

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. 12,682

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 28th, 2001

Santa Fe, New Mexico

01 JUL 12 AM 7:55
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 28th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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June 28th, 2001
 Examiner Hearing
 CASE NO. 12,682

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A P P E A R A N C E S

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 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 10:57 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 12,682, which is the Application of David H.
5 Arrington Oil and Gas, Inc., for compulsory pooling,
6 directional drilling and an unorthodox well location in Lea
7 County, New Mexico.

8 At this time I'll call for appearances.

9 MR. FELDEWERT: Mr. Examiner, my name is Michael
10 Feldewert with the law firm of Holland and Hart and
11 Campbell and Carr, for the Applicant, David H. Arrington
12 Oil and Gas, Inc. I have two witnesses today.

13 EXAMINER STOGNER: Any other appearances?

14 Will the witnesses please stand to be sworn?

15 (Thereupon, the witnesses were sworn.)

16 ENICK DIFFEE,

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

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Mr. Duffee, would you please state your full name
22 and address for the record?

23 A. My name is Enick Duffee, and I reside in Roswell,
24 New Mexico.

25 Q. And by whom are you employed and in what

1 capacity?

2 A. I'm employed by David H. Arrington on a
3 consulting basis. I personally am an independent petroleum
4 landman.

5 Q. Have you previously testified before this
6 Division?

7 A. Yes, I have.

8 Q. And your credentials as an expert in petroleum
9 land matters were accepted and made a matter of record?

10 A. Yes.

11 Q. Are you familiar with the Application that's been
12 filed by David Arrington in this case?

13 A. I am.

14 Q. And are you familiar with the status of the lands
15 in the subject area?

16 A. Yes.

17 MR. FELDEWERT: Mr. Examiner, are the witness's
18 qualifications acceptable?

19 EXAMINER STOGNER: Mr. Diffee is so qualified.

20 Q. (By Mr. Feldewert) Mr. Diffee, would you please
21 briefly state what Arrington Oil and Gas seeks with this
22 Application?

23 A. Yes, Mr. Examiner, we are seeking an order
24 pooling all minerals from the surface to the base of the
25 Mississippian formation under the south half of Section 30,

1 Township 15 South, Range 35 East, Lea County, New Mexico,
2 in the following manner:

3 The south half for all formations and/or pools
4 developed on 320-acre spacing;

5 The southeast quarter for all formations and/or
6 pools developed on 160-acre spacing;

7 The southeast quarter of the southeast quarter,
8 which is Unit P, for all formations and/or pools developed
9 on 40-acre spacing that includes the Undesignated Townsend-
10 Permo Upper Pennsylvanian Pool and the Undesignated Big
11 Dog-Strawn Pool.

12 And we are also seeking an order approving the
13 directional drilling of Arrington's proposed John's Hopper
14 Well Number 1 in an easterly-southeasterly direction from a
15 surface location in Unit O of the southeast quarter to a
16 standard bottomhole location to test the Mississippian
17 formation in Unit P of the southeast quarter.

18 This drilling plan will result in potential
19 unorthodox oil well locations in the shallower Wolfcamp,
20 Cisco, Canyon, Strawn and Atoka formations.

21 Q. Okay, would you identify and review for the
22 Examiner Arrington Exhibit Number 1?

23 A. Yes, this is a land plat, showing again the south
24 half of Section 30 of Township 15 South, Range 35 East, Lea
25 County, New Mexico. It shows a surface location of Unit O

1 of the southeast quarter and a bottomhole location at a
2 standard position in Unit P of the southeast quarter to
3 test the Mississippian formation, being located 660 feet
4 from the south and east lines of Section 30.

5 Q. Okay. Now, what is the status of the acreage in
6 the south half of Section 30?

7 A. Fee minerals.

8 Q. Is it an undivided interest throughout the entire
9 section?

10 A. Yes, it is.

11 Q. Okay, would you identify and review for the
12 Examiner Arrington Exhibit Number 2?

13 A. Yes, this is list of the unleased mineral
14 interest owners within the south half of Section 30, along
15 with all the leasehold owners, again, Arrington being the
16 largest interest owner under the south half of Section 30.

17 Q. Okay. Aside from Arrington's interests, are the
18 interest owners shown on Exhibit 2, are they all still
19 subject to this pooling Application?

20 A. Yes, and I think it's worthy to mention that
21 Arrington has received at least a verbal commitment from
22 all these parties to either participate or to lease their
23 mineral interest.

24 Q. Okay, so you've been able to contact all of the
25 interest owners shown on Exhibit 2?

1 A. Yes.

2 Q. Okay. Then why don't you identify for the
3 Examiner, beginning with Arrington Exhibit Number 3, your
4 first contact with these individuals about this project?

5 A. Yes, you have before you a sample letter dated
6 February the 9th of year 2001, sent by certified mail,
7 return receipt requested. This letter, of course, was sent
8 to all of the interest owners that were listed on Exhibit
9 2. Contained within the letter is a well proposal to drill
10 a vertical well, to test the Mississippian at the proposed
11 standard bottomhole location in the southeast quarter of
12 the southeast quarter.

13 Attached to the letter was an AFE, and I will
14 make note that there was a typographical error made in
15 paragraph number one, in which Section 31 was referenced
16 rather than Section 30.

17 Q. Okay, and did you then correct that typographical
18 error?

19 A. Yes. Also to your attention is a letter, again
20 dated February the 26th of year 2001, sent again to all of
21 the interest owners listed on Exhibit A, sent again by
22 certified mail, return receipt requested, in which a
23 correction was made from Section 31 to Section 30.

24 Q. Has that been marked Arrington Exhibit Number 4?

25 A. Yes, it has.

1 Q. And that was sent to all the interest owners
2 listed on Exhibit Number 2?

3 A. Yes.

4 Q. Okay. Then why don't you turn, then, to
5 Arrington Exhibit Number 5, identify that and review that
6 for the Examiner.

7 A. Yes, this letter dated May 2nd, year 2001, again
8 sent to all the owners listed on Exhibit 2, sent by
9 certified mail, return receipt requested. In this
10 particular letter a proposal is made to these interest
11 owners to re-enter an existing wellbore and to proceed with
12 directional drilling operations to the same bottomhole
13 location as was originally proposed in the southeast
14 quarter of the southeast quarter.

15 There was also attached to this letter a revised
16 AFE.

17 Q. And this is a sample letter, but a similar letter
18 went to all the interest owners on Exhibit 2; is that
19 correct?

20 A. Yes.

21 Q. Okay. In your opinion, have you made a good-
22 faith effort to obtain the voluntary joinder of all the
23 interest owners shown on Exhibit Number 2?

24 A. Yes.

25 Q. Okay, and does Arrington Oil and Gas seek to be

1 designated operator of the proposed well?

2 A. Yes.

3 Q. Is Arrington Exhibit Number 6 an affidavit with
4 attached letters giving notice of this hearing?

5 A. Yes, it is.

6 Q. Were Arrington's Exhibits 1 through 6 prepared by
7 you or compiled under your direction and supervision?

8 A. Yes.

9 MR. FELDEWERT: Mr. Examiner, I would move the
10 admission into evidence of Arrington Exhibits 1 through 6.

11 EXAMINER STOGNER: Exhibits 1 through 6 will be
12 admitted into evidence.

13 MR. FELDEWERT: And that concludes my direct
14 examination of this witness.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Again, Mr. Diffee, referring to Exhibit Number 2,
18 all of these parties that are represented here are to be
19 force pooled?

20 A. Yes.

21 Q. Now, have you had written correspondence or any
22 kind of communications with any of these people?

23 A. Yes, we have.

24 Q. How about written communications with anybody?

25 A. Yes, everything, of course, sent by certified

1 mail, return receipt requested.

2 Q. I mean from these parties, what kind of --

3 A. Yes, we've had those receipts, of course,
4 returned to us, and we've had verbal communications with
5 them.

6 And again, as previously stated, we have verbal
7 commitments from all of these parties to either lease their
8 minerals or to participate in the drilling of the well.

9 Q. But nobody has signed?

10 A. Correct, in all forms.

11 Q. What's the date of your AFE that you've
12 submitted? Is that February, 2001?

13 A. I'm checking my package here for a copy of the
14 AFE. The date of the AFE appears to be April the 25th of
15 year 2001.

16 MR. FELDEWERT: I believe it's attached to
17 Arrington Exhibit Number 5.

18 THE WITNESS: Correct.

19 Q. (By Examiner Stogner) Okay, the AFE that's
20 attached to Exhibit Number 5. So that is the latest one,
21 and that's the one you're referring to?

22 A. Yes, it is.

23 Q. And how much more is being included for the
24 directional drilling portion of this well?

25 A. You know, I would really defer that question to

1 the geologist that works for Arrington as being probably
2 more closely related to those costs.

3 EXAMINER STOGNER: Okay. And who's going to
4 discuss the directional drilling portion of this, Mr.
5 Feldewert?

6 MR. FELDEWERT: Our next witness.

7 EXAMINER STOGNER: Any other questions of this
8 witness?

9 MR. FELDEWERT: No, Mr. Examiner.

10 EXAMINATION

11 BY MR. BROOKS:

12 Q. The owners listed on Exhibit Number 2, these are
13 working interest owners?

14 A. The first three parties, Bellwether Exploration
15 Company; Robert L. Graham, Jr.; and Brook H. Graham, are
16 mineral interest owners, an undivided interest under the
17 entire south half of Section 30, and the remaining parties
18 on the list are leasehold owners.

19 Q. Any unleased interests? These first three are
20 unleased interests?

21 A. Which all three of these parties have verbally
22 committed to execute oil and gas leases in favor of David
23 H. Arrington Oil and Gas, Inc., however as of this date we
24 have not received those oil and gas leases.

25 Q. And the other people listed below David

1 Petroleum, McMillan, *et al.*, these are all owners of
2 working interests or --

3 A. Leasehold.

4 Q. They're --

5 A. Yes, and they have agreed to participate in the
6 drilling of the well.

7 Q. In the drilling of the well.

8 A. Yes, sir.

9 Q. Orally agreed --

10 A. Absolutely.

11 Q. -- to participate in the drilling of the well?

12 A. Uh-huh.

13 Q. But no one has agreed in writing to any of
14 these --

15 A. We have signatures on the AFE, but the joint
16 operating agreement has not yet been executed by all these
17 parties.

18 Q. Okay, and these parties collectively own 100
19 percent of the working interest?

20 A. That's correct, all parties listed on Exhibit 2,
21 inclusive of David H. Arrington Oil and Gas, Inc., would
22 own 100 percent.

23 MR. BROOKS: Okay, nothing further.

24 EXAMINER STOGNER: You may be excused.

25 THE WITNESS: Thank you.

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JOHN R. McRAE,

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

DIRECT EXAMINATION

BY MR. FELDEWERT:

Q. Mr. McRae, would you please state your full name and address for the record?

A. My name is John Robert McRae, and I reside in Midland, Texas.

Q. By whom are you employed and in what capacity?

A. David H. Arrington Oil and Gas as senior exploration geologist.

Q. Have you previously testified before this Division and had your credentials as a petroleum geologist accepted and made a matter of record?

A. Yes, I have.

Q. And are you familiar with the Application filed in this case?

A. Yes.

Q. Have you made a study of the area that is the subject of this Application?

A. Yes.

MR. FELDEWERT: Mr. Examiner, are the witness's qualifications acceptable?

EXAMINER STOGNER: They are.

1 Q. (By Mr. Feldewert) Would you briefly describe
2 Arrington Oil and Gas's drilling plan for its proposed
3 John's Hopper Well Number 1?

4 A. We propose to re-enter the BTA well in Unit O of
5 Section 30, 15 South, 35 East, and directionally drill to a
6 standard bottomhole location 660 from the south, 660 from
7 the east line of Section 30 to test the Atoka, Morrow and
8 Mississippian formations.

9 Q. What is the primary target for Arrington's
10 proposed John's Hopper Well Number 1?

11 A. The primary target is the Atoka, Morrow and
12 Mississippian gas reservoirs.

13 Q. Okay, why don't you now turn to Arrington Exhibit
14 Number 7 and discuss with the Examiner the production in
15 the area that's surrounding Section 30?

16 A. Okay, Exhibit 7 is a nine-section plat with
17 Section 30 in the center. Outlined in red is the proposed
18 spacing unit, which is the south half of Section 30. On it
19 I have color-coded the wells that are currently producing.

20 The blue wells are Wolfcamp/Permo-Penn wells. I
21 say currently producing; they either have produced from the
22 Permo-Penn or they are currently producing.

23 The tan wells are producing from the Strawn
24 reservoir.

25 I've also noted below each well symbol the TD of

1 the well, and the open well symbols, which are just a
2 circle, are locations at the present time, or currently
3 drilling wells.

4 Also I've noted in green an arbitrary seismic
5 line, which we'll enter as another exhibit, that starts in
6 the south half of Section 30 and goes through the BTA well,
7 along the proposed directional leg of this re-entry, ending
8 at the standard bottomhole location in the southeast
9 southeast.

10 Q. Do you have any well control data in this area
11 for the -- your primary targets, the Atoka, Morrow and
12 Mississippian?

13 A. As of this date there's no Atoka, Morrow or
14 Mississippian gas reservoirs producing in this nine-section
15 area.

16 Q. With respect to that primary zone, what is the
17 status of that BTA well that you're re-entering? What's
18 the history there?

19 A. The BTA well was drilled in 1994. It was plugged
20 and abandoned 7-12-94, and it's our plan to re-enter that
21 well and to kick it.

22 Q. Was it a Mississippian test?

23 A. It tested the very top of the Mississippian.

24 Q. And was it dry there?

25 A. It was dry.

1 Q. Okay. Now, there's a Yates well that is shown in
2 the adjacent Section 29. Do you know the status of that
3 well and what it tested?

4 A. There's two wells -- well, actually three wells
5 in Section 29. The Big Bear Number 2, which is in the
6 southeast quarter of Section 29, according to the PI
7 reports, Petroleum Information reports, that well TD'd at
8 13,255 and was plugged and abandoned. There's been no logs
9 or data released on that well to date since it was plugged.
10 We assume it was dry in the Atoka and the Morrow and the
11 Mississippian. The Big Bear Number 2, we heard in the
12 previous case, is producing from an Atoka oil reservoir.

13 And the well in the northwest of Section 29 TD'd
14 at 13,000, which was in the upper part of the Atoka, and
15 it's currently producing from the Permo-Penn.

16 Q. So would you consider your proposal here to be a
17 wildcat in this area for the Atoka, Morrow and
18 Mississippian?

19 A. Yes.

20 Q. Okay. Why don't you then identify for the
21 Examiner Arrington Exhibit Number 8?

22 A. Exhibit Number 8 is a type log, which is the BTA
23 Number 1 Townsend well, located in the southwest southeast
24 of Section 30. It's a gamma-ray sonic log. It starts at
25 approximately 9100 feet and goes to TD at 12,750.

1 On this log I've noted several things. In black
2 I've put on the formation tops, top of the Wolfcamp 9712,
3 and then Cisco, Canyon, Strawn, Strawn clastics, Atoka
4 shale, Atoka lime, Morrow lime and Mississippian Austin
5 formations.

6 Also on this log I've put in red our proposed
7 kickoff point from the BTA well at 9250 and the estimated
8 end of building of the angle at 9884, and these are true
9 vertical depths. So that shows the formations that we will
10 be encountering as we drill this directional well.

11 Q. Okay. Now, you reference a seismic line on
12 Arrington Exhibit Number 7. Why don't you turn to
13 Arrington Exhibit Number 9, identify that and explain that
14 to the Examiner, please.

15 A. Okay, Exhibit Number 9 is an arbitrary seismic
16 line A, which is denoted on Exhibit 7 as a green line. As
17 I stated before, it starts in the west half of the south
18 half of Section 30 and goes in the east-southeasterly
19 direction through the BTA well and ends at our standard
20 bottomhole location in the southeast southeast of Section
21 30.

22 As you can see on the seismic line, which is
23 Exhibit 9, on the left-hand side it says northwest, on the
24 right side it says southeast.

25 Also noted at the top is the BTA Number 1

1 Townsend location. And below that well in a dark line is
2 the wellbore of that BTA well.

3 Also at the bottom on the right-hand side, the
4 formation tops are noted. There's a red line that says
5 Morrow lime. The blue line is the Austin, top of the
6 Mississippian. The green is the Chester, and the rose
7 color is lower Miss.

8 The BTA well encountered only the top of the
9 Mississippian Austin formation, as denoted by that black
10 line below the BTA Townsend well symbol.

11 In red is our proposed directional drill. We
12 will kick the well just above the top of the Wolfcamp and
13 TD the well just in the top of the lower Mississippian.

14 Q. So you're trying to reach that thicker area shown
15 on the seismic?

16 A. Correct. As you look at the seismic line,
17 there's a fault noted with the upthrown side and the
18 downthrown side. If you look at the interval between the
19 top of the Morrow lime and the top of the Austin, you'll
20 notice that the Morrow interval is much thicker on the
21 downthrown side. Also the Austin-to-Chester interval is
22 thicker on the downthrown side of that fault, and that's
23 the proposed target for this re-entry.

24 Q. Okay. Now, based on your analysis of this area,
25 do you believe that there's a chance you could drill this

1 directional well at your proposed location and it would not
2 be a commercial success?

3 A. There's always that risk. First of all, there's
4 no Atoka-Morrow-Mississippian gas reservoirs in this nine-
5 section area. Second of all, the BTA well tested the
6 Morrow lime but they did not test the Austin, and it was a
7 dry hole in those lower intervals.

8 We have found in this area to the south, 16-35,
9 that if you drill into the thicker sections on the
10 downthrown side of the faults, quite often you find sands.
11 But the risk is whether we'll find any sand or not. We
12 just don't know that. There have been wells drilled on
13 downthrown sides of faults in thicker intervals that have
14 no sand, so there's significant risk involved.

15 Q. So what is your recommendation to the Examiner as
16 to the risk penalty that should be assessed against
17 nonconsenting interest owners for this project?

18 A. Because there is no production in here from these
19 reservoirs and it is a high-risk venture, we're asking for
20 200 percent.

21 Q. Okay. Now, Arrington is seeking approval of
22 potential unorthodox well locations in shallower oil
23 formations; is that correct?

24 A. That's correct.

25 Q. Okay, why don't you turn to Arrington Exhibit

1 Number 10, identify that for the Examiner and explain it to
2 him, please?

3 A. Exhibit 10 is a vertical profile of the proposed
4 re-entry direction, prepared by Baker Hughes INTEQ. This
5 is a busy exhibit, so what I'll do is just kind of go
6 through and explain what each of these lines represent.

7 You start at the top -- north -- Let's see, it
8 would be the left top part of this exhibit, we show "BTA
9 Oil Producers' Townsend Number 1" well location, and that's
10 denoted by a heavy black line, vertical line.

11 In the lower left-hand corner I have "Unorthodox
12 Area for Wolfcamp, Cisco and Canyon", and that's denoted
13 between the two vertical red lines.

14 Then there's an unorthodox area for Strawn and
15 Atoka oil reservoirs, and that's denoted between the blue
16 line and the far right red line.

17 Also, there are horizontal lines across this
18 exhibit that represent the top of the Wolfcamp, top of the
19 Cisco, top of the Canyon, Strawn, Atoka shale and Atoka
20 lime, Morrow lime and Mississippian Austin. These are all
21 true vertical depths, and these are the depths that were
22 shown on Exhibit 8, which was the type log.

23 Also of the two red lines, the left red line is
24 the west line of the southeast southeast quarter of Section
25 30.

1 Q. Okay, why don't you then turn to Arrington -- Do
2 you want the Examiner to keep this exhibit out for a
3 minute?

4 A. Yes, Exhibit 11 and Exhibit 12, which we'll
5 discuss now will explain a little bit more what Exhibit 10
6 is showing, so if you'll keep all three exhibits out, we
7 can talk about that.

8 Q. Okay, why don't you identify Arrington Exhibit
9 Number 11 and go through that with the Examiner, please?

10 A. All right, Exhibit 11 is a plat showing the
11 southeast quarter of Section 30, and it shows each of the
12 quarter quarters in the southeast quarter. Within the
13 southeast southeast of Section 30 I have a box drawn, which
14 is the orthodox window for an oil reservoir, 330 from the
15 outside lines and 330 from the quarter quarter lines.

16 Also I'm showing the orthodox location for the
17 southwest of the southeast, in which is located the BTA
18 Number 1 Townsend well. As you can see, that well is
19 located on the extreme right side of the orthodox window.
20 When we re-enter this well and kick it, we'll re-enter it
21 just above the top of the Wolfcamp, so we will encounter
22 the Wolfcamp very quickly. It actually will be in the
23 unorthodox area, between the orthodox window and the east
24 quarter quarter line.

25 I've also noted on the directional portion of

1 this wellbore where we'll encounter the Cisco, the Canyon,
2 the Strawn and the Atoka shale. All of these are based on
3 the tops in the BTA well. There's a lot of stratigraphic
4 things going on in this particular interval, and so we're
5 not sure exactly where we'll encounter that. But the area
6 that we're asking for, unorthodox for oil reservoirs in the
7 Wolfcamp, Cisco and Canyon, is between the two red lines,
8 and it's shaded in red.

9 Q. Okay, so would that be -- What would be the
10 footage location that you're seeking approval for, for an
11 unorthodox location?

12 A. In our Application we ask for unorthodox no
13 closer than 10 feet from the west line of the southeast
14 southeast. And at the bottom I've noted the 1320 width for
15 the southeast southeast. I've also noted the 1310, which
16 would represent ten feet from that quarter quarter line,
17 all the way back to the 6- -- or 330 from the west quarter
18 quarter line.

19 Q. Okay, and that would be for the Wolfcamp, the
20 Cisco and the Canyon?

21 A. Correct.

22 Q. Okay. Now, you left the Wolfcamp in there
23 because -- why?

24 A. The Cisco top, as I mentioned before, this area
25 has a lot of stratigraphic complexities, and the top of the

1 Cisco, as we've noted on this Exhibit 8, can be higher or
2 lower in the section, depending on the stratigraphy. It's
3 very possible that the lower portion of the Wolfcamp will
4 fall in the southeast southeast, and the top of the Cisco
5 will be much further to the east than I've noted.

6 Q. Okay. Now, your Application indicates that
7 Arrington is seeking approval of an unorthodox oil well
8 location for the Strawn and the Atoka at 660 feet from the
9 south line and 1170 feet from the east line; is that
10 correct?

11 A. Correct, and that's noted on Exhibit 12.

12 Q. Okay, so is Exhibit Number 12 a map of the area
13 for this Strawn and Atoka area?

14 A. That's correct. The left side is marked in blue,
15 the right is marked in red, and it's shaded blue where it
16 will be unorthodox.

17 Q. Okay. Does Arrington Oil and Gas intend to run a
18 directional survey of this well?

19 A. Yes, we do.

20 Q. All right.

21 A. I'd like to go back to Exhibit 10 at this point.
22 As I noted before, we showed the vertical wellbore, the BTA
23 well. Also in black it shows the directional angle. Now
24 that we've looked at Exhibits 12 and 11, showing the
25 unorthodox areas that we're interested in, I'd like to just

1 walk down this directional portion of the well.

2 We're going to kick the well at 9250, which will
3 be above the top of the Wolfcamp. The first horizontal
4 line that we encounter, which is about 9700, will be the
5 top of the Wolfcamp.

6 Then the next line that we encounter is that
7 vertical red line, which is the west line of the southeast
8 southeast. And then ten feet to the right would be 1310,
9 which we enter the left side of the unorthodox area for the
10 Wolfcamp, Cisco and Canyon.

11 Then at about 11,000 feet we encounter the top of
12 the Canyon, then at about 11,200 feet we encounter the west
13 side of the unorthodox area for the Strawn and Atoka oil
14 reservoirs, then at 11,645 top of the Strawn, 11,870 top of
15 the Atoka shale, and then we cross the red line into the
16 orthodox window for oil reservoirs, and we should encounter
17 the top of the Atoka lime approximately 12,000 feet. And
18 then we're orthodox for Atoka, Morrow and Mississippian gas
19 reservoirs.

20 The bottom of this directional well will be --
21 The hard line is 660 from south and east of the southeast
22 quarter.

23 Q. Okay. Would you pull out the AFE for this well,
24 which is attached as Arrington Exhibit Number 5?

25 A. Okay.

1 Q. The costs that are shown on this exhibit, are
2 they in line with what has been shown by Arrington and
3 other operators in the area for similar wells?

4 A. Yes, we've drilled quite a few wells in this
5 area. In fact, we have a well drilling in 16-35 at this
6 present time, and these costs are essentially actual costs.

7 Q. Okay. Now, there was a cost savings here by
8 using this directional plat; is that correct?

9 A. That's correct.

10 Q. Okay. Mr. Stogner had a question about the
11 directional well components of this AFE. Can you identify
12 those for him, please?

13 A. All right. The BTA well, as I stated before,
14 drilled to 12,750. They shot the 5-1/2-inch casing at
15 10,080 and -- I'm sorry, they were not able to get it free
16 there. They shot the 5-1/2-inch at 9380, and they pulled
17 that 5-1/2-inch casing out.

18 So we're going to set a plug, and we're going to
19 kick the well at 9250, right above the old plug. That will
20 save a substantial amount by not having to set surface
21 casing or intermediate, because we can use the old casing.

22 The directional portion, as shown on this AFE is
23 line 8. It says "Drilling - Directional". We estimate 20
24 days at \$7300 a day, for a total of \$146,000 drilling costs
25 to do the directional work.

1 Q. Have you made an estimate of the overhead and
2 administrative costs while drilling this well and also
3 while producing if it is successful?

4 A. Yes.

5 Q. And what are those amounts?

6 A. \$6000 for a drilling well and \$600 a month for
7 operations overhead.

8 Q. Are these overhead rates and administrative costs
9 in line with what's being charged by the operators in the
10 area?

11 A. Yes.

12 Q. Are these the rates that are going to be included
13 in the JOA for this property?

14 A. Correct.

15 Q. Do you recommend that they be incorporated into
16 any order that results from this hearing?

17 A. Yes.

18 Q. Does Arrington request that these overhead rates
19 approved by the Division be subject to adjustment in
20 accordance with Section III.1.A.3 of the COPAS form titled
21 "Accounting Procedures - Joint Operations"?

22 A. Yes.

23 Q. In your opinion, will the granting of this
24 Application be in the best interests of conservation, the
25 prevention of waste and the protection of correlative

1 rights?

2 A. Yes.

3 Q. Were Arrington Exhibits 7 through 12 prepared and
4 compiled under your supervision and direction?

5 A. Yes, they were.

6 MR. FELDEWERT: Mr. Examiner, I move the
7 admission into evidence of Arrington Exhibits 7 through 12.

8 EXAMINER STOGNER: Exhibits 7 through 12 will be
9 admitted into evidence.

10 MR. FELDEWERT: And that concludes my direct
11 examination of this witness.

12 EXAMINATION

13 BY EXAMINER STOGNER:

14 Q. What zones are actually being force pooled? I
15 really don't see that in the advertisement. From where to
16 where?

17 I take that back, it's down there at the bottom.
18 You're going from the surface to the base of the
19 Mississippian; is that correct?

20 A. That's correct.

21 Q. Okay. Before the kickoff point, which is above
22 the top of the Wolfcamp, what formations or what producing
23 formations are in that interval from the surface down to
24 the Wolfcamp?

25 A. To date, there are no producing -- None of those

1 shallower horizons produce in that immediate area on this
2 plat that I've provided. Let's see, where is it here?

3 There is some Abo production immediately to the
4 -- well, I say immediately to the south: in the township to
5 the south of us. But in 15-35 there is no shallow
6 producing zones to date. When I say shallow, I mean
7 shallower than the Wolfcamp.

8 Q. Shallower than the Wolfcamp, yes.

9 A. Correct.

10 Q. You're referring to -- You're asking for a risk
11 penalty of 200 percent, plus payback. Now, I can see that
12 from the Wolfcamp down to the Mississippian, you're kicking
13 off an existing well, so that's essentially a new drill,
14 but re-entering an old well for anything above that, but
15 you're saying there's really nothing up there; is that
16 correct?

17 A. No, sir.

18 Q. And when was this well originally drilled and
19 plugged?

20 A. Let's see --

21 Q. You said 1994 or something like that?

22 A. It was plugged 7-12-94.

23 Q. So it was dry and abandoned, so that would mean
24 it was drilled in 1994 also; is that correct?

25 A. Correct.

1 Q. Are there any 80-acre pools in this particular
2 area, or within a mile of this area, that you know of?

3 A. Oh, let's see. Okay, the Big Dog-Strawn
4 immediately southeast of us in the northwest of Section 32.

5 MR. FELDEWERT: I believe that's 40 acres.

6 THE WITNESS: That's 40.

7 MR. FELDEWERT: Yeah.

8 THE WITNESS: Okay.

9 MR. FELDEWERT: Mr. Examiner, we can check. I
10 don't think there's any 80-acre.

11 EXAMINER STOGNER: All right.

12 THE WITNESS: And then the Permo-Penn, Townsend-
13 Permo-Upper Penn, those are also 40 acres.

14 Q. (By Examiner Stogner) Okay. Because you're
15 northwest of the City of Lovington, are you not?

16 A. Yes, sir.

17 Q. So back to the south of you I know there's a lot
18 of 80-acre pools, but you're in an area where it hasn't
19 quite reached up there, then, is what you're saying?

20 A. Yes, sir.

21 EXAMINER STOGNER: Okay, I have no other
22 questions of this witness.

23 Are there any other questions?

24 MR. FELDEWERT: No, Mr. Examiner.

25 MR. BROOKS: No.

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EXAMINER STOGNER: You may be excused.

THE WITNESS: Thank you.

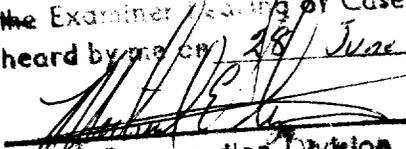
EXAMINER STOGNER: Is there anything further in this case?

MR. FELDEWERT: No.

EXAMINER STOGNER: Then Case 12,682 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:35 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner's hearing of Case No. 12682, heard by me on 28 June 2004.

Examiner
Off 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 1st, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002