the south line and 777
5 feet from the east line, which is Unit I, to an unorthodox
6 bottomhole location of 1450 feet from the south line and
7 990 feet from the east line of Section 3.

8 Q. Now, let's finish up with our Exhibit Number 1.
9 Would you just review what it shows? And let's stay with
10 this second page.

11 A. Okay. The second page again shows the 320-acre
12 spacing unit, and there -- Since the unorthodox bottomhole
13 well location will be encroaching upon the south line of
14 that 320 acres, the offset operator to the south is Yates
15 Petroleum Corporation, and they are the party which will be
16 encroached upon.

17 Q. Are they the only party that -- affected party by
18 the unorthodox bottomhole location?

19 A. Yes, sir, they are.

20 Q. What is the primary objective in the proposed
21 well?

22 A. The lower Mississippian.

23 Q. Can you identify what has been marked as
24 Arrington Exhibit Number 2 and review that for Mr.
25 Catanach?

1 A. Arrington Exhibit Number 2 is a breakdown of
2 ownership as to the various tracts which will be making up
3 this 320-acre tract. There are several depth restrictions
4 as to ownership in here, so what this exhibit attempts to
5 do is to break down each specific tract that has different
6 ownership. And we have done that to show each party's
7 leasehold interest and, if there are unleased minerals,
8 that party's unleased mineral interest.

9 Q. Mr. Douglas, when we go to the last page of
10 Exhibit Number 2, you have set out there the percentage of
11 the working interest that has been voluntarily committed to
12 this proposed well in each of the subject spacing units; is
13 that right?

14 A. Yes, sir, that is correct.

15 Q. So if we look at a 320-acre spacing unit, at this
16 point in time you have 62.17445 percent committed to the
17 well?

18 A. That is correct.

19 Q. Do these figures include the interest of Amerind?

20 A. No, sir, they do not.

21 Q. And so if Amerind and Arrington reach a voluntary
22 agreement, these numbers will increase?

23 A. Yes, sir.

24 Q. Let's go now to Exhibit Number 3, your AFE. I'd
25 ask you to review the totals on that exhibit for the

1 Examiner.

2 A. This is the AFE for the Parachute Adams well.
3 The dryhole costs for drilling this well have been
4 estimated to be, \$668,750. Additional costs for completion
5 would be \$358,210, which would give us a total well cost of
6 \$1,026,960.

7 Q. Are these costs in line with what's charged by
8 other operators from similar wells in this area?

9 A. Yes, sir, they are.

10 Q. Could you summarize for Mr. Catanach the efforts
11 made by Arrington to obtain the voluntary joinder of all
12 working interest owners in the proposed spacing units?

13 A. Yes, sir. Initially, this area was started back
14 in -- We started our work in this area in September of 1997
15 for the purposes of putting the original laydown 320-acre
16 unit together.

17 We had acquired voluntary participation in this
18 unit from all parties, with the exception of one party, one
19 unleased mineral interest owner. And we had then received
20 the order pooling that interest.

21 Subsequent to receiving that pooling and the
22 additional geological information, we then did additional -
23 - started doing our additional land work in this area to
24 determine ownership in the other tracts which would be
25 affected if we re-oriented the units.

1 We've made efforts to contact and have, indeed,
2 contacted all record owners, or all owner of record, being
3 leasehold owners and mineral owners. We've followed those,
4 we've mailed proposals to all of those parties, asking for
5 their participation in the well or, in lieu of
6 participating in the well, to reach some sort of an
7 agreement for an oil and gas lease or an assignment.

8 On the parties that we did not hear back from, we
9 followed those up with additional letters and additional
10 personal phone calls. We talked to several of the parties.
11 There are some small mineral owners in here. Basically,
12 the response is, they will react to the order. So we were
13 unable to get them to voluntarily commit to the drilling of
14 this well.

15 I have also attached a chronology of the
16 breakdown of our efforts to locate all these people. I
17 start off with the --

18 Q. Are you referring now to what's been marked as
19 Arrington Exhibit 4?

20 A. Yes, sir, I am.

21 Q. Okay.

22 A. That chronology breaks down, generally, the
23 efforts we have gone to, to obtain voluntary joinder from
24 all these people.

25 And I have also attached to that the chronology

1 which set forth what we had done on the original order for
2 the laydown 320.

3 Q. So when we look at the chronology, the top page
4 is what has been done by you for Mr. Arrington since you
5 decided to reorient the spacing unit?

6 A. That is correct.

7 Q. And then behind that you have a chronology which
8 reviews efforts that date back to September of 1997 to
9 develop the interest in Section 3?

10 A. That is correct.

11 Q. Is Exhibit Number 4 [*sic*] an affidavit with
12 attached letters and return receipts confirming that notice
13 of this Application has been provided in accordance with
14 OCD rules?

15 A. Yes, sir, it is.

16 Q. Have you made an estimate of the overhead and
17 administrative costs to be incurred while drilling the well
18 and also while producing it if, in fact, it is successful?

19 A. Yes, sir, the drilling rate we've utilized is
20 \$6000, and a producing monthly rate of \$600.

21 Q. And what is the source of those numbers?

22 A. The primary source of these numbers is from the
23 Ernst and Young survey.

24 Q. And are these costs in line with what's being
25 charged by other operators in this area?

1 A. Yes, sir, they are.

2 Q. Do you recommend that these figures be
3 incorporated into the order which results from this
4 hearing?

5 A. Yes, sir, I do.

6 Q. Were Exhibits 1 through 5 prepared by you or
7 compiled under your direction?

8 A. Yes, sir.

9 MR. CARR: At this time, Mr. Catanach, we would
10 move the admission into evidence of Arrington Exhibits 1
11 through 5.

12 EXAMINER CATANACH: Exhibits 1 through 5 will be
13 admitted as evidence.

14 MR. CARR: That concludes my direct examination
15 of Mr. Douglas.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. As I understand it, Mr. Douglas, you've not
19 attempting to pool the -- an 80-acre unit?

20 A. That is correct.

21 Q. But you are -- You do see the 320, a 160 and a
22 40?

23 A. That's correct.

24 Q. Okay. Now, these would all be from the surface
25 to the base of the lower Mississippian, in all three of

1 those units?

2 A. No, sir, on the 320 acres, if you'll refer to the
3 Exhibit 2, there is varying ownership as to depth, and some
4 of which -- There are some producing wells in this 320
5 right now, so some of those depths are contributed to the
6 spacing units for those wells.

7 For example, the Amerind Strawn well in the north
8 half of the southeast quarter is pooled from the surface to
9 the base of the Strawn, so -- which is the reason we're not
10 seeking an order pooling that interest. It's already
11 contributed to that unit.

12 If you'll go up to Lot Number 10, there are two
13 wells in there. There is a Wolfcamp well, for example,
14 that Bruno operates, which is holding a 40-acre tract, so
15 we're not asking for the pooling of the zones from the
16 surface in that tract either. But the breakdown that I
17 have specifically describes each tract and the ownership as
18 to each of those tracts.

19 MR. CARR: Mr. Catanach, may I ask a question?

20 EXAMINER CATANACH: Yes.

21 MR. CARR: Mr. Douglas, in terms of an order
22 resulting from this hearing, if it pooled 40-acre tracts,
23 160-acre tracts and 320-acre tracts below the base of the
24 Strawn, would that satisfy Arrington's purpose?

25 THE WITNESS: Yes, it would.

1 MR. CARR: That's all I have.

2 EXAMINER CATANACH: So the order that we need to
3 issue, Mr. Carr, would be from the base of the Strawn --

4 MR. CARR: Yes.

5 EXAMINER CATANACH: -- to the base of the lower
6 Mississippian?

7 MR. CARR: Yes, sir, that would take care of
8 this.

9 Q. (By Examiner Catanach) Mr. Douglas, when did you
10 undertake the effort to contact these interest owners with
11 regards to drilling the east half?

12 A. For this Adams well, it was in September -- it
13 should be on my chronology -- September the 25th.

14 Q. That was your first contact with these interest
15 owners?

16 A. Yes, sir, for the ones that we had not already
17 reached agreement with for the original pooling. The
18 parties that we needed to contact were the ones that owned
19 interest in the southeast quarter.

20 Q. The interest owners you had already agreed to on
21 the previous orientation, you didn't need to attempt to
22 reach an agreement with those again?

23 A. No, sir.

24 Q. Had you leased those interests?

25 A. We had subsequently leased those interests, or

1 acquired assignments of the leasehold estate from the
2 parties.

3 Q. And it didn't matter -- As far as that lease
4 agreement was concerned, it didn't matter, the orientation
5 of the spacing unit?

6 A. No, sir. Contractually, our agreement allows us
7 to do what we wish with the acreage.

8 Q. Okay. So the only interest owners pending were
9 the ones in the southeast quarter of that section?

10 A. That's correct. And actually, in that southeast
11 quarter, Arrington controls the southwest of the southeast,
12 so the affected interests are actually the 120 acres
13 comprising the rest of that southeast quarter.

14 Q. Okay. And those interest owners were contacted
15 on the 25th of September?

16 A. Yes, sir.

17 Q. Do you have a letter in here that reflects that
18 first contact?

19 A. Yes, sir, there is -- Exhibit Number 4, I have
20 attached a chronology listing the dates, and then also
21 attached to that are copies of the various letters and
22 correspondence that we've sent out.

23 Q. Okay. It appears all the letters I have are
24 dated September 28th.

25 A. Well, the letters were dated the 28th. Initial

1 contact on phone calls started on the 25th.

2 Q. Okay.

3 A. And the first contact was Amerind, because they
4 had the one well in that 120-acre tract, which was the
5 primary effort to control.

6 Q. Are all of these letters that you've got listed
7 here, these are all the same correspondence?

8 A. There are a set of letters included which were
9 sent out by a contract lease broker that we had acquired,
10 or hired to locate and attempt to make agreements with the
11 unleased mineral owners.

12 And then the other letters are all letters that
13 were mailed out under certified mail, asking for
14 participation or some sort of voluntary agreement.

15 Q. So how many interest owners are we dealing with
16 in this -- that you're trying to secure the agreement from?

17 A. That we don't already have agreement with, there
18 are 11 mineral owners. And as you can tell from our --
19 part of our problem with reaching agreement on the majority
20 of these people, certain ones have said that they'll
21 respond to the order when it's issued. Others have said
22 their interest is too small and they're -- They didn't even
23 care to visit further with us about it.

24 Q. So the biggest interest that's not consolidated
25 is Amerind's?

1 A. Yes, sir.

2 Q. How much is that?

3 A. They own the majority of that 120 acres in the
4 southeast quarter. That would increase our participation
5 to under -- a voluntary participation for the 320 acres,
6 they control roughly 30 percent of that.

7 An agreement with Amerind would give us a
8 voluntary participation of 92 percent for the 320-acre
9 tract, 89 percent for the 160-acre tract, and 94 percent
10 under the 40-acre tract. And those remaining percentages
11 are unleased mineral owners.

12 Q. Okay. Do you anticipate reaching an agreement
13 with Amerind?

14 A. Yes, sir, we do.

15 Q. And the other interest owners, there's no other
16 chance to probably secure them?

17 A. There is a possibility. We've received letters
18 from two parties asking for copies of our proposed
19 operating agreement, but no indication that -- there are no
20 -- They have not signed an AFE or an agreement. And they
21 have been furnished with operating agreements.

22 Q. Okay. Offset notification, as far as the
23 location is concerned, was provided to the interest owners
24 in the north half of Section 10; is that right?

25 A. It's the northeast quarter of Section 10.

1 Q. Northeast quarter of Section 10.

2 A. Which is Yates Petroleum.

3 Q. Is there a well in that north half, do you know?

4 A. Of Section 10? It's not the Mississippian?

5 MR. BAKER: No, sir. There's an Atoka well, Mr.
6 Catanach, in the southeast quarter -- southwest quarter of
7 the northeast quarter. I'll show that on my geological
8 exhibit.

9 Q. (By Examiner Catanach) Okay. Do you know what
10 the interest ownership is in within the northwest quarter
11 of Section 10?

12 A. Northwest of 10? No, sir, I do not. I believe
13 that that particular zone, or the Atoka zone, is -- is that
14 contributed to that well in the south half?

15 MR. BAKER: In the south half of what?

16 THE WITNESS: Of 10.

17 MR. BAKER: Of when?

18 THE WITNESS: Of Section 10.

19 MR. BAKER: The south half of Section 10?

20 MR. CARR: You need to --

21 EXAMINER CATANACH: Can we -- Why don't we just
22 pursue this with the next witness?

23 THE WITNESS: Oh, I'm sorry.

24 Q. (By Examiner Catanach) But you did not provide
25 notice to anybody with -- in the northwest quarter of

1 Section 10?

2 A. No, sir.

3 Q. Just the northeast quarter?

4 A. That's correct.

5 Q. Okay. And that was Yates Petroleum --

6 A. Yes, sir.

7 Q. -- owns the entire quarter section?

8 A. They're the operator, yes, sir.

9 EXAMINER CATANACH: They're the operator, okay.

10 I believe that's all I have of this witness.

11 MR. CARR: At this time, Mr. Catanach, we call

12 Bill Baker.

13 BILL D. BAKER, JR.,

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Mr. Baker, are you familiar with the Application
19 filed in this case?

20 A. Yes, sir, I am.

21 Q. And have you made a geological study of the area
22 which is the subject of the Application?

23 A. Yes, sir, I have.

24 Q. Are you prepared to share the results of that
25 study with the Examiner?

1 A. Yes, sir, I am.

2 Q. Let's go to what has been marked as Arrington
3 Exhibit Number 6, your isopach map.

4 A. Okay.

5 Q. Would you review that for Mr. Catanach?

6 A. Yes. And Mr. Catanach, if it's all right, I'd
7 like to back up and give a little bit of history, some of
8 the wells in this area and what has kind of taken place
9 over the last nine months, which has also prompted us to
10 change its unit orientation. And it will explain a little
11 bit about some of those wells in Section 10.

12 Originally on this particular area, we were
13 interpreting the Brunson Atoka sands to be north-south
14 trending distributary channel systems. And at the time
15 that we originally proposed the original Number 1 Parachute
16 Hopper with that laydown 320 that we had talked about, the
17 one producing well out in this area that had sustained
18 production was the Yates Petroleum Brunson State Number 1.

19 If you'll look on your exhibit, that is the gas
20 well located in the southwest quarter of the northeast
21 quarter of Section 10. That particular well right there is
22 the well that kind of sparked the interest in this area.
23 And like I said, at that particular time I had this
24 interpreted as two different particular channel systems.

25 Subsequent to that well being drilled, Ocean

1 Energy drilled a well, being the Carlisle well in the
2 northeast quarter of the southwest quarter of Section 10.
3 At this particular time, that well is still being held
4 confidential. It's our understanding that it's producing
5 from a zone that is not in the Atoka Brunson interval but a
6 lower interval, possibly a Morrow or a Mississippian
7 interval. It was reported that it did have a drilling
8 break in the Atoka Brunson interval.

9 Subsequent to that, Yates Petroleum drilled the
10 Big Flat well, which is located in the northwest quarter of
11 the southeast quarter of Section 10. To date there's no
12 log released on that particular well, but it's my
13 understanding it is producing from the Brunson interval.

14 Also with that, Yates Petroleum drilled two wells
15 over in Section 11. They actually re-entered a well, being
16 the Shell Lusk well, which is in the southeast quarter of
17 the northwest quarter of Section 11, and completed a well
18 there in the Brunson interval.

19 And most recently, they drilled a well in the
20 northwest quarter of the southeast quarter of Section 11,
21 the Runnels well, which is also completed in the Brunson
22 Atoka interval.

23 It was because of these particular wells and all
24 this activity in here that prompted me to reinterpret my
25 original maps from being two particular distributary

1 systems to what appears to be one.

2 Also what prompted that is some information we
3 received on the pressure information, indicating that the
4 Yates Brunson well might possibly be in communication with
5 the Shell Lusk well located there in Section 11. If that
6 pressure information is valid, then it's definitely that
7 there are not two systems here; there's one larger system.
8 And at that particular time we felt like we probably need
9 to protect our rights in the southeast quarter there of
10 Section 3.

11 Part of the risk of this particular well is, if
12 you'll also notice in Section 3, there are three wells that
13 penetrated through the Brunson interval, and all three of
14 those wells -- which are kind of highlighted there in
15 pink -- did not encounter any Brunson Atoka interval.

16 Therefore, as to the western edge of that sand
17 pinchout, it's somewhat unknown.

18 But with the reported drilling break that was
19 encountered in that Carlisle well down there in the
20 southeast quarter -- southwest quarter, excuse me, of 10,
21 it does appear like there might be a second lobe developing
22 within the system.

23 And it is because of these reasons here that we
24 felt that we needed to reorient the unit and drill two
25 standups on that.

1 the another one for a while.

2 Q. I'm sorry, which other well are you talking
3 about?

4 A. That would be the Big Flat well located there in
5 the northwest quarter of the southeast quarter where it has
6 no log available, NLA, directly south of that Brunson well.

7 Q. Okay.

8 A. But it's my understanding the original Brunson
9 well was dedicated to an east-half unit.

10 Q. Okay. Do you know -- And also the well in
11 Section 11, the -- I believe that's another Yates well?

12 A. Yes, sir, both those two wells are there, and I
13 know that is an east-half well -- or, excuse me, a west-
14 half well, for the Shell Lusk well, which is that one up
15 there in the northwest quarter. And then it's an east-half
16 well for the Runnels well.

17 Q. Okay, both of those are Yates?

18 A. Yes, sir, they are.

19 Q. Okay.

20 A. Yes, sir.

21 Q. All right.

22 A. Also, this map indicates that Yates has proposed
23 a well there in Section 2. If you'll see where it shows
24 the location, that is the Yates Petroleum location right
25 there as well.

1 Q. Okay.

2 A. Okay?

3 DIRECT EXAMINATION (Resumed)

4 BY MR. CARR:

5 Q. All right, let's go to Exhibit Number 7, the
6 structure map, and I'd ask you to review this and
7 particularly focus on your bottomhole location.

8 A. Okay. Mr. Catanach, this is a structure map on
9 the top of the Morrow section, which is the regional
10 structural marker that directly underlies the Atoka Brunson
11 interval, and this is also the principal -- will be the
12 principal reason for asking for an unorthodox location.

13 It is evidenced by subsurface well control, as
14 well as some 2-D seismic in this particular area, that the
15 Morrow section is highly faulted. There's a lot of faults
16 throughout this area. And we have a nonproprietary 2-D
17 seismic line that indicates that at our legal location we
18 would stand a strong possibility of encountering a fault
19 and possibly faulting out our interval.

20 As you notice, we have proposed the well 200 feet
21 south of that. This would give me a little bit of latitude
22 as far as risk associated with that particular fault. And
23 this is the principal reason for the unorthodox location.

24 The map simply shows a couple of structural east-
25 plunging noses, just kind of regional dip to the east.

1 Q. Let's go to the next exhibit, Exhibit Number 8.
2 Identify this first and then explain what is shown.

3 A. Okay, Exhibit Number 8 is a topographic land
4 survey sketch of where we have our surface location
5 currently located at with respect to several wells in the
6 area, as well as a lease road and an existing highline.

7 Part of the reason for the directional well here
8 is because of cultural problems. It's all because of
9 cultural problems. You see the surface location staked
10 here, and it is 777 feet from the east line and 1859 from
11 the south line. You also see where our bottomhole location
12 would fall. We will be 15 feet from an existing lease
13 road, and we would be almost directly underneath a power
14 line.

15 So for cultural reasons, that is the reason for
16 an approximate 461-foot directional kick.

17 Q. All right, let's go to Exhibit 9, and what is
18 this?

19 A. Exhibit 9 is a topo map. And I apologize for not
20 having the wells colored in here, but if you'll look, Mr.
21 Catanach, there in Section 3, you'll see two dots around
22 Number 402 [sic] there. It shows our surface location and
23 then the bottomhole location as well. And once again, this
24 pretty well shows that you're going to be right on a road.

25 Q. If you drilled a straight hole at this location

1 you, in fact, would be on the road and under the power
2 line?

3 A. Yes, sir, we'd be 15 feet off of it, yes, sir.

4 Q. Are you prepared to make a recommendation to the
5 Examiner concerning the risk that should be assessed
6 against any interest owner who isn't voluntarily
7 participating in this well?

8 A. Yes, sir, I am.

9 Q. And what is that?

10 A. That would be cost plus 200 percent.

11 Q. And just briefly summarize upon what you base
12 this recommendation.

13 A. Well, it's pretty much twofold, but obviously the
14 structural risk here with the faults, there's a very high
15 probability if we encountered that fault that we could
16 fault the zone out.

17 And then if you want to go to the isopach,
18 because there are no wells in Section 3 that have
19 encountered any of the Brunson sand, although my isopach
20 indicates what I hope to happen, we do not know where that
21 pinchout is located.

22 So there is still a very strong element of sand
23 risk in the Atoka channel system.

24 Q. And it is possible that a well at this location
25 might not be a commercial success?

1 A. Yes, sir, there's -- there is.

2 Q. Does David H. Arrington Oil and Gas, Inc., seek
3 to be designated operator of the proposed well?

4 A. Yes, sir, we do.

5 Q. In your opinion, will the granting of this
6 Application and the drilling of the well as proposed be in
7 the best interest of conservation, the prevention of waste
8 and the protection of correlative rights?

9 A. Yes, sir, it will.

10 Q. Were Arrington Exhibits 6 through 9 prepared by
11 you or compiled under your direction?

12 A. Yes, they were.

13 MR. CARR: Mr. Catanach, at this time we would
14 move the admission into evidence of David H. Arrington
15 Exhibits 6 through 9.

16 EXAMINER CATANACH: Exhibits 6 through 9 will be
17 admitted as evidence.

18 MR. CARR: That concludes my direct examination
19 of Mr. Baker.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Baker, there's just no way that a vertical
23 well can be drilled to meet the surface and geologic
24 restrictions in this area?

25 A. Not at what we consider to be, you know, probably

1 the best location. You could move around up there by the
2 legal location, but you'd still be fairly close to where we
3 think that fault would be. And so we feel like, you know,
4 200 feet is about as little as we could give up, yes, sir.

5 Q. And that fault in the Morrow, that would affect
6 your Strawn?

7 A. Since -- Yes, sir. See, that Morrow zone is 50
8 feet below our zone, and if you were to cut that -- and
9 that's a 100-foot fault -- you would essentially fault out
10 your sand. And what I'd like to do is just give myself an
11 opportunity not even to have to mess with it.

12 Q. What data have you used to determine the location
13 of that fault?

14 A. Just this -- This particular is just seismic data
15 right here. Yes, sir, there's no subsurface control right
16 there around that location that -- substantiate, other than
17 this 2-D seismic.

18 Q. 2-D seismic?

19 A. Yes, sir, 2-D seismic.

20 Q. Is this well actually going to be drilled to the
21 lower Mississippian, Mr. Baker?

22 A. Yes, sir, it is our belief now, with what has
23 happened down in the Ocean well that -- It is our opinion
24 we should take every well to the lower Mississippian
25 interval. You should tag that as a marker. So yes, sir.

1 Q. I'm sorry, what's happening with the Ocean well?

2 A. Well, because we don't know exactly where that
3 Ocean well is producing from, but we know it's somewhere
4 below the Brunson interval, we feel like that we need to go
5 all the way through to the Mississippian, to look at
6 anything that might be happening.

7 Q. Is there Morrow potential?

8 A. With the subsurface well control that is in the
9 area, I would say no, sir. Generally speaking out in here,
10 the Morrow sandstones are eroded off and not deposited.
11 That's not to say that if you drilled in a graben system
12 you might have some debris, eroded debris, that would be
13 classified Morrow down in there.

14 Q. Is this all fee acreage?

15 A. With the exception of our 40-acre -- which would
16 be the southwest of the southeast, I believe that -- Is
17 that a state tract, or is that fee, Dale?

18 MR. CARR: You need to talk to the Examiner.

19 THE WITNESS: I believe it is, yes, sir.

20 EXAMINER CATANACH: That's all right, don't worry
21 about it.

22 Q. (By Examiner Catanach) That bottomhole location
23 would put you right on that road, and right near that
24 electric line?

25 A. Yes, sir, it would put us right underneath it.

1 Q. Okay, so the location you're proposing to drill
2 from, that's the closest location that you can get to that
3 bottomhole location?

4 A. According to our engineer who surveyed it out
5 there, in order to build our pad, yes, sir, it is. And
6 that's so that we will have plenty of room not to fall into
7 the pits of these old wells that you see, abandoned wells,
8 around.

9 If we moved towards those, then we started
10 getting into pit problems from those old abandoned pits.
11 So our engineer felt that that was the best surface
12 location for building his pad.

13 Q. Okay. And your directional-drilling plans are to
14 encounter that -- Is it the Strawn? I mean, I'm sorry, the
15 Atoka interval, at that bottomhole location?

16 A. No, sir, it's to bottomhole the well at that
17 particular location.

18 Q. That's the Mississippian?

19 A. Yes, sir. The actual cutting of the Atoka
20 interval should occur about a hundred feet north of there,
21 which would be about 1550, is where we would be.

22 Q. Okay. So that's actually a little less
23 unorthodox?

24 A. As far as cutting the Atoka Brunson interval,
25 yes, sir.

1 EXAMINER CATANACH: Okay. I have nothing
2 further, Mr. Carr.

3 MR. CARR: That concludes our presentation in
4 this case.

5 EXAMINER CATANACH: Okay, there being nothing
6 further in this case, Case 12,079 will be taken under
7 advisement.

8 (Thereupon, these proceedings were concluded at
9 11:10.m.)

10 * * *

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14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
the Examiner hearing of Case No. 2079,
17 heard by me on 11/21 1998.
David R. Catanach, Examiner
18 OH Conservation Division
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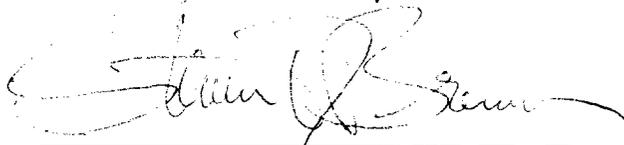
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation 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 November 9th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002