STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION FOR THE PURPOSE OF CONSIDERING:	
APPLICATION OF TMBR/SHARP DRILLING, INC., FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO	CASE NOS. 12,816
APPLICATION OF OCEAN ENERGY, INC., FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO	12,841
APPLICATION OF DAVID H. ARRINGTON OIL AND GAS, INC., FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO	12,859
APPLICATION OF OCEAN ENERGY, INC., FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO	and 12,860
	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
COMMISSION HEARING

ORIGINAL

BEFORE: LORI WROTENBERY, CHAIRMAN
JAMI BAILEY, COMMISSIONER
ROBERT LEE, COMMISSIONER

March 20th, 2003
Santa Fe, New Mexico

These matters came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Thursday, March 20th, 2003, 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.

* * *

I N D E X

March 20th, 2003
Commission Hearing
CASE NOS. 12,816, 12,841, 12,859 and 12,860 (Consolidated)

(Continued...)

OCEAN WITNESSES (Continued):

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E X H I B I T S

TMBR/Sharp	Identified	Admitted
Exhibit 1	78	114
Exhibit 2	86	114
Exhibit 3	-	-
Exhibit 4	-	-
Exhibit 5	-	-
Exhibit 6	90	114
Exhibit 7	-	-
Exhibit 8	112	-
Exhibit 9	26, 28	48
Exhibit 10	27	48
Exhibit 11	38	48
Exhibit 12	39	48
Exhibit 13	40	48
Exhibit 14	42	48
Exhibit 15	43	48
Exhibit 15-A	47	48
Exhibit 15-B	45	48
Exhibit 15-C	67	72
Exhibit 16	93	114
Exhibit 17	-	-
Exhibit 18	111	114
Exhibit 19	95	114
Exhibit 20	-	-
Exhibit 21	106	114
Exhibit 22	-	-
Exhibit 23	-	-
Exhibit 24	-	-
Exhibit 25	-	-
Exhibit 26	-	-
Exhibit 27	-	-

(Continued...)

E X H I B I T S (Continued)

TMBR/Sharp	Identified	Admitted
Exhibit 28	-	-
Exhibit 29	96	-
Exhibit 30	96	114
Exhibit 31	97	114
Exhibit 32	96	114
Exhibit 33	136	137
Exhibit 34	-	-
Exhibit 35	104	114
Exhibit 36	108	114
Exhibit 37	109	114
Exhibit 38	110	114
Exhibit 39	110	114
Exhibit 40	100	114
Exhibit 41	-	-
Exhibit 42	-	-
Exhibit 43	-	-
Exhibit 44	-	-
Exhibit 45	-	-
Exhibit 46	-	-

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Ocean	Identified	Admitted
Exhibit 1	142	150
Exhibit 2	144	150
Exhibit 3A	144	150
Exhibit 3B	146	150
Exhibit 4	147	150
Exhibit 5	147	150
Exhibit 6	205	219
Exhibit 7	149	150
Exhibit 8	173	177

(Continued...)

E X H I B I T S (Continued)

Ocean		Identified	Admitted
	Exhibit 9	172	177
	Exhibit 10	-	-
	Exhibit 11	168	177
	Exhibit 12	200	219
	Exhibit 13	201	219
	Exhibit 14	201	219
	Exhibit 15	119	139
	Exhibit 16	-	-
	Exhibit 17	217	219
	Exhibit 18	197	219
	Exhibit 19	218	219
	Exhibit 20	218	219
	Exhibit 21	53	72

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A P P E A R A N C E S

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(Continued...)

A P P E A R A N C E S (Continued)

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* * *

WHEREUPON, the following proceedings were had at 1:37 p.m.:

CHAIRMAN WROTENBERY: And then that brings us finally to a set of four cases, I believe we still have, Case 12,816, the Application of TMBR/Sharp Drilling, Inc., for compulsory pooling in Lea County, New Mexico; Case 12,841, the Application of Ocean Energy for compulsory pooling in Lea County, New Mexico; Case 12,859, the Application of David H. Arrington Oil and Gas, Inc., for compulsory pooling in Lea County, New Mexico; and Case 12,860, the Application of Ocean Energy, Inc., for compulsory pooling in Lea County, New Mexico.

These cases are all being heard *de novo* on the Application of Ocean Energy, Inc.

And I will call for appearances in this matter.

MR. KELLAHIN: Madame Chairman, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin. I'm appearing this afternoon in association with Susan Richardson, Richard Montgomery and Robert Sullivan. Collectively we represent TMBR/Sharp Drilling, Inc.

We have two witnesses to be sworn.

MR. BRUCE: Madame Chair, Jim Bruce of Santa Fe, representing Ocean Energy, Inc.

I have three witnesses.

MR. HALL: Madame Chairman, Scott Hall, Miller

Stratvert P.A., Santa Fe, appearing on behalf of David H. Arrington Oil and Gas, Incorporated.

I have no witnesses and only the briefest of statements.

CHAIRMAN WROTENBERY: Thank you, Mr. Hall. Is that everybody then?

Okay, if the witnesses would all stand to be sworn, please?

(Thereupon, the witnesses were sworn.)

CHAIRMAN WROTENBERY: Okay, do we have opening statements?

MR. KELLAHIN: Yes, ma'am, we do.

CHAIRMAN WROTENBERY: Okay, would you like to proceed, Mr. Kellahin?

MR. KELLAHIN: Yes, ma'am, thank you.

We have distributed over the last few days exhibit books on behalf of TMBR/Sharp Drilling, Inc. They were originally sent out last week, and we have supplemented them earlier this week. And hopefully you have what I believe to be a complete set of the exhibit book. I will give the court reporter an extra book we've compiled.

CHAIRMAN WROTENBERY: That would be helpful.

MR. KELLAHIN: If during the course of this we find that there are some exhibits that are not fully

colored, we have replacement copies. We've attempted in the brief period of time to get you a set of working documents that are useful this afternoon.

I don't want you to be overwhelmed by the size of this book. We've written most of the chapters in this book with your efforts and ours, and we're down to writing the conclusion.

You're going to find that the evidence demonstrates that when we started all these cases -- not only these pooling cases but the permitting cases, almost two years ago, I guess -- that those cases were complicated and difficult. That complexity has now disappeared.

The evidence will demonstrate to you that the conflict between TMBR/Sharp and Arrington over Arrington's top leases of the northwest quarter of Section 25 has been resolved and settled.

The controversy with Arrington and TMBR/Sharp over the conflicting applications for permit to drill that were filed a year and a half ago and was part of the discussion you had in the permit appeal, all of that has been resolved.

The dispute with Arrington, who had an interest in the north half of Section 24, separate and apart from his claim of the top lease title in the northwest quarter of 24, has disappeared.

At this point, TMBR/Sharp has consolidated on a voluntary basis the entire north half of Section 25 into a standard 320-acre spacing unit for their Blue Fin Well Number 25. That well has been drilled and completed. It has been drilled and completed in the northwest quarter.

The consolidation of the acreage in the north half never included Ocean. Ocean never had acreage in the north half. They're not subject to the force pooling order, they were not pooled.

The only reason that force pooling order that we attained from Mr. Stogner is still appropriate is, despite the fact that we have consolidated 99.75 percent of the working interest owners, there remain two individuals which would have interest owners for whom we cannot find. We simply cannot find those people.

So the continued existence of TMBR/Sharp's pooling order doesn't affect Ocean. We're not pooling their acreage. And it's simply for the purpose now of doing something pursuant to statute with these two unknown parties that we cannot find.

At the time of the hearing before Mr. Stogner, there was a geologic dispute over the theoretical geologic evidence that was presented. Mr. Louis Mazzullo, on behalf of TMBR/Sharp, starting way back in 1995, had developed what we call a Chester formation prospect, and it was in

four sections of this township, 23, 24, 25 and 26.

The well in the south half of 24 is the Blue Fin Number 24. That well was drilled and completed. And then the second one, drilled by TMBR/Sharp -- both of them by TMBR/Sharp -- was the 25 well.

That theoretical geology that Mr. Mazzullo had developed, which he had validated with conventional data in 3-D and 2-D seismic data, was presented to Mr. Stogner. The conclusion of his geology was that he found three discrete, independent Chester bowls. It was his opinion and belief that the greatest extent of any of those bowls would confine the bowl that the Blue Fin 25 well is in almost entirely within the confines of the northwest quarter of Section 25.

So even under Mr. Mazzullo's most optimistic geologic conclusions, his Chester bowl did not spill over into the Ocean's acreage in the south half of Section 25.

We now know that subsequent activity, pressure information and production data from the 25 well, compared to the 24, shows that the 24 well and the 25 well are independent of each other. Those wells do not talk to each other. There's no question that they're separated.

When you look at the third pod, Mr. Mazzullo's seismic belief is that third pod is a small pod in the south half of Section 25 that straddled the quarter section

between the southwest quarter and the southeast quarter, largely in the middle of that.

So all that theoretical geology has been resolved to the advantage of TMBR/Sharp, because we're here to now show you the hard data that demonstrates that Mr. Mazzullo was right and that the theories advanced by Ocean as to some channel system through here -- that they characterize to be Atoka -- there is some confusion on nomenclature, so you'll have to pay attention to how they talk about these intervals, but we prefer to call this Chester, and they are Chester Bowls.

Mr. Mazzullo is a well-recognized expert before you, and he has worked this area for a substantial time, and he's here to demonstrate all the relevant geologic facts for you.

But as a predicate to that, you need to recognize that we're not asking you to overlook the various matters of interest that Mr. Stogner has already found appropriate.

He found that it was substantially important to him that the evidence demonstrated that it was Mr. Mazzullo and TMBR/Sharp who were the first parties to come forward and develop this prospect, what Mr. Mazzullo calls the Big Tuna prospect.

Interesting to know that after Mr. Mazzullo developed an initial geologic concept for this area in

1995, by 1992 [*sic*] he had then integrated 2-D and 3-D seismic information, had that seismic information validated by a former geophysicist with Ocean, if I believe right, and then went the next step.

In January of the year 2001, Mr. Mazzullo and TMBR/Sharp showed their geologic concepts at a meeting with Ocean. They sat there and had a detailed presentation from Mr. Mazzullo, and Ocean's experts got to manipulate the computer, got to ask Mr. Mazzullo to change his configurations, and they got to look and see what they wanted to see.

At the end of all that discussion you're going to find that Ocean chose not to take advantage of the opportunity that TMBR/Sharp had advanced to them to come and invest, share the risk and hopefully be profitable in drilling a producing well. They said no.

They said no because their experts thought that this part of the Chester was too far south, going to be too deep structurally, and therefore wet, to a control point they had up in Section 10. So they declined.

And then we go along and Arrington, now knowing that TMBR/Sharp is about to spud the Blue Fin 24 well, he goes out and top leases the southwest quarter of 25. The Blue Fin 24 is in the southwest quarter of 24. So they need a south offset. Arrington now knows that TMBR/Sharp

is about to drill the first well, and he goes and top leases it.

By June of 2001, TMBR/Sharp has been successful with the Blue Fin 24, proving Mr. Mazzullo's geologic concept is correct as to that well.

And by August of that year, then, Arrington has started the permit dispute with TMBR/Sharp that you were involved with for a number of hours previously.

Subsequently there was litigation, Commission orders, highly contested matters, depositions, expensive discovery and all kinds of stuff. The end result was that Arrington and TMBR/Sharp reached a settlement in which Arrington waived any claim of priority based upon the top leases and disappeared to the extent of competing with TMBR/Sharp for what to do in this section.

And then in May of last year the parties came back before Examiner Stogner. In some 12 hours of technical hearing over most of two days, we sat here and talked about this reservoir. At the end of which Mr. Stogner entered the order you have before you, the Examiner Order that's now on *de novo* appeal by Ocean. And in that order he agreed with the geologic conclusions that Mr. Mazzullo had given him, and he had rejected the arguments advanced by Ocean and Arrington.

And so all those are set forth in the order. He

does it in detail, he demonstrates that it's his belief and conclusion, as we believe the evidence continues to show, that it's appropriate to have a north-half spacing unit and a south-half spacing unit.

And there's no reason to now, at this point in time, reorient the spacing unit to a west-half spacing unit which allows Ocean to contribute the southwest quarter to a well in which they didn't want to participate, in which they have no contributing acreage to apply, and which is not draining their acreage.

Mr. Stogner goes on and agrees about the three-Chester-bowl theory, he talks about the orientation, he talks about the need to find multiple wells in order to properly access and develop the Chester formation.

And so we're now back before you this afternoon to demonstrate the accuracy of our prior testimony, the reliability of Mr. Stogner's conclusions, and to validate with production and pressure information that Mr. Stogner's Order is correct. We're here again today to show you Mr. Mazzullo's work and have you ask him any questions you may like to ask him.

We've brought Mr. Jeff Phillips who is the president of TMBR/Sharp. He's a petroleum engineer by degree, and he is a knowledgeable expert as to his own operations, and he can talk to you about how he's operated

these wells, the data he's gathered and the information he has available.

So I guess the last question that's left to decide in writing the story about this problem is, if Ocean's acreage in the southwest quarter of 25 is not being drained, is not contributing in any fashion to the well, should Ocean be allowed to participate in the spacing unit that we've dedicated to the well?

We believe that answer is no and that you ought to do what Mr. Stogner says, and that is to say no again.

Thank you.

CHAIRMAN WROTENBERY: Thank you, Mr. Kellahin.

Mr. Bruce?

MR. BRUCE: Well, madame Chair, I like Mr. Stogner too. But the fact is, in this Division order he was just plain wrong.

We're here today on a pooling case, and the issue is in the subject Section 25 should there be a north-half unit or should there be a west-half unit? And there's only going to be one well in that section. And that's important to think about.

In making the decision as to the orientation of the unit, you have to look at two things, and those are simply the statutory requirements of, number one, preventing waste and, number two, protecting correlative

rights.

Now, in looking at the geology, there isn't a confusion about the geology. Everybody agrees out here that there certain area where the Atoka is productive, certain areas where the Morrow is productive, and here and in some of Ocean's acreage to the north, where the Mississippian or Chester, however you want to refer to it -- sometimes it's referred to as the Austin, sometimes as the Chester, sometimes as the Mississippian -- that's productive.

The problem is, we're not dealing with little discrete geologic formations here. We are dealing with a limited reservoir, certainly, but a reservoir that covers all of the west half of Section 25.

You know, in talking about the geology Mr. Kellahin said at first that Mr. Mazzullo, who is a fine geologist -- his theory was validated by a former Ocean Energy employee. That man's name was Dave Scolman.

Ocean already knew the concepts that Mr. Mazzullo was presenting, it had already drilled a number of wells out there. The fact of the matter is, Ocean had been drilling out there since 1998.

But in looking at the two main issues, let's digress for a moment to the pooling statute. The pooling statute says that an order issued by the Division or the

Commission shall be upon just and reasonable terms that will afford the owners of each tract or interest in the unit the opportunity to recover, without unnecessary expense, his fair share of oil and gas.

The fact of the matter is, when you look at the geology you will see that it is a north-south reservoir, and only the west half of Section 25 is productive. There is virtually no reservoir in the east half of Section 25. Therefore a west-half unit is justified geologically.

Second of all, it is a limited reservoir. We will present evidence that it covers, oh, somewhat over 400 acres of land in this and adjoining sections.

The problem is, the two wells that are currently in the reservoir, the Blue Fin 24 Number 1, which is in the southwest southwest of Section 24, and then the Blue Fin 25 Number 1, which is in the southwest northwest of 25, are in communication. Drilling a third well is wasteful, and it will not be done in this reservoir.

Therefore, if you don't form a west-half unit, Ocean cannot go drill a well in the southwest quarter because it's not economically justified.

Now as to correlative rights, that means the opportunity of an interest owner to recover his fair share of reserves. Now, if a north-half well is approved, when you look at the ownership data what you are essentially

doing is giving 50 percent of the reserves to the people in the northeast quarter.

At the last hearing, TMBR/Sharp's witnesses agreed, there's no reservoir in the northeast quarter, zero, absolutely none.

But there is reservoir in the southwest quarter. And in order to protect Ocean's correlative rights, the west-half unit has to be approved.

Now, TMBR/Sharp says, Well, we've drilled a well, and Ocean's Application is moot.

If you review the Division file, it will show that Ocean's Application was scheduled for hearing a year ago, in March of 2002. Over Ocean's protest, that hearing was continued for two months. TMBR/Sharp sought and obtained those continuances, and before it finally went to hearing they commenced drilling the subject well in Section 25. Now it says, Hey, we've drilled the well, Ocean can't do anything. Now, this may be a sharp business practice, but it's not proper, and it shouldn't forbid Ocean from recovering its share of reserves.

We would ask that you hear the evidence and approve a west-half unit.

Thank you.

CHAIRMAN WROTENBERY: Thank you, Mr. Bruce.

Mr. Hall?

MR. HALL: Madame Chairman and Commissioners, yesterday on behalf of Arrington I provided the Commission with five copies of a document or a pleading styled Notification of Voluntary Agreement and Withdrawal of Application. What that instrument does is to advise the Division that Arrington and TMBR/Sharp have settled their differences and that those two parties agree that the provisions of Order R-11,700-C would not apply to the Arrington interests.

The voluntary agreement was reached prior to the entry of Order R-11,700-C but was filed at the Division Examiner level subsequent to entry of the order itself.

Further, the document provides that Arrington withdraws its Application for pooling in Case Number 12,859. It also withdraws its Applications for hearing *de novo* in each of the four consolidated cases, and further that it withdraws its previous support provided to Ocean Energy in its pooling Applications.

Thank you, madame Chairman.

CHAIRMAN WROTENBERY: Thank you, Mr. Hall. May I just ask you a quick question about your statement that the terms of the order shall be inapplicable to Arrington's interests? Are you just meaning there that you now voluntarily are participating in the unit, so you're not subject to the compulsory pooling provision of that order,

or is there more to it than that?

MR. HALL: Well, there's actually nothing more to it than that. Pursuant to the terms of the statute and in every generic pooling order, the agency asks to be advised if voluntary agreement is reached. In fact, voluntary agreement for Arrington's participation was reached prior to the entry of the pooling order altogether. So for that reason, TMBR/Sharp and Arrington agreed that the order would not apply to the Arrington interests.

MS. RICHARDSON: Madame Chairman, may I be heard just briefly --

CHAIRMAN WROTENBERY: Yes.

MS. RICHARDSON: -- because I want the record to be clear. Susan Richardson for TMBR/Sharp. Thank you.

I think to be completely accurate about it, a settlement in principal was reached prior to the order handed down on the 27th, I believe on the 24th or the 25th. A later formal settlement document was entered into that was much more complex and complete. But in essence what Mr. Hall says is correct. In principal, the parties have agreed.

It wasn't that Arrington at that point agreed to participate. His company agreed to completely withdraw, in effect, from the north half of Section 25, convey whatever interest he had in that section to TMBR/Sharp and in

essence no longer maintain an interest that was the subject of the pooling order.

So in effect it wasn't an agreement to participate, it was an agreement to not participate because he no longer owned an interest.

MR. HALL: That's correct, madame Chairman --

CHAIRMAN WROTENBERY: Okay, thank you --

MR. HALL: I wasn't directly involved --

CHAIRMAN WROTENBERY: -- for that clarification.

MR. HALL: -- in those negotiations, and I wasn't sure what was --

MS. RICHARDSON: Surely --

MR. HALL: -- confidential or not, but that --

MS. RICHARDSON: -- surely, and those are a matter of public record, because documents were filed where he has signed whatever leases he had from the base of the Morrow down to the Chester in the northeast quarter of Section 25.

CHAIRMAN WROTENBERY: Uh-huh.

MS. RICHARDSON: He assigned all of those to TMBR/Sharp, agreed that -- assigned whatever interest he had in Stokes Hamilton and in his top leases in the northwest quarter of Section 25 to TMBR/Sharp.

CHAIRMAN WROTENBERY: Uh-huh.

MS. RICHARDSON: All of the people with whom he

was associated, Mr. Douglas and Mr. Huff, who owned interest beneficially for him, also conveyed their interest to us. So in essence, he maintains no interest in the north half.

CHAIRMAN WROTENBERY: Okay, thank you for that clarification.

MS. RICHARDSON: Thank you for the time.

CHAIRMAN WROTENBERY: Anything else, Mr. Hall?

MR. HALL: That's it.

CHAIRMAN WROTENBERY: Okay.

MR. HALL: Thank you. We simply ask that the notification be made a part of the record in this proceeding.

CHAIRMAN WROTENBERY: We will make it part of the record, and to the extent that we need to address it in our order we will.

And likewise I should note, we do have TMBR/Sharp's Motion to Dismiss on file in this matter, and we will address that motion in our final order, but we would like to go ahead and hear the evidence in the case today.

MR. KELLAHIN: Thank you, ma'am.

CHAIRMAN WROTENBERY: So I think if there are no further preliminary matters, Mr. Kellahin?

MR. KELLAHIN: Thank you. We call Mr. Louis

Mazzullo.

Mr. Mazzullo, if you'll flip over, I think, let's start just before 10, with Exhibit 9 in the exhibit book.

MR. MAZZULLO: Exhibit 9.

MR. KELLAHIN: There's a locator map that --

MR. MAZZULLO: Right.

LOUIS J. MAZZULLO,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Mazzullo, for the record, sir, would you please state your name and occupation?

A. Louis Mazzullo, I'm a petroleum geological consultant out of --

Q. Where do you reside, sir?

A. -- out of Albuquerque.

Q. Are you a certified professional geologist?

A. I'm a certified petroleum geologist with the American Association of Petroleum geologists and a professional registered geologist in two states.

Q. Over how many years have you practiced your profession?

A. Approximately 27 years.

Q. During that period of time, have you testified

before the Commission as well as the Oil Conservation Division?

A. Yes, I have.

Q. And did you testify before Examiner Stogner in the two-day hearing of these cases back on May 16th and 17th of last year?

A. Yes, I did.

Q. As part of your experience, does your background allow you to analyze and evaluate both 2-D and 3-D seismic information?

A. I have developed an ability to evaluate 2- and 3-D data, not to the extent that a registered or a professional geophysicist would, but enough to get the information that I need to gain a more accurate picture of the subsurface using the 3-D data and 2-D data.

Q. Have you published any professional papers with regards to your experience and work?

A. A number of papers, yes, I have.

Q. When we look at Exhibit 10 -- and we're looking at a four-section area -- do you have a nomenclature or a shorthand name that you use for your exploration activity in these four sections?

A. Could you rephrase?

Q. What's Big Tuna?

A. Oh, Big Tuna. I have been working on this area

on behalf of TMBR/Sharp and Ameristate Exploration for the past seven or eight years, and we have developed a number of different prospects for various horizons in this area, and each one of them constitutes maybe a different horizon, a different target objective, and they have different names. The Big Tuna prospect happens to be the area concentrated around the Blue Fin wells.

MR. KELLAHIN: We tender Mr. Louis Mazzullo as an expert witness.

CHAIRMAN WROTENBERY: Any objection.

MR. BRUCE: No objection.

CHAIRMAN WROTENBERY: We accept his qualification.

Q. (By Mr. Kellahin) Let's save Exhibit 9 as a locator map to help show some of this well information, and I'd like you to start, then, with Exhibit 10 and describe for us how you went about developing your geologic opinions about this area, starting with telling us, approximately when did you commence activity within this area?

A. The group that I consulted for, beginning in 1995, had acquired acreage in this area as early as 1991, I believe, and I came on in late 1995 and in 1996 and joined them as a geological consultant and initially began looking at some of the shallower horizons on behalf of my clients and TMBR/Sharp, who subsequently drilled all of the wells

out here that we developed.

It initially started in the shallower Wolfcamp formation because of a number of wells that had produced quite lucratively out of the Wolfcamp, particularly in Section 26. We began -- I believe it was Section 23 that we drilled first. We began our program by drilling our first well in Section 23 for the Wolfcamp, followed by another well in Section 26, and then back again in Section 23.

As time went on and the gas market improved, we began to turn our attention to some of the deeper gas objectives, namely the Atoka formation, started to look at the Atoka formation in terms of its regional depositional model and trying to see if we could justify the drilling of any Atoka wells.

And when I say we have a number of prospects, they cover a large portion of Township 16 South and 35 East, beyond the Big Tuna area. So we moved back and forth across different prospects through time. We drilled a well down in Section 32, we drilled one up in Section 15, and we drilled the second well in Section 23, targeting the Atoka formation.

As time went on, I began to develop a geologic model for the whole area. It's a very geologically and structurally complex area.

Q. Let's talk about that part first.

A. Okay.

Q. Up to now you are using conventional geologic subsurface tools?

A. Right, we're primarily looking at sample data, looking at well-log data, doing larger-scale regional correlations using well logs and sample data, which I do a lot, a lot of sample work. And then we acquired some two-dimensional seismic lines that you see outlined in the blue-dashed pattern.

Q. About when did that occur, Mr. Mazzullo?

A. Oh, that was around 1996 or 1997, I believe, we acquired those. I didn't work those data myself initially. Those were farmed out to a geophysicist in Midland who worked some of that data, a geophysicist that had considerable experience in prior years working the Atoka from 2-D seismic data.

Q. Let me ask you this: Having gotten to the point where you have all the conventional data --

A. Uh-huh.

Q. -- have you created structure maps and isopachs, that kind of thing?

A. Right, yes, I did.

Q. Were you comfortable with that level of science in making decisions about where to drill these wells?

A. I was comfortable insofar as the Wolfcamp was concerned, because the Wolfcamp is more of a stratigraphic -- well, they're all stratigraphic traps, but it was a stratigraphic trap that had a lot of control. I had a lot of well control, a lot of sample control, which is a very key element in defining the particular types of Wolfcamp traps that are found in this area.

But as far as the deeper objectives, I was less comfortable using subsurface mapping alone because of the structural complexity of the area, which changes very rapidly from well to well in some places, and also because of the structural complexity. That affected the appearance or non-appearance of certain strata, the Atoka included, that may have developed under any particular area.

Q. How important to you was it, then, to have the 2-D and the 3-D seismic information?

A. Well, the 2-D was a good start because of the experience that the geophysicist had in trying to find features in the Atoka that were indicative of reservoir conditions, and we used that to a certain extent. It helps to a certain extent, particularly in defining the location in Section 32, and to a certain extent to the location in Section 23.

But as I began myself looking at the 2-D data and noticing some of the structural complexities that were

developing, particularly in the eastern part of the township, I realized that there was a lot more going on in there that needed to be understood before I would be very comfortable going after the deeper objectives. And it was largely geologic guesswork, experience -- over 25 years' experience in the area -- that got us as far as we did. But that's as far -- You know, we were kind of stifled at that point.

Q. Before we look at the exhibits themselves, describe for us how you got to the conclusion that there was a tremendous opportunity for what you call the Chester bowls --

A. Okay.

Q. -- to be drilled and produce gas. How did it evolve into the Chester bowl theory?

A. Well, one of the things I noticed a little bit early on was a well down in Section 35, which is indexed here as the Buffton Number 1 Eidson, that was reported to be variously a Morrow or a Mississippian producer. And when I got to look at it in great detail, I came to the conclusion that it was actually an upper Mississippian or a Chester completion.

And it happened to be, according to my subsurface evaluation, happened to be laying alongside a major fault. I didn't think very much of that, because there's a lot of

spurious Mississippian production throughout the Permian Basin and only a few places in the Permian Basin where it's significant enough. But that well was significant enough in that it produced over a BCF of gas.

So I filed that in the back of my mind and didn't think very much of it until several years later -- and I forget which year it was -- as time goes on I forget a lot more -- but the Ocean Carlisle State well in Section 10 blew out in what I later determined to be the Chester. It was a very highly publicized blowout that everybody knew about, but nobody understood what it blew out in.

And after I finally acquired the well log somewhere down the line and compared it to some of the offset logs, I came to the conclusion that that was a Chester zone, which again was number-two significant factor in my thought process.

And then later on I participated in a well which is off the map in Section 17 south, just down below in Section 15, that also was completed in the Chester. It was too coincidental that I saw three completions in the Chester alongside major faults, so I started thinking to myself, what was it that's causing this?

And I came up with an idea that I incorporated into a publication that I wrote in 1999. It was an idea that these were actually very small scale, areally limited

detrital aprons alongside major faults that cut the Chester, and may or many not have cut any further up into the section.

Q. By January 31st of the year 2001, at the Houston meeting with Ocean, at that point in time what was your geologic concept and conclusions?

A. My geologic concept at that time was supplemented by an evaluation of 3-D seismic that we were able to acquire by a separate litigation that we were involved in with another company.

We acquired several sections of 3-D seismic data that we sent up to Denver to a geophysicist by the name of David Scolman, who was kind of recognized as an area expert in this particular area of Lea County, and he evaluated the seismic and produced some basic time maps for us that he sent back down to me. And he highlighted these circular areas, closed lows that he called them. I call them bowls. You know, you can call them bowls if you want, if you want to envision what they look like. But they're closed lows on the Chester surface. He also saw -- recognized them up to Section 2 as well. But he asterisked them or he highlighted them and he said, that's something worth looking at.

Well, it was pretty much in line with what I thought was going on in that area in terms of there being a

very deep synclinal structure between two major faults. That I knew already from the 2-D seismic data. But I didn't know, and I suspected that in those lows or in those synclines you were going to find a thickened section of Pennsylvanian sands, which was initially my first objective in this area, were the Pennsylvanian sands.

But when Mr. Scolman indicated the presence of these closed lows I just thought for a few minutes of where I've seen this situation before in other basins. And I said, well, that makes sense, you know, that's something that I could see happening. You had a major structural event at the end of the Mississippian, you could have had erosion off of these fault scarps and stuff dumped locally into these little closed lows. Made sense to me.

So I added it onto my interpretation of the area and presented it as part of a prospect package for the Blue Fin 24 Number 1 well, as a secondary objective in what was then primarily an Atoka and other Pennsylvanian sand play, which we brought down to the prospect fair in Houston, in January of 2001.

Q. At that fair did you make a detailed presentation of your analysis and your data to technical people involved with Ocean?

A. A request was made to our group to show this as a private showing to the Ocean personnel, prior to the

opening of the NAPE prospect fair. And the night -- the afternoon before the prospect fair opened, we brought my laptop computer to their office that had all the 3-D seismic data loaded, and we allowed the -- we let the personnel at Ocean examine the 3-D to their heart's content for a couple of hours, drawing arbitrary lines back and forth.

And we brought the paper copies of the prospect themselves that had Mr. Scolman's maps on them as well, as well as my cross-section, and we presented it and allowed them to work the data, you know, to their specifications, that they would be satisfied or dissatisfied with what the prospect merits were.

Q. What was the purpose in doing that?

A. We knew a couple of the people, we were familiar with the people at Ocean, we didn't have any problem doing that. I don't even believe we had them sign a confidentiality agreement.

Q. You were looking for investors?

A. We were looking for investors. TMBR/Sharp wanted -- We were doing it on behalf of TMBR/Sharp as well. We were investors ourselves, but TMBR/Sharp wanted to lay off part of the prospect, part of the risk, to an industry partner, so on their behalf we went and showed it to Ocean. And knowing a couple of the people at Ocean, I didn't have

a particular problem with showing them the data before we showed it to the general public, and neither did the rest of the partners.

Q. How did Ocean's technical people respond to you after exhausting the opportunity to review your data?

A. There was some reservation expressed during the meeting, that the area that we were looking at was far too structurally low relative to an area that they were working to the north. And my understanding at the time was, with respect to the Atoka sands it was too high a risk area for them to participate in. And the next day at the prospect fair, two of their principals came over to us and informed us that they would pass on the deal, that it scientifically and economically was too risky.

Q. Let's turn to your displays, Mr. Mazzullo. If you'll turn to the next tab, it's Exhibit Tab 11, and this is a copy of the exhibit you sponsored before Examiner Stogner, and it is also numbered Exhibit 18-B.

A. Yes.

MR. KELLAHIN: We have extra copies. If you have a copy that's not legible, I'm happy to trade you. Some of those --

MR. BRUCE: Mr. Kellahin, we don't have a full copy here.

MR. KELLAHIN: We need a two-second break here,

madame Chairman.

CHAIRMAN WROTENBERY: Okay.

(Off the record)

COMMISSIONER LEE: Why don't we take a 10-minute break?

CHAIRMAN WROTENBERY: Thank you.

(Thereupon, a recess was taken at 2:23 p.m.)

(The following proceedings had at 2:33 p.m.)

CHAIRMAN WROTENBERY: Okay, I think we're ready to go again.

Q. (By Mr. Kellahin) Mr. Mazzullo, I direct your attention to what we've introduced at the Commission Hearing as Exhibit 11. Would you identify and describe that display?

A. Exhibit 11, or 18-B?

Q. It's 18-B --

A. 18-B.

Q. -- from the Examiner Hearing, and it's behind Exhibit Tab 11 --

A. I'm sorry.

Q. -- in the current exhibit book.

A. I'm sorry. Yes, this is a structural cross-section that I constructed prior to our drilling of the TMBR/Sharp Blue Fin 24 Number 1 well. It's a model that was based upon Mr. Scolman's initial 3-D seismic evaluation

and based in part on that 3-D seismic section that you see in the lower right-hand corner.

I envisioned, as I said previously, that the Atoka and upper Pennsylvanian, middle Pennsylvanian sands, including the Strawn sands, would thicken up in this graben, which is a downthrown fault block that's surrounded by areas where there's a thinner section of Pennsylvanian sands, and also on the basis of what Mr. Scolman had told me, that there was a possibility for the appearance of not only Morrow sands down in the bottom of this graben but also perhaps some Chester re-worked sediments as well.

So that's what this is depicting. This was prior to drilling the 24 Number 1.

Q. Let's take us to the next chapter. If you look behind Exhibit Tab 12 you're going to find the Exhibit Number 18-C from the Examiner Hearing.

A. Yes. This is the post-mortem -- or I shouldn't say post-mortem, because the well turned out to be a very good well. With the inclusion of the Blue Fin 24 Number 1 well log after we drilled the well, this is the actual geologic picture that we encountered.

Part of the upper -- well, actually this is the same section, you're looking at the same cross-section. The scale on this is a little bit smaller, to fit the entire Mississippian section that we encountered in the

well. But the results, if you compare one section to the next, they're pretty similar.

Q. What's your conclusion?

A. My conclusion was, we found what we were looking for.

Q. Let's turn to Exhibit Tab 13, and we're now looking at Exhibit 18-D from the Examiner Hearing.

A. Yes. This is a depth map that I generated on the top of the Chester on the basis of the same 3-D seismic data that Mr. Scolman worked.

After Mr. Scolman did his initial evaluation and picked the seismic tops and ran some synthetic seismograms for me, I took over and digitized this area here to get a clearer structural picture on what was happening in this area, and I found pretty much what Mr. Scolman had found, which was no surprise -- I didn't expect to find anything different, I just needed to produce my own maps -- that in fact at the time the Blue Fin 24-1 -- Well, first of all, let's look at the overall area that's shaded in various hues of blue, extending from Section 23 and opening up into Section 25. Those are -- The blue colors are the lowest colors, and the warm colors are the higher areas off to the northeast and the southwest.

There are big Wolfcamp-age faults that bring this area down low. I didn't show them on the map for

simplicity. My main objective here is to show that we're sitting in a very low area.

And within that low area there wore closed lows, highlighted by the purple colors, in which these -- which I believed at the time, and I still do, that the Chester detrital material preferentially deposited into. Into which it preferentially deposited.

Q. In Section 24, when we look at the bowl depicted for the Blue Fin 24, there's an overlay in red that has horizontal lines.

A. Yes.

Q. What is that?

A. I attempted to planimener -- planimen- -- to sketch out what I thought to be the areal bounds of the Chester bowls, based on the limited data that I had at the time, limited in terms of where the actual top of the Chester was expressed on the seismic.

It was a very hard pick to make at the time, because it only had the one well that went down into it, that I could rely on. But it was an attempt at trying to get a feel for the size of this bowl. And when you see the subsequent exhibits you'll understand why I confined them the way I did. But I was trying to get a handle on how big they might be in order that perhaps reserve calculations could be done on those areas.

I relayed the results of this little exercise to the engineers for their use, for their possible use in calculating reserves. But I wanted to get a feel for what the size of these features were so I could get some idea whether or not these would make economic targets.

Q. In terms of looking at the potential size, can you characterize this as a pessimistic or as an optimistic --

A. This is a geologist's optimistic dream for what -- you know, optimistic view of what the size of these little depressions were on the Chester surface. These, I thought, and I still do, are the best-case scenario of what to expect in terms of size.

Q. What happens next?

A. What happens next is, I proposed drilling the Blue Fin 25 Number 1 well in the second and largest one of those depressions that I define.

Q. The next exhibit in the book, Mr. Mazzullo, is behind Tab 14 and was shown at the Examiner Hearing as 18-E.

A. Yes. This gives you an idea, it's a west-to-east vertical seismic section through the Blue Fin 24 Number 1 well, showing a couple of different things. It shows the structural complexity of the section below and including the Chester and the number of and degrees of magnitude of

throw on the faults that cut the section.

It also shows what I thought at the time to be where the top of the Chester was. I've since downgraded my top of Chester a little bit lower in the section, but what I was trying to show over here was that the Chester is -- the limits on the reservoir, which I shade in yellow on the vertical seismic section, is very limited. It's a very limited reservoir, at least east to west. That's what this shows initially.

And on the bottom part of this exhibit I show the model that I developed back in 1999, what I think was happening here. You have some detrital material or some material being eroded off of these fault scarps and dropping into these little depressions on the Chester surface. So in an east-west perspective, that's what it looks like on seismic expression.

Q. Do you have an expression of this in the other orientation?

A. Yes, I do.

Q. Is that behind Exhibit Tab 15?

A. Yes. If you look on Exhibit 18-D for reference of where this north-south section goes, it begins in Section 23, goes through the Blue Fin 24 Number 1, over to what at the time was the Blue Fin 25 Number 1 proposed location, and then through the smaller bowl-shaped feature

in the south half of Section 25, and that's what this vertical seismic section tracks.

And what it clearly shows is that the Chester surface is uplifted and downwarped many times along that seismic -- that arbitrary-line track. In other words, there are those closed low features that are separated by areas that are higher relative to those lows, that were uplifted by the deeper faults that we see punctuating the section throughout the area.

The bottom part of this exhibit shows in simplified geologic cross-sectional form what this looks like, what the vertical seismic section is showing. And it shows that these low areas, such as we encountered in the Blue Fin 24 Number 1 were separated from the next feature, what I was proposing to be our Blue Fin 25 well, by an intervening high area, a fault-uplifted high area that separated the Blue Fin sink -- the 24 Number 1 sink from the 25 Number 1 sink, or bowl.

Q. Let me show you some other versions of these exhibits, which I think may have better detail to them, Mr. Mazzullo. We're in Exhibit 15?

A. We were just looking at 18-F, which was behind 15, yes. This is the same thing.

Q. Yeah.

A. Yes. I wasn't sure of the quality of the --

Yeah, these are the same exhibits, these haven't changed. Only I thought I -- I wasn't too happy with the quality of the copies.

Q. Let me show you Exhibit 15-B, which again is probably a better copy.

A. Okay.

Q. With regards to these exhibits, then, summarize where we are in your analysis of them.

A. Okay. Exhibit 15-B, if you just take the area between -- if you tie the Blue Fin 24 Number 1 with the Blue Fin 25 Number 1, which we now have a new data point for, and just enlarge the vertical scale so you can see a little bit better, that's what the 15-B is. And it just shows you a little bit closer up so you can see where the actual tops of Chester come in, according to log tops that have been correlated to the seismic data.

Clearly it shows that there is no connection between the yellow area associated with the Blue Fin 24-1 and the yellow area associated with the Blue Fin 25-1. You'd have to come over that intervening high and across a couple of fault blocks, which I didn't show, just to make it simple for you to see that you'd have to go way over, and that represents maybe -- oh, I don't know, I hesitate to say, but that's more than 50 feet of relief if it's more than 100, before you can get from one wellbore to the

other.

In other words, what I'm showing here is that these are two separate and distinct pods of detrital formed in separate downwarped structures.

Q. Now that you have the Blue Fin 24 and the Blue Fin 25 wells and the additional information geologically derived for those wells, what's your conclusion about whether the Chester pod in the southwest quarter of 24 is distinct and separate from the Chester bowl in the northwest of 25?

A. I think it's pretty clear from the seismic evidence -- which you need, you cannot make an interpretation without use of this seismic data, especially a north-south line that ties the two wells together, that clearly shows that the two wells are separated structurally and depositionally by those fault blocks, by the fault blocks that intervene between the two wells. In other words, these are two separate depressions on the Chester surface that are structurally controlled and essentially isolate the Blue Fin 24 Number 1 from the Blue Fin 25 Number 1, and then again from that smaller pod in the south half of Section 25.

Q. Do you see any geologic connection with the small pod in the south half of 25, with the pod that is pod that is being produced by the Blue Fin 25 well?

A. If you refer again back to Exhibit 15-A, which is the longer north-south model section, you'll see that that too is indexed on the vertical seismic section as the northeast-southwest Section 25 location. That is separated from the Blue Fin 25 Number 1 location by another high area, fault-induced high area.

Q. Based upon current information, what is your opinion about the size of these pods?

A. I have not changed my interpretation of the size of these pods, my optimistic interpretation, that is. Nothing has really changed. The data that we acquired from the Blue Fin 25 didn't do anything to substantially change the original interpretation shown on Exhibit 18-D, previous Exhibit 18-D, the depth to top of Chester map. It did not change that interpretation, and I still stand by my original contention that we're dealing with -- that the sizes that I show by the red hached marks are optimistically high, they are the best-case scenario of what is probably even smaller than that, now that I have a better handle where the actual top of Chester is on the seismic data.

So these are overly optimistic sizes that I show on the map.

Q. Based upon the geologic study, Mr. Mazzullo, have you formed an opinion as to what spacing unit orientation

in Section 25 would be the most applicable?

A. I believe the spacing unit that exists, the north-half spacing unit, is appropriate to the production of hydrocarbons from the Chester, from this particular pod, and that there's a separate -- an isolated structure in the south half of 25 that could be accessed through a well in that part of the section, if desired.

MR. KELLAHIN: That concludes my examination of Mr. Mazzullo.

We move the introduction of his Exhibits -- He talked about Exhibits 9 through 15-B.

CHAIRMAN WROTENBERY: Any objection, Mr. Bruce?

MR. BRUCE: I have no objection to the exhibits.

CHAIRMAN WROTENBERY: Exhibits 9 through 15-A and -B --

MR. KELLAHIN: 15-A and -B.

CHAIRMAN WROTENBERY: -- are admitted into evidence.

Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Mr. Mazzullo, the last time you were here, you were my witness, so...

Let's start at the beginning. When you first started looking at this area you said it was more of a

Wolfcamp-type zone that you were looking for; is that right?

A. That was our initial objective, yes.

Q. Okay. And then after the completion of the Carlisle 1-Y well you started looking at the Chester?

A. It was sometime after that time, yes. It was a while after that.

Q. Okay. Now, the Carlisle 1-Y is an Ocean Energy well, is it not?

A. As far as I know.

Q. And you said have worked -- you know, I'm not sure of the time frame, but apparently off and on for a couple of years with Dave Scolman?

A. It was just a very brief period of time. It was just shortly after we acquired the 3-D seismic data from Chesapeake Operating Company, we sent it up to David Scolman and in a matter of, I don't know, a month and a half or two months he had his interpretation. And I made a couple of phone calls to him, discussed his results, discussed his ideas, and then I had no further communication with him after that point.

Q. And David Scolman is an independent geophysicist; is that right?

A. Yes.

Q. And prior to that did not he work for Ocean

Energy?

A. I believe he did.

Q. So it would be reasonable to assume whatever knowledge Mr. Scolman had out there he would have imparted to Ocean Energy while he was employed with them?

A. I can't make that assumption.

Q. Now, when you talked with Ocean about this prospect, didn't you present it as primarily an Atoka and a Morrow prospect?

A. It was presented as it was portrayed on the exhibit, as an Atoka-Morrow with a secondary Chester objective, because I had the Chester indicated on the cross-section. It's the same cross-section I showed you in Exhibit -- Why does that say 18-B? Well, prior Exhibit 18-B, which is the pre-24-Number-1 cross-section, is essentially what we showed at Ocean's office. And I think it also had Scolman's Chester time map at the bottom of it as well.

Q. Okay. But at that time the Chester was secondary, and this was presented as an Atoka and Morrow primary zone?

A. Yes, but we -- I talked a lot at length about the Chester as well.

Q. Okay. In either the Blue Fin 24-1 or 25-1, was the Atoka or the Morrow present?

A. No, we tested it in the 24-1 and it was uneconomic.

Q. Okay.

A. There was a couple feet of sand or something in it.

Q. Okay. But as to the Atoka and the Morrow, they -- even though this was presented as an Atoka and Morrow test, they are not present in the Blue Fin 24-1 or 25-1?

A. No, they are not.

Q. When you talked with Ocean, was the only location discussed the one in Section 24?

A. I can't recall if we went beyond that, but that was the purpose of the meeting, was to try to get them to buy into drilling the 24 Number 1.

Q. Now, with respect to the Atoka and the Morrow, those have been developed substantially further to the north in this township, have they not?

A. Well, they've been developed all over the township.

Q. Okay. Yes, all over the township.

A. Yes. The Atoka more so than the Morrow. The Morrow hasn't been that much of a factor, as much as the Atoka has been.

Q. And Ocean and Yates and a few others have drilled those wells, have they not?

A. And so has TMBR/Sharp Drilling and so have countless other operators from time to time.

Q. But again, did you consider the Chester prospective until the Carlisle 1-Y well was completed?

A. As I said in prior testimony, I had the idea of the Chester from before that ever happened. I just never acted on it because I didn't feel like I could sell it to industry at the time, without any other substantiation that that reservoir was a viable target anywhere else --

Q. Okay.

A. -- until the Carlisle blew out and until I actually participated in a well that completed from it.

Q. Okay. Now, I just want to get some of these names straight. TMBR/Sharp is the Applicant, and they're the operator of the wells, are they not?

A. Yes.

Q. But you mentioned Ameristate Oil and Gas that you worked with?

A. My partners on this deal, the people that I worked with to develop these prospects, were Ameristate Exploration as well as Fuel Products, Incorporate, at the time.

Q. And hadn't Ocean already purchased prospects from Fuel Products and Ameristate in 16 South, 35 East?

A. Yes, I believe they purchased some acreage

further to the west, Section -- what is it, 28 or somewhere out in there?

Q. Do you have any idea how much money they spent purchasing --

A. No.

Q. So in this area, were the leaseholds actually being bought by Ameristate and Fuel Products?

A. As I said, they had leasehold positions in here since 1991.

Q. Okay. Why didn't they buy the leasehold in the southwest of 25?

A. I can't speak for them, why they did or didn't do it.

Q. Now, Mr. Mazzullo, you did mention a paper you wrote. I'm going to hand you what's been marked Ocean Exhibit 21. Is that the paper you referred to?

A. Yes.

Q. Does that mention Chester bowls anywhere in that paper?

A. It doesn't say bowls specifically, but it mentions the concept that I developed prior to developing the prospect, prior to marketing the prospect.

Q. On page 46, in the second column toward the top, doesn't it talk about alluvial fans rather than bowls?

A. Yes, debris in alluvial fans, yes. "Bowls" is a

very loose term. This is something that somebody else coined during the last hearing, that we adopted. But what they are are closed lows into which alluvial -- or detritus spills into these lows, into -- you know, you can call them fans, you can call them aprons. There are several different words you can use to describe them.

Q. Do you have a net pay map?

A. No, I don't. There's only two data points, so I'm not going to draw a net pay map out of two data points. You mean in the Chester?

Q. Yes.

A. No, not in the Chester, I don't.

Q. Did you have one in any other zones?

A. Oh, I've generated net pay maps for the Wolfcamp and for the Atoka, but there's far more control there to work with.

Q. I hope I get these exhibit numbers right, Mr. Mazzullo. Your Exhibit 13, which is --

A. Thirteen. That one?

Q. Yes, sir.

A. Is that Tab 13?

MR. KELLAHIN: It's the old Exhibit 18-D.

THE WITNESS: 18-D, yes.

Q. (By Mr. Bruce) Yeah, okay. They appear to be slightly different color.

A. Yeah.

Q. And also I have what I'm going to ask you about, are the ones Mr. Kellahin handed to you, the 15-A and the 15-B.

A. Okay.

Q. Now Exhibit 13, is this a depth map?

A. Yes.

Q. What are the contour lines?

A. What contours are you referring to?

Q. Are there contour lines?

A. Well if you look, they're color-coded. I didn't add contours, I opted instead for a color bar.

Q. What are the -- I mean, what -- I mean, is this one foot -- When you go from dark purple, which appears to be fairly arbitrary, to a lavender color, is that two feet?

A. Well, the contours overall, throughout this whole area, range from a subsea depth of 7654 feet down to 8420 feet, according to the color chart you see on the right-hand side. So the purple areas are the lowest areas, and they range --

Q. But it's not a -- Excuse me, Mr. Mazzullo.

A. Yes.

Q. I don't mean to be rude, Mr. Mazzullo, I just want to get these numbers right. You say in the color chart -- What are the -- You said the top red is minus

seventy --

A. 7654.

CHAIRMAN WROTENBERY: I think part of the problem is, you can barely make out the numbers there. They are there, but they're obscured --

MR. BRUCE: Yeah, I cannot see them.

THE WITNESS: Let me simplify it and tell you that the warm colors, the reds, the oranges and the yellows, are the highest structural points on the map. The cool colors, the blues and the purples and the dark purples, are the lowest points on the map. And the variation between the highest and the lowest point is on the order of 800 feet of structural relief.

Q. (By Mr. Bruce) And once again, the very bottom, you said, is a difference of 800 feet, so am I -- What is that, minus --

A. Somewhere around 8420. Actually the subsea of the Blue Fin 25, I believe, is almost 8450.

Q. Now, is that the bottom or the top?

A. That's the base, the bottom.

Q. The base?

A. Yes.

Q. Okay.

A. The Blue Fin 25 and 24-1 are in the lowest points of the map, some of the lowest points on the map.

Q. You mentioned control points. Up to the northwest on that map, in Section 23, there's something marked Number 1, and then to the north in Section 24, are those control points?

A. They are control points. Yes, they were used -- If they penetrated the Chester, then there is a log top that's correlated to the seismic tops, and they are used as control. If they appear on this map they are control. Otherwise the contours would go just around them, they wouldn't include those wells.

Q. Okay. So there are other control points in here besides the Blue Fin 24 and 25 wells?

A. Yes, there are. But the Chester detrital isn't present in there, you know, so I can't make a contour map. It would essentially be zero.

Q. Okay. And then in drawing your little depressions here, you said these are -- for use of a better term -- liberal values. You think they're smaller than this?

A. In drawing those red-hached outlines, where I originally thought the limits of these, if you wish, bowls were --

Q. Depressions or whatever.

A. -- or the limits of the Chester detrital itself, okay? Not necessarily the limits of the bowl, but the

limits of the Chester detrital, based on seismic amplitude characteristics, those are optimistic. That's the high end, the best case --

Q. Is that the red cross-hatches?

A. The red cross-hached, right. They may prove to be right, but more than anything I would say that they're likely to be smaller than that.

Q. In the Section 24, then, you have an acreage number of 36 1/2 acres, I believe.

A. Yes.

Q. Is that the red cross-hached area or the --

A. The red cross-hached area, yes.

Q. So really, these purple areas, then, somewhat closer to 30 acres, would that be a fair statement?

A. The purple area, which purple area are you referring to?

Q. In Section 24, excuse me.

A. Oh, I don't know, it's slightly -- it looks like it's slightly smaller than the 36.5 area, so yes, it looks smaller.

Q. Now, in looking at your Exhibits 15-A and 15-B, did you process the seismic yourself, Mr. Mazzullo?

A. I used David Scolman's seismic picks that he -- He determined the basic tops in the area on the basis of synthetic seismograms that he ran. I then used his tops

and incorporated all the well tops available in the area, to arrive at the interpretation of where the horizons of interest were.

The horizons of interest that are shown on 15-A include the Strawn, the Morrow and the Chester.

Q. Can processing parameters affect seismic data?

A. Yes, of course they could.

Q. And are you familiar with how this seismic was processed?

A. No, I wasn't.

COMMISSIONER LEE: I thought they're called attributes.

MR. BRUCE: Excuse me, Dr. Lee?

COMMISSIONER LEE: They don't say parameters, they say attributes.

THE WITNESS: Attributes.

MR. BRUCE: Attributes.

THE WITNESS: Well, processing param- -- you know, what garbage are they putting in and getting out?

Q. (By Mr. Bruce) For instance, looking at Exhibit 15-A, I mean on the seismic, can you actually -- You've colored what you determined to be the sand in yellow, but can you see that on the seismic?

A. The only indication that that's a sand is indirect. It's a low-velocity event, okay? On the larger

cross-section, 15-A, before we had the Blue Fin 25 Number 1 data point, I took a guess. Well, I didn't take a guess, I included the log top of the Blue Fin 24 Number 1 in there to come up with where I thought the top of the Chester was.

But as you see, once we incorporated the Blue Fin 25 Number 1 on Exhibit 15-B, the actual top of the Chester that comes out of the log top correlations of the seismic data, are indicated by the red horizontal line along the respective wellbore symbols.

In other words, the tops of the Chester define a smaller yellow bowl on the subsequent exhibit than I optimistically drew on the initial exhibit, on the original exhibit. These were the optimistic assessments that I made that formed the basis of those red-hached areas on the map.

Q. What is the frequency of the seismic that is used?

A. I don't have that information at hand.

Q. Okay, so you didn't model it to see if you could see the amplitude and see the sand?

A. Oh, no, I didn't, no.

MR. BRUCE: Just a minute, madame Chair.

Q. (By Mr. Bruce) Just one final question, Mr. Mazzullo. In this Township 16 South, 35 East, what is the general trend of the Atoka formation?

A. Trend of --

Q. Is it a northwest-southeast-trending, northeast-southwest-trending --

A. The predominant trend of the major objective, which is one of the lowermost Atoka sands, is primarily -- roughly north to south, northwesterly to southeasterly.

Q. Okay. What about the Morrow?

A. It's about the same. The provenance of both, the source areas of both the sands were essentially the same --

Q. Okay.

A. -- throughout the Pennsylvanian.

Q. In looking at your Exhibit 13, isn't the Chester more or less a northwest-southeast-trending reservoir also?

A. The structures, the underlying structures, which also control subsequent depositions of fluvial deposits in the Pennsylvanian -- which this is not, the Chester is not a fluvial deposit -- but the fluvial deposits were initially probably influenced by structural grain, which they are, you know, in most places.

MR. BRUCE: Okay. That's all I have, madame Chair.

CHAIRMAN WROTENBERY: Commissioners?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. On Exhibit 18-D --

A. Yes.

Q. -- the faults are not shown.

A. Yes.

Q. Could you give us a description of where the faults are and how they trend?

A. Okay, the major faults -- There are a lot of minor faults, cross-faults that come between the pods in a southwest-northeasterly direction. The two major faults, which extend almost up to the Wolfcamp -- at least one of them does -- is essentially aligned with this green area you see on the west side, and there's another one on the east side, here. Those are the main faults.

And then there are a number of subsidiary faults that come off of those main faults, as well as faults that don't extend into the Wolfcamp. Most of the faults that intervene here are Chester-age faults, they don't extend much beyond that.

CHAIRMAN WROTENBERY: Mr. Mazzullo, for the record, would you mind penciling in those faults that you --

THE WITNESS: In which --

COMMISSIONER BAILEY: -- described on the record copy of the exhibit?

THE WITNESS: Do you have a record copy? Your copy?

MR. KELLAHIN: No, we'll use yours, Louis.

THE WITNESS: Okay.

Q. (By Commissioner Bailey) The faults that controlled the deposition of the aprons --

A. Up in --

Q. -- in the Chester --

A. Yes.

Q. -- which direction do they trend? What is their strike?

A. They are basically kind of east-west, southwest to northeasterly.

This is a very -- This was a very tectonically active area for a long period of time, and episodic as well. So you have faults that penetrate only through the Devonian, you have some that penetrate only through the Mississippian, you have some that penetrate only through the Atoka and some that were reactivated many times episodically and extended all the way up into the Wolfcamp, and then you have compaction over that, that created some further subsidence in overlying that.

So it's a very complex area, which I addressed in my technical paper.

Q. Right now I'm particularly interested in the faults that control the deposition of the Chester.

A. For that, if you refer back to Exhibit 15-A, you'll see that on the north-to-south section you have a

number of faults, some of which do extend into the Morrow and a little bit beyond into the Morrow. And a lot of the faults that created the deposition into these bowls were Chester-age faults, uplift in the Chester, localized erosion, and then things got piled -- subsequent formations got piled on top of them.

Q. And their strike would be southwest to northeast?

A. Essentially.

Q. Okay.

A. Almost east to west in places. They form a series of what's commonly referred to as ladder faults in the area at this depth, and you find this throughout the Central Basin Platform margin, up and down the Central Basin Platform margin in Lea County. This is along the Central Basin Platform margin.

Q. Given that --

A. Uh-huh.

Q. -- would you expect elongation of those alluvial fans in one direction or the other, either perpendicular or parallel to the faults?

A. They could -- There are other faults too, other subsidiary faults of older age that go northwest to southeast as well, so as far as I could tell so far by the number of wells that we have that have this material in it, they're very localized. They spill over one fault scarp or

another, or perhaps contributed from all sides of these little bowls, but they don't extend for very much distance.

The Buffton Number 1 Eidson in Section 35 has only produced 1.2 BCF of gas, or something like that, since 1981. And it's pretty much depleted by now, in fact, if it's not even plugged by now. I'm not sure it is. So it doesn't have a large areal extent.

I think Mr. Phillips' testimony as to reserves, or if he testifies as to reserves, we'll find that -- you know, we don't think that these have very much areal extent either, based on what we're seeing of production.

So these are very localized structures.

Q. And following my train of thought, so you will continue with an almost circular --

A. Almost.

Q. -- shape?

A. Well, whatever shape those -- those are not -- I mean, they may not be true bowls. I mean, that's how the program contours them. You know, they may be, you know, polygonal in shape or size. And some of them may have been larger but through subsequent uplifts themselves got stripped off and contributed alluvia later on in the Pennsylvanian.

So it's a very complex system. I still haven't figured the whole thing out. But all I know -- all I know

so far from the data that we have is that in this particular area we're dealing with very isolated blocks, very isolated little fault blocks, four-sided downwarps.

And this is not uncommon along the Central Basin Platform. If you look in areas to the north where there's a lot more well control, this is a very common structural pattern of faults, antithetic faults and ladder faults. It's a very common pattern along this part of the Central Basin Platform.

Q. Did I understand correctly that this exhibit which is behind Number 13 was constructed prior to the drilling of Well 25 --

A. Yes.

Q. -- -1?

A. Yes.

Q. How would you change or amend this map, since you now have the information from 25- --

A. It didn't change --

Q. Not at all?

A. -- substantially. Do you want to introduce that one?

MR. KELLAHIN: I thought we did.

THE WITNESS: No, it's one that I had --

MS. RICHARDSON: Is it this one?

THE WITNESS: Yes.

MS. RICHARDSON: We'll have to give it a new number. 15-C.

THE WITNESS: This you can see the color, you can see the --

MR. KELLAHIN: Just a minute. To respond to Commissioner Bailey's question, madame Chairman, we would propose to mark these as 15-C.

Q. (By Commissioner Bailey) Look at Exhibit 15-A.

A. Excuse me?

Q. 15-A.

A. Yes.

Q. The Chesters marked are both 24-1 and 25-1.

A. Right.

Q. I'm curious if any of the areas similar in shape and configuration to the Chester that are up the bore, up the wellbore, appear to be productive also.

A. In this well?

Q. Yes.

A. Did we encounter some Strawn sands and Atoka -- There were upper Atoka sands, I believe, and Strawn sands that we -- you know, that are behind pipe right now --

Q. That appeared --

A. -- that may be productive. We won't know until they're, you know, fully tested.

But yes, these bowls or these closed lows,

because of the combination of structure and compaction, depending on where you were, propagate a little bit up the section, through -- almost, you know, through part of the Atoka, at least.

COMMISSIONER BAILEY: That's all I have.

THE WITNESS: Oh, in answer to your previous question about whether or not things have changed, the new exhibit that we introduced, the color bar, the structure bar, has gone down about 20 feet or so, because the subsea on the top of the 25-1, the Chester on the top of the 25-1, is approximately 8450 feet.

So all it did was essentially deepen that bowl a little bit, or deepen that structure a little bit, and didn't substantially change -- You know, anytime you add another data point you might change a little something, because you're adding another data point to the seismic set. But it didn't make -- If you compare the two directly, if you can get through the colors, it hasn't really changed the structural feature any -- substantially.

COMMISSIONER BAILEY: Thank you very much.

CHAIRMAN WROTENBERY: Dr. Lee, any questions?

EXAMINATION

BY COMMISSIONER LEE:

Q. You only have one extra datum. You have a model already?

A. Yes.

Q. Suppose you have 50-percent error. Your structure, is that going to change or not?

A. Fifty-percent error in what?

Q. In whatever you're drilling.

A. Uh-huh.

Q. Then is that going to change? What I want to say is, you have only one data point. You already have a model.

A. Uh-huh.

Q. You want to verify your model --

A. Right.

Q. -- and right now you have one point.

A. Uh-huh.

Q. Is that going to change the whole thing?

A. Well, it --

Q. Is that possible, for this data point to change the whole scenario?

A. Oh, yeah, if the stratigraphic section came out wildly different from what we anticipated, it would have -- it may have changed the picture, you know, somewhat, but it didn't.

Q. Somewhat.

A. But it didn't.

Q. Because you only had one point.

A. We have two now, we have two in this direct -- in this immediate area.

Q. But your two is right at your model. You're assuming there's two things here --

A. Uh-huh.

Q. -- so you get a two extra point --

A. Uh-huh.

Q. -- but actually you didn't change -- If you have one more point --

A. Uh-huh.

Q. -- outside of your two, then you probably -- this would --

A. Well, I don't --

Q. From a scientific point of view --

A. Yeah.

Q. -- nothing to do with geology?

A. Oh, yeah. We had 2-D seismic data before that gave me the confidence to map this out originally as a graben system. I didn't know any -- You know, I wasn't too sure about the closed lows. I couldn't see the closed lows. But I knew that there was a graben there, because there were major faults in the area.

What this did was just substantiate -- was just to say, yes, the graben is there, but there's another element involved in the graben. There are other, more

detailed structural features in that graben, within that graben, particularly in the deeper horizon, the Chester in particular.

So all it did was to verify my initial log scale model and give me detail to verify what I thought may have been going on in the Chester. It seems to verify that the model that I came up with -- appears to be valid right at this point. But whether or not we're going to find this other pod -- If we drill that other well, I have confidence we'll find that other small pod, based on the success of the model in these two cases and the fact that we have a similar geologic setting in the other two or three productive wells in the area.

CHAIRMAN WROTENBERY: Mr. Mazzullo, I don't know if Mr. Bruce intends to introduce this paper or not --

MR. BRUCE: I was going to move its admission.

CHAIRMAN WROTENBERY: Could I ask when it was done and for what publication, what conference?

THE WITNESS: That was done in 1999 for the Southwest section of the American Association of Petroleum Geologists' Convention, so it was done prior to our introduction of this prospect.

COMMISSIONER LEE: Is that going through the peer review?

THE WITNESS: Yes, yes. As a consultant, you

know, you have to do what you can to try to keep people's interest up.

CHAIRMAN WROTENBERY: Okay. Mr. Bruce has moved its introduction. Any objection?

MR. KELLAHIN: No objection.

CHAIRMAN WROTENBERY: So Ocean Exhibit Number 21 is admitted into evidence.

And Mr. Kellahin, do we wish to introduce Exhibit 15-C?

MR. KELLAHIN: Yeah, let's -- I've marked that 15-C. I'd like to introduce that in response to Commissioner Bailey's inquiry.

CHAIRMAN WROTENBERY: Any objection, Mr. Bruce?

MR. BRUCE: No.

CHAIRMAN WROTENBERY: Okay, Exhibit 15-C is admitted into evidence.

Mr. Kellahin, do you have any redirect?

MR. KELLAHIN: No, ma'am.

MR. BRUCE: Just one question.

EXAMINATION

BY MR. BRUCE:

Q. On the well logs, did you see any faulting?

A. Did I see any faulting on well logs? I saw an implication that we cut a fault in the 24 Number 1. We saw what I thought was a repeat section of the Chester. But as

far as seeing them, you could indirectly infer their existence. Those faults were drawn on the basis of not only subsurface data but also the 2-D seismic we had prior to the acquisition of the 3-D.

MR. BRUCE: Okay, that's all I have.

CHAIRMAN WROTENBERY: Thank you, Mr. Mazzullo, for your testimony.

COMMISSIONER LEE: Can I get my pencil back?

THE WITNESS: Oh, sure. Do you want the cup?

MS. RICHARDSON: It's State property, Mr. Mazzullo, don't take it.

(Laughter)

CHAIRMAN WROTENBERY: Commissioner Lee, are you going to call a break now?

COMMISSIONER LEE: No.

(Laughter)

CHAIRMAN WROTENBERY: Then why don't we go ahead, at least get started with your next witness, Mr. Kellahin.

MS. RICHARDSON: Madame Chairman, if we could call Jeff Phillips to the stand.

If you'll scoop Mr. Mazzullo's mess over --

MR. PHILLIPS: Looks like Mazzullo's been in here.

MR. MAZZULLO: That's what my office would say.

MS. RICHARDSON: Thank you.

JEFFREY D. PHILLIPS,

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

DIRECT EXAMINATION

BY MS. RICHARDSON:

Q. Could you please state your name, sir?

A. My name is Jeffrey D. Phillips.

Q. And by whom are you employed?

A. I'm employed by TMBR/Sharp Drilling.

Q. Okay, and how long have you held that position?

A. About eight years now.

Q. Okay, and what is your role at TMBR/Sharp now?

A. I'm the president now of TMBR/Sharp Drilling.

Q. And how long have you been president?

A. About two years.

Q. Okay. Could you tell me a little bit about your educational background and your work history prior to coming to TMBR/Sharp?

A. I was educated as a petroleum engineer. I graduated with a BS degree from Texas Tech University in Lubbock in 1985. I was employed for Adobe Resources through 1992, where I worked in east Texas, New Mexico, the Gulf Coast and offshore, and left them in a merger to come back to west Texas and worked as a consultant and for a couple of independent firms before joining TMBR/Sharp in

1995.

Q. And when you joined TMBR/Sharp in 1995, what were your primary responsibilities?

A. Tom Brown, who was the chairman and chief executive of TMBR/Sharp, hired me as a petroleum engineer to look after their oil and gas production. They had a little oil and gas production at that time and wanted to grow it through wildcatting and participating in deals, and so that was my primary responsibility when I got there.

Q. Were you performing engineering functions?

A. Yes.

Q. TMBR/Sharp at that time was primarily a drilling company?

A. Yes, that's their bread-and-butter business, is contract drilling.

Q. Okay, but TMBR/Sharp has now branched out into production and operational projects?

A. Well, Tom Brown has always been -- He's one of the old and last wildcatters, and Tom Brown Production Company was originally a drilling company. But he used his position in the drilling business to leverage himself into oil and gas deals, and it was his -- his hobby and love was to drill oil and gas wells, so...

It was also a good buffer for the drilling business, which is very cyclical, and in the down times you

would have oil and gas production to sustain you when you had no income from drilling operations, or very little.

Q. About how many wells does TMBR/Sharp operate right now?

A. We operate somewhere around 45 wells now.

Q. And do you continue in your role as president to do engineering evaluation of the projects that you all are looking at?

A. I do. We run very lean. It's Tom and myself, do the -- quite a bit of the screening for deals that we get in, and we don't have a large staff, also being a service company or drilling contractor, and so I do wind up wearing a lot of hats in looking at the various deals.

Q. And how long has Mr. Brown been in the oil and gas business?

A. Forty-eight years.

MS. RICHARDSON: Madame Chairman, I'd like to tender Mr. Phillips as an expert in engineering matters, particularly involving these properties.

CHAIRMAN WROTENBERY: Any objection?

MR. BRUCE: No objection.

CHAIRMAN WROTENBERY: He's so qualified.

MS. RICHARDSON: Thank you.

Q. (By Ms. Richardson) I want to briefly -- Mr. Mazzullo caught us up on the technical side of the

development of these properties. I'd like to focus on the history of the development from the leasing perspective and from the actual drilling of the wells. A name was mentioned earlier, Ameristate Oil and Gas. Can you tell what association over the years TMBR/Sharp has had with Ameristate?

A. Well, Ameristate Oil and Gas and Fuel Products, Inc., were Lou's partners initially in acquiring the acreage and generating the prospect ideas in this area, and that was the entities they held the acreage and prospect ideas in.

Q. And Ameristate and Fuel Products are both participants in the wells we've been discussing?

A. That's correct.

Q. Can you tell the Commission when the Ameristate-TMBR/Sharp group first obtained an interest, leasehold interest, in Section 25?

A. Well, Ameristate and those guys started leasing in the early 1990s, I believe, and I think we executed a letter of agreement with them and purchased our way into the prospects in around 1996 or 1997.

Q. Okay. Did the first Stokes Hamilton lease that was acquired -- and if you could turn to the map which is Exhibit Number 9, please sir -- the first Stokes Hamilton lease which was acquired by Ameristate was acquired in

1994?

A. I believe that's correct.

Q. And included the acreage in Section 24, the northwest quarter of 25 and in 23, correct?

A. That's correct.

Q. Okay. And then was a replacement lease acquired from the Stokes Hamilton group in December of 1997?

A. Yes, they got exten- -- They had lost them and leased them back a couple of times, I believe. December of 1997 was last.

Q. All right. If you would look at Exhibit 1, please, sir, flip back to Exhibit Number 1, is this the -- these two, I believe, the original 1997 leases from Mrs. Stokes and her sister Mrs. Hamilton?

A. Yes.

Q. And these are the leases which TMBR/Sharp eventually acquired an interest in, through operating agreements and other assignments with Ameristate?

A. That's correct.

Q. And I would ask before we leave this exhibit -- call your attention to paragraph 12 of the Stokes Hamilton leases, please, sir.

A. Okay.

Q. Paragraph 12, I believe, contains what is commonly known in the industry as a continuous drilling or

continuous development clause. Could you explain to the Commission what a continuous development clause is?

A. Continuous development comes into play after the expiration of the primary term of the lease, and it is a mechanism for a lessor to have a lessee perform under the lease after the end of the primary term, or release the acreage so a lessor can develop it himself as he sees fit. But it's usually -- Here it's a number of days, it's 180 days, is the maximum amount of days that can elapse after the end of the primary term between -- however they describe it -- drilling and completion operations between wells.

Q. And the primary term of these Stokes Hamilton 1997 leases was three years?

A. That's correct.

Q. Okay, so that would have meant they should have expired in December of 2000. Did they in fact expire, or were they renewed?

A. No, they were -- In December of 2000, I believe we were given a six-month extension, we purchased a six-month extension.

Q. So the new primary term came on or about June 7th, 2001?

A. Right, that's correct.

Q. Okay. I want to, before we talk about the

drilling of the 24 well, which involves Stokes Hamilton acreage, if you could turn back to Exhibit 9, and I want to talk briefly about the drilling that your group did before they drilled the 24.

A. Okay.

Q. What was the first well drilled in this four-section area by TMBR/Sharp and the group?

A. The first well was the Eidson 23-1 in the southwest quarter of Section 23.

Q. Okay, and what was the second well?

A. The second well was the Eidson 26-1 in the northwest quarter of Section 26.

Q. And the third?

A. Was the Eidson 23-2 in the northwest quarter of Section 23.

Q. And the fourth?

A. The fourth was a re-entry attempt in the southeast quarter of Section 23. We attempted to re-enter the Apache Stokes well --

Q. Okay.

A. -- unsuccessfully.

Q. When did your group anticipate that they would drill the well in the southwest quarter of 24, which eventually became the 24-1?

A. Well, I'm not sure how to answer that. We

labored over -- Prior to the Chester closed low prospect coming into focus, we labored over where in that section to drill an Atoka or Morrow prospect, or a Strawn or Wolfcamp.

As Lou refined his Chester thoughts, we picked the southwest quarter of Section 24 because it was the best spot to hold and extend our leasehold, and we had it put together, the west half, put together landwise better than anywhere else.

Q. And landwise on Section 24, that west-half section included some of the Stokes-Hamilton acreage?

A. That's correct.

Q. At the time that you all were discussing drilling these Chester bowls, if you will, was it contemplated that there would be basically a three-well program?

A. Yes.

Q. And where were you all intending to locate those wells?

A. Well, just like Lou's map -- and he mentioned Dave Scolman's time map -- there was a bowl or a low in the southwest quarter of Section 24, one in the northwest quarter of Section 25, and this is on acreage that we controlled, and then one in the northeast quarter of Section 23.

Q. Okay. And all of those sections or half sections, 320-acre units, contain Stokes Hamilton acreage?

A. That's correct.

Q. And in fact, on Section 25, the northwest quarter was wholly Stokes Hamilton acreage?

A. Yes, it was.

Q. Okay. By early fall of 2000, November of 2000, had TMBR/Sharp taken any actions to prepare to drill the Section 24 well?

A. We had. We -- Simultaneously, while trying to extend the primary term, we obtained a drilling permit and built a location on the surface. And it was a busy time during that time period -- drilling rigs were busy at that time -- so we were trying to shift around where we could get one of our own rigs to drill the well and were preparing to do so when we obtained the extension of the primary term for six months.

Q. In the fall of 2000, was it TMBR/Sharp's and the group's intention to do a Chester-Mississippian test?

A. Yes.

Q. You all weren't intending to drill an Atoka well per se, you were going all the way to the Chester and Mississippian?

A. Yes, Louis -- Even when we drilled the first well, the Eidson 23 -- I think it was the 23-2 where he first suggested we drill all the way to the Chester, just to see what's down there.

Q. Okay.

A. So from the time -- and maybe the 26-1 -- from the time when we drilled the 23-2 forward, we had always had it in our mind that we would drill that deep.

Q. In the fall when you were getting ready, hoping to get one of your rigs freed up to drill the 24 well, did you ask Ameristate, Mark Nearburg, and Fuel Products, Tom Bell, to find some additional participants to play a part in this three-well program?

A. Yes, we did. We had a couple of partners that were reluctant to drill with us on this idea of a closed low, and it was -- I think we were trying to lay off about 35 percent of our interest in the well, to reduce the risk. We nearly had to tie Tom Brown up too, to drill an upside-down -- not a high but a low.

Q. Not a high but a low?

A. But we did ask Mark and Tom, and we have a good relationship with them, and they had relationships with other people who are interested in the area.

Q. Did you authorize them to talk to Ocean about participating as an investor?

A. Yes, Mark Nearburg told me that he thought that Ocean was very interested in the area and our ideas and offered to talk to them for us.

Q. Okay. And at the time that they were authorized

to talk to Ocean, was it to talk to them in terms of participating in this three-well program?

A. Yes.

Q. Okay, and participating in three wells, all to be drilled to the Chester-Mississippian?

A. Yes.

Q. Okay. What happened -- What kind of response did TMBR/Sharp get from Ocean, whether they'd be interested in participating with you?

A. Well, it was my understanding, because I didn't talk to Ocean directly, but from Mr. Nearburg and Mr. Bell and Mr. Mazzullo, that Ocean was not interested in participating with us in here because they thought we would be low and wet.

Q. Okay. Even though additional participants were not obtained, did TMBR/Sharp decide to go forward and drill the 24-1 well?

A. We did. We did obtain additional participants.

Q. All right. That well was commenced in about March of 2001?

A. That's correct.

Q. Okay. You drilled across the primary term of June 9th?

A. That is correct.

Q. What was the completion date for that well, the

date a completion report was filed with the OCD?

A. I believe it is July the 12th.

Q. 2001?

A. The ready date --

Q. Right.

A. -- was -- yes, of 2001, that's correct.

Q. So July 12th, 2001, was the completion time for that well.

What was your understanding then, pursuant to your continuous development obligations by when you had to drill the next well that included Stokes-Hamilton acreage, if you were to preserve that acreage?

A. Well, according to our lease, and since we had drilled across the expiration of the primary term, we now had one well that would HBP its proration unit, but we had 180 days in our continuous development clause to drill on any acreage outside that unit.

Q. So if your completion date was in mid-July, you had to drill on or before January 9th, 2002?

A. Yeah, whatever the --

Q. Whatever that works out, okay.

Did you move forward to start the process for obtaining permits and begin drilling of the Section 25 well?

A. We were, you know, trying to evaluate what we had

found in the Blue Fin 24 Number 1 and had planned on -- We were very encouraged early on and had planned on drilling our Number 2 or second prospect or wellbore, would have been in the northwest section of 25. So we were -- as we evaluated the results in 24, we anticipated we would drill in 25.

Q. Did some event occur that prevented you from going forward with that?

A. Yes, we became aware that we -- that there was a top lease taken on our Section 24 well, and we were informed by an attorney for the mineral owner that the top lessor was contending that our lease was invalid and his was in effect.

Q. Okay. If you could turn to Exhibit 2, please, sir, in the book, are these two leases, dated March the 27th, 2001, between Madeline Stokes and James Huff and Erma Hamilton and James Huff, the top leases that you've just spoken of?

A. That's correct.

Q. And did you know James Huff or know who he was acting on behalf of?

A. No, we didn't. We had some thoughts about who it may have been. James Huff was a broker, land broker in the area.

MR. BRUCE: Madame Chair, you know, I know they

have the right to tell their story, but this all has to do with the litigation in Lea County that was dismissed with prejudice last Christmas or thereabouts. I know we've only got the rest of the day to present this hearing, but this is testifying about moot objects. I would object. I mean, if they want to talk about their well development, fine, but I don't know where this is getting any of us.

MS. RICHARDSON: Madame Chairman, I think that the history of how we got here is important. We don't intend to exhaust this subject. I don't think this is going to take more than five minutes to complete this portion.

(Off the record)

Mr. Kellahin has assisted me, saying that Mr. Bruce has filed a prehearing statement in which he asserts that his company is the first one to suggest or propose a well in this area, and I think the history is clear that we were the first -- we had the plan all along -- and that as between us and Arrington and Ocean, it was our original project, not theirs.

It won't take long to tell that story.

CHAIRMAN WROTENBERY: Okay, if you'll go ahead and move it along, thank you.

MS. RICHARDSON: Surely, thank you.

Q. (By Ms. Richardson) Did you have an encounter

with David Arrington at the petroleum club where this issue of top leases came up?

A. I did, I bumped into David. We were wondering who had top-leased us. I bumped into David in the petroleum club and we visited, and he admitted that it was he.

Q. Okay. And what did you do next in an effort to go ahead and try to get your wells drilled?

A. Well, in our conversation David had expressed surprise that we got the well drilled and saved our lease, but he said he was sure that we would not get the next two wells drilled.

So thinking about that -- I left and thought about what he may have meant and thought that he may have meant he had blocked us. So we attempted to get a drilling permit and found that he had already filed in both acreage positions in the northwest quarter of 25 and in the east half of Section 23 and had indeed blocked us.

Q. And as a result of Arrington Oil and Gas having previously obtained drilling permits in 25 and 23, was TMBR/Sharp able to get its drilling permits?

A. No.

Q. And what did TMBR/Sharp do next to address that problem?

A. Well, because our continuous development clause

was ticking, we were forced to litigate with Mr. Arrington. And we filed I don't know how many lawsuits and motions and achieved a *force majeure* for a time on the lease status of the Stokes Hamilton lease.

Q. So a case was filed against Arrington Oil and Gas concerning the top leases and whose leases were valid in August of 2001?

A. That's correct.

Q. And TMBR/Sharp obtained a ruling from the court that its Stokes Hamilton leases were valid?

A. That's correct.

Q. And that because TMBR/Sharp could not obtain drilling permits, because conflicting permits were held by Arrington Oil and Gas, TMBR/Sharp also obtained an order that because it had no permit to drill, that there was an act of *force majeure*, and it was excused, in effect, temporarily from its 180-day drilling clause?

A. Yes, temporarily.

Q. Okay. During that period, did -- Other than filing the lawsuit in Lea County to try to clarify title, did TMBR/Sharp also pursue a permitting appeal of its denial of its permits?

A. Yes, we appealed the permit in a hearing here in Santa Fe --

Q. All right. Did that result --

A. -- with the Commission, I believe.

Q. Did that result eventually in an order of the Oil Conservation Commission granting TMBR/Sharp a permit to drill?

A. Yes, on April the 26th -- was it March the twenty- -- somewhere in that time frame the Commission revoked his permit and granted our permit request.

Q. Okay, and if you could look at Exhibit Number 6, please, sir, is that Order Number R-11,700-B the order you were speaking of in Case Numbers 12,731 and 12,744, in which TMBR/Sharp's permits to drill were granted?

A. That's correct.

Q. Because TMBR/Sharp now had authority to go forward and drill its Section 25 well, there's been some controversy or question about whether TMBR/Sharp should have first obtained a compulsory pooling order covering the north half of Section 25, or whether it could go forward with drilling its well based on its permit. Can you tell the Commission why TMBR/Sharp chose the permit-drill-then-pool rather the permit-pool-then-drill scenario?

A. In this instance, what was driving the drilling of the well was, after we were granted a permit we were no longer hindered from drilling upon our leasehold, that the judge had already declared we had, so we couldn't depend on the *force majeure* to protect our leases any longer, so the

180-day continuous-development clock is again ticking.

We felt that the permitting process controlled. We now had a permit and had noticed a 320-acre north-half proration on the permit. It was our option to consolidate those interests after we drilled the well, and it's apparent now that had we waited to pool first and then drilled the well, we would have lost the leasehold.

Q. Was there concern on the part of TMBR/Sharp that in the compulsory pooling process there is no statutory time line? Sometimes it takes a few months, sometimes it takes more than a year. Was that a concern to TMBR/Sharp, that the process might take longer than its 180 days, and if TMBR/Sharp didn't drill it would lose its acreage?

A. Very much so, it was a concern, you know, about how long it would take to go through, especially if it was appealed *de novo* like it is now, and it's been well over a year now, so -- I think we also went through some elections during that period, so there was a lot of uncertainty about what we were going to be able to achieve in a pooling hearing prior to drilling the well.

Q. Was there any unwillingness at any point on the part of TMBR/Sharp to not go forward and do what it needed to do about compulsory pooling?

A. No.

Q. If you can -- At one point during the course of

the litigation, did TMBR/Sharp learn that an agreement had been entered into between Ocean and Arrington to drill the northwest quarter of Section 25 well, instead of allowing TMBR/Sharp to drill its well?

A. Yes, that was, oh -- When we were trying to get our drilling permit and get theirs voided, I think at some point in time Arrington and Ocean had entered into an agreement concerning some acreage in the southwest quarter of Section 25, and I don't know everything about how or why they were involved in another deal outside this immediate area, and this involvement stemmed out of that deal.

Q. Okay. At that time -- and we're talking about now in the fall of 2001, when you were trying to get your permit, but Arrington Oil and Gas held onto theirs -- did Arrington Oil and Gas continue to claim that its top leases, Stokes Hamilton top leases in the northwest quarter of Section 25 were the valid ones?

A. Yes.

Q. Yes, all right. But you know that if you didn't drill a well 180 days after July 12th, 2001, that you were going to lose your Stokes Hamilton acreage?

A. We would have lost -- Let's see, concerning Stokes Hamilton acreage, we would have lost, well, half of the north-half unit and maybe a third to a half of the Section 23 well. We lost a considerable amount of interest

in the next two wells we wanted to drill.

Q. All right. If you'll turn to Exhibit Number 16, please, sir, is this the agreement that we were eventually provided a copy of between Arrington Oil and Gas and Ocean regarding the west half of Section 25?

A. Yes, it is.

Q. And Arrington was going to be the operator of the well on the northwest quarter of Section 25?

A. Yes.

Q. Okay. If you'll look at that first numbered paragraph, it says on or before July 1, 2002, but not earlier than January 10, 2002, time being of the essence, Arrington shall commence actual drilling of a test well to be located in the northwest quarter of Section 25.

Do you see that language?

A. Yes, I do.

Q. What was the significance to you about that January 10th date?

A. It is precisely 180 days from our completion date on the Blue Fin 24 well.

Q. So that if you had not been able to obtain a permit and drill or get some other kind of relief by this date which the parties and Arrington and Ocean agreed they wouldn't drill before, by that date, the Stokes Hamilton leases would have expired for lack of continuous drilling?

A. Concerning us.

Q. At the time that you were trying to get Arrington Oil and Gas to give up their permit, at that time were you even aware of this agreement? Did you know Ocean and Arrington had joined together to drill your well, in effect?

A. No, I didn't know. I know that Ocean was thinking about it. Derold Maney called me somewhere in that time period to ask me about what was going on with David Arrington, what our plans were. He said they were considering but hadn't made up their mind.

Q. Did you tell him that you and TMBR/Sharp still intended to go forward to try to get your permit and drill your well?

A. Yes, I did. I told him that we would probably litigate with David Arrington over the matter.

Q. All right. When did TMBR/Sharp file a compulsory pooling case for Section 25 northwest quarter well?

A. Was it January of '02?

Q. January 25th of 2002, correct?

A. Yes.

Q. And had TMBR/Sharp previously proposed the wells to some of the other owners in the northeast quarter of Section 25?

A. Yes, we had.

Q. Eventually -- Excuse me, let me find the exhibit number. If you'll turn to Exhibit Number 19, eventually did TMBR/Sharp consolidate 99.765625 percent of the interest in the north half of Section 25?

A. That is what we currently have consolidated.

Q. Okay. And that there is another group that owns a .078125 percent who have agreed to participate?

A. Yes.

Q. That would be Chesapeake and Yates and Harle, Inc.?

A. Yes.

Q. And then this unleased part, .15625, is that Ms. Bernhardt interest, and nobody's able to find Ms. Bernhardt?

A. That's correct.

Q. Attempts have been made?

A. Attempts have been made.

Q. If Ms. Bernhardt had been found and she had agreed to participate, would there even have been a need to have a compulsory pooling case for the north half?

A. No, we would have controlled 100 percent of the north half and the drilling permit.

Q. All right. I want to talk about the results of the litigation so we can put this correlative rights analysis into perspective, and if you would just kind of

hold onto that tab but look to Exhibit Number 32, is this an assignment of oil and gas leases, particularly the Stokes Hamilton leases, by Arrington Oil and Gas to TMBR/Sharp?

A. Yes, it is.

Q. And by that document TMBR/Sharp acquired all the interest in the northwest quarter of Section 25? Excuse me, I apologize --

A. No.

Q. It did involve Section -- It involved the Stokes Hamilton acreage that was represented by the top lease, did it not?

A. Yes.

Q. Okay. And if you could also please refer to Exhibit Number 29, is that a partial assignment of oil and gas leases from Arrington Oil and Gas in the northeast quarter of Section 25, of leases that Arrington Oil and Gas had acquired in that section, half -- excuse me, that quarter section?

A. Yes, it is.

Q. Okay. All right, could you also look at Exhibit Number 30? Is that an assignment of acreage by Dale Douglas to Arrington Oil and Gas which resulted in the leases going into Arrington Oil and Gas's name, which permitted Arrington to then turn around and assign them to

TMBR/Sharp? I mean, it follows the title trail?

A. Yes.

Q. Okay. If you could also look at Exhibit Number 31, and is this a stipulation, ratification and release signed by Mrs. Stokes, Mrs. Hamilton, Tom Stokes and John David Stokes involving acreage in Section 13, 23, 24, 25 and 26?

A. Yes, it is.

Q. Through all of these assignments, ratifications and stipulations, was the title controversy regarding the Stokes Hamilton leases resolved?

A. Yes, this was all part of our settlement.

Q. And other title controversies involving the Berry lease, which was also in 23, was resolved?

A. That's correct.

Q. And as a result of Arrington Oil and Gas's conveyance of interest to TMBR/Sharp in Section 25, that is what contributed to the substantial consolidation of the interest in that half-section?

A. Yes, all but less than .2 percent.

Q. All right. So turning back, then, to the section 19 exhibit, the correlative rights analysis, to your knowledge Ocean did not own any interest in the north half of Section 25?

A. That's correct.

Q. So when TMBR/Sharp was giving people notice and trying to consolidate acreage, it had no need to contact Ocean?

A. That's correct.

Q. Okay. What is your understanding about what Ocean's interest is in the west half of Section 25 at this time?

A. What is my understanding about what Ocean's interest in the west half is?

Q. Right, what they own.

A. Ocean owns an interest in the southwest quarter of Section 25.

Q. And looking at the cover sheet of the correlative rights chart, table, they own 17 1/2 percent as compared to Arrington's 32 1/2 percent?

A. Of the west-half unit.

Q. Okay, because the only ownership Arrington and Ocean have is in the southwest quarter?

A. That's correct.

Q. Okay. Can you explain, then, please, for the Commission this correlative rights analysis, starting with the first chart at the top of the page?

A. The first pie chart, which is -- you can't see a lot of the -- four of the parties in it because they're so small, but that represents TMBR/Sharp's 99.76 percent

consolidation -- or that represents all of the interests in the north half, disregarding a unit. But how we portray the reserves as laying in that section, according to Louis Mazzullo's science, the reservoir lies in the northwest quarter of the section.

Now, if you orient the unit as a north-half unit, the center pie chart shows the distribution of those reserves if you use a north-half unit. They're essentially unchanged.

And the last pie chart shows the orientation of the unit as a west-half unit, where those north-half mineral owners and lessees lose about one-half of their interest in the reserves.

Q. Okay. All right, I want to talk a little bit as the final subject about the Section 25 well. Did TMBR/Sharp commence that well in May of 2002, shortly after the OCC handed down the permitting order giving TMBR/Sharp its permit?

A. Yes, we did.

Q. Okay. And can you tell me approximately, looking back at the Section 24 well, approximately how much it cost TMBR/Sharp to drill and frac that well?

A. The 24?

Q. Twenty-four.

A. It was in excess of $2.2 million.

Q. All right. And with respect to the 25 well, to drill and frac it, how much did it cost?

A. I believe we did it a little cheaper than that, but it was still close to $2 million by the time we got done, $1.7 million.

MR. BRUCE: Excuse me, what was that number? I didn't --

CHAIRMAN WROTENBERY: Would you repeat the --

THE WITNESS: $1.7 million, I think.

CHAIRMAN WROTENBERY: $1.7 million.

THE WITNESS: I will call.

Q. (By Ms. Richardson) The cumulative cost of the development in the area that we've been talking about, that Mr. Mazzullo talked about and that you've talked about, lease acquisition, acquisition of geological information, 2-D seismic, 3-D seismic, drilling wells, operating wells, approximately how much has the group spent, *in toto*?

A. After the drilling of the 25 we're probably at around $9 million total, in all the wells and acreage, geological and legal.

Q. Nine million?

A. (Nods)

Q. Okay. Looking specifically at the production information from these last two wells, the 24 and 25, if you could please look at Exhibit Number 40, does Exhibit

Number 40 show the production, the first group of documents, production of both oil and gas and water, if any, from the Blue Fin 24 Number 1?

A. That's correct.

Q. As of, I guess, March 12th, 2003?

A. Yes.

Q. Was it necessary that the Blue Fin well be frac'd in order to achieve its current production levels?

A. Yes, both wells had to be frac'd to achieve commercial production out of them.

Q. We've heard some testimony earlier that Ocean thought that the prospect that your group is trying to interest them in in 25 might have been too low and too wet. This Exhibit 40 shows the water production from the Blue Fin 24, does it not?

A. Yes, it does.

Q. And in your opinion, the barrels of oil and the distribution of -- excuse me, the barrels of water and the distribution of water production, would that constitute in your mind a wet well?

A. No, it essentially produces water-free.

Q. Looking at the 25 well, that shows production records from first production through March 12th, 2003, also?

A. That's correct.

MR. BRUCE: Excuse me, which exhibit are you looking at, Ms. Richardson?

MS. RICHARDSON: Forty, it's the second half of 40.

MR. BRUCE: We only have data from the 25-1 well.

CHAIRMAN WROTENBERY: That's all we have too.

MS. RICHARDSON: You don't have 24?

CHAIRMAN WROTENBERY: No.

MR. SULLIVAN: I know we have extra copies of that.

CHAIRMAN WROTENBERY: I was looking for water production.

MS. RICHARDSON: And you couldn't find it. I apologize. It was sort of a massive effort to get this all together, and we didn't do as good a job as we could have.

MR. SULLIVAN: May I just approach you?

CHAIRMAN WROTENBERY: Please. Thank you.

MS. RICHARDSON: Okay, does everybody have one now?

Q. (By Ms. Richardson) When you said that the Blue Fin 24 was essentially water-free, is there any explanation for the water production that you have encountered?

A. Well, when you frac these wells you're going to produce some of that frac water back, you may produce some connate water along. But the way the volumes are expressed

in these charts you can see us recover some of our load from the frac; 25 doesn't produce much water at all.

Q. Is it significant to you that the last time it appears that the Blue Fin 24 produced any water was January 29th, 2003?

A. The 24?

Q. Yes, sir.

A. Yes, it's fairly well dried up.

Q. As of this time, do you have any reason to believe any future water production?

A. Well, just -- No, it may move some more load water to the wellbore through a tortuous path, and you might produce another two or three barrels out of it or some connate water, water condensation --

Q. Okay.

A. -- gas well.

Q. Looking at the Section 25 well, which I guess we did share with everyone, its production information, have you had any water production whatsoever from the Section 25 well?

A. Well, we necessarily would have had to have produced some water from it after we frac'd it, because we did frac the 25, but it's not recorded in this production data.

Q. Is it fair to say it was insignificant?

A. Yes, we probably recovered the load very quickly and then tapered off to an insignificant amount of water.

Q. Have you also done some studies to determine the pressures in the two wells so that you can compare those wells?

A. We have.

MS. RICHARDSON: Okay. If you could turn to Exhibit Number 35 -- And if it would please the Commission, we'd like to offer a new and improved version of 35.

CHAIRMAN WROTENBERY: I didn't have anything on 35, so whatever --

MS. RICHARDSON: Well, your mind wasn't clouded then. Because of some exhibits that Mr. Bruce forwarded in rebuttal, we realize we probably -- or we looked at it more carefully and thought perhaps we might have had an error on one of these pressure points, so we corrected it.

Q. (By Ms. Richardson) Okay, can you tell the Commission, please, who prepared this document and what your involvement in looking at these documents has been?

A. These graphs -- I suppose that's what you're talking about --

Q. Yes.

A. -- was prepared by Roy Williamson, who we retained as an expert witness in some of our litigation to help us with our reserve estimation for these two wells,

and it's a plot of bottomhole pressure versus time for both wells. The Blue Fin 25 is represented by the squares here and shows an initial pressure and a pressure that's taken sometime in -- oh, where is that? October, late October --

Q. Of 2002?

A. Of 2002. And -- For both wells.

The diamond shape is the pressures at initial, and one in about October for the Blue Fin 24 Number 1.

Q. And I believe the documents then behind this table are the reports and tests from which that information was derived?

A. That's correct, that's correct.

Q. Okay, what do you conclude from this data which shows for the 24 well a current pressure of 2529 p.s.i., as opposed to the 25 well, which is at 3723 p.s.i.?

A. Well, what this chart depicts is the difference in pressures in the two reservoirs, and there's about 1200 pounds difference there in late October of '02.

The most important thing about this chart is that the initial pressures are similar, which you would expect in a similar depositional environment and a similar depth of burial, and that we encountered in the Blue Fin 25 virgin reservoir pressure, whereas if you look on the line between the two pressures for the Blue Fin 24, that pressure, bottomhole pressure, had declined to around 4500

pounds, so that the pressure history of the two wells doesn't indicate that they're in communication at all.

Q. Okay. And if they were connected by a trough or a channel, would you expect to see the pressure substantially the same?

A. Yes. If it's the one reservoir, or the same or connected, they should be the same pressure and have the same oil and gas characteristics.

Q. Okay. And speaking of oil and gas characteristics, if you could turn to Exhibit Number 21.

A. Okay.

Q. Are these gas analysis reports for the Blue Fin 24-1 and the 25-1, one for September, 2002, and one for October, 2002?

A. Yes, they are.

Q. And this is an analysis of the gas by Dynegy from those two wells?

A. Yes.

Q. And is there a difference in the gas analysis that is the quality of the gas shown by these reports?

A. These gases are very similar. There are some small or minor differences, but they're essentially similar.

Q. The 24 Number 1 well has slightly less, apparently, carbon dioxide than the 25 Number 1?

A. Yes.

Q. And some differences in some of the other values as shown, but in your opinion if this was the only data point you had telling you whether the 24 and 25 were separate wells not connected by a trough, if this was the only data point that you had, would you be able to draw a conclusion?

A. You couldn't infer that from the gas composition. They're essentially similar.

Q. All right. If you turn to the next two pages, which are oil gravities for the 25 Number 1 and the 24 Number 1, for the 25 Number 1, for the month of December, 2002, what were the gravities for that well?

A. The gravities on the run statements were around 58 degrees, API.

Q. And the gravities for 24 Number 1 for essentially the same period?

A. Was around 66 degrees.

Q. Do you consider that a significant difference?

A. I do consider that an indicator that those oils are not produced from the same reservoir, because they are different gravities and from different phase regimes in two separate reservoirs. If it were connected or if the pressures were the same, it should be the same oil gravity.

Q. If you would look at what's been marked as

Exhibit Number 36, please, sir, can you tell me what that is?

A. This is a material balance and volumetric calculation of a well. It's a depiction of both methods of calculating reserves for the Blue Fin 25 well. Roy Williamson prepared this graph, and what it depicts is his initial volumetric estimates of gas in place which he determined to be around 5.8 BCF. He used that estimate and the initial bottomhole pressure over Z from the drill stem test and inferred a pressure depletion history.

The other lines on there indicate a BHP over Z for a pre-frac buildup that was obtained on the Blue Fin 25, and that bottomhole pressure plotted on this graph indicates a gas in place amount of around 18 million, which we know is incorrect because we've produced more than that now. But that pressure was obtained before we felt like we had the whole interval open and had essentially what is the Chester reservoir communicating with our pressure bombs.

Q. So this really graphs the information you all had pre-frac?

A. Well, one of the curves does. One of the curves is his prediction of how the pressure history would decline if his volumetric estimates were correct, given our initial pressure from a drill stem test.

Q. And overall, because of the volumetric history

you already have in the well, do you believe that the low-end estimate is correct?

A. Yes, the 25 well was considerably tighter than the Blue Fin 24 well. We did have a similar initial reservoir pressure. We don't have -- We have the one subsequent point on here -- let's see, Roy has not depicted it here, but we now think that our material balance calculations tell us that we're going to produce much less gas than his volumetrics. And the reason is, the areal extent of the reservoir is not near as big as we thought it was originally.

Q. Do you now believe that the areal extent of that well is contained within the northwest quarter or extends beyond the northwest quarter?

A. Our original volumetric estimates had the entire reservoir contained in the northwest quarter. It was around 95 to 100 acres, and that's where this 5.8 BCF came from. But our pressure history is going to indicate that it's much smaller than that. So it was before, it certainly will be now.

Q. And if you could turn to Exhibit Number 36 -- excuse me, Number 37, is that the same kind of analysis for the Blue Fin 24-1?

A. That's correct.

CHAIRMAN WROTENBERY: And here in my book I have

the 25 again. Do you have the 24?

COMMISSIONER LEE: Yes, I have the 24.

MR. KELLAHIN: Behind what tab number?

CHAIRMAN WROTENBERY: Behind --

MS. RICHARDSON: Thirty-seven.

CHAIRMAN WROTENBERY: -- Tab 37.

MR. KELLAHIN: Thirty-seven.

CHAIRMAN WROTENBERY: My 37 is the same as 36.

MS. RICHARDSON: I think Mr. Mazzullo put these together.

MR. KELLAHIN: Here's your exhibit.

CHAIRMAN WROTENBERY: Thank you.

MS. RICHARDSON: Thank you.

Q. (By Ms. Richardson) All right, let me see if we need anything else, Mr. Phillips.

The production plots, Exhibit Number 38, for the Blue Fin 25 --

A. Yes.

Q. -- can you explain to the Commission what you discern by the decline curve that we see now?

A. Well, just that the production is declining, as is consistent with a depletion-type reservoir.

Q. Okay. And you also have the decline curve for the Blue Fin 24, which is Exhibit Number 39?

A. That's correct, same conclusion.

Q. And obviously the information that you have now, the production histories, pressure histories, to make a prediction of what will happen with these wells, is much better on this date, March 20th, 2003, say, than it was nine months ago before you had all that data?

A. Yes.

Q. You've gone from really some theoretical assumption to some more concrete assumptions based on hard data?

A. The information we have now, the pressure data, is not quite the second point Mr. Lee was talking about to Mr. Mazzullo in the reservoir, but it's close enough to know you wouldn't spend the money to drill to get that second point because, as I said, the reserves are smaller than we initially thought. And so they seem to buttress Louis's argument that these are very small reservoirs and not of any great extent.

So although it's not another penetration offsetting -- or to test our theory, it is another point.

Q. As a matter of completeness, if you could turn to Exhibit Number 18, and do you represent to the Commission that these are the oil and gas leases which represent the other leases which TMBR/Sharp now owns or controls in the north half of Section 25?

A. Yes.

Q. Okay. If you would also look at Exhibit Number 8, please, sir, have you in essence done an analysis of the various factors that should be considered in a proration unit orientation, and have you in your own mind as president of TMBR/Sharp and a participant in these wells reached a conclusion as to whether the correlative rights analysis favors TMBR/Sharp versus Ocean for a north half versus west half?

A. Yes, that's our opinion, is that correlative rights unquestionably favors a north-half unit, that there will be less waste with a north-half/south-half orientation and that the equities are in our favor here also.

Q. As far as the geology is concerned and what's been confirmed by the pressure data, the oil gravity, those kinds of things, have those validated in your mind what Mr. Mazzullo originally thought, as if these wells are enclosed lows, that is, 24 and 25, and not in communication?

A. Yes, I have.

Q. And that the 25 northwest well and the prospective well in the south half of 25 are not in communication?

A. That's correct.

Q. Was TMBR/Sharp, having filed its compulsory pooling case on January 25th, the first party in this controversy now to file a compulsory pooling case?

A. Yes, we are.

Q. As far as overhead rates and AFEs, I believe that the original proposal was $6000 during the drilling period, $600 during the production period, and a 100-percent penalty; is that what's been proposed?

A. That's correct.

Q. Are you asking the Commission to find that a north-half orientation, a north-half unit, is the appropriate one and that TMBR/Sharp be appointed operator?

A. Absolutely.

MS. RICHARDSON: I don't think I have anything further. Thank you, sir.

I would like to introduce into evidence Exhibit Number 1, 2, 6, 16, 32, 30, 31, 19, 40, 35, 21, 36, 37, 38, 39, 18.

Thank you, sir.

MR. KELLAHIN: I'm not good with numbers. Would you look at -- Do you want to see it in writing?

CHAIRMAN WROTENBERY: I was writing it down, I think I've got it. Okay, I've got 1, 2, 6, 16, 32, 30, 31, 19, 40, 35, 21, 36, 37, 38, 39 and 18.

Okay, any objection? And Mr. Bruce has the winning bingo card.

(Laughter)

MR. BRUCE: I have no objection to the admission

of the exhibits, and before I begin my cross-examination, maybe it would quicken it if I could have five minutes with my minutes.

CHAIRMAN WROTENBERY: Certainly. Is it okay if we take a break, Commissioner Lee?

(Laughter)

CHAIRMAN WROTENBERY: We'll take a break.

And those exhibits are admitted into evidence, let me say that.

(Thereupon, a recess was taken at 4:31 p.m.)

(The following proceedings had at 4:39 p.m.)

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Okay, Mr. Phillips, what reserves have you estimated for the Blue Fin 24 Number 1 well?

A. Which exhibit is that? P/Z curve?

MS. RICHARDSON: It's 36 and 37.

THE WITNESS: 24-1, Mr. Bruce?

Q. (By Mr. Bruce) Yes, sir.

A. Under Tab 37 we've got the depiction of our volumetric prediction for the pressure history, which was our initial estimation of the reserves, and then our last pressure point is indicative of about 1.4 BCF. We think that that's probably too negative and it's going to be somewhere in between. But because of the pressure decline

of the well, we think it's going to be somewhat less than our original estimate.

Q. Can you give me a number? Is it 1.5 million, is it 3.8 million? Let's take a step back, Mr. Phillips. Do you have a better well in New Mexico than the Blue Fin 24 Number 1?

A. No, I don't right now.

Q. Do you have a better well in the Permian Basin in Texas than the Blue Fin 24 Number 1?

A. Yes, I do.

Q. One other. Those two --

A. More than one.

Q. -- wells, do you know what the reserves are in those wells?

A. That's an estimate. I'll give you what my guess is.

Q. That's what I'm asking for.

A. I'll guess that the reserves in the Blue Fin 24 are going to be less than 2 BCF, and I'll give you 1.759.

Q. What did you use to arrive at that?

A. I told you it would be between the last bottomhole pressure, which I felt was too pessimistic, and the volumetric calculation.

Q. Did you use decline curve analysis?

A. No, I feel that decline curve analysis is too

optimistic.

Q. What does decline curve analysis show?

A. Decline curve analysis is an estimation in the reserves based on the production history.

Q. Correct, but what does decline curve analysis show for the Blue Fin 24 Number 1 well for reserves?

A. The last analysis I have seen that we did on the Blue Fin 24-1 is about 2.4 BCF remaining.

Q. Okay, remaining. And it's already produced how much?

A. I think that's around 3.2 ultimate.

Q. So 3.2 estimated ultimate recovery BCF under decline curve analysis. Now, that was Exhibit 39. What about decline curve analysis, looking at Exhibit 38 for the Blue Fin 25 Number 1? What does that show?

A. Under 36?

Q. Under Exhibit 38 you have a decline curve for the --

A. Okay, was the first question in reference to a decline curve? Because you directed me to pressure curves.

Q. My first question -- I just want to clarify, just for Mr. Phillips. I did ask you about your Blue Fin 24 Number 1, and you gave me -- You were looking at your P/Z plot --

A. Okay.

Q. -- and you gave me a figure of 1.759 BCF.

A. Yes.

Q. And then I asked you what your decline curve analysis was on the Blue Fin 24 Number 1, and I believe you said that you have approximately, based on decline curve -- and I'm just looking at Exhibit 39 because that's the decline curve -- you said you have 2.4 BCF remaining, for an estimated ultimate recovery of 3.2 BCF; is that correct?

A. That's to the best of my recollection.

Q. Okay, and now I'm looking at the decline curve, which is Exhibit 38, for the Blue Fin 25 Number 1.

A. Okay.

Q. What reserves -- What are the decline curve reserves that TMBR/Sharp has for the 25 Number 1 well?

A. The last reserves I saw were no economic reserves.

Q. What number?

A. Zero. That's the last number I saw. I'm not going to say that's what I think it is.

Q. Well, how much has it produced to date?

A. About 106 million.

Q. What is your best guess, your best estimate, your professional estimate on reserves in the 25 Number 1 well?

A. I don't have one right now.

Q. What is the current production from the 25 Number

1? A. It produces about 550 MCF a day. Q. Then how can you say it has no remaining reserves? A. I didn't say it had no remaining reserves, I said that was the last reserve estimate I saw from an SEC third-party reservoir engineer. Q. Okay. Do you, not your SEC reserve engineer, do you have an estimate of remaining reserves in the 25 Number 1? A. No. Q. You've never looked at it? A. I've looked at it. I don't currently wish to speculate on what the remaining reserves in it are. They are not what our initial volumetric estimates are. We need another pressure point. The pressure points that we have indicated are too low and pessimistic, I believe. Q. And Exhibit 36 is your volumetric estimate for the -- A. Yes. Q. -- 25 Number 1? A. That's correct. Q. Okay. Now, did you come up with that, or was that Mr. Williamson, or -- A. That was Mr. Williamson.

Q. Okay. Did you yourself do any volumetric reserves?

A. Yes.

Q. What number did you come up with on the 25 Number 1?

A. About 3 1/2 BCF EUR.

Q. What water saturation did you use?

A. I don't recall. It's close to what you guys used.

Q. What did we use?

A. Twenty percent.

Q. Twenty percent.

A. Twenty percent.

Q. What porosity?

A. I don't recall what it was in the 25.

Q. What net pay thickness?

A. I don't recall that either.

Q. Did you have an isopach to work off of for net pay thickness?

A. Louis provided an areal extent, and then we had a net pay thickness from our well logs.

Q. Okay. You don't recall what net pay you used?

A. No, sir.

Q. Mr. Phillips, I've handed you what's been marked Ocean Exhibit 15, and this shows volumetric calculation on

the 25-1 well. Was this prepared by Roy Williamson?

A. Yes, sir, it was.

Q. And he was your consultant, was he not?

A. That's correct.

Q. Okay. And this is where you get the 5.82 BCF that is on one of your exhibits?

A. Yes, sir.

Q. Where did he get the net pay, the acres, the water saturation, the porosity, et cetera? I mean, excuse me, the water saturation and the porosity?

A. Mr. Williamson determined these values from his own inspection of the logs and maps.

Q. And he calculated a drainage area for this well of approximately 100 acres, did he not?

A. Initially, yes.

Q. Now, if the porosity is decreased, how does that affect the drainage area?

A. I'm sorry, if the porosity is decreased?

Q. If the porosity is reduced, say, to 10 or 12 percent, how would that affect the calculation of the drainage area? How would it affect the final number?

A. I assume you're asking if you had -- if you used the same volumetrics that you calculated, and instead of reducing the drainage area you reduced the porosity?

Q. Yes, sir.

A. The drainage area would get larger.

Q. Okay. Would the same occur if the net pay was reduced?

A. Yes, sir.

Q. Okay.

A. You have to hold the original gas in place the same.

Q. Is there any oil in this reservoir?

A. Yes, there's condensate.

Q. Condensate. It is a gas reservoir, though, isn't it?

A. It is.

Q. Is there any oil saturation in the rock?

A. I think that it is probably a retrograde condensate reservoir, and I don't think there is any oil saturation in the rock, initially, at least.

If you guys want to buy me out based on these reserve numbers, I'll be happy to do that.

(Laughter)

THE WITNESS: We can talk right after this deal's over.

Q. (By Mr. Bruce) Just a few more questions, Mr. Phillips. I hand you what's been marked -- That was Mr. Mazzullo's Exhibit 15?

A. Yes, sir.

Q. You can have it for now.

When you were acquiring interest out in this area, were you aware of that map? In other words, were you aware of the reservoirs in Sections 24 and 25 when TMBR/Sharp was acquiring leasehold interest in this area?

A. Were we aware of the reservoirs in Sections 24 and 25? These particular reservoirs, no.

Q. Okay. What about in the year 2000? You said you started planning -- drilling this in 2000-2001?

A. Yes.

Q. Were you aware of Mr. Mazzullo's interpretation at that time?

A. Yes.

Q. Now, there's been some questions raised about Ocean buying acreage in this area. How come TMBR/Sharp didn't go buy acreage in the south half of Section 25, if it was aware of the reservoir?

A. We didn't think that in the south half of 25 that the reservoir was big enough to warrant a well in it.

Q. Okay, so there was no harm done by Ocean buying that acreage?

A. No. We can still drill a well in the south half.

Q. Two final matters. You said that when you were doing your correlative rights analysis, et cetera, you said there would be less waste with a laydown unit. How?

A. As I see it, and by Lou's map, there are two pods of reservoir in the Section 25, in the Chester: the one we have developed, which is fully enclosed in the northwest quarter, and the one that is smaller and in the south half of the section. It is split by the north-south centerline of the section, of which Ocean doesn't own the entire south half. Yates owns the east half, Ocean owns the -- the southeast quarter, Ocean owns the southwest quarter.

So in a north-half/south-half orientation you would drill our well, which is already drilled in the north half, and one well in the south half, which would be drilled in the center, on the southern structure.

Q. How does -- I still don't see the point. How is waste prevented?

A. You drill two wells instead of three wells.

Q. Well, didn't you just say you didn't think the south half was prospective?

A. I don't, but you guys permitted a well down there I wouldn't have drilled either.

Q. Okay. Well, how can there be waste if there's not going to be a second well drilled?

A. How can there be waste if there's not going to be a second well drilled? There would be waste if there were going to be three wells drilled.

Q. Okay, one final matter. What is the definition

of correlative rights?

A. The definition of correlative rights. That would be, in my mind, the rights of the mineral owners underneath -- or above -- the mineral owners in a given reservoir, that they have to extract value from their portion of those minerals.

Q. Okay.

A. How's that?

Q. That sounds pretty good to me.

You guys do not attribute -- TMBR/Sharp does not attribute any Mississippian reservoir in the northeast quarter of Section 25, does it?

A. No.

Q. Then how are you protecting correlative rights if you're giving half of the production to the interest owners in the northeast quarter of Section 25?

A. These reservoirs are spaced on 320-acre units. So it either had to be a north-half or a west-half unit. The reservoir is entirely contained in the northwest quarter. We permitted the well, we owned the leasehold in the north half, it was logical that we would drill the well in the north half.

Had we had 100 percent of the unit consolidated, Ocean would have no standing in here to contend our unit orientation. We're two-tenths of a percent away from

having it done. And for us to argue that the unit orientation should be anything other than a north half, those mineral owners in the northeast quarter might not think that's fair either --

Q. So it's --

A. -- 320-acre units.

Q. -- it's okay to share production with the interest owners in the northeast quarter where there is no reservoir, but not with people in the southwest quarter where there is a reservoir?

A. Mr. Bruce, again, if Arrington had not bought this, Ocean would have no standing to have us here on this date in a *de novo* pooling hearing, and we would have controlled the whole process, so we would have determined whether it was north-half or west-half orientation, as we have.

Q. So Ocean has no rights to force pool anybody in Section 25?

A. I didn't say that. Ocean has no claim to our reserves in the northwest quarter, in the north-half unit.

Q. It's 320-acre spacing, isn't it?

A. It is.

Q. A party is free to propose a well unit, north-half, south-half, west-half, east-half, as they see fit, isn't it?

A. That's correct.

Q. Then why doesn't Ocean have the standing to seek a west-half unit?

A. We proposed the well and drilled it in the north half.

Q. And they proposed to you a west-half unit, did they not?

A. Ocean? They didn't own any interest when they proposed that.

Let me re-state that. Arrington didn't own any interest in the north. Ocean owned interest in the south half --

Q. In the southwest quarter.

A. -- in the southwest quarter, yeah.

Q. And the day you received the well proposal from Ocean, TMBR/Sharp filed their force pooling Application, didn't they?

A. I'm sorry, say that again?

Q. The day that TMBR sharp received its well proposal from Ocean for a west-half unit, that very same day you went forward and filed your pooling Application, didn't you?

A. I don't remember if that's the case or not.

Q. Okay.

A. It may have been, I don't remember.

MR. BRUCE: That's all I have, madame Chair.

CHAIRMAN WROTENBERY: Thank you, Mr. Bruce.

Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. Behind Tab 9 -- it's the map of the four sections, Sections 23, 24, 25 and 26 -- are there any wells in Section 23 that are producing from the Chester?

A. In Section 23?

Q. Yes.

A. No, ma'am.

Q. Are the only two wells producing from the Chester in Sections 24 and 25?

A. There are only two wells, and that's our Blue Fin 24 and the Blue Fin 25-1.

Q. Okay, and 24, is it a laydown or a standup proration unit?

A. It is a standup proration unit.

Q. So it's the west half of 24?

A. It is the west half.

COMMISSIONER BAILEY: That's all I have.

CHAIRMAN WROTENBERY: Commissioner Lee?

EXAMINATION

BY COMMISSIONER LEE:

Q. Let's look at Exhibit 35.

A. Exhibit --

Q. This one.

CHAIRMAN WROTENBERY: Thirty-five.

Q. (By Commissioner Lee) The pressure data.

A. Yes, sir.

Q. Can you tell me where did you get those points? How?

A. Do you have the one -- Yes. Okay, the two initial pressures were obtained from drill stem tests, which was the earliest and we feel most reliable indication of pressure in the reservoir for both wells.

The two subsequent pressures were from buildups that were run in late October, and those are attached -- All the backup for these pressure points is attached behind there.

Q. So you mentioned you have a retrograde condensate. Did you ever make an attempt to calculate --

A. No, we didn't, and only recently have we thought, in the last week, you know, after looking at our gravities, that this behavior may indicate a retrograde reservoir, and we should have obtained a recombination or a bottomhole sample initially.

Q. Talk about recombination. On your data are you saying the gas composition is essentially the same?

A. Yeah, you can see our --

Q. Yeah, I know that. But your condensate composition is different?

A. Correct.

Q. How can that be?

A. How can the condensate compositions be different than the gas --

Q. Yeah.

A. -- compositions? Well, you'd have to look at the dates on those four documents to see the -- The oil gravities are both taken in December of last year, I think, but the two gas analyses are at a different time. I don't know. The retrograde behavior of the reservoir may account for -- In the stage at which each well is in, in the pressure depletion or in the phase envelope is different for the two wells, so I think you could see a gas that was similar and an oil that was different.

Q. What's your -- How do you get your gas and the condensate? Do you have a separator?

A. Yes.

Q. What is the pressure of the separator?

A. I'm not sure, unless it's -- no, I'm sure it's -- it may be indicated on -- Okay, the line pressure on the Blue Fin 24, the pipeline pressure is around 370 pounds. So our separator probably operates at somewhere close to that pressure.

Q. These two wells, the separator is operating at the same pressure?

A. The -- Yes. Let's see, the line pressure on the 25 is about 336 pounds. I believe, and I'm not certain about this, but we have vapor recovery on both wells on the stock tank battery.

Q. Vapor recovery, do you use the compressor to --

A. Yes.

Q. So look at page 2 of Exhibit 35. You did the derivative analysis. What is the -- is that in darcies or millidarcies?

A. No, it would be -- Let's see.

Q. You have a k equals .144.

A. This is on --

Q. Is that millidarcies or is it darcies?

A. It's millidarcies.

Q. Millidarcies?

A. Yes.

Q. So your shut-in time is one hour?

A. No.

Q. Oh, this is pseudo-time. What's the actual shut-in time?

A. The shut-in time on this analysis, let's see.

Q. You never shut in?

MR. PAYNE: It's a drill stem test.

THE WITNESS: Oh, this is a drill stem test, yeah. Thank you. Getting tangled up there. Let's see, that's on the 25.

Q. (By Commissioner Lee) You say you have a buildup of --

A. Our final shut in is usually -- It was six to eight hours.

Q. Sixty --

A. Six to eight hours on these two wells. We shut them in a long time.

Q. Why do you have a .1 millidarcy when you shut in for only six hours?

A. Well, it's a drill stem test, and we never shut them in longer than eight hours and wait on the next one, your cost of running the test is so high. So the information we're obtaining -- This was run from test tools on the rig, so we would have left a production buildup five to seven days.

Q. Okay. Please look at the Exhibit 38.

A. Is that the decline curve?

Q. Yes.

A. Okay.

Q. So you put -- Roughly in October you put this well in production, right?

A. That's correct.

Q. What kind of choke do you use? What size of choke?

A. The tabular production data behind Tab 40, there's tabular data for both wells, and it's from inception to current, so --

Q. So you use the open -- you don't have a restriction on your --

A. Well, initially it was open, and that's prior to the frac job, and you can see that it performed very poorly initially, and we don't think we had communication with what is the Chester reservoir here initially.

After we frac'd the well and blew it down you can see that we had -- initially it was on a 16 choke. It still is on a 16 choke, 16/64 choke.

Q. All right. So you put it on line around October of 2002, and you go look at your 24-1 well. It seems like it's a normal decline?

A. Yes, sir.

Q. So did you change the choke at that time?

A. On the 24, or on the --

Q. On the 24.

A. In October of '02?

Q. Do you use the same choke all the way through, while the second well is on line?

A. We should have, but let me check to be sure.

Yes, it's the same choke. It's a 19/64. The choke on the 25 was a 16. But both of them are unchanged.

Q. Okay. Then what's the reason you used the different choke?

A. Well, the wells have different tubing pressures and have different permeabilities. The 24 still produces over a million cubic feet a day, and at the pressures and the liquid loading rates it's the optimum size they've adjusted it at to keep the liquid unloaded and things run smoother there, and it's the same for the 25. There's no particular reason.

COMMISSIONER LEE: Okay, no more questions.

CHAIRMAN WROTENBERY: Thank you.

MR. BRUCE: I do have one.

FURTHER EXAMINATION

BY MR. BRUCE:

Q. Mr. Phillips, looking at your Exhibit 36, which is your Blue Fin 25-1 reserve, you said that you had an estimated ultimate recovery number for that of 3.5 BCF. Doesn't it match your almost-6-BCF volumetric number, but if you included production from the Blue Fin 24-1, wouldn't that combined give you the same approximate number, 6 BCF?

A. Well, you're mixing apples and oranges there. The volumetric number that was 5.8 BCF was calculated, and you showed me the sheet here, it was Roy Williamson's

calculation of volumetrics for the 25 reservoir. Yeah, I mean six equals six, you know, however you add it up.

But my -- This is Roy Williamson's initial volumetrics. My initial volumetrics were 3 1/2 BCF. I now think that the pressure history is not going to allow us to reach what we thought our volumetrics were initially on either well.

You can look at the pressure depletion history in the Blue Fin 24 tabular information. It started out producing at around 3400 pounds of tubing pressure and is now down to 800 pounds of tubing pressure. It's just -- It's the same as looking at the bottomhole-pressure-versus-time chart that I gave you. It is definitely declining, and it's declining underneath this line.

MR. BRUCE: I have nothing further, madame Chair.

CHAIRMAN WROTENBERY: Ms. Richardson, did you have some redirect?

MS. RICHARDSON: I do, thank you, ma'am.

REDIRECT EXAMINATION

BY MS. RICHARDSON:

Q. Looking at Exhibit Number 15, Ocean's Exhibit Number 15, this was work you said was done by Roy Williamson, consultant. And it's dated, I see at the bottom, May 20th, 2002?

A. Correct.

Q. Isn't it true that the Blue Fin 25 Number 1 was only commenced -- the spudding commenced May 7th, 2002?

A. That's right.

Q. Okay, just a couple of weeks, in effect, of information went into this report?

A. Well, we -- this was just a -- based on Lou's maps and --

Q. Right.

A. -- his volumetric gas that he was guessing at the net pay thickness, and the pressure -- he guessed that the pressure would be the same as the 24.

Q. But there were some deadlines in the litigation which required reports be issued even before everybody had the data that they wanted to see in order to be --

A. Yes.

Q. -- more accurate, if you will?

A. Yes.

Q. Okay. If TMBR/Sharp had been able to drill its Blue Fin 25 when it wanted to, when would it have been drilled? Instead of May 7th, 2002, when would the 25 have been drilled, approximately?

A. Well, you mean --

Q. If you'd had a permit?

A. Oh, if we'd had a permit?

Q. Uh-huh.

A. We would have drilled it sooner, because our initial estimates were that it was a bigger reservoir. Lou's purple dot is bigger than the Blue Fin 24's purple dot, so we thought this would be bigger than the 24. We would have drilled it as soon as possible.

Q. But you certainly had to drill it within 120 days after the completion of the 24 --

A. 180.

Q. -- which was in July -- 180 days, which was in July of 2001?

A. Right.

Q. Okay. And so by May 20th, 2002, you would have had a lot more information on the 25, like you do now?

A. Right.

Q. Okay. You talked about some logs that were run and log information that we had, and I neglected to ask you about that. If you'll turn to Tab 33, because we have provided these to everyone, and these are just the first pages of those logs that were run on the Blue Fin 25-1 -- You're looking at Tab 33?

A. Yes.

MS. RICHARDSON: Okay. And Madame Chairman, those are in the manila packages, the logs themselves. Because they're so bulky we couldn't put them in the notebooks, but those are available and we'd like to

introduce those logs as Exhibit Number 33.

MR. BRUCE: I have no objection.

CHAIRMAN WROTENBERY: Okay, Exhibit Number 33 is admitted into evidence.

Q. (By Ms. Richardson) Mr. Bruce asked you about correlative rights and Ocean's correlative rights and whether, in effect, they're not entitled to have their correlative rights protected by having a west-half well in the northwest quarter of Section 25.

Isn't it true, based on the information you've looked at, that it's TMBR/Sharp's belief that there is no reservoir either in the southwest quarter or the northeast quarter which is connected to the Section 25 well?

A. That's correct.

Q. Okay. So if the south feature would not be economic to drill, there is no way to protect Ocean's correlative rights in that formation by virtue of the northwest-quarter well?

Let me ask it another way. The northwest-quarter well is not draining the south feature?

A. No, it's not draining the south feature. They don't own any of the northwest quarter now.

Q. So if we only end up with one well in Section 25, there is no way to protect, in that one well, protect Ocean's correlative rights in that south-half feature by

virtue of that one well?

A. No, I don't believe.

Q. Is there anything about the pressure data or the oil gravity or the gas composition or anything that indicates to you the feature in the northwest quarter is connected to the feature in the south half of that section?

A. There's nothing that indicates that to me, because we think -- clearly think the reservoir is smaller than we initially thought, it's going to be smaller than 5.8 BCF. It's a very tight reservoir, it's only producing 550 MCF a day. It may produce more than what our most pessimistic estimates are, but we think the reservoir is small. And so if it were -- There's nothing to indicate that we're seeing drainage all the way down there. I don't know how far we're draining from the wellbore, but it's not very far.

Q. Did TMBR/Sharp and its participants, the other owners, parties to the operating agreement, take all the risk of drilling the Section 25 well?

A. Yes.

Q. Did Ocean pay anything for that well?

A. No.

Q. Did Ocean ever offer to pay anything?

A. No.

MS. RICHARDSON: Nothing further, thank you.

CHAIRMAN WROTENBERY: Anything else, Mr. Bruce?

MR. BRUCE: I have nothing further, except I'd move the admission of Ocean Exhibit 15.

CHAIRMAN WROTENBERY: Any objection, Ms. Richardson?

MS. RICHARDSON: No.

CHAIRMAN WROTENBERY: Okay, Ocean Exhibit 15 is admitted into evidence.

Thank you, Mr. Phillips, for your testimony.

THE WITNESS: Thank you.

CHAIRMAN WROTENBERY: And Ms. Richardson, Mr. Kellahin, Mr. Bruce, can we talk schedule a little bit?

We do have some scheduling difficulties for tomorrow. The Commission is willing to take a dinner break and then come back and continue this evening. Can you give us an estimate of --

MR. BRUCE: I believe that my direct -- I have three witnesses. My direct testimony should be less than -- should be approximately 50 -- five zero -- minutes.

CHAIRMAN WROTENBERY: I'm sorry?

MR. BRUCE: Fifty minutes --

CHAIRMAN WROTENBERY: Fifty minutes?

MR. BRUCE: -- for the direct.

MR. KELLAHIN: For all three?

MR. BRUCE: All three.

CHAIRMAN WROTENBERY: All three. Does that mean we could realistically expect to finish up in about two hours, do you think, Mr. Kellahin, Ms. Richardson?

MR. KELLAHIN: I don't foresee guessing, because I never know.

CHAIRMAN WROTENBERY: You never know. Well, why don't we give it a try anyway?

MR. ROSS: Three witnesses, three hours.

CHAIRMAN WROTENBERY: Pardon me?

MR. ROSS: Three witnesses, three hours.

CHAIRMAN WROTENBERY: Uh-huh.

COMMISSIONER LEE: That's all right, I can stay until two.

CHAIRMAN WROTENBERY: Till 2:00 a.m.? Okay.

(Laughter)

CHAIRMAN WROTENBERY: But let's do take a dinner break so we'll be ready for that marathon session.

COMMISSIONER LEE: I have to go back to Socorro.

CHAIRMAN WROTENBERY: Okay.

COMMISSIONER LEE: I would rather get it done today.

CHAIRMAN WROTENBERY: Okay, that sounds good. Why don't we take a dinner break now? How long would it take, realistically, to find a place to eat and --

MR. BRUCE: We will live with whatever you guys

want?

CHAIRMAN WROTENBERY: How about we say an hour and a half and come back at a quarter of seven? Did I calculate that right? Quarter of seven then. Thank you very much.

MS. RICHARDSON: Do you think Mr. Phillips could be excused?

CHAIRMAN WROTENBERY: Mr. Bruce, Mr. Phillips needs to get back to Midland tonight. Do you have any problem if we excuse him at this point?

MR. BRUCE: I don't have any problem whatsoever.

MS. RICHARDSON: Thank you so much.

MR. PHILLIPS: Thank you.

CHAIRMAN WROTENBERY: Thank you for being here, Mr. Phillips.

(Thereupon, a recess was taken at 5:15 p.m.)

(The following proceedings had at 6:45 p.m.)

CHAIRMAN WROTENBERY: Looks like we're all here. Okay, we can get started again. Mr. Bruce?

DEROLD MANEY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Okay, would you please state your name and city

of residence?

A. Derold Maney, Houston, Texas.

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

A. I'm a landman for Ocean Energy.

Q. Let's clear up one thing, Mr. Maney. These cases are in the name of -- There are some cases on the docket today for Ocean Energy and some for Ocean Energy Resources. Is Ocean Energy, Inc., the successor by merger to Ocean Energy Resources?

A. Yes, sir.

Q. Okay. Have you previously testified before the Division or the Commission?

A. Yes, I have.

Q. And are you familiar with the land matters involved in Ocean's Applications?

A. Yes, I am.

MR. BRUCE: Madame Chair, I tender Mr. Maney as an expert petroleum landman.

CHAIRMAN WROTENBERY: Any objection?

MR. KELLAHIN: No, ma'am.

CHAIRMAN WROTENBERY: He is so qualified.

Q. (By Mr. Bruce) Mr. Maney, could you refer to your Exhibit 1 and just identify for us briefly, in looking at this map, first of all, the Section 25 we're talking about is on the far right edge of this map, is it not?

A. Yes, it is.

Q. Okay, and the northwest quarter of Section 25 is colored blue and the southwest quarter of this section is colored yellow?

A. Yes, sir.

Q. Okay. And Ocean is asking for a west-half well unit for all pools spaced on 320 acres?

A. Yes, we are.

Q. It has a red outline. What is that red outline?

A. That's an area of mutual interest that conforms to the 3-D seismic shoot that we participated in in this area.

Q. Okay. And what does the yellow acreage denote?

A. Leasehold acreage that Ocean owns.

Q. In addition to -- This is in the area of the 3-D seismic shoot. Does Ocean own other acreage in 16 South, 35 East?

A. Yes, sir, in Sections 2, 3, 4 up to the north.

Q. Do you also have acreage in Sections 9 and 10?

A. Yes, we do.

Q. Okay. And as a matter of fact, Ocean has been drilling in this area -- what, since 1998 or so?

A. Yes, sir, we've participated in over 35 wells.

Q. Okay. What is Exhibit 2? And it's probably irrelevant for purposes of this matter, but since you have

it in the exhibit package, what is Exhibit 2?

A. This is, I guess, the timeline of how we acquired our interest in the southwest quarter of Section 25 through farmout with a total of nine individuals/companies that comprise the ownership in the southwest quarter of Section 25.

Q. Okay, and you got your farmouts. Have you ever had to extend those farmouts?

A. Yes, we have.

Q. Okay.

A. Several times.

Q. You've had to purchase extensions?

A. The last one we had to purchase, yes.

Q. Okay. What is Exhibit 3A?

A. Exhibit 3 is the well proposal that we mailed out for the west-half unit.

Q. Okay. Now, this was dated January 25, 2002. To the best of your knowledge, was this letter faxed to these interest owners?

A. Yes, it was.

Q. And to the best of your knowledge, was that the same day that TMBR/Sharp Drilling, Incorporated, filed this force pooling Application for the north half?

A. Yes, it was.

Q. Now, there's been a lot of talk back and forth

about David H. Arrington Oil and Gas, Inc. Regarding a well in Section 25, was Arrington supposed to be the operator of that well?

A. Yes.

Q. And then last -- what, December? I don't even know -- not last December, but December, 2001, in that time frame, was there litigation instigated?

A. Yes.

Q. And so the right of Arrington to operate the well became in doubt?

A. Yes.

Q. And that's why Ocean proposed the well and proceeded with force pooling, did it not?

A. Yes.

Q. And -- what, about a month after this letter was sent out, Ocean did file its pooling Application, its initial pooling Application?

A. Yes.

Q. And that was originally set for March of 2002?

A. Yes, it was.

Q. Was that case continued?

A. Yes.

Q. A couple of times?

A. Twice, I believe.

Q. At Ocean's request?

A. No, sir.
Q. At TMBR/Sharp's request?
A. Yes, sir.
Q. Did Ocean object to those continuances?
A. We did.
Q. Okay, what is Exhibit 3A?
A. That's the only response we got -- or received from our well proposal, and it's an election not to participate received from Mr. Louis Mazzullo.
CHAIRMAN WROTENBERY: You mean 3B?
MR. BRUCE: 3B, excuse me, madame Chairman.
Q. (By Mr. Bruce) One thing I forgot to ask you regarding Exhibit Number 1, Mr. Maney, there's acreage colored in yellow here. Was some of that acreage purchased from Ameristate Oil and Gas and/or Fuel Products, Inc.?
A. All of it was.
Q. All of it was?
A. Except the Primero acreage, what we call the Primero acreage, in Section 25, 26 and 35.
Q. So you made two acquisitions, and these -- Ameristate and Fuel Products are partners with TMBR/Sharp in their acreage, right?
A. Yes.
Q. According to Mr. Phillips' testimony?
A. Yes.

Q. How much did you pay for that acreage?
A. In excess of $1.2 million.
Q. And that acreage was purchased before you ever looked at drilling in Section 25?
A. Yes.
Q. Okay. What is Exhibit 4?
A. That's the AFE for our well proposal.
Q. And what is the -- What was your estimated completed well cost?
A. $1,783,550.
Q. And that's pretty comparable to -- Mr. Phillips stated that the final well costs on the Blue Fin 25 Number 1 were about $1.7 million, so there's very little difference, is there?
A. Very little difference.
Q. So both well costs appear to be reasonable?
A. Yes.
Q. In your opinion, did Ocean make a good-faith effort to seek the voluntary joinder of the interest in the west half of Section 25 and to its well?
A. I think we did.
Q. Okay. What is Exhibit 5?
A. What I've attempted to do is break down the ownership by quarter section, half section, and in the lower right-hand quarter of it is Section 25, in the

Township 16-35.

Q. Okay.

A. And I guess I'll start over here in the top left. 25, a north-half unit, as we know it -- when this started, I understand that -- I know that there's been a settlement, so these interests are not correct anymore for a north-half unit, but it would have been David H. Arrington 14 percent, and Dale Douglas less than a percent, and TMBR/Sharp just over 84 percent.

And the west-half unit would be TMBR/Sharp 50 percent, David H. Arrington 15 percent, and Ocean Energy 35 percent.

Q. So in the west-half well unit, TMBR/Sharp 50 percent, that's based on their 100-percent ownership in the northwest quarter?

A. Yes, it is.

Q. And there were some figures given by Mr. Phillips regarding Ocean's ownership. Were they correct?

A. No, they were not.

Q. What is the ownership of the southwest quarter?

A. Ocean owns 35 percent and --

Q. In the southwest quarter?

A. In the southwest quarter we own 70 percent and they own 30 percent.

Q. Okay, so hence they were cut in half for a --

A. Yes.

Q. -- west-half well unit? Okay, so --

And then is that further summarized in the plot on the lower left-hand corner?

A. Yes, it is.

Q. Finally, let's skip over to Exhibit 7, ignore Exhibit 6 for now. What is Exhibit 7?

A. It's the unit orientation for the production in this immediate area. And if there's not production there it's unit orientation for drilling permits, APDs.

Q. Okay. So other than the north half of Section 25, all of the existing well units in this township are standup well units?

A. Yes, they are.

Q. Okay. And did you verify this through the records of the Hobbs Office of the OCD?

A. I had a conversation with one of the ladies in the Hobbs Office who was kind enough to go through this with me on the phone.

Q. Were Exhibits 1 through 5 and 7 prepared by you or under your supervision?

A. Yes, they were.

Q. And in your opinion is the granting of Ocean's Application to pool a west-half well unit in the interests of conservation and the prevention of waste?

A. Yes.

Q. One final thing, Mr. Maney. One of the cases at issue today is 12,860, which was the Application of Ocean for force pooling a west-half unit but for a southwest-quarter well location. Does Ocean request that that matter be dismissed?

A. Yes, we do.

MR. BRUCE: Pass the witness.

CHAIRMAN WROTENBERY: Do you wish to offer exhibits?

MR. BRUCE: Oh, I would move the admission of Exhibits 1 through 5 and 7.

CHAIRMAN WROTENBERY: Any objection?

MS. RICHARDSON: No.

CHAIRMAN WROTENBERY: Okay, Exhibits 1 through 5 and 7 are admitted into evidence. Thank you.

Ms. Richardson?

CROSS-EXAMINATION

BY MS. RICHARDSON:

Q. Mr. Maney, did you attend the meeting with Lou Mazzullo, Mark Nearburg and Tom Bell on January 31st, 2001, in Ocean's offices?

A. Yes, I did.

Q. Had there been previous discussions with Mr. Nearburg and Mr. Bell about Ocean potentially participating

in a Section 25 well with TMBR/Sharp?

A. They had contacted us and wanted us to take that deal and show us that deal, since we had purchased those other interests in the area.

Q. And did you ask that Mr. Mazzullo, Mr. Bell and Mr. Bell come to Ocean's offices to make the presentation?

A. I don't believe that I asked. I believe that they said they were coming and they wanted to show it to us and show it to our management, and they wanted to come and show it to us, so they made the appointment.

Q. And present for Ocean at that meeting were you and Mr. Silver and Mr. Messa and Mr. Grocock?

A. Yes.

Q. Anyone else?

A. Not that I recall.

Q. At that time, January 31st, 2001, did Ocean own any interest in Section 25?

A. No.

Q. Did Ocean have any seismic information, 3-D seismic, on Section 25?

A. No.

Q. Was it accurate what Mr. Mazzullo testified to, that Ocean representatives, including Mr. Silver, were allowed to examine the seismic data located on Mr. Mazzullo's laptop for a couple of hours?

A. I don't know the length of time. I know Mr. Mazzullo brought his laptop, and that was available. I left the meeting after we got through the presentation, and they were going to look through the seismic, so I don't have any idea as to how much time was involved.

Q. Were there any restrictions put on Ocean's looking at the material or consideration of the information provided?

A. No.

Q. Did you ever inform the Ameristate group that Ocean intended to pursue independent interests from this project that TMBR/Sharp was proposing?

A. Would you repeat that?

Q. Surely. At that meeting, did anyone tell the Ameristate group that Ocean was going to independently pursue acquisition of acreage and drilling on 25?

A. Why would we do that?

Q. I'm just asking you if you did.

A. No.

Q. Was it helpful to Ocean to have the ability to see the 3-D seismic and do their analysis on 25?

A. Look at the information to determine whether or not we wanted to participate in the project at that time, yes, it was good.

Q. At that time, when Ocean met with TMBR/Sharp, did

it have any present intent to acquire interest in 25?

A. I don't know. I don't believe so. I don't know.

Q. You hadn't suggested that Ocean looked forward to acquiring interest at that time?

A. Not at that time, no.

Q. Okay. So that meeting was January 31st, and you made your first contact with Andy Grooms of Branex the first part of March?

A. March 27th.

Q. Sorry, the latter part of March.

Were you the one that informed Tom Bell and Martin Nearburg that Ocean was not interested in their Section 25 well?

A. Yes.

Q. And what reason did you give?

A. I don't remember the conversation because it was a conversation, but their terms were a little tough. We'd already spent a lot of money in the area and they wouldn't come off their terms, and we didn't feel the prospect was viable. And the geological aspects of it I'm not going to testify to.

Q. What terms were they presenting to you that you thought were too tough?

A. $750 an acre, I believe, and 25 percent back-in after payout.

Q. Did Ocean counter and say they're too tough but we'd consider this?

A. We did not counter, no.

Q. Was there a reason?

A. I felt like if they wanted to sell the prospect they would come back to me with a little bit better terms. We didn't need that prospect that bad, and --

Q. And at that time you weren't interested in Section 25?

A. Well, we were interested, but there were other things that we were pursuing.

Q. What changed between the January 31st meeting and your contact with Mr. Branex on March 27th that you all decided to try to buy acreage in 25?

A. Well, we've bought acreage in this area throughout this whole time, and it's on trend with the geology in the area, and the acreage was open and we became aware about it and determined that we would purchase the acreage.

Q. The farm-in that Ocean received from Branex and others was effective what date?

A. I don't remember the exact date, but it was sometime in July.

Q. July 23rd, 2001, the first --

A. I don't remember the exact date, that may be

correct.

Q. And actually, they were acquired over time, weren't they?

A. Well, it takes a while to get the agreements prepared and signed by nine people, so the agreement is dated and effective if that date is correct at that particular time, and then they come in signed weeks, sometimes months later.

Q. But actually you all didn't have everyone's signature until the fall of 2001?

A. No, that's not right, it didn't take that long. I don't know when the last one was signed, but the agreement was dated effective July 23rd, like you say that it was. We probably had it signed up by September.

Q. September, all right.

A. I mean, that's a guess.

Q. Were you or was Ocean aware at that time that there was a dispute over a permit to drill a well in the northwest quarter of Section 25?

A. Not about the permit.

Q. You didn't know that there was a dispute about the permit?

A. No.

Q. Did you know that litigation had been filed over title to the Stokes Hamilton leases in August of 2001?

A. At some point I knew when the litigation was filed, because of the top lease. I don't know the exact date I knew.

Q. When did Arrington and Ocean begin discussions about entering into an agreement for a west-half well?

A. I believe it was sometime in September.

Q. And Arrington did not disclose to you at that time that there was a dispute about the permitting?

A. He disclosed -- Oh, no, I don't know about the permitting. I don't remember the permitting being an issue. The title --

Q. But they didn't disclose there was a lawsuit?

A. The title dispute was the issue.

Q. And at that time Mr. Arrington on behalf of Arrington Oil and Gas was claiming ownership of the Stokes Hamilton leases?

A. He had a top lease that he felt was good.

Q. Had you done any land work to analyze the Stokes Hamilton leases that TMBR/Sharp had or when they might expire?

A. I looked at the top leases, and I'm familiar with the circumstances of the TMBR/Sharp filing of the C-102 and thinking that that was a pooling, and that to me was not a pooling. And we had an attorney look at it, and in our opinion the top leases were good.

Q. Okay. You came to understand, though, I know, that at some point Judge Clingman that Ocean be made a party to the litigation?

A. Yes.

Q. And that Ocean was a party to the litigation when Judge Clingman ruled that the top leases, in fact, were not good, but TMBR/Sharp's were good?

A. I don't believe we were a party to the litigation when he made the ruling.

Q. Well, the ruling came down in December of 2001. You don't believe that Ocean was a party --

A. I don't believe -- I believe -- and this again is -- I wasn't directly involved in the lawsuit as you were, but I believe that Judge Clingman required that you name Ocean in the lawsuit.

Q. Did Ocean have a permit at any time for a west-half well?

A. We did not.

Q. Did Ocean at any time prior to filing its well proposal attempt to obtain a permit?

A. We did not.

Q. You said that at some point Mr. Arrington -- or on behalf of Arrington Oil and Gas, that the right of Arrington Oil and Gas to operate came into doubt. What did you all mean by that?

A. You're referring to the agreement?

Q. I just -- Mr. Bruce had asked you a question, that Ocean took over seeking to become operator when the right of Arrington to operate came in doubt.

A. When we signed the agreement that we entered into with Mr. Arrington it was required that -- he was going to be the operator, but we were concerned about our farmout agreement and we wanted to make sure that we got it drilled before the expiration date of the farmout. So we put in the agreement that if he did not drill the well or initiate -- you know, clear the title or initiate force pooling to get the well going, that we would have that right to drill the well and initiate force pooling ourselves. And that's what we did.

Q. Excuse me just a moment.

The agreement that you're referring to was the agreement in which it was provided that a well would not be drilled before January 10th, 2002?

A. I don't believe it says drilled.

Q. Let me find it. And I apologize, I don't see it on the index. Oh, it's Tab 16, if you could -- My witness book is gone.

A. Sixteen?

Q. Yes, sir. Is this the agreement that you were referring to?

A. Yes, and it does say, it does say drill. I was mistaken.

Q. So it says on or before July 1st, 2002, but not earlier than January 10th, 2002, time being of the essence, Arrington shall commence actual drilling of test well.

The January -- Well, let me ask you this. My understanding is that Ocean sought and received budget approval to drill a Section 25 well from Ocean management in 2001.

A. It was on the budget for 2001.

Q. Okay, and it was approved in 2001?

A. The well was on the budget. And you know, we have many wells on the budget, but it was approved.

Q. Okay. In 2001?

A. I don't know if it was approved to drill. I know that the AFE -- and management had not approved the final AFE to drill it, we had not had our AFE meeting to drill it in 2001. But it was on the budget.

Q. No, I understand. But sometime in 2001, approval was received from Ocean management to drill a Section 25 well in 2002?

A. We don't approve our budget for the whole year. You go to an AFE meeting for each individual well when you're ready to drill it, and you get your final approval.

Now, it was on the budget for 2001, and in 2001

-- I don't remember the circumstances, but at some point we decided that this well should be deferred because our budget was fully expended and that we would drill it in the next year, 2002, and that's why this agreement is written this way.

Q. Was there any restriction in the budget about a time before which a well could be drilled?

A. Oh, no. No. But you have so many dollars that you can spend, and the wells are interchangeable parts to the budget, so wells come in and fall out and get approved and get deferred. So it's a moving target, and you just -- you live with it.

Q. The well which was approved by Ocean management in Section 25 in 2001, was it a northwest quarter well or at some other location?

A. The well was always going to be drilled in the northwest quarter. That's the -- when we decided, got the seismic, after the 3-D seismic was shot, which is the outline on the map, and we did the -- This agreement right here actually provides that we can see the seismic on this particular agreement, because if you look at the map there, this is outside the seismic shoot in our AMI, and so part of this agreement was so that we could look at that seismic and determine where the well was going to be, because we didn't own the seismic outside of there, Arrington did.

And that was another reason to enter into this agreement with Arrington.

Q. Well, at the time this agreement was entered into on November 14th, 2001, Ocean had not yet seen Arrington's seismic covering the northwest quarter of Section 25?

A. That's correct.

Q. The only seismic that Ocean had seen was Ameristate-TMBR/Sharp's?

A. That's correct.

Q. When Ocean acquired acreage in the southwest quarter of Section 25 from Branex, et al., you also contacted Yates which owned a State of New Mexico lease in the southeast quarter?

A. Yes.

Q. Okay. Why did you contact Yates about acquiring its acreage in the southeast quarter if Ocean's intention was always to drill a well in the northwest quarter of Section 25?

A. Well, generally you'd like to have offset acreage when you drill a well. And so you know, we already had acreage in the western offset to it, so we inquired as to what Yates' plans were in the southeast quarter over there.

Q. Did Ocean ever have plans to drill in the east half of Section 25?

A. No, we hadn't got that far.

Q. Did Ocean ever have plans to drill in the south half of Section 25?

A. No.

Q. Well, Ocean filed a compulsory pooling case to drill a well in the south half.

A. For the southwest quarter.

Q. I see. So you never had any intention to drill a south-half well?

A. When Ocean saw the seismic -- and based on our interpretation, as you will see later, it's a west-half, it's an obvious west-half unit.

Q. Okay. And so I fully understand, why then did you contact Yates about acquiring its acreage in the southeast quarter?

A. I told you, we contacted Yates because they are an offset owner. They own the offset acreage.

Q. Okay. At the time Ocean entered into this agreement signed November 14th, 2001, with Arrington Oil and Gas, without seeing Arrington's 3-D seismic, Ocean already agreed to participate in a northwest-quarter well, correct?

A. That's correct.

Q. On the strength of what information, because you had no 3-D seismic, did Ocean decide to participate in a well that tested the Chester-Mississippian?

A. Well, I think at that particular point -- Again, I'll have to defer to the geologist on that. I don't know the timing as to when we knew the activity in the area, as to well information, and they may have had conversations with Arrington as to what the seismic showed, I'm not sure.

Q. Arrington Oil and Gas was the only party to this agreement that had a permit to drill at this time, November of 2001?

A. Yes, we didn't have a permit.

Q. Can you tell me why either Ocean or Arrington didn't file their compulsory pooling at this time?

A. The well needed to be deferred for budgetary reasons, and we didn't want to drill it in 2001.

Q. Well, but you got approval to drill it in 2002?

A. Yes.

Q. So I suppose on January 2nd, 2002, Ocean could have filed a compulsory pooling case?

A. We could have, yes. We waited about 23 days later and filed on -- Well actually, we proposed the well on the 25th, and we filed it after allowing the normal course of business when you fail to get any response from the working interest owners in the northwest quarter.

Q. Ocean had to drill the well by July 1st, 2002, under the original farm-in?

A. That's correct.

Q. Did Ocean think that by filing a compulsory pooling case in January of 2002 that it could get a final pooling decision by July, 2002?

A. We had hopes that we might.

Q. But it wasn't a sure thing, was it?

A. No, ma'am.

Q. You all were really going to rely on Arrington's permit?

A. The permit had nothing to do with it. You know, we wanted to drill the well, we filed for an application. The reason we didn't file for a permit was because we wanted to get the thing pooled on the west half first, and then the permit takes care of itself after that.

Q. But Arrington had advised Ocean, as he has advised this Commission, that he would assign his permit to Ocean if they wanted to drill?

A. Well, yes. I mean, he didn't advise us of that but that was an understanding, that if he didn't drill the well we would do it and be named operator.

Q. You talked about that all of the other wells in this township are west-half or east-half standup wells instead of laydown wells. How many of those wells were compulsory pooled?

A. I didn't really go into that, I was just more concerned as to what the orientation was and what most

operators were doing.

Q. Can you tell the Commission whether any of them were compulsory pooled?

A. I didn't inquire.

Q. That would make a difference, wouldn't it, if all the others are standup? It well could be because that's how the operators' leasehold ownership was configured?

A. Yes, I mean --

Q. In fact, if there were no --

A. -- if you have agreement, you don't have to go to pooling.

Q. Surely, surely, surely. But you can't say one way or the other whether there was a hundred percent leasehold ownership in the operators or simply people agreeing to agree how the proration units would be oriented?

A. No, I can't.

MS. RICHARDSON: Thank you, nothing further.

MR. BRUCE: Just a couple of follow-up, madame Chair.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. After -- Ocean sent out its proposal letter in January of 2002, correct?

A. (Nods)

Q. And the normal procedure is to try to -- You didn't immediately file a pooling application, did you?

A. No, no.

Q. You waited a few weeks to see -- Isn't it normal, from what you know, normal procedure to wait three or four or five weeks before you file a pooling application --

A. Yes, you try to --

Q. -- so you can reach voluntary agreement with them?

A. Yes.

Q. Now, after Ocean filed its pooling application, did it attempt to obtain an APD from the Hobbs District Office?

A. Yes, we did.

Q. And was it denied?

A. It was.

Q. Because of the ongoing dispute between Arrington and TMBR/Sharp?

A. Well, I think by that time that was going on -- And I don't remember the exact time, but I think by that time they may have already had the decision to vacate Mr. Arrington's permit and institute a TMBR/Sharp north-half unit. I don't remember the timing, but yes --

Q. But there was a conflict between TMBR/Sharp and Arrington?

A. Yes, absolutely.

Q. One final thing. I mean, you took the farmout from Branex Resources, who's -- The head of that is Andy Grooms, is it not?

A. Yes, it is.

Q. Now, you said that for TMBR/Sharp's acreage they wanted $750 an acre. Did you have to pay anything to Branex and its partners for --

A. No.

Q. -- the farmout?

A. That deal required us to drill a well only, and they had a 25-percent back-in and they delivered a 75-percent net revenue interest. So there was no bonus involved.

Subsequently, though, we've had to pay a bonus for the numerous extensions that we received during the litigation phase, and now this phase also.

MR. BRUCE: That's all I have, madame Chair.

CHAIRMAN WROTENBERY: Thank you, Mr. Maney.

FRANK MESSA,

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 and city of

residence?

A. My name is Frank Messa, Houston, Texas.

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

A. I work for Ocean Energy as an exploration geologist.

Q. Have you previously testified before the Division or the Commission as an expert geologist?

A. Yes, I have.

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

A. Yes, they were.

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

A. I am.

MR. BRUCE: Madame Chair, I tender Mr. Messa as an expert petroleum geologist.

MR. KELLAHIN: No objection.

CHAIRMAN WROTENBERY: We accept Mr. Messa's qualifications.

MR. BRUCE: For the Commission, Mr. Messa has Exhibits 8 through 11, and we're probably going to go through them backwards, starting with Exhibit 11.

Q. (By Mr. Bruce) Mr. Messa, could you identify your Exhibit 11 and discuss it for the Commissioners?

A. Yes, this is a stratigraphic cross-section within

the area of interest. There are four wells on this cross-section that start from left to right, which is north to south: the Leavelle 23 Number 1 well, located in Section 23, which is a control point for mapping; the Blue Fin 24 Number 1 in Section 24; the Blue Fin 25 Number 1 in Section 25; and the Buffton Eidson 35 Number 1 well, located in Section 35, 16 South, 35 East.

There are a number of things that I wanted to point out here.

The cross-section is datum'd at the top of the Austin, also called the Chester. It is important to notice that at the top of this Austin-Chester interval across the cross-section here, you see a thin, high-porosity interval at the top that is very correlatable and very easy to identify across the cross-section.

The lower -- what I call the lower Austin reservoir is highlighted in orange, and it shows a separate and distinct porosity interval that is not found in either of the two offset wells, the Leavelle or the Buffton well. And the reason I point that out is because the production data from the Leavelle and the Buffton are not that significant.

The Leavelle well has production that totalled 12 million cubic feet of gas. The Buffton Eidson well, as Mr. Mazzullo mentioned earlier, is going to be somewhere around

a BCF in cumulative production, the ultimate recovery.

I also wanted to point out the perforation history of the Blue Fin 24 and the Blue Fin 25. And I'd like to point out first that in the Blue Fin 24, the date here shows February, 2002, perforations at 12,396 to 12,410, that interval being the high-porosity streak, about a six-foot interval, right at the very top. That zone was perforated separately, isolated and production tested for about three months, and the production from during those three months was about a million a day.

In April of 2002 the lower zone was perforated, 12,403 to 12,426, a thicker interval with very nice porosity. And the production data shows that during the period following April of 2002, it shows here it flowed 3700 to 4400 MCF a day. And I believe I saw rates up to 7 million a day. That tells me that that's a really nice zone down there on the bottom.

Q. The lower zone?

A. The lower zone is a very nice zone. And it tells me it's very different from the two wells that are on either side of the cross-section. And I think TMBR/Sharp learned that too, because when they perforated the Blue Fin 25 Number 1, they went right after both of them, didn't bother testing them separately.

And you see that initially the perforations,

12,429 to 12,440 -- I'm referring to the Blue Fin 25 -- and 12,451 to 12,466, you see an initial rate of 350 MCF a day, and a date of November, 2002, an increase to 950 MCF a day, after the frac.

You can see that the production from the 25 Number 1 is not as good as the production from the 24 Number 1, but when you look at the logs you can see that the lower zone is where the difference is.

The lower zone in the 24 has an average porosity across the 20 feet of 16 percent.

The 25 Number 1 shows an average porosity of 6 percent across 10 feet.

And so in my next exhibit what I'll do is, I'll show you an isopach map of just this lower zone, and I'm leaving out the upper zone because it's not commercial. It was found to be noncommercial in the Leavelle and is marginally commercial in the Buffton Oil and Gas Eidson 35 Number 1. And I believe that this upper zone does not contribute significantly to the production of these two wells.

Q. Well, why don't we move on to your net pay map, which is marked Exhibit 9?

COMMISSIONER BAILEY: Before we leave this one, could you please locate these wells for me within the sections? Obviously 24-1 and 25-1 we've discussed quite a

bit, but I don't see these other two wells on any of these maps.

THE WITNESS: Okay.

COMMISSIONER BAILEY: Would you please locate the north one and the south one?

THE WITNESS: Yes, the next exhibit that Mr. Bruce just referred to will show this.

Q. (By Mr. Bruce) And Exhibit 9 rather than Exhibit 10.

A. Exhibit 9. You see in the north half of Section 23 the U.S. Operating Leavelle Number 1. It shows it's -- The red circles show that they are productive from this interval. They are productive from the Chester interval.

The numbers that you see posted to the lower left of these wells indicate its -- the upper number indicates its current daily production, the lower number indicates its cumulative production. So you can follow along the cross-section from 23, 24, 25, over into Section 35.

Q. Why is a net-pay map necessary, Mr. Messa?

A. The net-pay map is necessary for a couple of reasons. Most importantly for this matter is to get an accurate volumetric estimation of the reserves that are within this interval. It's also useful in mapping future locations and as part of the exploration process.

Q. Now, one thing before we leave this map. Mr.

Mazzullo concentrated -- He said we have two data points. We actually have four data points out here, don't we?

A. Yes, there are four data points.

Q. In the immediate area.

A. In the immediate area.

Q. Now, let's move on to Exhibit 8. What is that?

A. Exhibit 8 is a depth structure map. This map is guided somewhat by the 3-D seismic data. But I would like to point out that this structure map shows values next to the wells, the control values for the structure map, it shows contour values on the structure contours. This map shows a structure that was guided by 3-D seismic that had gone through a rigorous process of velocity calculations to come up with a true depth structure map that incorporates the well control and the seismic control.

Q. Did TMBR/Sharp present a map like that?

A. I don't think we saw a map like that from the TMBR/Sharp. We didn't see well postings showing the values, and we didn't see contour labels.

Q. Now Mr. Messa, you sat in during Mr. Mazzullo's testimony, did you not?

A. Yes.

MR. BRUCE: And Commissioners, I'm referring Mr. Messa now to TMBR/Sharp's -- what's behind their Tab 15.

Q. (By Mr. Bruce) Do you have a copy of that, Mr.

Messa?

A. Yes, I do.

Q. Can you comment on that and -- what Mr. Mazzullo referred to as the -- I don't know, I might be misstating it, I don't mean to do it -- the separation or the barriers between these -- what has been referred to as these depressions?

A. Yeah, seismic data is very interpretive. And if you look carefully at this seismic data, if you see -- if you follow his magenta pick that rolls up and down -- it's kind of hummocky-looking -- when you look at --

Q. Kind of in the middle, just above his yellow depressions? Is that where you're looking at, the magenta line?

A. The magenta line actually is below his yellow.

Q. Okay.

A. The one thing I'd like to point out with this is that when you look at the seismic character above his picks, you see the same rolling, hummocky character in each of the horizons above it. What that tells a geologist is that these rolling, hummocky surfaces happened after the deposition of the Chester formation. Therefore, at the time of deposition the Chester was not confined to these bowls; it was confined to the top of the surface.

That's an important aspect of exploring for

hydrocarbons, is, you look for the original paleosurface that these sands, cherts, were deposited on. You can't look at the present-day structure and say that's the way it was back then at the time of deposition. Big difference.

Q. Does that indicate anything regarding the communication or lack thereof between these depressions?

A. Yes, yes, and that's what I've shown in my Exhibit 9, was to show that it's not confined to these two -- what they call bowls. It is confined to this low-lying depression that runs parallel to this fault on the west side. There's more to it than just deposits and bowls.

Q. One final matter. In looking again at your Exhibit 9, would you agree that the reservoirs out here that you're looking at, whether they're Atoka or Morrow or Chester, are generally north-south or northwest-southeast-trending reservoirs?

A. That's true, I've mapped this township, the township north, the township south, I've mapped a lot in Lea County, Eddy County. Throughout southeast New Mexico, these sand channels in the Atoka and the Morrow trend northwest to southeast, mostly a north-south orientation.

Q. One final matter. I'm going to hand you TMBR/Sharp Exhibit 15-C, which was their most recent bowl map or depression map. Mr. Messa, if you compare that map with your Exhibit 9, and you highlighted the contours, do

they look extremely similar?

A. Yeah, this -- These color-filled maps can be misleading because you can isolate a color and make that look good. But the outline -- If you pick the light blue outline on this map and you follow the shape of that, that's essentially the shape of my map.

And what I've shown in the seismic data, that these were not deposited in bowls, it was deposited along this surface, it can very easily be deposited along this blue outline, not just confined to these purple circles.

Q. Now, you mentioned about the highlighting colors. I mean, the colors on there go from a fairly light blue or lavender to a -- quickly, a dark --

A. Yes.

Q. -- a dark purple or a violet, don't they?

A. Yes, yes.

Q. Does that not always represent what's going on?

A. No, no, that doesn't represent what's happening in the geology. What that does is, that helps you say look, let's drill here. It doesn't tell you the true geology of the rocks.

Q. Were Exhibits 8, 9 and 11 prepared by you or under your supervision?

A. Yes, they were.

Q. In your opinion, is the granting of Ocean's

Application in the interests of conservation and the prevention of waste?

A. Yes.

MR. BRUCE: Madame Chair, I'd move the admission of Ocean Exhibits 8, 9 and 11.

MR. KELLAHIN: No objection.

CHAIRMAN WROTENBERY: Exhibits 8, 9 and 11 are admitted into evidence.

Are you finished, Mr. Bruce?

MR. BRUCE: Yes, I pass the witness. I'm sorry.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Messa, would you pick out your Exhibit 11, which is the stratigraphic cross-section? I want to make sure that I understand your nomenclature.

A. Okay.

Q. When you talk about the Austin, is that the equivalent interval that Mr. Mazzullo is calling Chester?

A. Yes.

Q. So when you pick the top of the Austin and the base of the Austin, those picks are the same as Mr. Mazzullo made for the top and the bottom of the Chester?

A. Probably. Within the log data, yes. Seismic data, I couldn't tell you for sure.

Q. Well, let's stick with the conventional log

data --

A. Okay.

Q. -- the conventional geology.

So when I move over to the isopach, Exhibit 9, and I want to make sure I understand the interval that you're mapping on this map, you look at the two logs that we have, the two controls, the one in the southwest of 24 and the one in the northwest of 25, those are your two control wells?

A. Correct

Q. And you look at the top and the bottom of what you call the Austin --

A. Correct.

Q. -- do you see any difference between what you're using and what Mr. Mazzullo used for the top and the bottom of the Chester?

A. Are you referring to the log data?

Q. Yes.

A. I don't believe Mr. Mazzullo showed us a subsurface map with his log data picks.

Q. We've submitted the logs to you. Did you examine the logs that we used?

A. I didn't see it in this -- We asked earlier for an isopach map that --

Q. No, I'm talking about looking at the logs and

picking the top and the bottom of the Austin based upon the logs, and the log suites are in these brown envelopes. You did not do that?

A. (Shakes head)

Q. So you do not know whether or not your pick of the top or the bottom of the Austin are the same precise interval that Mr. Mazzullo picked for the Chester?

A. Yeah. No, I couldn't tell you that.

Q. When we look at your isopach map, let me see if I understand your methodology. If you're -- This is a map of the Austin. If you're looking for the Austin, you're going to find any well on this map that penetrates to and through the Austin and use it as a control point, right?

A. That's correct.

Q. And there's only four.

A. (Nods)

Q. You've discounted the northern one and the southern one, and you've focused on the other two, right?

A. I believe I explained that in the testimony over the cross-section.

Q. Well, you've attributed no value to those in terms of linking them into the same net sand map that you placed the Blue Fin 24 and 25?

A. I've assigned it no commercial value.

Q. Your map legend indicates that you have a net

component and a gross component --

A. Correct.

Q. -- do you see that?

A. Uh-huh.

Q. So when I look at the Blue Fin 25 well and I look to the right margin of that red well symbol, on the top is 10 feet, on the bottom is 10 feet --

A. That's correct.

Q. -- how come the net and the gross are the same?

A. Because all 10 feet in the Blue Fin 25 lower Austin zone is pay.

Q. What did you use for a porosity cutoff value to get you from a net to a gross?

A. Typically, you look at a gamma-ray cutoff or you look at a porosity cutoff.

Q. On the density curve, what did you use for a porosity cutoff?

A. Six percent.

Q. Well, you told me at the last hearing you used eight percent.

A. Eight percent in sands.

Q. Okay. What did you use for your gamma-ray cutoff?

A. Gamma-ray cutoff didn't come into play in this. This is all clean.

Q. All right. Now, let me see if I understand your methodology, that with these control points, then, you make some geologic assumptions about the contouring method that you're going to apply, right?

A. What assumptions are you --

Q. The assumptions that there are a layering effect of the sands in relation to the thickness you find on the Number 24 well that diminishes as you go out from that well to a point where you hit a zero line?

A. Yeah, you're asking me the outline of my isopach map has some subjective boundaries on it.

Q. No, I'm not asking. My point is, the contouring strategy is to take the control points and map an area that you think within that zero line I'm going to find Austin sand?

A. Okay, yes, that's correct.

Q. Is it not also your strategy, is when you prepare a map like this, to determine the point of greatest thickness?

A. You use all points, all available points.

Q. Would your objective as a geologist be one where you would want to place the well within this interpretation at the point of greatest thickness?

A. That's right, absolutely.

Q. Then why didn't you do that?

A. The best thickness, the greatest thickness, should give you the best well.

Q. When we look at your map in the west half of Section 25, I'm looking at points thicker than 10 feet. Is there any significance to the 10-foot contour line in relationship to the potential productivity of the well?

A. Okay, you asked me two questions. Can you start with the first one?

Q. Do you have a cutoff criteria for this particular sand to know that if you have less than a certain number you can't have a commercial well?

A. That would depend on the history of that particular zone. I have numerous examples in this part of New Mexico, in this township. Two feet can make you a BCF and a half.

Q. For purposes of this display, then, it's still correct to assume that you would want to place the well within the contour of the greatest thickness?

A. Yes.

Q. When we look at the northern portion of the contour around the Blue Fin 24 well, you have a thickness of 20 feet that I see confined around the Blue Fin 24, and I don't see that elsewhere. And that is caused by the fact that you have determined 20 feet of gross thickness in the 24 well, right? Off this log?

A. That's right.

Q. It would appear to me that in looking at the west half of the section, the area that has the greatest potential above the 10-foot contour line is the southwest quarter?

A. That's correct.

Q. Why is not your well in the southwest quarter to be drilled?

A. Don't think that 10 feet is enough for this particular interval.

Q. Were you involved in proposing to your company the location of a well in the southwest quarter that was the basis for the force pooling Application?

A. I don't think we proposed the location in the southwest quarter, unless I'm remembering something wrong.

Q. Well, maybe you are. Let's look at the Applications that you've talked about. The Application that Mr. Bruce just dismissed was for a second well in the west half, and that well was to be located in Unit Letter K.

A. Okay.

Q. All right?

A. We had some discussion of drilling a horizontal well. Horizontal well. The idea being there, 10 feet not being thick enough, if we can drill it horizontal we can

probably improve on those reserves.

Q. Was the Application filed in such a way that the endpoint of the horizontal wellbore would be located in the southwest quarter? That was the plan?

A. That is correct, yes, sir.

Q. And you now have since abandoned the opportunity to put a well in the southwest quarter?

A. That is correct, after running the economics. The cost of drilling a horizontal well, as you may know, is quite a bit more expensive than drilling a vertical well. And the reserves that we think we could find with a horizontal well still does not justify the cost to drill horizontally.

Q. Let's look at the upper portion of the isopach, around the Blue Fin 24. You've drawn a 20-foot contour line, and then you've stepped out and you have a 10-foot contour line, and then you step out again and hit the zero line. When we look at that data point, what caused you to close those contour lines just north of this well in the fashion shown on this display?

A. The U.S. Operating Leavelle Number 1, which is shown on the cross-section, has absolutely no pay in this particular interval that is shown on this map.

Q. How did you make the judgment that the no pay in the Leavelle well was the distance you chose to put it in

relation to the Blue Fin 24 well?

A. Guided somewhat from the seismic data and experience.

Q. And so you chose to close it just north of the Blue Fin 24 in the configuration that you've shown us?

A. I would say I closed it in Section 23, a half a mile north of the Blue Fin 24.

Q. When we look at the southern well, the Blue Fin 25, why did you not choose to close those contour lines in the same fashion that you chose to close the contour lines around the north side of the Blue Fin 24?

A. Again, guided by the seismic data and the experience mapping these things.

Q. When we look at the conventional well control, after we go south of the Blue Fin 24 well, we have to continue how far before you have another control point?

A. The nearest control point would be either this Buffton well here or this Double Hackle just off the map in Section 31. Probably this Buffton well.

Q. What was the basis for drawing the zero line between the Buffton well and the Blue Fin 24 well in the place that you've chosen to put it?

A. A fault.

Q. Why didn't you bring the zero line farther to the southwest until it encountered the fault?

A. Three hundred feet? I think --

Q. The zero line --

A. -- you're splitting hairs here. That zero line is going to -- The fault is not going to allow the map to be drawn across it over to this Buffton well.

Q. Well, that's --

A. So as far as this map can go is to the fault.

Q. We're not communicating, we're not communicating. If you take the line of cross-section on this map from the Buffton well in a straight line to the Blue Fin 25 well --

A. Uh-huh.

Q. -- do you see that?

A. Yeah.

Q. Look at that line in relation to where you put the zero contour line. That's more than 300 feet away from the fault, is it not?

A. The zero line on this map?

Q. Yes, sir.

A. The zero line of my contour --

Q. Yes.

A. -- and here is my fault.

Q. Right.

A. You see?

Q. Yes.

A. That distance is no more than 300 feet. All

right, put your hand on the fault line in the way that you just described. Follow that fault north and west until it intersects --

A. The line across --

Q. -- the line across the cross-section.

A. Okay.

Q. All right. Now head northeast and tell me why the western line of the zero line is so far to the northeast?

A. Okay, again -- I've mentioned this earlier -- this is guided by the seismic data. This part is not subjective.

Q. I have not yet seen from you -- Do you have a seismic isopach map? Do you plan to introduce one? When will we see it?

A. Are you referring to an isochron map? Is that what you're referring to?

Q. I want to see what is guiding you when you when you talk about the seismic interpretation guiding your configuration of this isopach. Where is the seismic map that makes you do that?

A. I'll tell you what, we can pull this one out right here.

Q. I want to see yours. You don't have one?

A. Don't have one to introduce as evidence.

Q. Okay. When you look at the seismic information -- well, let's go back to your --

A. I believe that seismic map that you're referring to was introduced at this hearing the first time.

Q. But you've chosen not to introduce it again, haven't you?

A. That's right.

Q. When we look at your net pay isopach, Exhibit 9, you have connected the sand package in this trough between the Blue Fin 24 and the Blue Fin 25. Those are connected, right?

A. Yes, they are.

Q. Have you pulled a 3-D seismic line that would run through in a north-south direction the Blue Fin 24 and the 25?

A. Yes, we have.

Q. Let me see that line.

A. Don't have it today.

Q. All right. When you look at Mr. Mazzullo's same line that he pulled --

A. Yes.

Q. -- he comes to the conclusion that there is a separation between the Chester low that is being produced out of the 24 well and the Chester low in the 25 well to the south, and he does that with geophysical exhibit.

A. Are you referring to this exhibit?

Q. Yeah, you're looking at it. Where's your map like that?

A. Did I explain to you -- Did you understand my explanation earlier about the significance of the seismic line and that the timing of these sand deposits were not -- the structure did not look like this at the time of the sand deposits? When you take this and you restore it to the surface as it looked at the time of deposition, you get deposition all the way across.

Q. Well, if that's true, how come there's not more than just the two here?

A. There is more, my map shows that.

Q. Show me the others.

A. These are the only two wells.

Q. Okay.

A. These are the only two wells. I believe my cross-section showed that.

Q. Show me where you used on this map seismic data to guide you in your interpretation.

A. On this map?

Q. Yes, sir, on your Exhibit 9.

A. On Exhibit 9 -- Let's take Mr. Mazzullo's Exhibit 15-C --

Q. Okay.

A. -- and if you hold these two maps up together, side by side, do you see a similar relationship between the outline of this isopach and the outline of this structure?

Q. I don't, but --

A. We do.

Q. Good. What are the seismic attributes that you've used to control your contours on the isopach?

A. You can't use seismic attributes. We don't believe we can use seismic attributes to see intervals that are 10 to 16 feet thick.

Q. When you testified last May, of last year, Mr. Messa, it's my recollection that the Atoka was your primary objective of your analysis and that the Chester was a backup. Did I remember that right?

A. That's correct, absolutely.

Q. So where are the maps of the Atoka that are driving your desire to space the west half of this section in the spacing unit operated by Ocean?

A. Currently do not believe the Atoka is a commercial zone.

Q. So we're down now just to the Chester? You don't see any other opportunity at any other interval in this spacing unit?

A. No, I do not.

Q. Whether it's oriented north half or west half,

there's -- Chester's it, right?

A. Chester's it.

Q. Mr. Messa, I'm looking at the maps and I'm still having trouble with something. What you have, you show me here that is in disagreement with any of the modeling that Mr. Mazzullo did.

Let me ask it another way.

A. Which map are you referring to?

Q. Do you have any data that shows Mr. Mazzullo's geologic models are wrong?

A. Yes, I can show you right here with Mr. Mazzullo's exhibit.

Q. So are you just going to repeat what you told me a while ago?

A. No, let me show you something else. Mr. Mazzullo's exhibit shows the Blue Fin 24 in a structure sense being lower than the Blue Fin 25. I'd say that model's wrong, because I looked on the structure map. Based on real subsurface data, the Blue Fin 24 well is structurally higher than the Blue Fin 25.

Q. Anything else? Is that it?

A. I think that...

Q. Talk to me, Mr. Messa, about the depositional environment for these Chester channels.

A. I agree with Mr. Mazzullo in his paper that these

were erosional features off of this structural ridge that ran northwest across here, that these were eroded and shed, filled into the lows. I believe that the alluvial fan is a good model.

And alluvial fans, if you've ever seen them when you're flying over the western part of the United States, you'll see these alluvial fans. They look like fans, they lay down there. And you see them overlap, you see them coalesce. There's a lot of geometry to alluvial fans that fits what I'm seeing here.

Q. So you're seeing a south-flowing alluvial fan?

A. I'm seeing a collection of alluvial fans that were shed from this structural ridge that way and coalescing within this structural low.

Q. You're seeing a flow from west to east?

A. A flow -- an erosion from the structure high to the -- Yeah, to the east.

Q. Right, the fan is flowing in such a way that it fans to the east?

A. Yeah.

Q. As opposed to flowing to the south?

A. That's correct.

Q. And you see no disruption in that fanning so that you could combine these Chester lows in the same fashion that Mr. Mazzullo has chosen to depict them?

A. Again, the lows were not there at the time of deposition. These bowls were not bowls at the time of deposition.

Q. So you and Mr. Mazzullo are in disagreement about the extent or size of each of these bowls?

A. I would have to ask Mr. Mazzullo if he believed that was the way it looked at the time of deposition, and then I could tell you if I disagreed with him.

Q. Well, you saw his presentation.

A. He didn't talk about it in terms of what it looked like at the time of deposition. He's only talked about what it looks like now.

Q. When we look at the connection between the Blue Fin 24 and the Blue Fin 25, you have chosen to connect those? It's your belief that they're, in fact, connected?

A. Yes.

Q. Mr. Mazzullo's belief is that they are disconnected?

A. Okay.

Q. And if you're wrong and he's right, the reservoir in the Chester that's being produced by the Blue Fin 24 is confined to an area within close proximity to the Blue Fin 24?

A. If I'm wrong.

Q. Yeah. And if you're wrong and Mr. Mazzullo's

right, the area around the Blue Fin 25 well is going to be confined to the northwest quarter of 25?

A. I'd have to defer to the next witness, who has some fairly conclusive evidence from pressure data that that is not the case.

MR. KELLAHIN: Well, I'm ready to see that. I have no more questions.

THE WITNESS: Okay.

COMMISSIONER BAILEY: I don't have any questions.

COMMISSIONER LEE: No questions.

CHAIRMAN WROTENBERY: No further questions.

Mr. Bruce?

MR. BRUCE: Just one thing.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Messa, you were questioned about why you haven't presented the seismic data. Ocean did present seismic data at the Division Hearing, did it not?

A. That's correct, we did.

Q. And there wasn't much difference between -- What is that map? 15-C? Yeah.

A. Not much difference between our map and their map. We agreed on what it looks like.

Q. Okay. One other thing. I guess what they're proposing is that what we're dealing with with the Blue Fin

24 and 25 wells is essentially a cylindrical geologic feature?

A. That's right. The way they're calculating the volumetrics, from the way I understand it, they're taking a cylinder that is --

Q. -- uniform thickness?

A. -- uniform 35 feet of thickness, 13 or 40 acres, whatever they came up with in thickness, and saying this is what this tank looks like, basically a can, like a stock tank.

Q. Have you ever seen a geologic feature like that?

A. Of course not, no.

MR. BRUCE: Thank you.

CHAIRMAN WROTENBERY: Anything further?

Thank you for your testimony, Mr. Messa.

MR. BRUCE: Call Mr. Payne, our engineer, to the stand. And before I -- What I'm going to hand out is just a revised Exhibit 6 with maybe just some handwritten notes on it. This is what we submitted to the Commission last week.

To begin with, we're -- I faxed in some exhibits yesterday. I have a couple better originals that I'll hand out to the Commission. Although it seems rather thick, really there's only a couple of things we're going to talk about.

Probably to begin with, what I'd like to direct the Commissioners' to is what has been marked Ocean Exhibit 12, which is in this package -- it's just a single sheet -- together with the new Exhibit 35 that TMBR/Sharp submitted at the hearing today. Exhibit 35 is their comparative pressure history.

RAYMOND W. PAYNE,

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. Ray Payne.

Q. Where do you reside?

A. Houston, Texas.

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

A. Ocean Energy, and I'm a petroleum engineer, reservoir engineer.

Q. Have you previously testified before the Division or the Commission as a reservoir engineer?

A. Yes, I have.

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

A. They were.

Q. And are you familiar with the engineering matters

involved in this particular reservoir?

A. Yes, I am.

MR. BRUCE: Madame Chair, I tender Mr. Payne as an expert petroleum reservoir engineer.

MR. KELLAHIN: No objection.

CHAIRMAN WROTENBERY: We accept Mr. Payne's qualifications.

Q. (By Mr. Bruce) Now, Mr. Payne, you did sit through Mr. Phillips' testimony, did you not?

A. Yes.

Q. Okay. And I think you have in front of you his Exhibit 35 and your Exhibit 18. Could you -- and for the moment ignore the other exhibits that we've gone through, or that I've handed out. Could you go through your exhibit and compare it to Mr. Phillips' and tell them where you see the differences and discrepancies in the exhibit?

A. Well, initially we were given an exhibit that showed the --

CHAIRMAN WROTENBERY: Excuse me, which exhibit are you talking about? Eighteen? I'm getting close.

MR. BRUCE: Right there.

CHAIRMAN WROTENBERY: This one. Do you find it?

COMMISSIONER LEE: Yeah.

CHAIRMAN WROTENBERY: Thank you.

Q. (By Mr. Bruce) Okay, what does your Exhibit 18

show, Mr. Payne? And go through it slowly. I know there's a bunch of numbers on here.

A. Well, let me just start with the axis. This is a P/Z plot, which is a material balance calculation, and on the Y axis, the vertical axis, is the bottomhole pressure, what would be the best estimate of average reservoir pressure divided by the Z factor of the gas, which is a correction to the ideal gas behavior of compressibility, gas behavior of gas.

When you plot that on a cartesian plot versus the cumulative production, if you have a single reservoir with uniform permeability and porosity, you should be able to extrapolate a straight line after some production history and several pressure points taken and estimate how much reserves are in place, assuming that you have no water drive or other influx into the reservoir.

So what I have is three sets of data points here. The blue triangles are pressure data collected from the Blue Fin 24-1 well. The red triangle data points are pressure data in the Blue Fin 25-1, assuming that the Blue Fin 24 and the 25 are in communication.

Those same pressure points are also plotted at the red triangle, or the orange triangles, and they're noted at the bottom of the graph, and the legend is the "Blue Fin 25-1 (not in communication)".

Well, what I want to make sure is, the cumulative production to plot the orange triangles and to plot the red squares is the difference in why those data points are located differently on the graph. They're the same pressure points, just plotted with different cumulative production on the X axis.

And what I'm trying to show there is, if you assume and I concur that the original reservoir pressure in this Austin-Chester interval was somewhere close to 6100 pounds. You take a Z factor of 1.06 and divide that into your original reservoir pressure, you get your first pressure point, your P/Z point that I'm indicating at the top of the graph at 5742.

And then subsequent to that you have some pressure data that was collected, and I need to go into more detail, you know, how those pressures were taken, and we can discuss that more. But if you take that pressure data, the orange triangles, and assume that those pressure points were taken after a nominal amount of production in the Blue Fin 25.

And then subsequent to that there was another pressure data taken, and I just received that from TMBR/Sharp in their exhibit that says that they took another pressure point that's shown on their Exhibit 35 for the Blue Fin 25, and it's showing a pressure of 3723

pounds.

So I have two data points. They didn't show you the one that's located just above 5000 pounds, but I have support for that as well and we'll discuss that some more.

But if you draw a straight line through all three of those data points, then you get a gas in place for the Blue Fin 25 of only 10 million cubic feet of gas, which is just not right, because the well has already produced, as Mr. Phillips testified, over 100 million cubic feet of gas. So we know that's not right.

But if you assume that both the 25 and the 24 are in the same reservoir and the cumulative production that you would plot on the X axis is not the production for the individual well but the combined cumulative production for the wells, you can see the data points pull much closer to what you would expect the volumetric estimates to be.

So that's a pretty strong indication for me that the reservoirs are in a common tank, and I'll discuss that some more if you -- You wanted to ask some questions?

Q. Just a couple. These data points, just -- We handed the Commissioners a bunch of other exhibits. Exhibit 12 is just the pressure, the original pressure data point, was it not?

A. Yeah, Exhibit 12 would be the pressure point for the Blue Fin 24 that's located at the first -- that would

be the 5742 P/Z point.

Q. Okay. Then Exhibit 13, what is that?

A. Exhibit 13 is the first pressure point for the Blue Fin 25 well, which is your first orange triangle and your first red triangle moving from the top of the graph down.

Q. Was that shown on TMBR/Sharp's exhibit?

A. No, it was not.

Q. Okay.

A. Neither one of these pressure points were on TMBR/Sharp's exhibit.

Q. And then what is Exhibit 14?

A. Exhibit 14 is the drill stem test for the Blue Fin -- the full copy of the drill stem test for the Blue Fin 25-1, which is on TMBR/Sharp's Exhibit 35, shown there as a point of 6298. So this is the drill stem pressure taken for the Blue Fin 25 when they were drilling the Austin.

Q. Okay. Do you agree that that -- Which pressure do you think is correct? Let's put it that way.

A. Well, there are a lot of things that can affect pressures, and drill stem pressures particularly. You look at the interval that they were testing and, you know, it was a larger interval than just the pay section.

Q. So there are the two zones that you're looking

at?

A. That's correct.

Q. The upper and lower zones?

A. That's correct. And during the drill stem pressure they only produced, you know, 2000 or 3000 cubic feet of gas, a very nominal amount of gas, before they shut it in for their buildup. And since you've got two different reservoirs, one of them is not being produced by the Blue Fin 24 well and one of them is. Well, that reservoir is going to show higher reservoir pressure, and it's going to give you apparent high pressure on the drill stem test.

Q. Do you believe that the Exhibit 13 pressure, the 5400, is the more correct pressure?

A. Yes, sir, I do, and I'd like to add that this pressure was taken after only two days of production, and the well flowed for 350 MCF a day for two days and then was shut in for this buildup. So there was very little cumulative production that came from the well before this cased-hole pressure was taken where the perforations were pointed directly across the interval in question, and I think it's a much better representation of what the current reservoir pressure was at the time the well was drilled.

Q. And that would indicate to you pressure communication between the Blue Fin 24-1 and the Blue Fin

25-1 wells?

A. Yes, sir, because this pressure -- If you look at Exhibit 13 in the underlined portions it shows that the pressure was 5425.33 pounds, is the estimate that Pro Well Testing made, and that would be significantly below what the original reservoir pressure was calculated to be at 6100 pounds.

Q. Do you have anything further on Exhibit 18?

A. Yeah, I think this Exhibit 13 -- also in the upper underlined portion there is a sentence. It says, "The data did show a slight cross-flow..." which is indicative of a multi-zone reservoir where you're having -- you shut this well in, you have one reservoir that was a different pressure than the other, and it's flowing to the other one. So that supports Mr. Messa's conclusion that we had two separate reservoirs, one of them being produced from the Blue Fin 24 and one of them being at original pressure, or more original pressure.

Q. By "two reservoirs" you mean the upper zone and the lower zone?

A. Yes, they're separate --

Q. Okay.

A. -- they're --

Q. Not that --

A. -- separate tanks.

Q. -- the 24-1 and 25-1 are not in communication?

A. Yes, exactly. I mean, talking laterally, not --

Q. Okay.

A. I mean, horizontally.

Q. Okay.

A. And then I'd also like to point out, if you look at the new pressure data on TMBR/Sharp's Exhibit 35 -- I think it's page -- one, two, three -- the fourth page, the second from the last -- just make sure I've got the right one. Yeah. And if you read that first paragraph, again in October, several months after the -- you know, the original pressure was taken, the data also showed cross-flow and confirmed the initial tests, also supporting the theory that you had two different lobes, two different pressure regimes.

And I think that's also a contributing factor why the P/Z plot, when you put all the data together, it doesn't line up in a perfect line and fall into place with what you would expect it to do. I think the P/Z plot is probably -- if you just agree with Mr. Phillips' P/Z plot, if you draw right through the data points, it's probably pessimistic.

Q. Do you have anything else on Exhibit 18 at this time?

A. No. I know it's a lot of data points and it can

be confusing, and I want to encourage anybody to, you know, to ask questions to clarify that.

Q. Okay. Let's move on to your Exhibit 6, Mr. Payne. Now, there's a bunch of data put in here too, including some -- This was submitted last week, but I believe you've added some handwritten notes to this.

Briefly, what does this summary page show?

A. What I'm trying to do is take the net-pay-sand map and use that as a basis to analyze the equity difference between a north-half unit and a west-half unit, and I'll show what the reserve ownership is in the different configurations.

Q. Okay. Let's -- well, maybe start first -- The pages are numbered, Commissioners. I think, Mr. Payne, if you could go to page 3 of this exhibit, what is on that page?

A. Page 3 is -- You've got the reservoir depicted by Mr. Messa's net pay map, the entire reservoir shown on the right-hand side, and then -- I mean on the left-hand side of the page.

And then on the right-hand side, that same reservoir broken up into its quarter sections.

So the entire reservoir was isopached, it being 4398 acres. Originally -- You know, volumetric analysis using parameters shown on page 2 of this document estimate

about 1490 MCF per acre-foot of gas. So in this entire reservoir, volumetrically we're estimating 5.5 BCF.

And if you go over on the right-hand side, isopaching each one of these quarter sections and estimating the acre-feet underlying those quarter sections and --

Q. Are those numbers summarized on page 2, then?

A. Yes, sir, they are.

And the other thing I want to point out on page 3 is that I'm showing the decline curve analysis on the Blue Fin 24-1 and the Blue Fin 25-1, estimating the decline curve reserves at 3.8 BCF on the Blue Fin 24, and the Blue Fin 25 estimating the decline curve reserves at 2.7 BCF.

So a total decline curve analysis of 6.5 BCF, which is higher than the volumetric estimate, but comparable and can be -- it maybe can be explained with some other, you know --

Q. Okay.

A. -- because those wells are producing, you know, two lobes where the volumetrics are estimated on the larger reservoir.

Moving to page 2, this is volumetric calculations for each quarter section, showing the reservoir in Section 23, 24, 25 and 26 and 36. And what I'd like to point to is the handwritten table showing the acre-feet per each

section.

And particularly, if you look at Section 25, which is the focus of the hearing we're here today, the total acre-feet in all of Section 25 is 2642 acre-feet.

So of the entire reservoir that extends across Section 23 through 36, 62 percent of those reserves lie in Section 25.

Q. Of that what is in Section 25, what is in the west half?

A. Well, if you look at the bottom part of this exhibit, I've summarized that. Section 25, what I'm showing there is that the west half has a total of 2534 acre-feet, which constitutes 95.9 percent of the reserves in Section 25.

So only a very small percentage, 4 1/2 to 5 percent of the reserves -- excuse me, of the -- yeah, about -- somewhere around 4 percent of the reserves lie in the east half of Section 25.

Q. So 96 -- just looking at the -- of Section 25, 96 percent of the reserves in Section 25 are in the west half?

A. Yes, sir.

And I'd also like to point out that based on the decline curve analysis that the Blue Fin 24 is going to produce far in excess of the volumetric reserves that are, you know, assigned to that section.

Q. Okay. So what do you give as -- for the Blue Fin 24-1, what do you give as volumetric reserves?

A. The volumetric reserves would be just under -- It's the second line on this page 2 exhibit, and the recoverable reserves are just a little less than 1 BCF, compared to the ultimate recovery estimate, the decline curve estimates, of 3.8 BCF.

Q. So --

A. Almost 400 percent of its volumetric estimate.

Q. Where are those reserves going to come from?

A. Section 25 is the most likely place. Well, it's got to come from Section 25. Maybe some from Section 23 but, you know, the majority of that is going to be drainage from Section 25.

Q. Okay. Now, there are some comments about oil gravity or some -- in an exhibit regrading oil gravity, Mr. Payne, and there was a slight difference in oil gravity. Do you have an explanation for that?

A. Yeah, I think -- I agreed with Mr. Phillips' assertion that the gas analyses were very similar. The most significant difference from those two gas analyses was the CO_2 content, and I looked at that and pondered that for a little while until I noticed the Blue Fin 24 does make a modest amount of water production. Not that much, but a little bit, a lot -- and where the Blue Fin 25 makes no

water production.

You realize that these samples would be taken at the surface, some two to three miles away from the production of the reservoir.

So this gas comes into the wellbore, and CO_2 is very soluble in water. So a small difference in CO_2 percent, I think, is -- probably can be explained by CO_2 going into solution, into the water, and not being sampled as a gas.

And the differences in oil gravity I think are not significant at all. And when you realize that -- I agree that this is a gas reservoir -- Whether it's a retrograde condensate reservoir or not, I'm not sure. I think it could be, but I have no evidence to suggest that.

But the dew point in the reservoir is much higher than the flowing bottomhole pressure. So we're getting oil that's actually falling out in solution into the reservoir. The Blue Fin 24 is a much higher permeability reservoir. It's going to be able to carry the oil better to the wellbore and fill it up than the Blue Fin 25, which is a .1-millidarcy reservoir, compared to a 1-millidarcy reservoir in the Blue Fin 24, nearly 10 times lower.

So what you get is, the oil is retained in the rock, and the compositional nature of the gas in the oil sample at the surface can have slight differences because

of that. And that's very technical, but I feel very confident about that.

COMMISSIONER LEE: You have confidence, but you make 20 assumptions in reaching your confidence level.

THE WITNESS: And that's based on --

COMMISSIONER LEE: Don't you think that's a little bit odd?

THE WITNESS: It's based on a lot of experience, and it's very -- I see that in a lot of wells. When you --

COMMISSIONER LEE: So how about the dew point? What is the dew point you're talking about?

THE WITNESS: I don't know, but if you look at --

COMMISSIONER LEE: You just used the dew point.

THE WITNESS: Right, but it's dropping -- We know it's dropping out in solution, because we're getting oil at the surface. And I don't -- We know the oil is making it at the tree. Now, either it's an oil in the reservoir, or it's dropping out in the -- you know, is it a gas reservoir or an oil reservoir? And most --

COMMISSIONER LEE: So it's an oil condensate, what are you talking about?

THE WITNESS: I think it's a gas reservoir that's dropping the oil out of solution --

COMMISSIONER LEE: So in the --

THE WITNESS: -- in production.

COMMISSIONER LEE: -- reservoir you hit the dew point?

THE WITNESS: That's right, because the flowing bottomhole pressures here are, you know, 1000 to 2000 pounds compared to the reservoir pressure of --

COMMISSIONER LEE: So your temperature is low enough to justify your assumption?

THE WITNESS: Yes, based on my experience I think that's very common, and that's --

COMMISSIONER LEE: What experience do you have?

THE WITNESS: Looking at -- You know, we operate over 300 wells in New Mexico and Texas, and I've also been a petroleum engineer and looked at many wells in east Texas, north Louisiana --

COMMISSIONER LEE: So you --

THE WITNESS: -- retrograde reservoirs.

COMMISSIONER LEE: Retrograde reservoir doesn't mean your dew point hit the reservoir. Your temperature is way higher than your pocket.

THE WITNESS: In -- Well, I'm not sure I understand the question.

COMMISSIONER LEE: You -- Draw the phase diagram. So which part are you talking about the reservoir is?

THE WITNESS: I think it's -- Well, make sure that --

COMMISSIONER LEE: Put down the critical point.

THE WITNESS: Right. Critical point is probably something like that. Temperature is going to stay constant. And this may not be the right phase envelope, I'm trying to -- I think -- It's been a while since I've laid this out, Dr. Lee. I think it would be something like this, where your liquid percentages --

COMMISSIONER LEE: And that is all your field. That is not the gas field.

THE WITNESS: Well, the pressure here is in the gas phase, so in the reservoir --

COMMISSIONER LEE: So you hit a dew point. Is any bubble coming out? You are lying in the critical point on the left-hand side. Do you have gas on the left-hand side, or do you have a liquid on the left-hand side?

THE WITNESS: Well, at this pressure point here it's 100-percent gas, and --

COMMISSIONER LEE: One-hundred-percent gas or 100-percent liquid?

THE WITNESS: No, 100-percent gas.

COMMISSIONER LEE: One-hundred-percent gas. They don't hit a two-phase bubble, then. How many -- in that dew point -- What is the liquid content on that dew point?

THE WITNESS: At this point? At this exact point it's still zero. As you drop below this pressure, you get

a -- you start developing --

COMMISSIONER LEE: -- bubbles!

THE WITNESS: No, dews, droplets.

COMMISSIONER LEE: So on the critical point on this side is all gas?

THE WITNESS: Yes, sir.

COMMISSIONER LEE: Then this side is all liquid?

THE WITNESS: No, I might not be communicating very clearly.

COMMISSIONER LEE: No, we're communicating each other very well. That critical point on the right-hand side, what is the liquid? What do you call it, that line?

THE WITNESS: I forget what the --

COMMISSIONER LEE: That's called the bubble point. That bubble point means the first drop is going to come out.

THE WITNESS: Okay, so it needs to be over here, you're right. It's been a while since I've done that. And this thing needs to build out like this. Does that make better sense? And then this comes down here like this.

Thank you, Doctor.

COMMISSIONER LEE: You're welcome.

THE WITNESS: And the point that I'm making is that the oil is falling out in solution in the reservoir, and that's causing -- Your composition of your reservoir

fluids to be -- can be different. And your flowing bottomhole conditions, your sampling conditions, can create slight differences in the sample.

And I think the gas analysis and the oil analysis doesn't do anything to support them being in a separate reservoir. I think they're much more similar than they are dissimilar in content.

And that's all the point I want to try to make there.

Q. (By Mr. Bruce) Mr. Payne, if another well is drilled in Section 25, do you have an estimate as to what that well will recover?

A. Yes, sir, if you look on page 1 of the Exhibit, you'll see that I've got on the left-hand side the reserve -- a couple of reserve comparisons for a standup 320, as compared on the right-hand side, a north-half laydown 320. And if you focus to the left, the upper numbers are reserve distribution based on decline curve analysis of the ownership between TMBR/Sharp, Ocean and David Arrington, which now includes -- TMBR/Sharp now owns those reserves, as I understand the testimony to be.

Comparing that to the volumetric reserves that -- using Mr. Messa's map, I think you see that that distribution compares pretty well, volumetric reserves versus decline curve analysis for a west-half unit.

On the left-hand -- And then if you look at that, it also suggests that since the Blue Fin 25-1 is going to produce 2.7 BCF, that there would only be something like half a BCF or .6 available for another well in the west half.

And I've got a cash flow on the final page of this exhibit that demonstrates that that would not be economic to drill. I think it would be pretty obvious.

Versus the -- On the right-hand side of this exhibit, a laydown 320-acre unit. The volumetric reserves that lie under that tract are only 1 1/2 BCF, compared to the reserve recovery estimate of 2.7 BCF.

Q. So there's only going to be one well in Section 25; is that your estimate?

A. Yes, sir.

Q. Of the estimated 5.5 BCF recoverable reserves in this reservoir, will the two existing wells adequately drain the reservoir?

A. Yes, they will.

Q. Do you think there's a need for a third well in this reservoir?

A. No, I don't.

Q. One final thing, Mr. Payne. Have you looked at the production data from the Blue Fin 25 Number 1?

A. Yes, sir.

Q. What does it indicate to you?

A. I've got my production plot here on page 5, and then we've got the daily tabular production shown on -- somebody help me find where that might be, what tab the daily production is for the --

Q. TMBR/Sharp Exhibit 40, Mr. --

A. Okay, that's 24. I'm looking for 25. Oh, it's in that same --

MS. RICHARDSON: 25 is in the back.

THE WITNESS: Yeah, it's in that section. Okay, there we go.

If you flip through to the current production figure there you'll see -- you know, just kind of briefly discuss my decline curve analysis. I'm showing 2.6 -- 2.7 BCF of reserves produced over 50 years, and that's assuming that the well would be -- continue to be produced at its current configuration with a tubing pressure of 1000 pounds.

Obviously that reserve recovery would be accelerated significantly when you drop the line pressure. Typically out here at some point in time you drop that producing pressure -- Well, typically it's already dropped to whatever line pressure you're flowing into, and then at some point in time you put a compressor on the well and draw it down to 50 pounds or, you know, a much lower

pressure.

So these reserves, you know, won't -- will be produced in half the time that I'm showing on this curve.

And I'm looking at this production plot, and I don't understand why the flowing tubing pressure in the 25 is 1000 pounds, as compared to the Blue Fin 24 well, which is 850 pounds. It's not a whole lot of difference, but I would think that if you're competing for reserves in a common reservoir, that you would want to try to produce it at its maximum deliverability.

Q. What does the tubing pressure indicate to you?

A. It's being choked back, and since the line pressure is only 323 pounds I think it would be easy enough just to open it up at least to the line pressure. There's no cost to doing that.

Q. If a west-half unit was approved, does Ocean Energy request that it be approved as operator of the well?

A. Yes, sir, we do.

Q. There were three final exhibits we had that we haven't even mentioned yet. Exhibits 17, 19 and 20, Mr. Payne, just very briefly, what are they?

A. Exhibit 17 is a PDK log that was run on the Blue Fin 24-1, and it's showing an estimated porosity in the Blue Fin 24 of 10 percent.

Q. That's substantially lower than what was used in

their calculations, was it not?

A. Yes, sir, but that's consistent with the porosity numbers that they're showing in their bottomhole pressure analysis --

Q. Okay.

A. -- Exhibit 13 and 12. And the implications of that is that if your decline-curve analysis is correct, then your tank gets bigger.

Q. So the reservoir could -- What you're saying is that the reservoir is bigger than the 30 acres they claim it is?

A. Yes, sir.

Q. And then what are Exhibits 19 and 20?

A. Exhibits 19 and 20 are just simply backup data for my estimate of reserves, showing how I estimate the Z factors and the compressibility factors that were used in our volumetric calculations, based on the gas analysis that was recently provided for the Blue Fin 24 and the Blue Fin 25-1.

It shows that the correction factors and expansion factors that I used in my volumetric estimates are reasonable.

Q. Were Exhibits -- We've all been kind of squirrely on exhibits today, but were Exhibits 6, 12, 13, 14 and 17 through 20 prepared by you or compiled under -- from

company business records?

A. From TMBR/Sharp's data, yes.

Q. Okay. They were provided to Ocean during the course of the disputes between the parties?

A. Yeah, following -- This data was made available to me after the hearing with Mr. Stogner.

Q. Okay. In your opinion, is the granting of Ocean's Application in the interests of the prevention of waste and the protection of correlative rights?

A. Yes, sir, I do.

MR. BRUCE: I'd move the admission of those exhibits, madame Chair.

CHAIRMAN WROTENBERY: Any objection?

MR. KELLAHIN: No objection.

CHAIRMAN WROTENBERY: Okay, Exhibits 6, 12 through 14 and 17 through 20 are admitted into evidence.

MR. BRUCE: I have no further questions.

MR. KELLAHIN: Thank you.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Payne, would you pull out your Exhibit Number 6, please? I'd like you to turn to the third page of Exhibit 6. I'm looking at your apportionment of the volumetric reserves to the quarter sections.

A. Yes, sir.

Q. And when I find the Number 25 well in the northwest quarter, the number 1147 --

A. Yeah.

Q. -- is equal to what? What does that represent?

A. That's equal to the acre-feet that were planimetered for that quarter section.

Q. I've got you. When we look at the 25 well, what's the current daily rate on that well?

A. I believe, referring back to TMBR/Sharp's Exhibit 40, the current production rate is 536 MCF per day.

Q. Do you agree with TMBR/Sharp that that well is producing in a low-permeability reservoir? It's kind of tight, isn't it?

A. Yes, sir, I think that's correct.

Q. And if you use these calculations and expect the Well Number 25 to have a 50-year life -- Isn't that what your economics was based on? You had a 50-year life on that economic --

A. No, sir, what I'm trying to do with that exhibit is estimate the reserves that are in place, and that estimation was made based -- assuming that the current tubing pressure would stay flat for the duration of the production.

Once you drop that tubing pressure, you're going to accelerate the reserve recovery. So you know, the well

is currently producing at 500 MCF a day, it's been frac'd probably has a negative skin. I can't tell you with the data in hand, you know, if you dropped it to 300-pound line pressure, exactly what it would produce, but it would be significantly more than its current production.

Q. My question for you is, if the Well 25 has a rate of slightly over 500 MCF a day and it's a low-permeability reservoir --

A. Yes, sir.

Q. -- and you've got an equivalent reservoir volume in the southwest quarter of 25, it appears to be enough to support a well in the southwest quarter?

A. No, sir, it would not. Those reserves are going to be drained from the existing production. The reserves that you would drill would be acceleration reserves, not additional reserves.

Q. All of the information in Exhibit 6 is predicated on a whole bunch of assumptions you've made. The fundamental assumption is that you're believing that Mr. Messa's geologic isopach map is correct?

A. His isopach map is consistent with my decline curve analysis and consistent with the pressure evaluation in the reservoir, and that --

Q. That wasn't my question. My question is, your volumetrics, whatever assumptions you make on that

calculation --

A. Yes, sir --

Q. They are --

A. -- that's correct.

Q. -- closely linked to the isopach, right?

A. That is correct.

Q. Your assumptions are that that isopach is correct?

A. And if I can complete my answer that I was giving earlier, is that my confidence factor in that isopach increases because it's consistent with the reserve analysis from decline curve analysis and consistent with the material balance estimates that we'd have for the reservoir.

So those three things put together help increase your confidence factor, and that's pretty typical what a reservoir engineer would do.

Q. Okay. Well, let me ask you questions about your confidence.

If I am correct, your calculations are predicated on that isopach Mr. Messa presented being correct. If it's wrong, your calculations are wrong?

A. Sure, yeah.

Q. When you analyzed -- You've got a whole bunch of pressure studies. Let's turn to Exhibit Number 12. Do you

have the package that shows these various exhibits? If you look at --

A. Yeah, I think they're numbered.

Q. Yeah, mine's Number 12, and it's the test on a letter dated March 6th of 2002. Do you see that?

A. Yes, sir, that would be the original pressure for the Blue Fin 24-1.

Q. Yeah, this is on the 24. Where is the Mississippian reservoir in relationship to the Chester?

A. It's the top of the section.

Q. The Mississippian is below the Chester?

A. Oh, the Mississippian reservoir?

Q. Yeah, the Mississippian. Substantially below the Chester?

A. Well, yeah, the Austin is part of the Mississippian, as I know, as I recall.

But yeah, the Mississippian -- I'm not sure exactly, but they did test a lower Mississippian production.

Q. When you look at these pressure tests, what you would want to have is pressure tests all taken out of the same reservoir, would you not?

A. Yes, sir.

Q. Would it surprise you to know that this pressure test for the March 6, last year, test on this well was from

the Mississippian formation?

A. That would.

Q. Okay. So then we can ignore that, can we not?

A. For the Blue Fin 24, you're saying this is --

Q. -- Mississippian pressure test.

A. Okay, and let me -- Do you have some evidence to say that?

Q. Well, I'm happy to recall my witness in a minute. But it would surprise you -- If it's not in the Chester, it's no use to you, right?

A. That's correct.

Q. If you'll turn to Exhibit 13, this is a test on a letter dated January 27th of last year, and now we're looking at the Blue Fin 25 well?

A. Yes, sir.

Q. Is it going to matter to you whether this pressure test was taken before or after the fracture treatment of the well?

A. No, sir, not in the -- no, it -- not for the purpose of the analysis that we're doing here.

Q. Isn't the purpose of a pressure test to have a reliable test of the reservoir?

A. Yes, sir.

Q. How do you achieve that if the pressure test has been conducted before the well has been fractured?

A. Well, you're trying to investigate the pressure profile of the buildup, and the well was perforated in communication with the reservoir, and I think at that time it was determined that a fracture stimulation would enhance production. But the pressures themselves are still valid pressures.

Q. Okay, the date of this letter is July 29th of last year?

A. Yes, sir.

Q. And the information in the exhibit books shows the well was frac'd on November 5th of the same year, a number of months later?

A. I believe that's correct.

Q. So -- And that does not bother you, to use a pressure that is a pre-frac pressure?

A. Oh, absolutely not.

Q. Okay. Your assumptions, your engineering assumptions, are predicated on your belief that the Number 24 and the Number 25 well are in pressure communication, correct?

A. That's correct.

Q. If they're not in pressure communication, these two wells are producing out of separate, discrete reservoirs, are they not?

A. That's correct. There's two lobes there --

Q. Right --

A. -- one --

Q. -- they're not talking to each other?

A. There's two lobes in each well. The upper lobe, Mr. Messa's analysis is limited and related to just those individual wells. The lower lobe, which is more extensive and has the majority of the reserves, is being shared between the Blue Fin 24 and the Blue Fin 25.

Q. And you believe that to be true because the pressure information is consistent with your conclusion that they're communicating?

A. Absolutely. If they weren't, then you'd have seen a much higher pressure on your July 29th pressure shown in Exhibit 13, because that's indicating that there's almost no reserves in the Blue Fin 25-1. So that pressure must be associated with the cumulative production of both wells, not just the production from the Blue Fin 25.

Q. Do you have a copy of the TMBR/Sharp Exhibit 35?

A. Yes, sir, I do.

Q. Let's take a look at that. Do you have a copy?

A. Yeah, I've got it.

Q. All right. If you'll look, in late October of last year there's a pressure on the Blue Fin 25 well, 3723 pounds. Do you see that?

A. Yes, sir.

Q. All right. On about the same time, then, there's a pressure on the other well, the Blue Fin 24 well, and it's 2529 pounds. There's 1200 pounds, give or take, of differential between the two wells.

A. Right.

Q. Tell me why that is not an indication that these are, in fact, in separate reservoirs.

A. Well, each well is completed in two lobes. One of the lobes is not in communication with the other well, and it could be a very high-probability well -- or zone. So it's being drawn down, and then when you shut the well in you'll get -- the pressure for the lower lobe won't built to its maximum amount, you'll cross-flow into the upper lobe that's lower pressure is partially depleted.

And the other aspects of that, it's very common for these reservoirs to be -- you know, the geologic configuration is very complex. You can have a lot of choke points, baffles in the reservoir, such that -- The P/Z plot historically is -- always underestimates these reserves, as Mr. Phillips testified to earlier. But when you -- it's not reasonable at all, based on my Exhibit 18, to assume that that pressure is only associated with the Blue Fin 25 well and not associated with production from the Blue Fin 24.

Q. When we look at the October pressure tests of

last year, the lower well on the plot is the Blue Fin 24. At about this point in time it's already been producing a year and a half, give or take, right?

A. Can you ask that again, please?

Q. Yeah. The Blue Fin 24, which is the lower-pressure plot on --

A. Yes.

Q. -- Mr. Phillips' Exhibit 35 --

A. Exactly.

Q. -- that well pressure is taken after the Blue Fin 25 has produced about a year and a half?

A. That's correct.

Q. And the upper pressure for the other well, the Blue Fin 25, is taken after that well has been producing for almost a year?

A. That's correct.

Q. So taking those time differences into consideration, do you still think you can explain why there's a 1200-pound pressure differential between those two wells and have them not be in separate containers?

A. Yes, sir, I feel comfortable with that analysis.

Q. And that's what you think you just did?

A. Yes, sir.

Q. Go back on his plot on pressure, Exhibit 35. Come back to June of last year, and there's an extrapolated

pressure decline line for the Blue Fin 24 that intersects that intersects that time period, and it's somewhere around 4500 pounds?

A. Which exhibit are we looking at?

Q. I'm still looking at Exhibit 35.

A. Okay.

Q. Mr. Phillips' exhibit.

A. Okay.

Q. There's only one straight line on that plot?

A. That's correct.

Q. Two pressure points are connected?

A. Right.

Q. When you follow that line from left to right and follow it down and find a date in June of last year, you're at about 4500 pounds?

A. June of last year.

Q. There's dates on the bottom.

A. Yeah, I don't see a pressure of 4500 on this one.

Q. No, you have to read up and find the line.

A. Oh, okay, I've got you. All right, going over the line, coming down --

Q. Yeah. Now hold that point of the line.

A. Got it.

Q. Now read up and tell me, how many more pounds of pressure do we now have in the Blue Fin 25?

A. Well, I don't feel that pressure is a valid pressure to drill stem test. It's had virtually no production associated with it, and the test that was taken on March 6th, I feel -- is that a drill stem? Wait a minute. Drill stem test here...

Q. Your explanation is, the pressure on the Blue Fin 25 well is a drill stem test, and you've chosen to ignore that data?

A. Yes, sir. I don't feel like that pressure is indicative of the reservoir. I believe that drill stem test -- Yes, that's correct, that drill stem test is not indicative of the reservoir. It's being influenced by the higher pressure lobe, the upper lobe that's not being depleted from the Blue Fin 24. I mean --

Q. You made a point a while ago of drawing our attention to the flowing line pressure differential between the two wells. The 25 well was at about 1000 pounds, and the 24 was down around 850?

A. Yes.

Q. If those wells are producing out of separate reservoirs, it's not going to matter, is it?

A. No, sir.

Q. And the fact that they are being produced at different flowing line pressures is not an indication that they are in the same reservoir or in separate reservoirs;

that data cannot tell you one way or the other?

A. Could you ask that question again?

Q. The fact that the operator has chosen to have a flowing tubing pressure for the 25 well that's less than the flowing tubing pressure for the 25 well [*sic*] is not going to tell you as an engineer whether these pools are connected or not?

A. That's correct, I just see that it's not producing at its maximum deliverability.

Q. And if they're in separate reservoirs, then it would be the operator's choice about what choke setting he makes on that well and what line pressure he has to account to?

A. With gas prices being favorable right now, I think Ocean would choose to produce the well at its maximum deliverability.

Q. And Ocean was given an opportunity back in January of the year 2001 to get in on the ground floor of this operation and to produce and take advantage of the opportunity to pay a share and produce this well?

A. I believe that was testified to earlier by Mr. Maney, and I refer those questions to him. But I don't believe that's correct.

Q. So Ocean chose not to participate in this well?

A. We don't have any interest in the north half. It

would be better if I deferred that to Mr. Maney.

MR. KELLAHIN: Nothing further, thank you.

THE WITNESS: Could -- Go ahead.

CHAIRMAN WROTENBERY: Mr. Payne, did you want to say something?

THE WITNESS: Yeah, I want to try to find the drilling report for the Blue Fin 24-1, because -- caught me off guard there, and verify that that pressure was taken in the proper reservoir. And I don't think it changes my analysis, but -- Okay, you've got it?

CHAIRMAN WROTENBERY: We'll cover it in a minute.

THE WITNESS: Okay. Scared me.

EXAMINATION

BY COMMISSIONER LEE:

Q. Let's go through Exhibit 18.

A. Yes, sir.

Q. How do you plot the common reservoir?

A. Well what I did is, I took the cumulative production --

Q. For each well?

A. -- for each well, combined it, and that's --

Q. How combine it?

A. Well, you take the production at the date that the pressures were taken and the cumulative production from each well at that date and add them together.

Q. Add them together.

A. Yeah, I think if you see the box here on that plot, it says Blue Fin 25, pressure buildup. And as of July 27, 2002, the cumulative production from the Blue Fin 24-1 was 322 million cubic feet of gas, and the Blue Fin 25-1 was a very modest .7 million cubic feet of gas.

And the P* being 5425 is the pressure that's being plotted just above the 5000 line, both for the orange triangle and the red square.

Q. And how do you combine the pressure?

A. You don't combine the pressure, it's just the pressure that's being taken out of the Blue Fin --

Q. -- 20?

A. -- the 25 well. That's a pressure data point from the Blue Fin 25 well.

And then subsequent to that in October, the cumulative production had increased. It still was only 4 million cubic feet of gas for the 25-1. So it hadn't investigated nearly the area that the Blue Fin 24-1, so it's not -- it wouldn't be uncommon to see a significant pressure difference there, because its radius of investigation had been much smaller, with only 4 million cubic feet of gas produced, compared to the 515 million cubic feet of gas produced in the Blue Fin 24-1.

Q. Now, this plot is basically -- it's P/Z equal to

NRT divided by --

A. Yes.

Q. -- feet?

So how can you add it up together like this?

A. Well, if it's all in one common tank, then the reservoir pressure, it's just -- the pressure in the tank should decline according to the cumulative production from one -- from both wells.

Q. You think about it.

A. Yes, sir.

Q. At the certain point of the day, how are going to justify you have two pressures? Suppose I have said this is a common reservoir. In a certain day they have a different pressure.

A. Well, there's permeability variations in the reservoir and different baffling and, you know, pinch-points. So if you look at the pressure profile over the reservoir, it's very difficult to predict, and we have all this testimony showing the geologic shape of the container. And then to try to map out the permeability within that container could be -- just wouldn't be possible.

So we're just dealing with -- We know that the permeability in the Blue Fin 25-1 is .1 millidarcies based on the buildup, and we know the permeability in the 24 is much better at 1 millidarcy, and that's shown by their

deliverability being --

Q. So you are saying -- because this is almost a tight-gas sand, so you have two distinct pressures?

A. Yes, I think --

Q. Your reservoir will never reach equilibrium?

A. That's correct, yes, sir.

Q. Then how can you use this plot?

A. Because I think it's a relative sense. If you say that they're not in communication, then the reserves that you would get from the P/Z plot are just 10 million cubic feet of gas, which the well has already produced 10 times that. So that's very suggestive to me that they are in communication. It's much more reasonable to assume that they are in communication than that they're not.

Q. This P/Z plot is assuming you have a container. You equalize it in no time.

A. That's correct.

Q. So do you think you still can explain it?

A. Yes, sir, I think it's --

Q. If I accept that you have a tight gas, you have a tube pressure inside your reservoir, and whenever you have a condensate drop out that even complicates things. But under this condition, how can you use any one of these P into this P/Z plot? Do you understand my point?

A. Yes, sir, I do. And it is not an absolute

answer, and I would point to it in a relative sense, that the conclusion that you would make, based on the geologic interpretation, the time-curve analysis, taking all the relevant data and putting it together, that this plot is an indication -- is suggestive of the reservoir's being in communication, not in separate reservoirs.

And another complication here is, you've got two lobe, one not being in communication and one being in communication. So that further complicates your pressure measurements in this case.

COMMISSIONER LEE: Thank you.

CHAIRMAN WROTENBERY: Thank you.

Mr. Bruce?

MR. BRUCE: Just one follow-up question.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. You were asked by Mr. Kellahin -- Referring to Exhibit 12, our Exhibit 12 --

A. Yes, sir.

Q. -- Mr. Payne, and Mr. Kellahin said, well, this is Mississippian --

A. He didn't actually say that, he was just suggesting --

Q. Suggesting that.

Now, if you turn to -- The pages aren't numbered,

but if you leaf back to the ninth page of that exhibit, Mr. Payne --

A. Yes, sir.

Q. -- when was that pressure test run?

A. I might not have the right page. Okay, 2-25-02 to 3-4-02, so late February to early March.

Q. Now, if you look at Mr. Messa's Exhibit 11 on the Blue Fin 24 Well Number 1, when was that well perforated in the Chester?

A. It's coming back to me now. They perforated just the upper lobe initially, and then flowed the well for several weeks before in April they perforated the entire reservoir and then frac'd it. So --

Q. So that pressure test is a Chester pressure?

A. Absolutely, this pressure test is a Chester pressure.

MR. BRUCE: Thank you, that's all I have.

RECROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Let's try again here, Mr. Payne.

A. Okay.

Q. If you'll turn to TMBR/Sharp's Exhibit 40 in their book --

A. Yes.

Q. On the Blue Fin 24 well, the first page starts

off in September --

A. Yes.

Q. -- of '01 and proceeds down the page chronologically.

A. Yes, it does.

Q. Flip the pages until you get to the corresponding date for the pressure buildup test in February of 2002.

A. Okay.

Q. Do you find that?

A. Yes, I do.

Q. At this point in time the well is in the Mississippian?

A. It's in the Chester.

Q. All right, let's look to see when it went into the Chester. Flip the pages over --

A. All right.

Q. -- until you get to March 25th of last year. From March 14th all the way down to March 25th, there's an indication in this plot that there's a rig on the location.

A. I don't see that.

Q. It says "ROW".

A. Oh, "ROW".

Q. Rig on location.

A. Okay.

Q. You read down, that rig is recompleting the well

into the Chester.

So after that you have information on the pressure and production from the Chester, and what you see in the pressure buildup test is the test on the earlier zone?

A. I don't think that this says -- That's not what this production says. The cross-section says that the well was perforated in February and then frac'd in April.

MR. KELLAHIN: No further questions, madame Chairman.

FURTHER EXAMINATION

BY MR. BRUCE:

Q. Just ignoring the drilling report, just look at the cross-section, Mr. Payne.

A. Okay.

Q. Does that say it was perforated -- it was --

A. Yes

Q. -- completed in the upper Chester in February and --

A. That's correct.

Q. -- the lower Chester in April?

A. That's correct.

MR. BRUCE: That's all I have.

THE WITNESS: And I believe -- yeah, I -- That's consistent with my review of the drilling report.

CHAIRMAN WROTENBERY: Thank you, Mr. Payne --

THE WITNESS: You're welcome.

CHAIRMAN WROTENBERY: -- for your testimony.

MR. BRUCE: I have nothing further in this matter.

CHAIRMAN WROTENBERY: Mr. Kellahin?

MR. KELLAHIN: I'm long since done.

CHAIRMAN WROTENBERY: You're long since done, okay.

Well then, would the parties like to submit any kind of closing statement? I don't think we'll stay around to listen to them this evening, but --

MR. BRUCE: I would prefer not to do it tonight.

CHAIRMAN WROTENBERY: Yes.

MR. KELLAHIN: May we submit our comments to Mr. Ross, counsel for the Commission --

CHAIRMAN WROTENBERY: Okay.

MR. KELLAHIN: -- and summary, our closing argument --

CHAIRMAN WROTENBERY: Closing argument.

MR. KELLAHIN: -- in writing.

CHAIRMAN WROTENBERY: In writing.

MR. KELLAHIN: Thank you.

CHAIRMAN WROTENBERY: A maximum of --

COMMISSIONER LEE: -- two pages.

CHAIRMAN WROTENBERY: Two pages?

(Laughter)

MR. KELLAHIN: Mr. Ross's rule, as I understand it, is nothing more than 10 is ever read --

CHAIRMAN WROTENBERY: Ten is typical.

MR. KELLAHIN: -- so we will keep it well within the ten.

CHAIRMAN WROTENBERY: That sounds good. And what's a good due date?

MR. BRUCE: Tom, you're going to be gone for a while, aren't you.

MR. KELLAHIN: I have lots of helpers.

MR. BRUCE: You do, okay.

I'm flexible, madame Chair. Probably the sooner the better for me.

MR. KELLAHIN: How about two weeks? Would that be all right?

CHAIRMAN WROTENBERY: Two weeks? So how about the 4th of April?

MR. KELLAHIN: Okay.

CHAIRMAN WROTENBERY: That's a Friday.

Mr. Payne?

MR. PAYNE: We have a farmout that we have to conclude this before that expires.

CHAIRMAN WROTENBERY: So the fourth of April

we'll look for the written closing statements.

I don't believe we have anything else that we need to do tonight.

MR. BRUCE: Thank you for your time.

CHAIRMAN WROTENBERY: And thank you all for sticking with us, we appreciate it. And we will take this case under advisement.

Commissioners, if you would be willing to stick with me for just a few minutes, we have a number of pending adjudicatory proceedings which we need to discuss, and if one of you would please make a motion to go into closed executive session I would appreciate it.

COMMISSIONER BAILEY: I move we go into closed executive session.

COMMISSIONER LEE: Second.

CHAIRMAN WROTENBERY: All in favor say aye.

COMMISSIONER BAILEY: Aye.

COMMISSIONER LEE: Aye.

CHAIRMAN WROTENBERY: Aye. I promise you we'll keep it very short, but we need to get started.

(Off the record at 9:09 p.m.)

(The following proceedings had at 9:43 p.m.)

CHAIRMAN WROTENBERY: Okay, I'll entertain a motion that we go back into open session.

COMMISSIONER BAILEY: I so move.

COMMISSIONER LEE: Second.

CHAIRMAN WROTENBERY: All in favor say aye.

COMMISSIONER BAILEY: Aye.

COMMISSIONER LEE: Aye.

CHAIRMAN WROTENBERY: Aye.

And for the record I'll note that the only matters we discussed while we were in closed executive session were the adjudicatory proceedings that we heard today, as well as Case 12,792, which we heard at the last Commission Hearing in February.

And with that, I think we can adjourn this meeting.

COMMISSIONER BAILEY: I move we adjourn.

CHAIRMAN WROTENBERY: And do I have a second? I didn't think it would be so hard to get a second.

COMMISSIONER LEE: Second.

CHAIRMAN WROTENBERY: Okay, all in favor say aye.

COMMISSIONER BAILEY: Aye.

COMMISSIONER LEE: Aye.

CHAIRMAN WROTENBERY: Aye. Thank you, everybody, for sticking around. At least we got it done.

Thank you, Steve.

(Thereupon, these proceedings were concluded at 9:44 p.m.)

* * *

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 Commission 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 March 31st, 2003.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006