



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

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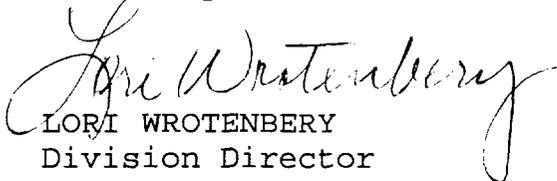
January 10, 2000

Mr. James Bruce  
Attorney at Law  
P. O. Box 1056  
Santa Fe, New Mexico 87504

Dear Mr. Bruce:

Based upon the reasons stated in your letter of January 10, 2000, and in accordance with the provisions of Division Order No. R-11264, KCS Medallion Resources, Inc. is hereby granted an extension of time until March 25, 2000, in which to begin drilling the well pooled by this order.

Sincerely,

  
LORI WROTENBERY  
Division Director

fd/

cc: Case No. 12260 ✓  
OCD - Artesia

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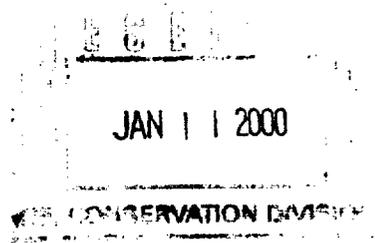
**JAMES BRUCE**

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January 10, 2000

**Via Fax and U.S. Mail**

Lori Wrottenbery  
Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Order No. R-11264; Application of KCS Medallion Resources, Inc. ("KCS") for compulsory pooling, Eddy County, New Mexico

Dear Ms. Wrottenbery:

The above order requires the operator to commence its proposed well by January 25, 2000. KCS intended to commence the well this month, but is having trouble locating an available rig. Therefore, KCS requests a two month extension of the well commencement deadline set forth in Decretory Paragraph (1) of the order.

Thank you for your consideration of this matter.

Very truly yours,

  
James Bruce  
Attorney for KCS Medallion Resources, Inc.

**JAMES BRUCE**  
ATTORNEY AT LAW

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Very truly yours,



James Bruce

Attorney for KCS Medallion  
Resources, Inc.

OIL CONSERVATION DIV.

99 NOV -2 PM 4:00

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. 12,260  
 )  
 APPLICATION OF KCS MEDALLION RESOURCES, )  
 INC., FOR COMPULSORY POOLING, EDDY )  
 COUNTY, NEW MEXICO ) ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 7th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 7th, 1999, 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.

\* \* \*

## I N D E X

October 7th, 1999  
 Examiner Hearing  
 CASE NO. 12,260

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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:

JAMES G. BRUCE, Attorney at Law  
3304 Camino Lisa  
Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 11:11 a.m.:

3           EXAMINER STOGNER: Call Case Number 12,260.

4           MR. CARROLL: Application of KCS Medallion  
5 Resources, Inc., for compulsory pooling, Eddy County, New  
6 Mexico.

7           EXAMINER STOGNER: Call for appearances.

8           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
9 representing the Applicant. I have two witnesses to be  
10 sworn.

11           EXAMINER STOGNER: Any other appearances?

12 Will the witnesses please stand to be sworn?

13 (Thereupon, the witnesses were sworn.)

14           EXAMINER STOGNER: Before we get started here,  
15 let's go off the record for a little bit.

16 (Off the record)

17           EXAMINER STOGNER: Okay, let's go back on the  
18 record.

19           Okay, Mr. Bruce.

20                           TIM M. WILSON,

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

23                           DIRECT EXAMINATION

24 BY MR. BRUCE:

25           Q.    Would you please state your name and city of

1 residence for the record?

2 A. Tim Wilson, Tulsa, Oklahoma.

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

4 A. I work for KCS Medallion Resources as a petroleum  
5 landman.

6 Q. Have you previously testified before the  
7 Division?

8 A. No, I have not.

9 Q. Would you outline your educational and employment  
10 background for the Examiner?

11 A. I have a bachelor of science in business  
12 administration from the University of Tulsa, 1973, an MBA  
13 in 1976 from the University of Tulsa also.

14 I started with Cities Service Oil Company back in  
15 1976, working in Oklahoma, then transferred to the Permian  
16 Basin, took a position in 1986 -- that was from 1976 to  
17 1908 with the Cities Service. In 1980 to 1986, I was with  
18 Santa Fe Energy Company, working the Arkoma. I was with  
19 Amerada Hess Corporation from 1989 to 1994 and have been  
20 with KCS Medallion for almost three years.

21 Q. Does your area of responsibility include this  
22 part of southeast New Mexico?

23 A. Yes, it does.

24 Q. And are you familiar with the land matters  
25 involved in this Application?

1           A.    Yes, I am.

2           MR. BRUCE:  Mr. Examiner, I tender Mr. Wilson as  
3 an expert petroleum landman.

4           EXAMINER STOGNER:  Mr. Wilson is so qualified.

5           Q.    (By Mr. Bruce)  Mr. Wilson, what does KCS seek in  
6 this case?

7           A.    We would like to drill an 11,000-foot Morrow  
8 sandstone test in the northeast of the southwest quarter of  
9 Section 7, 24 South, 25 East, Eddy County, New Mexico.

10          Q.    Would you refer to Exhibit 1 and identify that  
11 for the Examiner?

12          A.    That is a plat of the proposed 319.80-net-acre  
13 unit, showing our location in the northeast of the  
14 southwest of the section.

15          Q.    And you are seeking to pool the south half or the  
16 south-half equivalent of Section 7; is that correct?

17          A.    That's correct.

18          Q.    And you are also seeking to pool the southwest  
19 quarter of this section?

20          A.    That's correct.

21          Q.    Okay.  Let's move on to your Exhibit 2.  Would  
22 you identify that for the Examiner and identify the parties  
23 who you seek to force pool and the acreage they own an  
24 interest in?

25          A.    Okay, Exhibit 2 shows KCS' position after all of

1 our farmout agreements that we have reached with different  
2 parties. It shows the parties we have farmouts with, where  
3 their acreage was located and the farmout deadline to drill  
4 on those farmout agreements.

5 The 79.90002 represents Central Resources; RKC,  
6 Inc.; and Toreador Exploration, and there's a notation  
7 down below that due to the title opinion it's nebulous as  
8 to the ownership of this particular lease and a stipulation  
9 of interest needs to be acquired from the parties.

10 Q. So together they own this 79.9-percent interest,  
11 but the ownership within there is unclear?

12 A. That's correct.

13 Q. Okay. And they own interests in the west half of  
14 the southwest quarter and the north half of the southeast  
15 quarter; is that correct?

16 A. That's correct.

17 Q. So they do not own an interest in the drill site  
18 itself?

19 A. That's correct.

20 Q. Okay. And Central Resources, RKC and Toreador  
21 Exploration are the only parties that you seek to pool at  
22 this time?

23 A. That's correct.

24 Q. Before we move on from Exhibit 2, you do have  
25 farmouts that expire, well, just in two months' time; is

1 that correct?

2 A. That's correct.

3 Q. So there is a time deadline involved in getting  
4 this unit pooled and the well drilled?

5 A. That's correct.

6 Q. Now, let's discuss KCS's efforts to obtain the  
7 voluntary joinder of Central Resources; RKC, Inc.; and  
8 Treador Exploration. Would you identify Exhibit 3 for the  
9 examiner and discuss your efforts and contacts regarding  
10 these parties?

11 A. Exhibit 3 are copies of my written correspondence  
12 to each of the three parties that we're trying to force  
13 pool. I believe the first party, the first set of sheets,  
14 is with Central Resources. And it's my understanding that  
15 Central Resources, I was dealing with, most of the time,  
16 Rick Hodges with Central Resources, who also represents  
17 RKC, Inc. I don't know what capacity, but they're related  
18 in some way.

19 Q. Okay, so you were informed that with respect to  
20 RKC, deal with Rick Hodges at Central?

21 A. That's correct.

22 Q. Before we move off of that, I think we stapled  
23 together three packages of information or three packages of  
24 letters here. The first package does have to do with  
25 Central Resources and RKC, Inc., and the first letter at

1 the back of this little packet was dated March 19th, 1999.

2 At first you were attempting to obtain a farmout  
3 from these parties, were you not?

4 A. That's correct.

5 Q. And you started that process back in March?

6 A. March 19th, 1999.

7 Q. And you continued along trying to obtain a  
8 farmout for several months?

9 A. That's correct.

10 Q. Could you come to terms with those companies?

11 A. At one time, Central Resources -- well, on two  
12 occasions gave me a verbal approval that they would farm  
13 out to me. When I sent -- finally sent the farmout  
14 agreement to Central/RKC, I received notification they had  
15 changed their mind, and if you'll look at August 3rd, 1990,  
16 I had correspondence from Rick Hodges. He came back with a  
17 counteroffer that was unacceptable and wouldn't meet our  
18 economic criteria.

19 Q. So at that point you then sent out on August 13th  
20 a proposal letter, enclosing an AFE for the well?

21 A. Well, before that I of course made some phone  
22 calls to Rick and just wanted to visit with him on why the  
23 change of heart, and I never received any response.

24 So we moved forward to proposing the well on my  
25 August 13th, 1999, letter.

1 Q. So during this period from March to date, you  
2 called Central Resources or Mr. Hodges, seeking his  
3 voluntary approval?

4 A. I've called him six to eight times. And at one  
5 time it was concerned to me he was on vacation or maybe was  
6 sick, had some problems. And I found out through the  
7 grapevine that he had other priorities, other acquisitions  
8 and projects that were more demanding than this project.

9 I did, however, receive a phone call from Mr.  
10 Hodges on Tuesday afternoon. I promptly returned his call  
11 within 10 minutes and continued to try to contact him. I  
12 did not receive any return call from Mr. Hodges since then.

13 Q. Okay, you checked your voice mail yesterday and  
14 there was no return call?

15 A. I checked it today also.

16 Q. Okay. Then the next batch of correspondence also  
17 has to do -- It's basically similar, but it's addressed to  
18 Toreador Exploration; is that correct?

19 A. That's correct. We came to terms with Toreador  
20 Exploration early on and sent them a farmout agreement with  
21 some compensation. And after receiving the compensation,  
22 Kathy Nevison advised me that they felt they owned more  
23 acreage than what we were paying them for. We went ahead  
24 and paid them for one-third of the acreage, and they felt  
25 they owned more. And because of the problem of meeting or

1 getting with Central Resources and RKC, the prospect of  
2 getting any kind of stipulation agreement worked out didn't  
3 look promising.

4 Q. But you did provide these parties the portion of  
5 the title opinion prepared by Allen Harvey regarding that  
6 stipulation of interest, did you not?

7 A. That's correct.

8 Q. But as of today you do not have a stipulation of  
9 interest among these three interest owners?

10 A. No, we don't.

11 Q. Okay. In your opinion, has KCS made a good-faith  
12 effort to obtain the voluntary joinder of these three  
13 interest owners in the well?

14 A. Yes, we have.

15 Q. Would you please identify Exhibit 4 for the  
16 Examiner and discuss the cost of the proposed well?

17 A. Exhibit 4 is our AFE dated July 29th, 1999. It  
18 shows a dryhole cost, which throws in the plugging cost, of  
19 \$458,586, with a total completed well being \$787,778.

20 Q. Are these proposed well costs in line with the  
21 costs of other wells drilled to this depth in this area of  
22 Eddy County?

23 A. Yes, they are.

24 Q. And does KCS request that it be designated  
25 operator of the well?

1 A. Yes, we do.

2 Q. Do you have a recommendation for the amounts  
3 which should be paid for supervision and administrative  
4 expenses?

5 A. Yes, we do.

6 Q. And what are they?

7 A. \$6000 per month for drilling well rate and \$749  
8 per month for a producing well rate, based on Ernst &  
9 Young's median survey of 1998 and 1999.

10 Q. Okay. And are these amounts equivalent to those  
11 normally charged by KCS and other operators in this area  
12 for wells of this depth?

13 A. Yes, it is.

14 Q. And were the three subject working interest  
15 owners notified of this hearing?

16 A. Yes, they were.

17 Q. Is Exhibit 5 my affidavit of notice, containing  
18 the notice letter and certified return receipts?

19 A. Yes.

20 Q. Were Exhibits 1 through 5 prepared by you or  
21 under your supervision or compiled from company business  
22 records?

23 A. Exhibits 1, 2 and 3 were prepared by me. Exhibit  
24 4 was prepared by Tom Williams. He's our KCS drilling  
25 engineer. Exhibit 5, I believe, was prepared by --

1 Q. Prepared by me?

2 A. -- by you, uh-huh.

3 Q. In your opinion, is the granting of KCS's  
4 Application in the interests of conservation and the  
5 prevention of waste?

6 A. Yes, it is.

7 MR. BRUCE: Mr. Examiner, I'd move the admission  
8 of KCS Exhibits 1 through 5 at this time.

9 EXAMINER STOGNER: Exhibits 1 through 5 will be  
10 admitted into evidence at this time.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. In referring to Exhibit 2 -- yeah, it is marked  
14 Exhibit 2 -- the parties Central, RKC and Toreador --

15 A. Uh-huh.

16 Q. -- I'm not clear, those two 80-acre tracts, or  
17 roughly 80-acre tracts, are separated. Is their interest  
18 -- Those three parties, are they the same in both those  
19 little tracts?

20 A. It's one lease which is LG-5417, which is -- Let  
21 me look at the title opinion; that's a good question.

22 I believe it's -- Let me make sure. Yes, in the  
23 title opinion it is.

24 Q. Okay. When I look at your map on Exhibit Number

25 1 --

1 A. Uh-huh.

2 Q. -- in that section -- what? We're talking  
3 Section --

4 MR. BRUCE: Seven.

5 THE WITNESS: -- 7.

6 Q. (By Examiner Stogner) Yeah, Section 7. It  
7 appears there's only two state leases, and that is that LG-  
8 5417 kind of snakes around, and then L-4501 seems to be in  
9 two parts? Is that what you kind of see also?

10 It appears to me LG-5417 takes in the south of  
11 the northeast quarter, the northwest quarter of the  
12 northeast quarter, the north half of the northwest quarter  
13 and then Lot 2, 3 and 4, and then over there in the north  
14 half of the southeast quarter. Is that what it looks like  
15 to you?

16 A. Well, under the title opinion it shows that in  
17 the section -- really, there's some acreage above, to the  
18 north of this south half, but it shows that the lease  
19 covers Lots 1, 2, 3 and 4, the northwest of the northeast,  
20 the south half of the northeast, the northeast of the  
21 northwest, and the north half of the southeast.

22 So for purposes of the south half, the lease --  
23 and for our proration unit, we're talking about the west  
24 half of the southwest --

25 MR. BRUCE: Lots 3 and 4.

1 THE WITNESS: Yeah, Lots 3 and 4, which would be  
2 the west half of the southwest and the north half of the  
3 southeast.

4 Q. (By Examiner Stogner) So essentially their  
5 interest is all in one lease; it's just in this particular  
6 proration unit they're separated?

7 A. That's correct, uh-huh.

8 Q. Okay.

9 A. And the other half-interest was owned by the  
10 Moncrief, et al., group above that we have a farmout with.

11 Q. Okay. Over in Exhibit 2, what do you mean by  
12 that Requirement Number 6 of Allen G. Harvey's Original  
13 Drilling Title Opinion, down in the middle of the page?

14 A. Uh-huh. I just wanted to maybe highlight the  
15 fact that the reason Toreador -- we don't have an agreement  
16 with Toreador is the fact that a stipulation of agreement  
17 needed to be -- that's one of the title requirements, and  
18 Toreador does not have a close working relationship with  
19 Central Resources or RKC, Inc. And so as far as getting a  
20 stipulation of agreement between those companies, I think  
21 that will probably happen if there is some production.

22 MR. BRUCE: Mr. Examiner, I have a copy of that  
23 title opinion. I can provide that requirement 6 to you.  
24 But the chain of title to that lease doesn't show what  
25 percentage of the lease RKC in particular or Central

1 Resources in particular owns. It was kind of grouped  
2 together in the assignments, which is the reason for that  
3 title requirement.

4 EXAMINER STOGNER: Do you feel it will be  
5 necessary to include that in the record?

6 MR. BRUCE: No, but I was just -- If you needed  
7 it.

8 EXAMINER STOGNER: I just wanted to call  
9 attention to that so we've got it covered adequately, I  
10 think, unless my legal counsel or you consider it  
11 necessary.

12 MR. BRUCE: I don't, I just...

13 Q. (By Examiner Stogner) The overhead charges which  
14 you're requesting, the \$6000 and \$749, does that also  
15 appear on the overhead rates of the parties that agree in  
16 this particular --

17 A. Excuse me, I'm sorry?

18 Q. Does that figure also correspond to the  
19 agreements that have been reached with the other parties?

20 A. Well, we took farmouts from the other parties.

21 EXAMINER STOGNER: Oh, okay, that was farmouts.

22 I have no other questions of Mr. Wilson.

23 You may be excused.

24 Mr. Bruce?

25 MR. BRUCE: Mr. Siruta to the stand.

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WILLIAM J. SIRUTA,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. William Siruta, and I live in Midland, Texas.

Q. Who do you work for?

A. KCS Medallion Resources, as a geologist.

Q. Have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as an expert geologist accepted as a matter of record?

A. Yes.

Q. And are you familiar with the geologic matters involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Siruta as an expert petroleum geologist.

EXAMINER STOGNER: Mr. Siruta is so qualified.

Q. (By Mr. Bruce) Mr. Siruta, could you identify Exhibit 6 and discuss the primary zones of interest for your proposed well?

A. It's a production map of the area. The green-

1 colored circles around wells are Morrow producers, the  
2 blue-colored areas are Strawn producers. Also on the map,  
3 the proration unit, the south half of Section 7, is marked.  
4 The location is marked with a triangle and a red dot. The  
5 cross-section is marked with a green-dashed line.

6 The primary production and target out here is the  
7 Morrow. The well in the north half of Section 7 has made  
8 2.2 BCF and has been recompleted to the Strawn. The well  
9 in Section 12, the El Paso Jurnegan State 2, has made 4.1  
10 BCF, still making 533 MCF a day. The Mewbourne Baldrige  
11 in the northwest quarter is a new well. It's made 14  
12 million, making 456 MCF a day.

13 There are also some other wells scattered in  
14 here, there's some wells that are not quite as strong as  
15 the wells in 12. But the primary production here is  
16 Morrow.

17 Q. Is the Strawn a secondary objective in your well?

18 A. Yes, it is.

19 Q. Okay. Let's move on to your Exhibit 7 and  
20 discuss its contents for the Examiner.

21 A. 7 is a structure map on the base of the Morrow  
22 massive shale. It shows general dip going to the east and  
23 southeast.

24 Q. Is the structure important at all in the Morrow  
25 in this area?

1           A.    Yes, it can be.  Some of these sands, if you get  
2 too far downdip, they're wet and nonproductive.

3           Q.    Okay, would you maybe go together -- Exhibits 8  
4 and 9 together, identify those for the Examiner and discuss  
5 what zones you hope to hit in this --

6           A.    Exhibit 8 is the net isopach of the lower Morrow  
7 "A" sand, and there are really two primary targets here,  
8 the lower Morrow "A" and the middle Morrow "C".  If you'll  
9 look at Exhibit 8, you'll see that the wells that produce  
10 from this sand are colored green.

11                    The well in Section 7 had 10 feet of sand,  
12 produced roughly 2.2 BCF and has since been plugged.

13                    The well in Section 12, the El Paso Jurnegan  
14 State Number 2, had 11 feet of sand.  It has made 4.1 BCF  
15 and is still producing 500 a day.  An interesting thing in  
16 this sand, the eight feet in the Mewbourne Baldrige Canyon  
17 1-12 was tested with a repeat formation tester and tested a  
18 little bit over 500 pounds.  So there is some drainage in  
19 this area.

20           Q.    And really, there's not much production to the  
21 east of you in the Morrow, is there?

22           A.    That's correct.

23                    The Exhibit 9 is a net isopach of the Morrow "C"  
24 sand.  The only well that produces from that sand is the  
25 Moncrief Baldrige Canyon well in Section 13.  That well

1 has made 1.7 BCF and is making roughly 140 MCF a day.

2 Q. What about in Section 12? You show 16 feet in  
3 that -- Is it the El Paso Jurnegan State well?

4 A. Yes, that well has 16 feet of sand. It appears  
5 to be productive but has not been tested in any way, so  
6 it's pretty much an unknown.

7 Q. Okay. Finally, let's move on to your Exhibit 10  
8 and maybe discuss in a little more detail what zones you  
9 hope to hit in your proposed well.

10 A. Exhibit 10 is a cross-section that I have mapped  
11 on each of these maps. I think the main point of the  
12 cross-section is that there appears to be a lot of sand  
13 here, but one of the problems out here is that there are  
14 real thick gross sections, but very little of the sand is  
15 really high enough porosity and permeability to be  
16 productive.

17 You can see the lower sand that's below the  
18 Morrow massive shale here is my lower Morrow "A" sand. You  
19 can see that it comes and goes pretty quickly in here.

20 The "B" sand, which is really in the center of  
21 the logs here, is almost always wet out here. It's very  
22 seldom that it's found productive.

23 The "C" sand, again, is a sand that only produces  
24 in one well out here, and it also comes and goes very  
25 quickly.

1 Q. Based on your testimony, what penalty should be  
2 assessed against any interest owner who goes nonconsent in  
3 this well?

4 A. I believe the penalty should be cost plus 200  
5 percent.

6 Q. Do you believe that the risk you've just  
7 testified about justifies that penalty?

8 A. Yes, I do.

9 Q. In your opinion, is the granting of this  
10 Application in the interests of conservation and the  
11 prevention of waste?

12 A. Yes.

13 Q. And were Exhibits 6 through 10 prepared by you or  
14 under your direction?

15 A. Yes, they were.

16 MR. BRUCE: Mr. Examiner, I'd move the admission  
17 of KCS Exhibits 6 through 10.

18 EXAMINER STOGNER: Exhibits 6 through 10 will be  
19 admitted into evidence.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Siruta, is there any shallower gas zones in  
23 this particular area, or have there been, any historical,  
24 above the Atoka formation -- or Strawn, rather?

25 A. The Strawn is the shallowest production that I'm

1 aware of out here in this immediate area.

2 EXAMINER STOGNER: I don't have any other  
3 questions of Mr. Siruta. He may be excused.

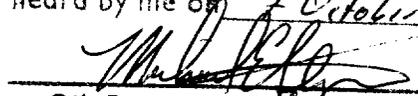
4 Anything further, Mr. Bruce?

5 MR. BRUCE: No, sir.

6 EXAMINER STOGNER: In that case, Case Number  
7 12,260 will be taken under advisement.

8 (Thereupon, these proceedings were concluded at  
9 11:36 a.m.)

10 \* \* \*

11  
12  
13  
14  
15 I do hereby certify that the foregoing is  
16 a complete record of the proceedings in  
the Examiner hearing of Case No. 12260  
17 heard by me on 7 October 1999.  
18  , 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 October 27th, 1999.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002

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. 12260  
ORDER NO. R-11264

**APPLICATION OF KCS MEDALLION RESOURCES, INC. FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 7, 1999 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of October, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, KCS Medallion Resources, Inc., seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following acreage in Section 7, Township 24 South, Range 25 East, NMPM, Eddy County, New Mexico:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 319.80-acre lay-down gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Mosley Canyon-Strawn Gas Pool and Undesignated Baldridge Canyon-Morrow Gas Pool; and

- (b) Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a standard 159.80-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent.

**NOTE:** After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

(3) These units are to be dedicated to the applicant's proposed State of New Mexico "7" Well No. 2 (API No. 30-015-30741) to be drilled at a standard gas well location for both sized units 1800 feet from the South line and 1980 feet from the West line (Unit K) of Section 7.

(4) The applicant is an interest owner within both the 159.80-acre and 319.80-acre units and thus has the right to drill for and develop the minerals underlying the units. At this time not all of the working interests in the above-described units have agreed to pool their interests.

(5) No affected party appeared at the hearing and/or objected to this application.

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within both units.

(7) KCS Medallion Resources, Inc. should be designated the operator of the subject well and units.

(8) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(9) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) Any non-consenting interest owner should be afforded the opportunity to

object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(11) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$ 749.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before January 25, 2000, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(15) The operator of the well and units should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of KCS Medallion Resources, Inc., all uncommitted mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 7, Township 24 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 319.80-acre lay-down gas spacing and proration unit for formations and/or

pools developed on 320-acre spacing within that vertical extent, including the Undesignated Mosley Canyon-Strawn Gas Pool and Undesignated Baldrige Canyon-Morrow Gas Pool; and

- (b) Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a standard 159.80-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent.

These units are to be dedicated to the applicant's proposed State of New Mexico "7" Well No. 2 (API No. 30-015-30741) to be drilled at a standard gas well location for both sized units 1800 feet from the South line and 1980 feet from the West line (Unit K) of Section 7.

NOTE: After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before January 25, 2000, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before January 25, 2000, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) KCS Medallion, Inc. is hereby designated the operator of the subject well and units.

(3) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out

of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(8) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$749.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8)-royalty interest for the purpose of allocating costs and charges under this order.

(11) Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(13) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
  
LORI WROTENBERY  
Director

SEAL