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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 8, 1969
EXAMINER HEARING

IN THE MATTER OF:)
)
)
Application of Corinne)
Grace for compulsory) Case No. 4017
pooling, Eddy County,)
New Mexico.)
)

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: The first case this afternoon will be Case 4017.

MR. HATCH: Case 4017, Application of Corinne Grace for compulsory pooling, Eddy County, New Mexico.

MR. KELLAHIN: If the Examiner please, Jason Kellahin of Kellahin & Fox, appearing for the applicant.

MR. NUTTER: I would like to call for other appearances at this time.

MR. MORRIS: Mr. Examiner, I am Richard Morris, of Montgomery, Federici, Andrews, Hannahs & Morris, Santa Fe, New Mexico, appearing on behalf of David Faskin.

MR. KELLAHIN: If the Examiner please, as you recall this morning, I asked that this case be put over to the end of the docket for the reason that Mr. and Mrs. Grace and their geologist, Mr. McIntyre, had not arrived in Santa Fe. They arrived just shortly before noon, and I find that Mr. McIntyre has been ill for the past week or so, and has not been able to give any time to the preparation of this case. I also understand that Mrs. Grace has been ill, and for that reason I would like to ask that this case be continued to the first Examiner Hearing in February.

MR. NUTTER: Mr. Morris?

MR. MORRIS: Mr. Examiner, ordinarily, of course, I

realize the Commission would look with favor on most applications for a continuance, and ordinarily I would not be in a position to oppose such a motion. However, in this case, I would like to ask the Examiner to note that the application of Mrs. Grace has been on file here since the 16th of December, and this has been adequate time, I would assume, to prepare whatever would need to be prepared to present at this hearing today.

Mr. Faskin's firm of engineering consultants is represented here today by Mr. James Henry. We are prepared to go ahead and present the evidence that we have prepared with respect to this case, and we would be greatly inconvenienced if the case does not go on as advertised.

In this regard, I would like at this time to bring to the Commission's attention that prior to the hearing it had been understood between myself and Mr. Kellahin, and I would ask that he so stipulate at this time, that the scope of this hearing is sufficient to place before the Commission for determination the question of who should be the operation of this section, whether it be Mrs. Grace or Mr. Faskin, and whether the unit well should be drilled in the southeast quarter or the northeast quarter of the section.

Just by further statement at this time, I would like to say that our evidence that we will present in this case will show

that there is really not much difference geologically whether the well be drilled in the southeast quarter or the northeast quarter. The thing that we are most concerned with on behalf of Mr. Faskin is for various reasons that we would show to the Examiner that Mr. Faskin be designated as the operator, and I have mentioned that at this time just to apprise the Examiner that we are not here to make a fight today on the geology of the location with respect to this well, and, therefore, I do not see where it would be of particular importance whether there is a whole lot of geologic testimony pertinent to this application.

MR. NUTTER: Mr. Morris, I would like to find out the position of Corinne Grace, and also Mr. Faskin on several points. I want to know where we are in agreement and where we are in disagreement.

Mr. Kellahin, Corinne Grace wants to see a well drilled?

MR. KELLAHIN: That is correct.

MR. NUTTER: Mr. Morris, Mr. Faskin is interested in the same thing?

MR. MORRIS: That is correct.

MR. NUTTER: Are you both interested in seeing the entire Section 8 pooled, or unitized, or communitized, or consolidated?

MR. KELLAHIN: That is what we are asking for, of course.

MR. NUTTER: And you have made the application for that. And Mr. Faskin, likewise, would like to see the acreage consolidated?

MR. MORRIS: Correct.

MR. NUTTER: Mr. Kellahin, is your client adamant upon this location for the well?

MR. KELLAHIN: Yes. We would prefer to drill in the southeast quarter.

MR. NUTTER: And, Mr. Morris, your client's position in this matter?

MR. MORRIS: My client's position in this matter is that we would prefer that the well be drilled in the northeast quarter. It would be satisfactory with us if it is drilled in the southeast quarter, too, but the point that we are most adamant on is that Mr. Faskin be designated the operator, in view of the fact that he owns the operating rights on 480 acres out of the 640 acre section.

MR. NUTTER: All by the southeast quarter?

MR. MORRIS: That is correct.

MR. NUTTER: So we get to this point as to who is going to drill the well, and who is going to be the operator?

MR. KELLAHIN: That is the main point. Mr. Morris asked for a stipulation, but I think it is quite unnecessary because the statute says that the Commission will designate an operator, and I don't think it has any--on the basis of what has been said about well location, I don't believe the stipulation is necessary there, either. I think it is within the jurisdiction of the Commission to consider these things without any stipulation.

MR. NUTTER: How much opportunity has there been for the parties here to discuss this matter between themselves? Have they had much chance to do that?

MR. KELLAHIN: No, they haven't. It is my understanding they were able to pick up Mr. McIntyre this morning, although they talked to him, I believe, by phone, yesterday. Mr. McIntyre does consulting work for them, but he is not always available for their work, he does other work, too, so it is not as though he was their exclusive employee.

MR. MORRIS: What was your question, Mr. Nutter?

MR. NUTTER: I wondered if Corinne Grace et al and David Faskin and his interests have discussed the matter between themselves?

MR. KELLAHIN: No.

MR. MORRIS: Yes, we have.

MR. KELLAHIN: You have discussed it with his attorney? I didn't know that.

MR. MORRIS: I would like to make a statement in this regard, that Mr. Richard Brooks is an attorney in Midland, Texas. He is Mr. Faskin's general attorney and general manager of his affairs in the Permian Basin area. It is my understanding that Mr. Brooks and Mrs. Grace previously have discussed the question of communitizing or acquiring interests in this area, and that there is a state of disagreement between them.

MR. NUTTER: I see. That is what I wanted, if there was any opportunity here to get together on that point, if an effort has been made, and if there is a general state of disagreement.

MR. KELLAHIN: I think the effort was made. Could I have a ruling on my motion for a continuance?

MR. NUTTER: What was your point, Mr. Morris, that you wanted a stipulation on? You would agree to stipulate to what?

MR. MORRIS: Mr. Nutter, a stipulation may be unnecessary. However, I have discussed this previously with the Commission, and with Mr. Kellahin, that I wanted it understood that the scope of the hearing was broad enough to consider, number 1, the designation of Mr. Faskin as an operator, if that determination should be made by the Commission. And, number 2,

that the well, that a location for the unit well could be in the northeast quarter of the section. In other words, that the matter is before the Commission to determine the question of who will be the operator and where the well will be.

MR. NUTTER: And that is the point that you are offering to stipulate to at this time?

MR. MORRIS: Yes. Now, as I understand what Mr. Kellahin has said, he thinks that the statute is sufficiently broad that no stipulation is necessary, and in any event he offers no objection with respect to these matters.

MR. NUTTER: So you wouldn't stipulate to that? You think it is unnecessary?

MR. KELLAHIN: I think it is unnecessary.

MR. NUTTER: So the only thing standing before us now is your matter of a continuance?

MR. KELLAHIN: Yes.

MR. NUTTER: And you are objecting to that?

MR. MORRIS: Yes.

MR. NUTTER: We will take a ten minute recess.

(Thereupon, a short recess was taken.)

MR. NUTTER: The hearing will come to order, please.

Mr. Kellahin, your motion was for a continuance to what date?

MR. KELLAHIN: The first hearing in February.


MR. NUTTER: Case No. 4017 will be continued to the first hearing in February, which will be at nine o'clock A.M. at this same place, on February 5th. In the meantime, the Commission earnestly solicits that the principals involved in this case make every effort to get together on this matter. The principal points, we think, are solved, that is that both parties want the well drilled, both parties seek the acreage pooled, the location is not of serious consequence, and we feel that the operators should be able to decide between themselves who should operate the well.

But the case will be continued to February 5. The hearing is adjourned.

STATE OF NEW MEXICO)
) ss.
COUNTY OF BERNALILLO)

I, SAMUEL MORTELETTE, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


COURT REPORTER

I do hereby certify that the foregoing is
a complete and correct transcript of
the hearing held on _____ 4017
before me on _____ 1-8 _____ 2069
 Secretary
New Mexico Oil Conservation Commission

CLERK OF DISTRICT COURT
JUN 12 PM 1 12

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

May 14, 1969

REGULAR HEARING

IN THE MATTER OF:)
)
)
 (De Novo) Application)
 of Corinne Grace for)
 compulsory pooling,)
 Eddy county, New Mexico.)
)
 (De Novo) Application)
 of David Fasken for)
 compulsory pooling,)
 Eddy County, New Mexico.)
)

Case 4017

Case 4043

BEFORE: DAVID A. CARGO, Chairman
A. L. PORTER, Jr. Director-Secretary

TRANSCRIPT OF HEARING

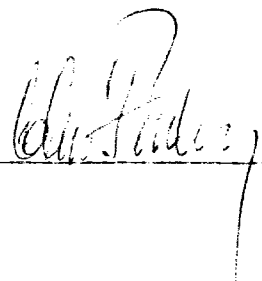
MR. PORTER: Case 4017 and Case 4043.

MR. HATCH: Case 4017; (De Novo) application of Corinne Grace for compulsory pooling, Eddy County, New Mexico. Case 4043, (De Novo) application of David Fasken for compulsory pooling, Eddy County, New Mexico.

MR. PORTER: In regard to these two cases, the attorneys for both of the Applicants have been in contact with me and have requested that the cases be continued to the regular June hearing. Both of the Applicants are holding meetings, so there is a good possibility that the cases would be dismissed. So, we will continue Cases 4017 and 4043 to the Regular Hearing in June. Incidentally, I would like to remind you at this time that the June hearing will be on Friday. We will change to Friday, so as not to conflict with the Interstate Oil Contractors Commission meeting in Casper, which will be that same week.

STATE OF NEW MEXICO)
) ss.
COUNTY OF BERNALILLO)

I, CA FENLEY, Court Reporter in and for
the County of Bernalillo, State of New Mexico, do
hereby certify that the foregoing and attached
Transcript of Hearing before the New Mexico Oil
Conservation Commission was reported by me, and
that the same is a true and correct record of the
said proceedings, to the best of my knowledge, skill
and ability.



A F E

Authorizing Field Expenditures

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 5, 1969
EXAMINER HEARING

IN THE MATTER OF:)
)
)
Consolidated Cases:)
Application of Corinne)
Grace for compulsory pool-) Case No. 4017
ing, Eddy County, New)
Mexico;)
Application of David)
Fasken, for compulsory) Case No. 4043
pooling, Eddy County,)
New Mexico.)
)
)

BEFORE: Daniel S. Nutter,
Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: We will call Case 4017.

MR. HATCH: Case 4017, continued from January 8, 1969 Examiner Hearing. Application of Corinne Grace for compulsory pooling, Eddy County, New Mexico.

MR. NUTTER: We will also call at this time Case 4043.

MR. HATCH: Case 4043, Application of David Fasken for compulsory pooling, Eddy County, New Mexico.

MR. NUTTER: It might make the hearing somewhat shorter if we consolidate these cases for the purposes of the hearing.

MR. KELLAHIN: Jason Kellahin, Kellahin & Fox, Santa Fe, appearing on behalf of the applicant in Case 4017, Corinne Grace.

MR. NUTTER: We will call for appearances in Case 4043, also, at this time.

MR. MORRIS: Mr. Examiner, I am Dick Morris of Montgomery, Federici, Andrews, Hannahs & Morris, Santa Fe, appearing on behalf of David Fasken in both Cases 4017 and 4043.

MR. NUTTER: And you are making an appearance on behalf of Corinne Grace in Case 4043, also, I presume, Mr. Kellahin?

MR. KELLAHIN: That's correct.

MR. NUTTER: Any other appearances in these cases?
Please proceed Mr. Kellahin.

MR. KELLAHIN: I have three witnesses that I would like to have sworn at this time.

MR. NUTTER: Mr. Morris, are you going to have any witnesses?

MR. MORRIS: I have two.

MR. NUTTER: Have them stand at this time.

(Witnesses sworn.)

(Whereupon, Applicant Corinne Grace's Exhibit Number 1, was marked for identification.)

MR. KELLAHIN: I would like to call as my first witness, Mrs. Grace.

CORINNE GRACE

called as a witness in her own behalf, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q State your name, please?

A Corinne Grace.

Q Are you the applicant in Case 4017, Mrs. Grace?

A Yes.

Q Are you familiar with the application that was filed in this case?

A Yes.

Q Briefly, what do you propose in this application, Mrs. Grace?

A For pooling the Morrow Pool, this acreage.

Q Mrs. Grace, are you operating in the State of New Mexico at the present time?

A Yes, sir.

Q Where are you operating?

A In Lea County.

Q How many wells are you presently operating in Lea County?

A Two, and we are in the process of completing a third one.

Q Is it your desire that you be designated as operator of the Morrow Pool Unit underlying Section 8, in Township 21 South, Range 24 East?

A Yes, sir.

Q You desire to be the operator of this pool?

A Yes, sir.

Q Do you own other properties in New Mexico which have not yet been developed?

A Yes, I do.

Q Will you briefly state the extent that you own New Mexico oil and gas properties? You do own other properties in New Mexico?

A Besides, oh, yes, we own approximately 39,000 acres of New Mexico State land for oil and gas, and approximately 56,000 acres of Federal oil and gas leases in New Mexico.

Q Did you acquire these leases with the intent of selling them or developing them, or what was your purpose?

A The purpose was developing.

Q How long have you been acquiring properties in New Mexico?

A Since about 1962 on--1961.

Q Referring to what has been marked as Exhibit Number 1, would you identify that exhibit, please?

A Well, it is a certificate of the abstracter, and Mrs. Lyle Johnson has signed it, and it is the property that my husband and I own.

Q Does she handle the properties for you?

A Yes, sir.

Q And is she familiar then with the records on all the properties owned by you?

A Yes, sir.

Q Did she handle the purchases of some of them?

A Yes.

Q So she is familiar with what the cost of those properties were?

A Yes, sir. She has done abstracts on all of our state leases.

Q Now, in Section 8, what portion of that do you own?

A 160 acres.

Q That would be the southeast quarter of the section?

A Yes, sir.

Q Do you propose to drill a well on this acreage?

A Yes, I do.

Q Have you filed a notice of intention to drill?

A Yes, sir.

Q Do you know when this was filed?

A December 11th.

Q Now, you understand, of course, that the present rules and regulations of the Oil Conservation Commission require a proration unit of 640 acres to be dedicated to a well drilled in the North Indian Hills-Morrow Gas Pool?

A Yes.

Q Was that the situation when you acquired this acreage?

A No, sir.

Q That order was entered subsequent to the date you acquired this lease, is that right?

A Yes, sir.

Q Do you know when you acquired the lease?

A May, 1963.

MR. KELLAHIN: I believe the Commission's records will reflect that the proration unit of 640 acres was created by order of the Commission entered on May 25, 1966.

MR. NUTTER: What was that date again?

MR. KELLAHIN: May 25, 1966.

Q (By Mr. Kellahin) Now, Mrs. Grace, have you made any effort to either communitize this acreage, or taken a farmout on the acreage in Section 8?

A Yes, sir. I started in 1963. I called Mr. O. V. Lawrence in Roswell. He was then the land man for Shell in that area, and I asked him to farm this acreage out to me, his acreage, or Shell's acreage. And he said that they planned to drill it, but if they didn't, I would be the first person they would notify, and they would farm it out to me.

I also called Marathon, and they said that they would do whatever Shell did.

Q Shell at that time was the owner of the north half of the section?

A Yes, sir.

Q Was this your information?

A Yes, sir.

Q Did Marathon, according to your information, own the southwest quarter of the section?

A Yes, sir.

Q And that is the reason you contacted those two?

A Yes, sir.

Q Did you contact Shell subsequent to 1963?

A No, they were busy contacting me to get me to farm out to them. But I didn't approach them until 1963.

Q 1965, you mean?

A Excuse me, I mean 1965.

Q You acquired the lease in 1963, didn't you?

A Yes. The summer of 1965 is when I contacted them.

Q Now, did you contact them subsequent to the summer of 1965?

A No, I also--no, Mr. Lawrence contacted me in the fall of 1965.

Q Were you able to reach any agreement with them at that time?

A Well, the same thing. He contacted me in 1965, and he wanted me to farm out to him, or sell to him--I mean he wanted

me to sell, giving me an overright. And I told him my whole reason for being out there was that we wanted production, and we were ready to drill it then even though we were shut in.

The first time I contacted him, he didn't want any shut-in gas well, but we didn't care, we would rather drill it ~~than~~ ^{than} and pay it to the Government.

Q You say you contacted him in 1965. Of course, at that time, the Commission had not yet entered an order putting this on 640 acre spacing?

A Well, we anticipated that they would. And also, we felt that we would like as much acreage as we could get. It was a very good area, we thought.

Q You were familiar with the fact that the Commission had placed other Morrow Gas Pools on 640 acre spacing?

A Yes, sir.

Q In 1968, did you make any effort to reach an agreement with Shell and Marathon?

A Yes, sir.

Q What did you do then?

A Well, Mr. McIntyre, the geologist, contacted them, it was really in my behalf, and I think they told him what to offer. And then about two weeks later I called Mr. Clark, and I called Mr. Lindsey and Mr. Pierson.

Q Who are Mr. Clark, Mr. Pierson, and Mr. Lindsey?

A Mr. Clark is a land man in Midland, and Mr. Lindsey is in the land office.

Q Are they both with Shell?

A Yes, sir. And Mr. Pierson is the General Manager. And I contacted Mr. Addison of Marathon, and they were all agreeable the first time around, as I recall, especially Mr. Pierson said he would do everything he could because he thought that it was logical that I should have this farmout. But then he consulted with Mr. Clark, and I don't know what happened. But, anyway, then I called Mr. Brooks, and we got nowhere, so then I contacted an attorney I knew was closely associated with Mr. Brooks to see what he could do, and he never reported back to me. I guess he got nowhere. And I asked a banker to try to negotiate with them in Midland, hoping that he would be--

Q When did all that take place?

A In November of 1968.

Q Did you contact them again in December of 1968?

A Yes, sir. It was constant, sometimes two or three times a day we telephoned. My husband did, also.

I asked another attorney in Midland to contact them. I exhausted every channel that I could think of.

Q Now, were you able to reach an agreement with Shell or Marathon?

A No, sir.

Q When did you first learn that Mr. Fasken claimed the right to drill on this acreage?

A Early November.

Q Well, at that time were you informed that he had a farmout on the property?

A No, they said that he had a verbal agreement.

Q But it was your understanding that he did not have an agreement with Marathon?

A Nothing in writing. The last time I spoke to anyone with Shell, I believe it was December 12, 1968, and I was informed, it was Mr. Clark, and he told me they still had nothing in writing, and I felt that as long as there was nothing in writing that I had a chance to obtain this farmout, my husband and I both. Also, these individuals that I mentioned in Midland, I felt maybe they would ^{listen} ~~listen~~ to them.

Q Now, did Mr. Fasken at any time ever contact you with the proposal to drill, to communitize?

A No, sir, never.

Q Did he ever make an offer to you?

A Never.

Q Subsequent to your--

A He threatened me that I was going to be with him.

Q Mr. Fasken did?

A I mean Mr. Brooks, when I telephoned him.

Q Well, you were talking to Mr. Brooks as a representative of Mr. Fasken?

A Yes, sir. He didn't contact me, I called him on the telephone, and he was very rude, and I figured I could never call him again.

Q Were you able to make any arrangement with Mr. Brooks?

A No, sir.

Q Now, in the event the Commission sees fit to pool this acreage and designate you as the operator, will you drill a well?

A Yes, sir.

Q To the North Indian Hills-Morrow Gas Pool?

A Yes.

Q And you have staked the location, you stated?

A Yes, sir.

Q Have you contacted any drilling companies in connection with this proposal?

A Yes, sir.

Q And you have two other witnesses who will testify further on that?

A Yes, sir. I personally, and plus they have contacted drilling companies.

Q What companies have you contacted?

A I contacted Carrol. They used to be McFarland. They did my other drilling for me.

Q In your application, you asked the Commission to grant you a risk factor for drilling this well, and do you want a risk factor to be assigned?

A Yes, sir.

Q Will other witnesses present testify to that?

A Yes.

Q Do you also ask that you be allowed a provision for recovery of the cost of the operation and supervision of the well?

A Yes, sir.

MR. KELLAHIN: At this time I will offer in evidence Exhibit Number 1.

MR. NUTTER: Mrs. Grace's Exhibit Number 1 in this case will be admitted in evidence.

(Whereupon, Applicant Corinne Grace's Exhibit Number 1, was admitted in evidence.)

MR. KELLAHIN: That completes the direct examination of this witness.

MR. NUTTER: Are there any questions of the witness?

MR. MORRIS: Yes, sir.

CROSS EXAMINATION

BY MR. MORRIS:

Q Mrs. Grace, do you maintain an office in New Mexico or in the Midland area of Texas?

A Yes, I maintain offices in both places.

Q Where are your offices?

A We have offices on Turner Street in Hobbs, New Mexico.

Q Let's take that one first. How long have you had that office?

A I have had that office a little over two years.

Q How is that office staffed?

A Just myself and my husband. We do a great deal of our own work.

Q Are you there in Hobbs a good deal of the time?

A When our business requires it, we are.

Q Do you maintain a residence in Hobbs?

A Yes, sir, I do.

Q Do you have a telephone at that office on Turner Street?

A I'm on the switchboard of my landlord.

Q Do you have anyone there who answers the phone and can take messages, and get them to you?

A Yes, sir, the landlord's office, and I also use Oil

and Gas Reports in Hobbs, which I feel does a very capable job for me.

Q Well, if someone wanted to get a message to you about normal operating problems, and wanted to call you in Hobbs, what number would they call?

A I have my home number, which is a business number.

Q Is that a listed telephone number?

A Yes, it is.

Q And is someone there--

A No, I am sorry, it isn't a listed number.

Q It is not?

A No, it isn't. But I do have a listed number in Midland. My husband and I are both listed in the phone book in Midland, Texas, and we have an answering service in Midland and one in Odessa that is open 24 hours a day.

Q Let's talk about the Midland office. Do you maintain an office there?

A I have an office in Midland.

Q Where is that office?

A In the Wilkison Foster Building.

Q How is that office staffed?

A With a stenographer, public stenographer, who does work for us when it is needed, and answers the telephone very

promptly.

Q Is she a full time employee who maintains regular office hours?

A Not full time for us, but she works for us when we need her to.

Q Is this number listed under your name?

A Mine and my husband's.

Q If someone wants to reach you by telephone concerning ordinary business matters, can you be reached through that number?

A Yes, I can. They can look it up in the phone book there in Midland.

Q Now, where in either Hobbs or Midland do you receive your mail in the ordinary course of your business?

A In Midland, I have two places to receive mail. One is Box 1416 in Midland, and the other is the Wilkison Foster Building.

Q And mail addressed to either one of those addresses will reach you, and be considered by you as being mailed to you in the ordinary course of business, is that **right**?

A Yes, sir.

Q What type of technical staff do you maintain?

A We have a field manager.

Q And who is that?

A Mr. Hubert Merritt in Tatum, New Mexico.

Q Is he a full time employee of yours?

A Yes, sir.

Q How long has he been with you?

A Since we began this present well, this wildcat we are completing now.

Q The one you are completing now?

A Yes. I had pumpers who, you know, as they were needed for my other wells. And I had a field manager before that who worked when he was needed, a Mr. Robert Wilheit from Odessa. You mean as far as geologists and engineers?

Q Yes. Now, by way of geologists and engineers, who do you have on a regular consulting basis, if anyone?

A When they are needed, you mean?

Q Well, do you have any full time employees, technical employees?

A You mean geologists and engineers?

Q Geologists and engineers.

A No, sir, we feel when the time comes that we have developed, which we intend to start, are starting a great deal of acreage in New Mexico, well, we are presently interviewing people who want to come with us steadily. And also, Mr. McIntyre has, I think except for about three weeks of well sitting in the last three months, has spent most of his time working for us.

Mr. Doyle Butler has been with us on this well as engineer, and plans to continue working with us when he is needed, and is available.

Q Do you have any engineering consulting firm with which you do business in this area?

A Mr. Doyle Butler.

Q And how long has Mr. Butler been on a consulting basis with you?

A Since we began this well and started staking this one in Eddy County, because we feel he is a specialist, particularly in that area.

Q Do you have any production in Eddy County?

A Yes, sir.

Q Do you operate any wells in Eddy County?

A Yes, sir.

Q Where are those wells?

A They are in Lea County--oh, in Eddy County, I'm sorry. I was thinking about the ones in Lea County. No, I don't. I have staked this well in Eddy County, and I intend to have wells in Eddy County.

We also have a great deal of acreage in Eddy County. We are planning to stake two other wells in Eddy County also very shortly.

Q Now, Mrs. Grace, you have stated that you had been in touch at various times with representatives of both Shell and Marathon?

A Yes, sir.

Q The last time you were in touch with anyone from Shell, when was that and who did you speak with?

A Mr. Lindsey, Mr. Clark, and Mr. Pierson, their counsel, Mr. Tom Sealy, and Mr. Goolsby of Mr. Sealy's firm. I spoke to the Midland bank there, I spoke to the First National Bank of Midland, some of the officers there, because I understand they are some how related with Mr. Brooks. I spoke with Mr. Hardie, an attorney in Midland. I spoke even to other Shell offices in the United States, and my husband has also, and is continuing to negotiate with the New York Shell office.

And you say how long did I negotiate with them, talk to them?

Q No, I am speaking of the last time you talked to any of the Shell employees.

A I believe the last time was December 12, was with Mr. Clark. I think my husband has talked with them since, and possibly some individuals in Midland have.

Q Now, did Shell inform you or inform your husband the last time that he talked that Shell had verbally agreed to farm

out its acreage in the north half of this section to Mr. Fasken?

A They said they had agreed verbally, yes.

Q Now, when was the last time that you talked with any representative of Marathon?

A It was around the middle of December. I think someone, a representative of mine spoke with Marathon the week before last.

Q And at that time, you were informed by the representative of Marathon that, likewise, they had verbally agreed to farm out their acreage in the southwest quarter of this section to Mr. Fasken?

A Yes, and I feel that it wasn't right. I was in there and I have been in there for many years. I turned down some wonderful offers from Shell, and many other people, and I feel that at least they could have kept their promise to me, and that they could have out of nothing more than courtesy informed me that they were going to farm it out, such as Mr. David Brooks.

Q You mean Mr. Fasken?

A Well, Mr. Fasken's representative.

Q After you learned that both Shell and Marathon had verbally agreed to farm their acreage out to Mr. Fasken, did you make any attempt to voluntarily negotiate a communitization of all the acreage in Section 8 with Mr. Fasken?

A I called Mr. Brooks the one time, and he screamed at

me. I couldn't call him again, but I sent people to see him and call him.

Q Now, wait just a minute. During the time that you talked with Mr. Brooks, did you ever offer with him to communitize your acreage with the acreage that Mr. Fasken would receive from Shell and Marathon to farm out?

A I had no reason to offer to communitize with Mr. Fasken. He had nothing in writing.

Q So your answer is no, is that correct?

A The people that I talked to with Shell and Marathon, they owned the leases. And I still haven't seen anything in writing. I have sent people to Carlsbad. Your witness told me that they had been, they had filed something in Carlsbad. I haven't seen it, nor has the man that I sent to Carlsbad. I was promised that I would get this agreement, and I haven't seen it, so I still don't know that Mr. Fasken has any right in this hearing today. I know I do, because I own the lease, and I paid rent for it since 1963, and I have planned to drill it since 1963. I would have drilled it in 1963 if my geologist would have let me. I would have.

MR. MORRIS: That is all.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mrs. Grace, I am getting a little confused on some of these dates. You acquired this lease, this 160-acre lease in May of 1963?

A Yes, sir.

Q And then in 1966, I believe you stated, Mr. Kellahin, the pool rules were adopted for this North Indian Hills?

MR. KELLAHIN: May 25, 1966, I believe was the date.

Q And then you sought a farmout from Shell in the summer of 1965?

A Yes. The geologists, evidently they anticipated this would be 640 acres, you know, for each well. And Mr. Lowe, I know around about the time that I acquired this lease, Mr. Lowe had drilled a wildcat, and evidently my geologist at that time was quite close to Mr. Lowe, and he evidently felt that this is what would be asked for.

Q I think 640-acre spacing may have already been adopted down in the Indian Hills and Indian Basin south of here?

A Right.

Q And in 1965 when you contacted Mr. Lawrence with Shell, that is the time when they told you that they intended to drill the acreage themselves?

A Yes, sir.

Q But that if they ever did plan to farm it out, or ever would farm it out, they would keep you in mind?

A Yes.

Q And then later they came to you and wanted to buy the acreage from you?

A They wanted to buy that acreage from five minutes after I got that lease, they were on the telephone with me. And they were after me even at night, they called me at home, I had to hide from them. They went to see my bookkeeper, they followed us over the country. They did everything they could to get it.

Q That is immediately after the time you acquired it?

A Yes, sir, within five minutes.

Q In the summer of 1965 when you asked for a farmout of their acreage and they told you they planned to drill it themselves, did they make a counter offer to you at that time and say, "We would like to buy your acreage"? Were they interested in a bigger acreage then?

A I think they realized by then they weren't going to get it, but they did make one other attempt to buy it from me in the fall of 1965. Mr. Lawrence took my husband and myself, and Mr. Donegan to lunch here after the state sale, and once more he

asked me, and laughingly, because he knew he wasn't going to get it, but he tell everybody in the dining room that day that we would be drilling together, and that he wanted to be the operator.

Q And then as late as sometime in December, you were still contacting Shell trying to get the farmout from them?

A December, 1968, yes.

Q And you also talked to Marathon in December of 1968?

A Yes, sir.

Q And as far as you know, you have never seen any evidence of any written farmout, as far as the Shell and Marathon acreage to Mr. Fasken?

A Right, and we are still willing to negotiate with Shell and Marathon.

Q Now, I didn't understand one thing here with regard to the time you contacted Mr. Brooks, what were you attempting to do as far as Mr. Fasken was concerned at that time?

A I wanted him to understand that I had acreage in there, and if he thought he had to drill a well, he had to deal with me. I was the land owner in there, and I wanted him to know that I wanted to be the operator, and I would like to have his acreage.

Q But as far as you are concerned, he doesn't have any

acreage yet?

A That's right. But I heard he had been promised, and I wanted to tell him before he put anything in writing, if he didn't know it, that I was a part of the 640 acres.

Q Were you willing to offer him a voluntary communitization agreement if he had acquired the acreage?

A If I could be the operator.

Q You would be willing to voluntarily communitize this acreage, but with the understanding that you would operate and drill the well?

A I would prefer to drill with Shell and Marathon, because they haven't screamed at me.

Q Well, Mr. Fasken has never screamed at you, either, has he?

A I understand Mr. Brooks is the one that people have to deal with.

Q But you have had no further contact with Shell, and you haven't been able to make any sort of arrangement with Mr. Fasken or Mr. Brooks as yet?

A No, sir.

MR. NUTTER: I believe that is all. Any further questions?

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mrs. Grace, in the event you are designated as the operator of this unit, what technical help would you have in the drilling of this well?

A Mr. McIntyre, who has just brought in this wildcat, which we hope will mean about eight offsets, and Mr. McIntyre has been working with us over the past, it's about over a year now, you know, as he is needed on a consulting basis; and Mr. Doyle Butler, an engineer from Midland.

Q Have you made arrangements with both of them to represent you in connection with the drilling of this well?

A Yes, sir.

Q And in the event an interest owner needed to get in touch with you, could they get in touch with you through either one of these two gentlemen?

A Yes, sir.

Q Would they be authorized to represent you as far as the drilling of this well is concerned?

A Yes, sir.

Q Now, I believe you stated the last time you contacted Shell was about December 12th, is that correct?

A Yes, but my husband has contacted them since.

Q Since that time?

A Yes, sir.

Q Do you know the date that your application for pooling this acreage was filed with the Commission?

A We staked the well December 11th, and it was the end of December.

MR. KELLAHIN: If the Examiner please, I believe the Commission's records will show--at least my letter of transmittal shows the application was filed December 12th. It should have been stamped in.

MR. NUTTER: The written application was received in this office on December 16th. However, I think the original application was telephoned in prior to that time.

MR. KELLAHIN: That's correct.

THE WITNESS: December 12th.

MR. KELLAHIN: That is all I have.

MR. NUTTER: Are there any other questions of Mrs. Grace? She may be excused.

Call your next witness, Mr. Kellahin.

MR. KELLAHIN: I will call Mr. McIntyre.

NORBERT MCINTYRE

called as a witness by the Applicant Corinne Grace, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

(Whereupon, Applicant Corinne Grace's Exhibit Numbers 2 and 3, inclusive, were marked for identification.)

Q Would you state your name, please?

A Norbert McIntyre.

Q What business are you engaged in?

A I am a consulting geologist out of Midland, Texas.

Q Where are you located?

A Midland, Texas, 1220 Vaughn Building.

Q How long have you been working as a consulting geologist?

A Since May 1, 1967.

Q Prior to that, were you employed in the oil and gas business?

A Prior to that, I was District Geologist for Midwest Oil Corporation, Midland.

Q Have you testified before the Oil Conservation Commission, and made your qualifications as a geologist a matter of record?

A Yes, sir.

MR. KELLAHIN: Are they acceptable?

MR. NUTTER: Yes.

MR. KELLAHIN: Do you have any questions on his qualifications, Mr. Morris?

MR. MORRIS: No.

Q (By Mr. Kellahin) Mr. McIntyre, have you done any work for Corinne Grace, the applicant in the case before the Commission at this time?

A Yes, I have. I have prepared geological structural maps on this particular area.

Q By the particular area, you mean the area which is the subject matter of this case?

A This is correct, yes. I have also been to the Corinne Grace Indian Hills No. 1 location in person. I have, since we got an elevation on this well, I have taken it upon myself to call the Commission, or call the Oil Reports and Gas Services, and amend the depth of this well from 9,600 to 10,000.

Q Now, this acreage is Federal acreage, is it not?

A That's correct.

Q Was this amended information filed with the United States Geological Survey?

A It was.

Q As I understand it, the filing was handled by --

A Oil Reports and Gas Services.

Q That is the same company to which Mrs. Grace referred as handling her reports, is that correct?

A Yes. Any administrative work or anything having to do with the Commission is handled by these people, and anything we need done, such as amendments or anything, staking locations, and filing the proper reports to the Commission, I ordinarily call up and have them do it.

Q Now, Mr. McIntyre, how long have you done work for Mrs. Grace?

A I would say probably just about a year. I think in January of 1967.

Q Do you work for her in connection with the drilling and completion of wells?

A Yes, sir.

Q Are your services available to her in connection with the operation of these wells?

A Yes, they are.

Q Have you rendered that type of service to her?

A Yes, sir.

Q Has Mrs. Grace entered into an agreement with you in connection with the drilling and completion and operation of a well to be drilled on the unit involved in this application?

A Yes, sir.

Q Are you willing to work for her in this connection?

A I am.

Q You do maintain an office in Midland, do you?

A Yes, sir.

Q Do you have a staff there?

A Consisting of myself.

Q Yourself?

A I have a secretarial service and answering service.

Q But you can be contacted through your Midland office?

A That's correct.

Q Have you made an examination of the area involved in this application?

A Yes, I have.

Q Referring to what has been marked as Exhibit Number 2, would you identify that exhibit?

A Exhibit 2 is a Xerox copy of the plat filed by John West, surveyor out of Hobbs, New Mexico, on this location, showing it to be 1,650 feet from the south line, and 1,750 feet from the east line, Section 8, Township 21 South, Range 24 East.

Q Have you been to this well site?

A Yes, I have been.

Q What is the nature of the topography of this area?

A This area is in an extremely hilly, rough terrain.

Indian Hills, I believe, is the local name for this area, where you have in excess of 600 or 700 feet of relief over three or four miles in places.

This particular location, we had hoped to stake the well in the center of the southeast quarter, which would be 1,980 from the south and east lines. However, an inspection of the terrain there indicated that this would result in an extremely expensive location, because of the terrain, so we moved it to this location which is about 50 feet from the Caliche road. In fact, we drove up to it in a Buick Wildcat.

Q Is there a road already in there?

A There is a road within 50 feet of the stake.

Q Is there a road into the north half, or the northwest quarter of this section?

A There wasn't at the time I was there.

Q When was that?

A It was about four weeks ago.

Q Do you know whether any other location has been staked in this ^{Section} location?

A I understand that Mr. Fasken has staked a location at -- the exact location, I don't know, but I do know that it is in the southwest quarter of the northeast quarter of Section 8.

Q You haven't been to that stake?

A I haven't. I was there, I think, before the stake.

Q Referring to what has been marked as Exhibit Number 3, would you identify that exhibit?

A This is a subsurface geological plat and interpretation of the structure. On the datum marked on the type log, you will see on the right hand side of the map proper in red, this datum point over the area was present in all the wells shown here, and is approximately 175 feet above the top of the Morrow Sand pay interval. It showed that there appears to be a low relief anticlinal feature centered in approximately the common lines of Sections 21 and 20, 16 and 17, and 8 and 9, over which Morrow Sand has been drained and is productive in the wells shown in yellow, all of which are Morrow Sand producing. That is about it.

What I am trying to do is show a relationship between the proposed location and the adjacent wells which were drilled by Mr. Fasken, and which I understand are good Morrow gas wells.

Q Would you anticipate that you would get a good Morrow gas well at the proposed location?

A Yes, sir, I would. I think that we are probably about as near the inside location as you can be near an inside location. We are near the better wells of Mr. Fasken. According to production figures that I have seen, porous wells Mr. Fasken has as far as what it has delivered, that is the Shell

Federal Well in Section 5, which is up to the northwest.

Q Would there be any particular advantage, Mr. McIntyre, to drilling a well located in the southeast quarter of the section as opposed to elsewhere in the section, in your opinion?

A Proximitywise, I would say the southeast quarter would be the most logical place to drill a well, although I would have to say that I would locate it in the southeast quarter in such a fashion as not to be wagonwheeling or hubbing up against Mr. Fasken's Skelly Federal in the southeast section.

Q Is the location designated as an orthodox location?

A Yes, sir.

Q It is far enough away from the lease line?

A I am going into an area which I am not completely familiar with. I know the location is a legal one. I think the only reason for moving it a little bit west would be to keep from having interference between it and the Fasken Skelly Federal Well.

Q You say you have worked for Mrs. Grace for the past year, approximately?

A Yes.

Q Are you familiar with her operations in southeastern New Mexico?

A Yes, I am.

Q Does Mrs. Grace maintain an adequate staff to handle her work in southeast New Mexico?

A Yes, I think so.

Q What staff does she have at the present time, for example, in the well you say you just completed?

A I did the geology, and I watched the well to logging point, recorded the well. At that point, we -- at the time we decided to run pipe, why, she obtained the services of Mr. Hubert Merritt, who was a field supervisor for Midwest at the time I worked there. She also has Mr. Doyle Butler, who is a consulting petroleum engineer, who is handling the engineering phase of the operation.

Q Does she have someone in the field who handles the wells, the actual day-to-day operation of the wells?

A Yes, she retains a pumper, and I would expect that Mr. Merritt would probably supervise production activity.

Q What is his name?

A Hubert Merritt.

Q Where is he located?

A He is in Tatum, New Mexico.

Q And he does operate all of her properties at the present time.

A Yes, sir, at this point he does.

Q She is only operating one producing well at the moment?

A Two producing wells, and this would be the third.

Q And where is this discovery well that you were talking about?

A It is in the northeast quarter of the northeast quarter of Section 16, Township 10 South, Range 33 East.

It is Number 1 Texas Pacific State, and is a farmout from

Texas Pacific Coal and Oil. It is being contributed to by Midwest Oil Corporation, T.P., Allied Chemical, and ~~Ron~~ ^{Ronneberg}

~~Leberg~~ ^{Ronneberg}. Scroggins and ~~Ron Leberg~~ out of Corpus Christi are independent.

Q And Mrs. Grace is the operator?

A That's correct. And under the terms of this farmout, I might say this, insofar as prudent operation, we have given a daily report, drilling report on this well to all four of those operators each morning before ten o'clock.

Q Was this on Mrs. Grace's instructions?

A That's correct.

Q Exhibit Number 2 is a copy of the well dedication plot, is that correct?

A That's correct.

Q Has that been filed with the Commission?

A It has.

Q And Exhibit 3, was that prepared by you or under your supervision?

A It was.

MR. KELLAHIN: I would like to offer in evidence Exhibits 2 and 3.

MR. NUTTER: Grace's Exhibits 2 and 3 will be admitted in evidence.

(Whereupon, Applicant Corinne Grace's Exhibits Numbers 2 and 3, inclusive, were admitted in evidence.)

MR. KELLAHIN: That is all I have on direct.

MR. NUTTER: Any questions of Mr. McIntyre?

MR. MORRIS: No, sir.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. McIntyre, do you know what the completion dates for these various wells as shown on your Exhibit Number 3 would be?

A I can tell you generally. I can tell you that those

four wells there were completed in the fall of 1968. I don't have the dates with me. I have them in Midland.

I beg your pardon, I brought that.

Q Give the completion dates, and also the initial potential on those?

A In Section 16, 21-24, 2,310 from the north and 2,121 from the west. The well was completed on 9-18-68, for 3.350 million cubic feet a day. On perfs, between 9,539 and 9,758.

Q Who operates that well?

A That is a David Fasken, David Fasken's 6 Indian Hills Gas Unit COM. I don't know what that is. It is an old well drilled deeper. It is located in Section 17, 21-24, 1,440 feet from the south and east lines of the section, was deepened. The old total depth was 8,070 feet, drilled by Marathon. It was deepened to 10,180 feet, and calculated at 34 million cubic feet a day. Morrow perforations between 9,839 and 9,972.

Q When was it recompleted?

A It was also completed on 9-18-68.

Q 34 million, you say?

A 34 million. Now, in Section 4, 21-24, 1,980 from the south and west, the David Fasken No. 1 Ross Federal, completed for 19 million; Morrow perforations, 9,481 to 9,635; total depth, 9,815; completion was 5-25-65.

Then the 1 Skelly Federal, David Fasken Skelly Federal No. 1, 840 from the south, 935 from the west line of Section 19 -- correct that, Section 9, 21 South, 24 East; total depth, 10,356; completed 18 million cubic feet per day from Morrow formations 9,784 to 9,804; completed on 11-15-67. Now, these wells will be down to the south part of your map there.

Q We need one more, that Shell Federal in Section 5.

A All right. In Section 5, 21-24, 1,980 from the south and west, David Fasken No. 1 Shell Federal, completed for 3.150 million cubic feet, Morrow formations between 9,570 and 9,592, and completed 12-22-66.

Then to the south, and these wells will be Cisco wells except for one dual completion, that being Penrock Oil Corporation No. 1 Indian Federal. It is in Section 19, 21-24, 1,980 from the north and east. It was completed from the Morrow pay for 10 million cubic feet per day calculated between 9,226 and 9,470, completed on 2-1-64. It was also completed from the Cisco.

Q Actually, I think that well is carried by the Commission in --

A It is outside of this.

Q In the other pool?

A Right. All of these along the south end are. I think

only the wells shown in yellow, the Morrow wells to the north, are carried under this particular thing. These down here are, with that one exception, are all Cisco wells around 7,300, 7,500 feet.

MR. NUTTER: I believe that is all I have.

MR. KELLAHIN: I overlooked a couple of points I intended to bring out by this witness, if I may have your indulgence?

MR. NUTTER: Go ahead.

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. McIntyre, on behalf of Mrs. Grace, did you make any effort to obtain any farmout on this acreage?

A Yes, I did.

Q From Shell or from Marathon?

A Both Shell and Marathon.

Q When?

A I made a telephone call on October 25, 1968 to Mr. Ross at Shell, and asked him or presented him an idea that I would drill, or cause to be drilled a well at or near this location, and I would like to request a farmout. At that time, he said that there were verbal negotiations in process with Fasken on this, but that he could see no reason why someone else

shouldn't drill the well, and it would seem logical since Mrs. Grace did have acreage in that proration unit that she would be a logical operator. He then said, "I doubt that you can get a farmout from Mrs. Grace" which this was not the problem, and I didn't make any comment on that either way. So I followed that with a letter.

The same is true for Marathon. I called, and then on the basis of what I found out, I wrote the two letters which are not in evidence, but which are present for examination, offering what they said would be a similar offer made by Fasken. At that time, there was nothing on paper, and at this time there still may not be. I don't know. I haven't seen it.

Q One other point, Mr. McIntyre. You are familiar with the geology in this area?

A Yes, sir.

Q Are there any zones above the Morrow that could be seepage zones or lost circulation?

A Yes, there are numerous zones. Actually, zones down to the intermediate at 3,200, which Mr. Butler will talk about later, are lost circulation zones that cause quite a bit of trouble in the cementing. But once casing is set at that depth, any zone with excellent permeability and porosity below intermediate is capable of being a thief zone.

Most of these will occur in the Bone Springs-Wolfcamp section, or possibly a Pennsylvanian section above that. This did occur in one other well which is not completed, the Hanagan Well, which is some approximately three miles from this location, which caught fire and burned as a result of losing circulation in one of these thief zones above the pay. So they will have to be considered as potentially present there.

MR. KELLAHIN: That is all I have.

MR. NUTTER: Any other questions of Mr. McIntyre?
You may be excused.

MR. KELLAHIN: I would like to call Mr. Butler, please.

O. DOYLE BUTLER

called as a witness by the Applicant Corinne Grace, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

(Whereupon, Applicant Corinne Grace's Exhibits Numbers 4 through 7, inclusive, were marked for identification.)

Q State your name, please.

A O. Doyle Butler.

Q What business are you engaged in?

A I am a consulting petroleum engineer.

Q Where are you located?

A Midland, Texas.

Q Do you maintain offices in Midland, Texas?

A Yes.

Q Where are they located?

A 406 North Marienfeld.

Q How long have you operated as a consulting petroleum engineer in Midland?

A I would have to put it this way. I worked for a consulting company for one year. I was in a partnership in a consulting firm for one year, and then I have been in business for myself for a year and a half.

Q And this has all been at Midland?

A Yes.

Q And have you ever testified before the Oil Conservation Commission?

A No.

Q For the benefit of the Examiner, will you briefly outline your education and experience as an engineer?

A I have a B.S. Degree in Mechanical Engineering from Oklahoma State University in 1957. I worked for Texaco, Incorporated in engineering capacities for eight and a half years, both domestic and foreign. I worked approximately one year for Adobe Oil Company in Midland doing field completion work and

evaluation work, which Adobe is a consulting and management company. I worked approximately one year as a partner in a consulting engineering firm in Midland, and on June 1, 1967, I went into consulting business for myself.

Q Will you please refer to Exhibit Number 4. Does that consist of a resume of your educational experience?

A Yes, it does.

Q What is Blackrock Oil Company?

A This is a property management company that I own. It is a Texas corporation, and it is also registered as New Mexico corporation, also.

Q Is it qualified to operate in the State of New Mexico?

A Yes, it is currently operating in New Mexico.

Q What type of services do you render as a consulting engineer?

A I do consulting work under practically the scope of operations. I do appraisal, and evaluation work, I do field drilling and remedial completions, and then the management company does this, all of this in conjunction with accounting commission reports, and anything in regard to the paper work or administration.

Q Have you had any experience, Mr. Butler, in connection with the drilling and the completion of gas wells in southeast

New Mexico?

A Yes, I have. First, although it wasn't very detailed, I was with Texaco in 1961 when they were operating deep gas wells between Hobbs and Carlsbad. Later, after I went into the consulting business, I did work in the Carlsbad area. It's been two years ago, Stoltz and Company had a blowout that burned east of Carlsbad, and I was the consultant hired by Stoltz to go in with Mr. Adair, and after he put out the fire, I did all the finishing work and resumed the drilling operation. Following this, I supervised part of the drilling and completion on another well for Stoltz; and then, closer to Carlsbad, I have done high-pressure gas work.

Q Are these Morrow gas wells you are referring to?

A These are ^{Straun} ~~Straun~~, those two were ^{Strauns} ~~Strauns~~. The Texaco wells were Morrow wells.

Q What was the Stoltz well that had the blowout?

A It was a ^{Straun} ~~Straun~~.

Q Do you encounter similar problems in dealing with Morrow and Indian Hills Basin?

A Very similar.

Q In other words, Indian Hills --

A I would imagine it would be very similar, from what I have obtained from other people. Relative to making myself

more familiar with the Indian Hills area, it is very similar to the Morrow and other areas.

MR. KELLAHIN: Are the witness's qualifications acceptable?

MR. NUTTER: Yes, they are.

MR. MORRIS: Yes.

Q Mr. Butler, have you been contacted by Corinne Grace in connection with the drilling and operation of this well in Section 8, 21 South, 24 East?

A Yes, I have.

Q Have you agreed to work with her in connection with the completion and operation of that well to be located there?

A Yes, I have.

Q And in the event this application is approved and she is designated the operator, what will your role be in connection with the drilling of that well?

A Basically, in connection with the drilling, it will be the consolidation with and the advisement, and the coordination of the drilling contractor, the mud program, casing program, and whatever is required to drill a well to that depth. At that time, I will be in charge of the completion work and subsequent operations.

Q Have you made a study of the costs of drilling in this

area?

A Yes, I have.

Q Referring to what has been marked as Exhibit Number 5, would you identify that exhibit?

A This is an exhibit of some cost figures. I did not prepare these. These were furnished to me, and they are, I believe it was a matter of previous record before the Commission.

Q I believe these were submitted and handled in the case.

A And that has been broken down into a cost-per-foot average for wells in the immediate area.

Q On the basis of your experience, do you believe those figures to be correct?

A I am sure they are correct in that that money was spent. They appear to be a little bit high of what wells could be drilled for.

Q On the basis of your experience, you think a well could be drilled somewhat cheaper than is shown on Exhibit Number 5?

A I do. And I think possibly, maybe since this exhibit was prepared, some of the operators have drilled wells cheaper than this.

Q Referring to what has been marked as Exhibit Number 6, would you identify that exhibit?

A This is an appropriation for expenditures form that I use, and I prepared myself, that I prepared on an estimated cost to drill and place on production a well, 10,000-foot well in the Morrow unit.

Q It is your understanding it would be a 10,000-foot well at that site?

A All of the costs relative to this is based on 10,000 feet.

Q Is there anything in particular involved in these cost figures that you would like to discuss?

A I would like to say one thing. These figures are basically minimum. In other words, this is if everything went the way you planned it, and everything went right down perfect, this is what you could expect plus or minus a certain contingency to drill a well. This does not take into account any unforeseen risks or high operation.

Q Does this take into consideration the cost of operating the well?

A Just for drilling and producing, and supervision while drilling and completing.

Q That is all?

A Yes, that is all. It does not take into consideration operation.

Q And you arrive at a total cost of \$186,450, in drilling

the well.

A Drilling the well, this is drilling and completing the well. This is running production casing, doing the perforating, treating, testing, and installing a system, tank battery for distillate.

Q This includes the tank battery?

A Yes, it does.

Q Are the drillers -- have you contacted any drilling companies?

A I have talked to Jess Wharton with Wharton Drilling Company, and also with Walter Crockett with Cactus Drilling Company.

Q Are the figures on your Exhibit 6 based on the information you obtained from these gentlemen?

A The figures on Exhibit Number 6 are from Jess Wharton. The footage at \$9.10 per foot was something we arrived at by him going back to his previous commitments. I think he had drilled the last well for \$8.85 a foot, and since the first of the year most drilling contractors have given some rather substantial raises to their drilling personnel, they have also started paying mileage, and he estimated it would run about 25 cents more a foot than previous, and that is how the \$9.10 was arrived at.

Q Do you have any problems in cementing the surface string in this area?

A Yes. And I might point out that the amount of money on this AFE is an ideal figure, it does not take into account any problems you may have.

In this area, the intermediate is set through the bottom of the Artesian water sands, and it is necessary, the Commission requires that these wells be cemented to the surface.

Q Normally, this operation is observed by one of the representatives of the Commission?

A Yes. It normally is. And also, these will react several different ways, that's what it amounts to, is, most wells or some of the wells have been required to run one-inch tubing on the outside of the casing, and cement from the top. And one of the wells that I did check out was Penrock's Indian Federal No. 2. They used 1,300 sacks of cement, and they had to run one-inch to 620 feet, and it took seven stages following that to get the well cemented.

Q That adds to the cost?

A This adds to the cost considerably, and also to the rig time cost.

Q And that is a risk that you would be facing in drilling a well in this area?

A This is a very definite factor that the operator must take into account.

Q Are the drilling contractors willing to enter into turnkey contracts?

A I discussed this with both Mr. Wharton and Mr. Crockett. Mr. Wharton said he would rather not comment on it. Now, Mr. Crockett did not give me a figure for a turnkey, other than he said, "Figure out what you think it will cost and add 25 per cent, and that is for the drilling end of it."

Q Have you prepared an exhibit showing those figures?

A Yes, I have. This is noted on my AFE-119, and I might point out --

Q Is that Exhibit Number 7?

A Exhibit 7. This is not very definite. In other words, Mr. Crockett would not pin himself down definitely at the time.

Q In other words, you don't know at this point whether you would get a contractor to enter into a turnkey contract?

A The risk involved, both with the high pressure gas and the problem of cementing, and the other things in the area, I doubt it -- I am sure you could, but it would be quite prohibitive, as far as costwise.

Q Have you made any study of the costs of operating wells in this area?

A The operation of wells will depend on two things. One is a normal operation charge, which most operators charge.

The second would be a pumping or a foreman charge in the area.

The third would be any unforeseen maintenance costs that may come, as well as under the operation. I believe the high pressure gas wells in this area do not require as much maintenance, we might say, as another pumping well somewhere else, so this would be -- I have used or put down as a figure somewhere around \$200 a month for operation. That would be \$100 a month administrative, and the other would be related to pumpers, or whatever miscellaneous work that might be required. Again, this is something that is hard to foretell what might be involved on down the road, as far as maintenance.

Q Mr. Butler, in drilling a well in the North Indian Hills Morrow Pool, would you anticipate a high degree of risk or a medium degree, or a low degree?

A The risk is high, basically because any time you are drilling high pressured gas, you have a risk factor, and also any time you have a gas zone at a lower level in a well than you do with weaker zones -- or the term has been used, thief zones above -- you are standing the risk of blowout. This is caused by the zone taking your drilling fluid, lowering your

hydrostatic head that you are holding on to the formation you are drilling, and then your formation blowing out. I think this is a well-known risk in this area, not only here, but anywhere you are drilling into a high pressure gas, and the Morrow is a very high pressure gas, normally.

Q Have there been blowouts in the vicinity of this location?

A Yes. I am not really familiar, but I do know there has been one within the area, which would be the Hanagan Well. There have been several in southeastern New Mexico, or in the area around Carlsbad, or farther south and east of Carlsbad.

Q Would you describe, for example, what happens to the drilling mud when you encounter one of these thief zones?

A You lose it. The mud, the pressure or breakdown pressure of the zone is at a point that is less than the hydrostatic pressure of the mud, and the mud that goes into this zone. This can be remedied either by lost circulation material, in building up and plugging this with lost circulation material. This is something that is about the only way that it can be handled, or with running pipe across these zones.

Q Would you consider the risk in this area as high as elsewhere in southeastern New Mexico?

A I think the risk is as -- I would put it this way: it

may not be as high as elsewhere in Bell Lake, or somewhere like that. But say of the last thousand wells drilled in New Mexico, this would be in the top five per cent, as far as risk would go. It is not the most highest risk in the state, but it is awfully close.

Q If the laws of the State of New Mexico permit the operator to recover from a non-consenting owner out of his share of production, 50 per cent of his share as a risk factor, a maximum of 50 per cent, what risk factor would you recommend?

A I would recommend 50 per cent for this risk factor. I feel, this would just personally be a personal opinion, that I feel it is low, the maximum of 50 is low for a risk factor, especially in this area.

Q Mr. Butler, were Exhibits 4, 6, and 7 prepared by you or under your supervision?

A Yes.

Q And Exhibit Number 6, do you consider those to accurately depict well costs at the time these wells were drilled?

A Exhibit which?

Q Exhibit 5.

A I would. I believe they probably do at the time, because I did go to Penrock and went over their accounts, and I

believe Penrock is on there, and this was their actual cost.

MR. KELLAHIN: At this time, I offer in evidence Exhibits 4, 5, 6, and 7.

MR. MORRIS: No objection.

MR. NUTTER: Corinne Grace's Exhibits 4 through 7 will be admitted in evidence.

(Whereupon, Corinne Grace's Exhibits Numbers 4 through 7, inclusive, were admitted in evidence.)

MR. KELLAHIN: That is all I have on direct.

MR. NUTTER: Any questions of Mr. Butler?

MR. MORRIS: No, sir.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Butler, I notice here, referring to your Exhibit Number 6, your estimate of well costs for a completed well, and also for a well down through to the casing point, you estimate \$9,000 for mud and chemicals. Yet, if we turn to Exhibit Number 5, which is the tabulation of actual costs on several wells, the second column from the right is the mud bill, and \$10,000 is the lowest figure on there.

A Right. We do have mud bills running up as high as \$47,000.

Q Did any of these wells have lost circulation problems?

A I am not familiar with whether they had or not. I would imagine when a bill goes that high, that they would have.

Q It appears that there are quite a number of them in the \$20,000 to \$25,000 bracket. Do you know if they had lost circulation?

A No, I do not. This figure here was furnished me by a mud company.

Q This \$9,000?

A Right. And all the figures on this AFE are if everything went exactly the way it was planned. This is without trouble.

Q This is without any contingencies, then?

A Right.

Q Except that you have added five per cent?

A That is a normal, what I normally add on in figuring costs.

Q When the mud company gave you this estimate, were they thinking of the situation out here in Indian Hills where you can have lost circulation problems?

A Yes, they were. I would like to check through here.

Q What is the normal mud ^{bill} fill in a normal area for a 10,000-foot well?

A I believe I have their second well that Penrock drilled,

it was a dry hole, and their mud bill was \$8,160. They had no trouble. And this is basically where this figure came from. It is located down to the south there. I have the location here.

Q But this mud company --

A The second Penrock dry hole is located in Section 19, northwest of the southeast quarter.

Q Northwest of the southeast. But this mud bill of \$9,000, that was given to you by a mud company. Was it a company that has been doing mud business --

A They did the work on the Penrock wells.

Q Now, have any of the Penrock wells had any blowouts or lost circulation problems?

A I am not familiar with their other problems, other than the Penrock No. 2, which is what I went over their costs with, and they did not have any problems with that except on cementing. I might point out here that like for cement and cementing is \$3,200. Well, actually moving over to the second column of the AFE, it shows to casing point, \$2,800.

Q I was wondering if you would be able to cement that long string for \$400?

A They had \$5,300 on their cement bill for a dry hole. But that \$400, I think the long string will cost \$1,550 to cement.

Plugging costs is included in it.

Q So you wouldn't have a plugging cost?

A The plugging cost is included in the casing point cost. That is the normal way I make these up, is that a dry hole cost shows to casing point.

Q The \$2,800 includes plugging?

A Right. I think the \$400 difference comes out in floating equipment.

Q Now, when we are talking about a 50 per cent risk factor when we drill a well, we have got two kinds of risks. We have the risk of getting a dry hole, and we have the risk of losing the well in the course of drilling the same?

A Right.

Q According to Mr. McIntyre's exhibit, the risk of hitting a dry hole here is negligible. He said this is about as inside a location as you can get. So the dry hole can be excluded here from consideration?

A I don't think 100 per cent, but generally.

Q It looks like a good risk, as far as getting production?

A Right.

Q So then the risk that remains is the risk of losing the well?

A Of losing the well.

Q Because of the lost circulation, and you are dealing with high pressure gas?

A Right, this is true.

Q Do you think if we exclude the risk of getting a well, and then hang our risk factor solely on a blowout and losing the hole, that that is worth 50 per cent here?

A I think it is. I made the comment a while ago that I felt it was low. Lots of times, a normal operating agreement for people who do not consent, lots of times goes as high as a hundred per cent -- I mean as high as 200 per cent in the normal operations in the oil field, and this is strictly for people who do not, just choose not to consent in the drilling of another well. I am not saying in this area, but this is between operators. This is kind of a standard.

Q Well, if we go by our statute, though, which limits it to 50 per cent, then 50 per cent is the equivalent to 200 per cent in a voluntary deal among operators, because it is the maximum.

A Right. Well, I think it should be the maximum in that area.

Q If you were negotiating a voluntary agreement, you would insist on 200 per cent, which would be the maximum?

A That's right.

MR. NUTTER: Any further questions of Mr. Butler?
You may be excused.

MR. KELLAHIN: That completes our direct presentation,
Mr. Nutter.

MR. NUTTER: Mr. Morris, do you want to call your
witnesses, or take a recess?

MR. MORRIS: Whatever you would prefer, Mr. Examiner.

MR. NUTTER: Let's take a five minute recess.

(Thereupon, a recess was taken.)

MR. NUTTER: The hearing will come to order.
Mr. Morris.

RICHARD S. BROOKS

called as a witness on behalf of Applicant David Fasken, having
been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Brooks, will you please state your name and where
you reside?

A Richard S. Brooks, Midland, Texas.

Q What is your profession?

A I am a lawyer.

Q What is your relationship to Mr. Fasken and his
operations?

A I represented Mr. Fasken as a lawyer since 1941, and I have represented him as a general business agent in the oil business for, oh, since about 1947.

Q Would you be the general manager of his operations?

A Yes, I think you would say that.

Q What area does this operation cover, geographically?

A Mr. Fasken has interests in active producing oil properties in Texas, New Mexico, Oklahoma, Louisiana, and Arkansas.

Q Approximately how many wells does Mr. Fasken have an interest in, and how many does he operate?

A He has interests of various kinds in approximately 700 wells, and he directly operates about 100.

Q How many wells does Mr. Fasken operate in New Mexico?

A There are seven producing wells, and one presently shut in, which has not been abandoned.

Q And how many of these wells are in the Indian Basin area?

A There are five gas wells in the North Indian Basin Gas Pool.

Q In connection with your duties as general manager for Mr. Fasken, how broad an authority do you have, just in a

general way.

A In consultation with our geologists, I select acreage for purchase, select locations and objectives for drilling, and negotiate drilling contracts, clear charges for payment, attend to any legal matters that may arise, including titles, negotiate unitization, pooling, operating agreements, generally carry on the business for Mr. Fasken's account, and endeavor to keep him rather fully advised of what is going on.

Q What type of staff does Mr. Fasken maintain in connection with his oil operations?

A Mr. Fasken operates through consulting personnel. I represent him in the capacity suggested on a retainer, furnish a staff from my office which consists of myself and two secretaries. We have an engineering firm known as Henry Engineering, headed by Mr. James B. Henry, which is on a retainer, and under contract to furnish 100 per cent of their time to Mr. Fasken. That firm consists of Mr. Henry, and his assistant, Mr. Angovine, who are both graduate engineers; Mr. Parks, who is our material man, production clerk, purchasing agent, and two secretaries.

We have a geological firm on retainer, who are not committed to spend a hundred per cent of their time to Mr. Fasken, but who actually spend at least 75 or 80 per cent of their time

to Mr. Fasken. The firm is headed by Mr. R.C. Leonard, and he has two assistants, Mr. Louis Peak and Mr. Gus Waterman.

We have an accounting firm, Mr. Louis Bartha, who is on retainer from Mr. Fasken, and devotes in excess of 50 per cent of his time and that of his staff to Mr. Fasken's business. Mr. Bartha is alone in the practice as a CPA, and has either four or five women assistants. Those firms represent our regular staff.

We employ seismologists from time to time on a spot basis. We employ civil engineers from time to time on a spot basis, and whatever other technical personnel we may need from time to time. Being in charge of that personnel is part of my responsibility.

Q Mr. Brooks, turning to the case before the Commission, has Shell verbally agreed to farmout its acreage in the north half of Section 8 to Mr. Fasken for the drilling of a well?

A Verbally, and also informally in writing, in that I submitted to Mr. R.A. Clark, Western Division Land Manager at Midland, on November 11, 1968, a rather detailed letter stating the terms that we proposed, and Mr. Clark has responded to that letter by a letter submitting a formal agreement on Shell's own form embodying the terms of my letter of November 11th. Mr. Fasken has signed that formal agreement, and returned it to

Shell, having signed it on January 13th, and I have been assured by Shell that it is going through the routine procedure for Shell's signature.

Q Have you been designated as operator of the Shell acreage by Shell on the U.S.G.S. regular form?

A Yes, we have received from Shell a designation of operator separately for the northeast quarter, and another for the northwest quarter of the section in question, and these forms have been filed with the United States Geological Survey at Roswell.

Q What is the status of your negotiations with Marathon Oil Company, in connection with the southwest quarter of this section?

A Marathon Oil Company has been furnished a copy of my letter of November 11th to Mr. Clark of Shell. I have been advised by Mr. Charles L. Scott, Eastern District Land Manager at Midland, that Marathon will farmout the southwest quarter of the section to Mr. Fasken on the same terms as outlined in my letter to Shell.

Mr. McSorn has also been furnished a copy of the draft agreement prepared by Shell, and which I mentioned a moment ago had actually been signed by Mr. Fasken.

And I have a letter from Mr. McSorn confirming that he

had been authorized by his management to state that the proposed farmout is acceptable and will be forthcoming.

Q Mr. Brooks, after being informed that you would receive farmouts from Shell and Marathon, did you have any conversation with Mrs. Grace or any member of her -- anyone affiliated with her in connection with the southeast quarter of this section?

A I have known all along, of course, that the southeast quarter was shown on published maps as belonging to Mrs. Grace. Some time between November 11th and December 12th, and I would place the date tentatively at approximately December 1st -- now, I can't recall it offhand.

MR. NUTTER: Between what?

THE WITNESS: Between November 11th and December 12th. I think it was about December 1st, I received a telephone call from a lady who identified herself as Mrs. Grace. That is the only contact I have had with anyone, with either Mrs. Grace or anyone representing her.

Q Would you state the substance of that telephone call?

A Well, the substance of her presentation to me seemed to be that she wanted me and Mr. Fasken to go away and get out of her way. And I declined to do so, but offered our willingness to enter into a communitized unit under a normal form operating agreement and accounting procedure.

Q Has that offer been made to Mrs. Grace since that time?

A With my authority, you extended the same offer through Mr. Kelly. *Kellahan*

Q Is that offer still open?

A Yes, sir.

Q Am I correct, Mr. Brooks, that that offer would call for a normal form communitization with David Fasken to be the operator of this well to be drilled in the northeast quarter of Section 8?

A Yes, sir.

Q Has Mrs. Grace or anyone affiliated with her accepted your offer, or made any offer for communitization to you?

A Well, on the occasion of the telephone conversation, Mrs. Grace rejected my proposal. So far as I know, there has been no response of the offer made through Mr. Kelly. *Kellahan*

MR. MORRIS: I will state for the record that Mr. Kelly *Kellahan* did state verbally to me that our offer was not acceptable.

Q Was any offer made to you, Mr. Brooks, whereby Mrs. Grace proposed a communitization with her to be the operator?

A No, Mrs. Grace said she felt that she was entitled to receive farmouts from Shell and Marathon, and she thought I ought to go away and leave the situation alone.

Q Does Mr. Fasken propose to drill a well in Section 8?

A Yes, sir.

Q And at what location?

A 1,980 from the north and 2,105 from the east.

Q Has the location been staked at that point and appropriate forms filed with the United States Geological Survey?

A Yes, sir, the location was staked by Sherman and Jones, of Lovington, and under Mr. Henry's personal supervision, and the forms have been filed.

MR. MORRIS: That is all I have of this witness.

MR. NUTTER: Are there any questions of Mr. Brooks?

MR. KELLAHIN: Yes, sir.

MR. NUTTER: Mr. Kellahin.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Brooks, as I understand it, you are a lawyer in Midland?

A Yes, sir.

Q Do you have any other clients, other than Mr. Fasken?

A Very few, sir. He has first call on my time.

Q Do you devote all of your time to him?

A 85 to 90 per cent.

Q As I understand it, you negotiated a farmout agreement with Shell on behalf of Mr. Fasken?

A Yes, sir.

Q Was that a farmout which requires you to drill a well by a certain date, or you would lose it?

A Well, yes, it does, though we have been assured that the date is subject to extension if circumstances seem to require it.

Q What is the date?

A The date is 60 days after date of agreement.

Q You haven't got the agreement?

A No, sir.

Q You don't have an agreement with Marathon as yet, is that correct?

A Yes, I would say I have an agreement with Marathon. I do not have a formal contract, but I have an exchange of letters.

Q Do you have a designation as operator from Marathon?

A We have here in the record a telegram sent in from Marathon's legal department in Houston, stating that they were forwarding a designation of operator to the U.S.G.S.

Q At the time you were negotiating with Shell, as I understand this, it was back in November of 1968, is that correct?

A My negotiations with Shell started in August of 1968; the exchange of letters upon which we predicate the proposition that we actually have a farmout was in November.

Q Now, at that time, you did know, as I understand the testimony, that Mrs. Grace was the owner of the southeast quarter?

A Yes, sir.

Q And you were aware that under the rules of the New Mexico Oil Conservation Commission, 640 acres was required to be dedicated to a well drilled in the Morrow?

A Yes, sir.

Q Did you ever make any effort to contact Mrs. Grace and obtain a farmout or other type of agreement from her?

A I was unable to locate Mrs. Grace by inquiries of both Shell and Marathon. One address of a consulting geologist in Albuquerque that Shell believed to represent her, I wrote a letter to that address in August, 1968, which was returned unknown.

Q Did you look in the phone book in Midland?

A No, sir, I had no reason to think she was in Midland.

Q Now, the only contact you have had with Mrs. Grace was the result of her phone call to you about December 1st?

A That's right.

Q And other than that, you never made any effort to contact her?

A No.

Q Other than your contact through Shell?

Mr. Brooks, you say Mr. Fasken is operating seven wells in New Mexico, and has an eighth well which is temporarily disconnected, or plugged, or whatever?

A Yes, sir.

Q Not operating. Does Mr. Fasken maintain any offices in the State of New Mexico?

A No, sir.

Q Does he maintain an office in Midland?

A Yes, sir.

Q Is it under his name?

A No, sir, it is under my name.

Q It is under your name and not Mr. Fasken's name?

A It is under both of our names in the directory in the building where it is situated. It is listed under his name in the Permian Basin Oil Directory, which has general circulation in the Permian Basin area. This gives my address, Mr. Henry's address, and Mr. Leonard's address.

Q Mr. Henry is a consulting engineer?

A That's right.

Q And Mr. Leonard is a consulting geologist?

A That's right.

Q And they are both employed by Mr. Fasken on a contract basis?

A Mr. Henry is on a full time retainer, and Mr. Leonard is on a retainer giving first call on his time. Most of his time is occupied.

Q Have you been located in Midland very long?

A I have been in Midland since 1941.

Q You are familiar with the oil business, are you not?

A I would think measurably so.

Q As a normal thing, an independent operator does make use of consultants in handling their completion and drilling of wells, do they not, just as Mr. Fasken does?

A I have been managing Mr. Fasken's business, his oil business, since 1947, and representing him as an attorney longer than that. We have used consulting personnel all times.

Q Now, the proposal that was submitted by your authority, you are familiar with the letter that was written to me by Mr. Morris, is that right?

A Yes, I have a copy of it.

Q Now, this was proposed to be a farmout based on the Ross-Martin form?

A Not a farmout, sir, but a joint operator.

Q Joint operating agreement?

A Yes.

Q But that is the form you propose to use?

A Yes.

Q That is a rather lengthy form, is it not?

A Yes.

Q It contains a great many blank spaces, does it not?

A Not very much for a form 13 pages in length.

Q It doesn't contain the details of participation in the operating unit?

A No, it requires filling in. It is not complete in and of itself.

Q In other words, then a communitization agreement based on the Ross-Martin form would not be a concrete proposal that it could be said, "I will accept your proposal and you know what the details are," is that correct?

A That is quite right. But it is a long way further than just a verbal proposal to enter into an operating agreement.

MR. KELLAHIN: That is all I have.

MR. NUTTER: Are there any other questions?

MR. MORRIS: No, sir.

MR. NUTTER: The witness may be excused.

MR. MORRIS: I will call Mr. Henry.

JAMES B. HENRY

called as a witness on behalf of Applicant David Fasken, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

(Whereupon, Applicant Fasken's Exhibits Numbers 1 through 5, inclusive, were marked for identification.)

Q Mr. Henry, please state your name, and where you reside.

A James B. Henry, Midland, Texas.

Q What is your profession, Mr. Henry?

A Consulting Petroleum Engineer.

Q Please state briefly your education and your experience in the petroleum industry.

A I have a B.S. Degree in Petroleum Engineering from Texas Technological College, obtained in 1950, employed for five years by Stanland Oil and Gas Company, six years by Anderson Pritchard Oil Corporation, two years by the Union Texas Petroleum Corporation, and approximately five years as a consultant.

Q In what area have you had your experience?

A West Texas, New Mexico, Oklahoma, Kansas, Colorado,

South Texas.

Q Approximately how much of your professional life have you spent in the Permian Basin?

A Twelve years, and the rest of the time I was responsible for operations in the Permian Basin when I did not live here.

Q Do you have a consulting firm?

A Yes, I do.

Q What is the name of it?

A Henry Engineering.

Q Now, as Mr. Brooks testified, are you on a full time retainer to Mr. Fasken?

A Yes, I am.

Q How long have you done consultant work for Mr. Fasken?

A Almost five years. It will be five years the first day of March.

Q How many wells, and approximately how much production is under your supervision?

A We actually manage and operate 100 producing wells, producing 100,000 barrels of oil per month. We do the engineering work on some 600 additional wells as required on non-operated properties and royalty interests.

Q What is your staff?

A It consists of myself and two engineers. We normally have two engineers. At the present time we have one, and we are interviewing for a replacement. We have a materials supervisor; production supervisor; office manager-purchasing agent combination, this is one gentleman; and we have two field foremen, and about ten contract pumpers, two sections.

Q Have you prepared as Exhibit Number 1 in Case 4043, a structure map on top of the Morrow Formation in the area under consideration in this hearing?

A Yes, I have. It's been identified as Exhibit 1.

Q Point out what is shown on that exhibit.

A These contours are on top of the Morrow pay zone. The Morrow pay zone in the North Indian Hills area consists of a gross interval of 300 feet, plus or minus a few feet of intermediate shales, sand, and a minor amount of limestone. This is the top of that sequence of beds, and these beds continue from this marker down to the top of the Barnett Shale. These beds lie unconformably on top of the shale.

The structure map is contoured on the uppermost sand in this sequence. The datum shown in black are the subsurface elevations of the top of this pay zone; and the hexagonal markings colored in pink represent those wells actually producing from the Morrow horizons.

The Cisco wells in here, we made no effort to identify. One of these is dually completed in Section 19, on this plat, is dually completed with the Cisco, and the wells in 20 and 21 are Cisco producers, one of them drilled to the Morrow. There is a well in 22, a dry hole in a Morrow. There is also one in Section 10 that encountered water in some of the Morrow beds, and was not commercial in others.

I have also shown as the small red circle in the northwest quarter of Section 8, the location we propose to drill for Mr. Fasken. The triangular marking in the southeast quarter of Section 8 depicts the location approved by the New Mexico Oil Conservation Commission and the U.S.G.S. for Mrs. Grace's location.

Q Now, the five wells shown on the acreage colored in yellow are each operated, owned and operated by Mr. Fasken, and you operate those for him, is that correct?

A Yes, we drilled and completed them and operate them. The acreage shown in yellow on the plat is that which Mr. Fasken has by various arrangements, including the leasing and farmouts, and purchases.

Q Now, did you participate in the drilling of each of those five wells?

A I personally supervised the drilling and completion of

these wells, I would say 75 per cent of them. The other 25 per cent was done directly under my supervision.

Q Earlier Mr. McIntyre gave the potentials on each of these wells. Was the information that he gave with respect to Mr. Fasken's wells accurate?

A The data with respect to the absolute open flow potentials were correct. The dates were not exactly correct. They are within a week or ten days. We consider a completion date the date we took the four point back pressure test as being our completion date.

Q Mr. Henry, in your opinion, and based upon the geology shown on Exhibit Number 1, is Mrs. Grace's proposed location in Section 8 any better than the location proposed by Mr. Fasken, or would you compare the two, please?

A Geologically, the pay zones as projected at either location should be comparable. I would like to point out that any further movement toward the well in Section 9, being the Skelly Federal, or the well in Section 16, being the Indian Hills Unit No. 7, no movement in that direction should be made. Those two wells had nice potential tests, but they did require hydraulic fracture.

The two wells in Sections 4 and 5 were natural completions. The well in Section 17 has one zone of Morrow

that was a natural completion, and one zone that was fractured.

The thicker pay sections in the Shell Federal Well in Section 5 was the thickest pay section we have, and we should move in that direction, I believe Mr. McIntyre neglected to give the potential of that well, which was 4,250,000 Mcf. Now, this is one of the lower potentials, but I would like to point out that the well has an average amount of skin damage as determined from pressure buildup data in the perforations. However, the well is capable of delivering five times the pipeline take at this point, so we made no effort to do anything more to that well than reperforate it. On reperforating it, we did increase the flow rate, and its adjusted potential on some engineering work we did recently was some five million. It has a deliverability of five million feet a day. We actually flowed at rates of four million a day after the reperforating.

MR. NUTTER: Is that the Shell Federal No. 5?

THE WITNESS: Yes.

MR. NUTTER: He gave us a perforated interval on that well of 9,570 to 9,592. Are those the original perforations or the new perforations?

THE WITNESS: I did not follow his testimony in that regard. If you like those, I will be glad to give them to you.

MR. NUTTER: We ought to correct them, if the perforated interval has been changed. He also gave us a potential on a well of 3.150.

THE WITNESS: On the Shell Federal?

MR. NUTTER: Yes.

THE WITNESS: Well, I missed that in his testimony. The potential was 4.25 million. It is available in the back pressure test on file with the Commission. Based on electric log measurement, the interval perforated was 9,570 to 9,592.

MR. NUTTER: That is the new perforations?

THE WITNESS: That is the original perforations. The new ones, we reperforated the exact same interval.

MR. NUTTER: Go ahead.

Q (By Mr. Morris) Mr. Henry, will you now please refer to Fasken's Exhibit Number 2, and state what that is and what it shows?

A Exhibit Number 2 is a portion of the United States Geological Map entitled Bandanna Point Quadrangle, Bandanna Point, New Mexico. This is the northeast portion of a topographic map that depicts 50-foot contour intervals of the surface topography in the North Indian Hills Field area.

Q What does this show, as far as the two locations are concerned?

A In red ink and by arrows I have indicated the surface topographic location of these two proposed location; the one proposed by Mr. Fasken being 1,980 from the north line and 2,105 feet from the east line; and the Grace location, which is 1,750 from the east line, and 1,650 from the south line.

I would like to point out that between these two wells, the elevations for each are given below the location. The elevation of the Fasken well is 3,888 on the surface. This was obtained by Sherman and Jones out of Lovington, surveyors that surveyed this location.

The Grace elevation, 4,101, was filed with the U.S.G.S., and the New Mexico Oil Conservation Commission has the elevation of their well, and this fits the topographic map, indicating a 213-foot difference in elevation.

You will notice on the map between these two locations, the close spacing of the contour lines reflecting a surface escarpment of some 213 feet between these two wells, the steep feature being the west face of what is known as the Seven Rivers-Hills.

Q Have you personally been on the ground at both of these proposed locations?

A Yes, I have.

Q Will you refer next to Exhibit Number 3, and state what

that is?

A Exhibit Number 3 is an authority for expenditure, or an AFE, which I submitted to Mr. Brooks for his approval, of the procedure, cost estimates, and casing tubular goods program that would be used in drilling and completing the well designated as the David Fasken Shell A Federal No. 1, 1,980 feet from the north line, 2,105 feet from the east line of Section 8, Township 21 South, Range 24 East.

Q And what is your total estimate for this AFE?

A The coverlet on the front of this exhibit, which consists of pages 1 through 4, shows the total tangible and intangible costs, costs of drilling to the casing point, and the costs of completing the well as a producing gas well connected to the natural gas pipeline facility located at Mr. Fasken's common gas gathering facility designated North Indian Hills Gas Facility, located approximately 200 feet from the Shell Federal Well in Section 5.

This shows a total cost of the completed well with gas line, dehydrater, surface separation facilities, to be \$208,310.

I call your attention to this second page of that exhibit. We have a detailed cost estimate broken down by drilling costs and completion costs. The footage cost of \$8.75

per foot is based on our last experience in the area, which was for a multi-well contract, and was a favorable drilling contract price.

We have down there day work cost of, for four days at \$1,150. This is based on our latest experience in drilling contracts in the area. The four days are necessary to cover three drill stem tests that are required to test the Morrow intervals. We find there are basically three sand zones within the Morrow section that we are finding necessary to test individually.

The drilling mud costs of \$8,000 is based on our experience in the area.

The water cost of \$4,000 is again based on our experience in the area. Water is very scarce in the area. It has to be piped to the location or trucked. Trucking is regulated to 18 cents a barrel or a minimum haul. If it is hauled from the Shaeffer Water Well in Rocky Arroyo, it could be obtained. We have obtained water from the Howell Ranch for a flat fee of \$1,000 per drilling well, plus the cost of laying and picking up the lines, and pumping the water to the location. The cementing service and supplies here represent the cost of a long string of eight and five eighths surface casing. At the location proposed to be drilled here, at the

elevation that we propose, it will not require thirteen and three eighths surface pipe. It will require a thirteen and three eighths ~~contour~~ ^{conductor} pipe in order to prevent erosion.

We have a drilling rate of \$500 in addition to the mud.

Then we have wellhead equipment, and the conductor pipe which could be junk casing. The rat hole drilling cost for the conductor pipe of \$500. The intermediate casing, 3,200 feet of eight and five eighths-inch casing.

The road and location and pad to put the drilling rig on, we estimate at \$3,000. We estimate damages to be paid to rancher and maintenance of the road at an additional \$1,000 for a total of that item of \$4,000.

Trucking, welding, and rental, based on our experience, is around \$500. Surveying location, \$200. Logging, \$4,400. The Morrow pay zone is a very difficult one to interpret. It requires a shallow investigation tool of a resistivity type that requires a sonic log, and it requires a dual induction lateral log combination in order to evaluate the pay zones. The minimum cost for these at this depth is \$4,400.

We anticipate three drill stem tests. The services for this are \$650 each, or \$1,950.

The miscellaneous services and supplies run around

\$500. These are sample sacks, well signs, et cetera.

The geological and supervisory expenses, based on our experience, indicate \$3,500 for these services, for a total drilling cost to casing point of \$135,770.

The completion cost, I might add, is based on completion of one well, one zone natural, and the other section within the Morrow being fractured, which again is a hypothetical case here for demonstration purposes.

Four and a half-inch oil string casing with cementing services and supplies, \$2,500. This \$2,500 covers cementing four and a half-inch oil string with 450 sacks of Incon cement or class API class C cement, with 7.6 pounds of salt, and an accelerator and flood loss additive. This puts us into an anticipated casing fill of 2,025 feet ^{above} ~~below~~ the bottom of the hole. This has been our experience from temperature surveys in the area.

I might point out in the cementing ^{Service} ~~surface~~ and supplies for the drilling cost of \$5,000, this is a required cementing program by the U.S.G.S., under the direction of the Artesian Water District, that that has to be circulated to the surface, and that often takes a large volume of cement.

The logging, perforating after completion or after setting the oil string pipe is estimated at \$3,000.

Packer, \$750. Tubing head with valves, \$1,300. Christmas Tree, \$1,500. Brine and packer fluid, \$2,000. Services for back pressure test, \$600. Roustabout labor, \$500. Surface connections and lines, \$500. Tubing string, \$9,500. Hydraulic testing of the tubing, \$500. Kill truck service, \$200. Fracturing service, \$5,000. Anchors, \$190. Welding, \$200. Trucking and water hauling, \$600. The gas sales line and surface equipment, dehydrator tankage at \$20,000. And dirt work of \$500 to clean up the location. And engineering and supervisory expense of \$2,000, for a completion of \$72,540, or a total well cost complete into the gas sales line of \$208,310.

Q Now, Mr. Henry, please go to your recommended drilling and completion procedures, pointing out the items here that are of particular significance in connection with the drilling of wells in this area.

A All right. At the location we propose, which is off and out of the Seven Rivers Hills, thirteen and three-eighths casing is not required. We propose to drill twelve and a quarter-inch hole for the first bit. This is to allow the insertion of one-inch tubing to stage cement, besides the eight and five eighths-inch casing, in the event it does not circulate. This twelve and a quarter hole is necessary. The

eleven-inch hole from there down will provide for the lower volume of cement, and give adequate bonding for the pipe. We follow this program, and it has been approved by the U.S.G.S. engineers supervising this operation. The casing program is standard for eight and five eighths, 3,200 feet is the standard procedure we have followed.

I might point out that we install a dual blowout preventer. This is a preventer with blind pipe rams that will close on the drill pipe. We also require the contractor to install a hydrill preventer that will close on the Kelly and drill collars, so in the event the well should develop gas kick that it can be controlled.

The item number six, we believe to be very important, which is the test commonly known as Yellow Jacket test, after the service company that originally offered the service, which is a hydraulic pressure test of all valves, all blowout preventer equipment, the well head and all choke manifolds and valves, to insure that these are in perfect operating order before we drill deeper, and in the event there should be a gas kick.

We propose to drill stem test the upper, middle, and lower sections of the Morrow, and run the electric logs, and cement the pipe.

The other items are self-explanatory, I think. We

propose to run the packer and tubing, swab the well down, and control pressure perforated. These Morrow Sands do not respond to acid. They, in fact, the swelling clays in them will hydrate in the presence of acid, and we have had some bitter experience of trying this on one well in which the acid actually reduced the flow rate by about 50 per cent. The controlled pressure perforating is necessary to get the best natural perforating job and best natural completion possible.

We have found the wells will respond to a breakdown with ^{pink} paint brine. This is a brine made from the potash salt, residue from the potash mines available at Carlsbad, and we propose here to perforate any tight zones and fracture them, then lubricate the gun in the hole, and perforate those zones that indicate from drill stem tests they will support natural flow from a natural completion. This is a procedure we followed and we found it to be very satisfactory.

The ^{pink} paint brine is used to prepare a fracturing fluid called mud brine, which is a fluid with peculiar viscosity properties, viscosity properties that has a very low viscosity at very high pumping rates. This fractured fluid is very satisfactory for stimulating these wells.

I might point out that the David Fasken Skelly Federal No. 1 was the first successful fracturing job or

stimulation job ever done on a Morrow well in Eddy County, to the knowledge of ourselves. Since that time, we have treated a number of wells, and other operators have treated a number of wells with this procedure.

Q Mr. Henry, I think it is obvious, but let me ask the question anyway. Is your estimate of well costs here on this exhibit based upon your actual experience in the drilling of the five other wells in the North Indian Hills Morrow Gas Pool?

A Yes, it is.

Q Have you used as a source of your estimate, your actual invoiced costs on these other wells?

A Yes, I have.

Q Do you have your costs on these other wells prepared in the form of an exhibit?

A Yes, I have.

Q Please refer to Exhibit Number 4, and will you explain that?

A Exhibit Number 4 is a recap of the well costs summary from these wells. The items listed under roman numeral one are three wells that have been completed, completed with surface separation and sales facilities. On the line on production, you will note that the Ross Federal and the Shell Federal Wells are somewhat lower in cost than the Skelly Federal

No. 1. Now, the Ross Federal and the Shell Federal No. 1 are located in the valley out of the Seven Rivers Hills feature, and are at a location approximately comparable to the location we here propose to drill.

The average well cost here would be \$202,000 or \$203,000, approximately. The increase we are seeing on the well I am proposing here is due to inflation in prices since some of these wells were drilled as far back as 1965. The Skelly Federal No. 1 is shown to cost some \$30,000 more than the other two wells. This well was drilled in the Seven Rivers Hills at a location with an elevation comparable to that proposed by Mrs. Grace, and very near the location. Now, this location experienced severe lost circulation in the hole before the intermediate pipe was set. This well was not able to circulate cement on the eight and five eighths-inch casing, or on the primary cement job. It required several attempts to cement it with one-inch pipe. This was to no avail in filling it up. We finally backed into it with a ready-mix concrete with one-inch aggregate, and pumped it down the outside of the casing, and this completed the fill up the casing, and the casing passed the examination of the U.S.G.S. We also put gunny sacks, and a few other things down this thing.

MR. NUTTER: You are talking about the Skelly Federal?

THE WITNESS: Yes, sir.

MR. NUTTER: Would you attribute this to the similarity or to the fact that it is not down in the plains?

THE WITNESS: Yes, sir.

MR. NUTTER: This is the trouble up in the aggregate that is in the hills.

THE WITNESS: The hills have an extra geological section of layers of limestone that are weathered, they are highly eroded, they are cavernous. And part of the time in drilling this hole, we attempted to drill it with air, and we did not have circulation with air.

MR. NUTTER: And this would all be in this difference in elevation in the 300 or 400 feet?

THE WITNESS: Yes, there are these dry rocks exposed in the face of the cliff on the west escarpment of the Seven Rivers Hills, and this is the cause. On both of the wells we drilled down in the valley fill, we have circulated cement on the primary cement job.

MR. NUTTER: How about these other three wells that you have drilled here in Section 9 and Sections 16 and 17? Are they on the flats or in the hills?

THE WITNESS: The well in Section 16, which is the Indian Hills Unit No. 7, is in a small valley up in a saddle in

the Seven Rivers Hills. It is not quite as high elevation.

MR. NUTTER: On your Exhibit 2, that would be there in Deadman Draw, probably?

THE WITNESS: Yes, sir, it is in the very center of Deadman Draw. And the well experienced severe lost circulation in the shallow beds. There were no instances that we experienced lost circulation after the 3,200 feet, approximate 3,200 feet of eight and five eighths casing had been cemented.

Now, the well in Section 6, which is listed on the exhibit we are discussing here, I believe Exhibit 4, is listed under roman numeral three, that was a re-entry, and the intermediate casing was still in it and cemented.

MR. NUTTER: You don't mean Section 6, you mean it is No. 6 but it is in Section 17?

THE WITNESS: Section 17.

MR. NUTTER: That is in the Indian Hills?

THE WITNESS: Yes, it is. And Marathon in that case set thirteen and three-eighths casing to 600 feet, which cased these thief beds that outcrop in the Seven Rivers Hills.

Now, the well in Section 7, the cost of it without any surface separation or sales facilities --

MR. MORRIS: Excuse me, that is in Section 16?

THE WITNESS: Section 16, Well No. 7, cost \$207,464,

without any surface separation or sales facilities.

MR. NUTTER: But with all the lost circulation problems?

THE WITNESS: Right. And this would make it some \$15,000 to \$20,000 more expensive than the wells drilled in the valley fill.

MR. NUTTER: So, in other words, your total cost on No. 7 with your surface equipment would probably run you about \$225,000 or \$226,000, complete?

THE WITNESS: Yes, sir, that is correct. Those expenditures have not been made. We are negotiating for gas contracts at this time.

MR. NUTTER: Here on your Exhibit 4, this \$108,000 for the No. 6, this is the cost of re-entry and completion only?

THE WITNESS: That is the cost of re-entry and completion.

MR. NUTTER: The well had already been drilled?

THE WITNESS: It is higher than our completion costs, because it was necessary to move this and rig up. We had to pay the trucking and rigup costs of the rig, and the cost of drilling out some plugs.

MR. NUTTER: How much pipe did Marathon have in the well?

THE WITNESS: 2,700 feet of eight and five eighths.

MR. NUTTER: You had to run your own production string?

THE WITNESS: Our own production string.

Q (By Mr. Morris) Mr. Henry, based upon these comparisons of actual costs on the plains and up in the hills, how much extra would you estimate that a well would cost at the Grace location as compared to the location proposed by Mr. Fasken?

A I have made an estimate of that and shown it on Exhibit 5, which the total amount is \$14,410 of additional costs. Now, the extra location leveling, the first item we have here of \$6,000, this is the extra cost.

The cost of leveling the Grace location would be approximately \$9,000.

The cost of leveling and building a road to the Fasken location would be \$3,000, because it would require a half a mile of road building from the blacktop county road, and some very nominal leveling, because we did select a site that would require minimum dirt work in staking the location.

The Grace location was visited by myself and Mr. Jones of Sherman and Jones, surveyors out of Lovington. We did run a profile across the location of the Grace well. With a minimum amount of leveling, minimum area to be leveled, it

would require a cut and fill of 14.7 feet in a north-south direction. Now, this 14.7 feet is solid limestone, and would require blasting, leveling, and filling on top of these boulders with loose material that would need to be trucked from a gravel pit and caliche pit approximately a mile and a half to two miles away.

I might point out that in an east-west direction, there is a three-foot cut and fill of, again, solid rock. Approximately 50 feet southwest of the Grace location, there is a head of a small canyon that would require that it be filled to an additional length of about 75 feet, that would take an enormous amount of rock and dirt material to fill this in to gain access to the location for normal rig equipment, pipe racks, pumps, water storage tanks, and cementing trucks accessways. The extremely high cost, of course, is the blasting necessary to level this solid limestone. We have had experience with this at two of the locations where we have to do it, and it is very, very expensive.

Q Mr. Henry, making your estimate, were you aware of the roadway that was shown on Mr. McIntyre's map of this area?

A Yes, I built that roadway. It does not traverse the pencil line, but I did personally build the roadway.

Q And you took that into consideration in making the

costs?

A Yes, I did.

Now, the next item we have would be the additional drilled footage of 213 feet at \$8.75, and is another \$1,864. The access road on which we get into the Seven Hills area to gain access into the Indian Hills Unit 7 and the Skelly Federal Well, isn't exactly an Interstate 20 highway.

MR. NUTTER: Mr. McIntyre said he went up there in a Buick, he said.

THE WITNESS: Yes, but it takes a tandem axle water truck to get water to the location, and I have some bulldozer bills for that and other equipment that has gone up some rather steep grades. And I might also add that a flash flood of five inches of rain washed away part of the pits and all of the road. That is very acceptable if you can't do anything else.

The extra cost of moving a rig in requires extra tandem trucks to pull the load in of \$1,000 estimated cost there. The extra water hauling cost, whether we haul the water or piped it up the face of the escarpment, would be \$2,000.

The drilling near it, as we are within 50 feet of the exposed face of these beds, for the first 213 feet will

require a string of casing of thirteen and three eighths, in order to go any deeper, because you simply cannot circulate here without it running out the face of the cliff. If you in addition put another 200 feet of hydrostatic head on some beds down in the 2,500, 3,000-foot range, and particularly at the 1,600-foot level, the extra hydrostatic column, these will take fluid and will not circulate.

Of course, the extra rig time to run the casing, and the additional time to run the extra string of casing would be \$1,050. We tried it twice without the casing in order to try to air drill this zone, and it just wouldn't work. We would strongly recommend against trying.

Q Mr. Henry, if the Commission sees fit to grant Mr. Fasken's application, and designates him as the operator of the well in the northeast quarter of this section in accordance with his application, does Mr. Fasken stand ready to drill a well at that location as soon as approval of the Commission is received?

A Yes, sir. Mr. Brooks' approved signature is on the AFE, and that is my authority to proceed as soon as this matter is settled.

Q With respect to cost of supervision for the operation of the well after it is completed, the Commission is required by

law to fix a sum in a forced pooling order. Do you have a sum to recommend that would be satisfactory to Mr. Fasken if his application is approved?

A Are we speaking here of just overhead, or are we speaking of lease labor?

Q We are speaking of, I think, of just the overhead in the non-billable items.

A \$100 per month.

Q Do you have any recommendations with respect to a risk factor that should be assigned?

A We drilled five wells in the area. We think we have the risk down to a fairly nominal amount. Here the dry hole risk is very prevalent in the Morrow sands. Geologically, there is this risk factor. We don't see too much risk factor in actual completion of the thing. We have not experienced lost circulation between the intermediate casing point, as some operators have. Those things only occurred where the Cisco was productive in the Indian Basin Cisco Field, and we seem to be substantially out of the Cisco productive area, and I don't see that part of it. I think the dry hole risk would afford a factor of 40 per cent.

Q Were the Fasken Exhibits 1, 3, 4, and 5, and the data shown on Exhibit Number 2, prepared by you or under your

direction?

A Yes, they were.

MR. MORRIS: At this time, Mr. Examiner, we will offer Fasken's Exhibits 1 through 5 into evidence.

MR. NUTTER: Fasken's Exhibits 1 through 5 will be admitted into evidence.

(Whereupon, Applicant Fasken's Exhibits Numbers 1 through 5, inclusive, were admitted in evidence.)

MR. MORRIS: That is all I have of Mr. Henry on direct.

MR. NUTTER: Any questions of Mr. Henry?

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Henry, I believe you testified in connection with your Exhibit Number 1 -- is that the Exhibit Number 1?

A Yes.

Q In connection with Exhibit Number 1, you testified as to the well in Section 5, and I believe you stated that had the biggest pay section?

A Yes.

Q What was the pay section on that well?

A Eight feet in the upper part of the Morrow zone, and

15 feet in the base of the Morrow.

Q Eight feet and 15 feet. That is what, 23 feet?

A Yes, the lower zone is not perforated.

Q Well, you only perforated in the upper zone?

A Yes.

Q And you only perforated less than 20 feet, is that correct?

A We perforated 22 feet.

Q Now, what was the next thickest pay section you encountered in your wells?

A Net pay in thickness was the Skelly Federal No. 1 in Section 9.

Q And that is a direct offset to the proposed Grace location?

A Yes.

Q What was the thickness in that?

A Fourteen feet in the upper Morrow, and eight feet in the middle Morrow, and zero feet in the lower Morrow.

Q What do you have perforated in that well?

A Only the upper Morrow, and it did require hydraulic fracturing. The permeability was low.

Q Did you use hydraulic fracturing in your well in Section 5?

A No.

Q You just perforated?

A Right.

Q Is the deliverability on your Skelly Federal No. 1 higher than the well in Section 5?

A Yes.

Q Would the manner of completion account for that difference?

A Yes, sir. The natural permeability by a factor of the Millidarcy feet factor, or total flow capacity of the rocks in the upper zone in the Skelly Federal No. 1 was 43 Millidarcy feet as compared to 99 Millidarcy feet in the Skelly Federal for natural productivity of the rock.

Q In your AFE, you did include an item for hydraulic fracturing?

A Yes, sir.

Q You feel that is a better completion method, I take it?

A Only if it is required. And there, since completing these wells, we have opened up the Midland lower sections of this Morrow sand reservoir, and some of those sands do require hydraulic fracturing. We determined this from buildup data obtained from the drill stem test of the individual stringers.

Q Which of the wells operated by Fasken has the highest

deliverability?

A The Indian Hills Unit 6 in Section 17.

Q And that would be directly south of the area under consideration here?

A Yes, sir.

Q And the Grace location would be closer to that well than the Fasken location, is that correct?

A It would be closer to that well; it would also be closer to the tight well in Section 9.

Q The tight well in Section 9 is the Skelly Federal?

A Yes, sir.

Q To the east?

A Right. That location is nearest to one of the poorer and one of the best wells.

Q Now, Mr. Henry, we have been talking about well locations. What well location were you talking about when you discussed the location of the Grace well?

A 1,750 feet from the east line, and 1,650 feet from the south line of Section 8, Township 21 South, Range 24 East of the New Mexico Principal Meridian.

Q I'm sorry, but I didn't get the footage location on your well.

A 1,980 feet from the north line, 2,105 feet from the

east line of Section 8 of the same township and range.

Q As I understand it, you say you visited this well site of the Grace location?

A Yes, sir.

Q When was that?

A January 2nd.

Q Did you find the stake clear?

A Yes, sir.

Q Could you give us any information on gas sales from this area?

A At the present time, we have a contractual agreement with the Natural Gas Pipeline Company of America from the three wells presently connected. They are committed to take 3.25 million per day.

Q There is no proration in this area, is that correct?

A That is correct.

MR. NUTTER: Is that 3.25 million from each well, or from all three wells?

THE WITNESS: From all three wells. That is a combined figure.

Q What kind of a payout does that take?

A Six years.

Q Have you used mud logging units in this area?

A We have used mud logging units on three of the wells.

Q Do you find that helpful?

A No.

Q Did you use them on your last well?

A No.

Q Now, you say water is scarce in this area. Where is your source of drilling water?

A The source of drilling water is a well at the Howell Ranch located in the township to the north. And that -- I don't have a map that depicts that location. It is in the section immediately north of Section 5. However, the township up there is skewed a little.

Q Is there a road to that?

A Yes, there is a paved county road.

Q Is that the road that appears on your Exhibit Number 2?

A That road in Exhibit Number 2 was a graded county road. That road has since been straightened and improved, and blacktopped, and it follows that approximate location, but is not the exact same road.

Q How far from that paved road is the Fasken location, proposed location?

A One-half mile.

Q How far from that dirt road is the Grace proposed location?

A The road has two hairpin turns in it going back in there. It is about two and a half miles.

Q How do you arrive at two and a half miles from the road, and the map on Exhibit 2 indicates it is about the same distance as your location?

A Well, Exhibit Number 2, you will notice a feature called Deadman Draw, and there is a notation on here of this topographic feature called Seven Rivers Hills. Now, at the approximate location of the "R" is a saddle which drainage goes to the west, and from that point also to the east.

Now, there is a road that comes off this county road at the approximate location of the road here, comes up through this saddle and down the draw on the east side to the feature called Deadman Draw. Then the road makes a hairpin turn, goes back up the south flank of Deadman Draw almost to the head of that escarpment, and makes another hairpin turn back to the David Fasken Federal Well. The point of that last hairpin turn is the location of the Grace well. The switchbacks required is where the extra distance comes in.

Q Is that the road that is shown on the exhibit that was presented by Mr. McIntyre?

A That is the road I believe Mr. McIntyre intended to show, but it does not follow.

Q It does not follow the lines?

A It is not the correct lines.

Q Now, you testified that a considerable part of the problem in drilling wells in this area consists of having to drill through the aggregate at these higher elevations.

A That's correct, although it is not an aggregate. It is weathered, fractured cavernous limestone.

Q Now, the Skelly Federal Well No. 1 is located immediately to the east of the proposed Grace location?

A Yes, sir.

Q It is actually within 200, or 300, or 400 feet higher?

A Yes, it is.

Q And there is only about 200 or 300 feet difference between the Grace location and your proposed location, isn't that correct, referring again to your Exhibit Number 2?

A I would have to check the exact -- the ground elevation at the Skelly Federal is 4,139, and her elevation is 4,101, as reported to the U.S.G.S. on her application to drill, which makes a difference of 38 feet.

MR. KELLAHIN: That is all I have.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Henry, I don't want to get into the details of why we have a difference in estimated costs on a number of these items, but I wonder if you could explain to me what you mean by \$20,000 for sales line and surface equipment, when Mr. Butler, on his estimate, had \$8,200 for a total tank battery? What is this \$20,000, first of all?

A The \$20,000 includes an indirect heater complete with choke for heating the gas as it comes through the choke at the well head. We had to lay a line to the gas sales point in Section 5. The best contract we could negotiate was for a delivery point at or very near the Fasken Shell Federal Well.

Q As I recall some months ago, this Commission approved an installation for David Fasken which would have been located down there at your sales point.

A That's correct. This is the cost of the pipeline, the heaters, the separators, the storage facilities at that point.

Q I don't recall the details of that commingling, but did we require an individual heater treatment for each of the wells?

A Well, you didn't require it, but it is physically

required because the gas freezes as it passes through the choke. The heaters are at the well head.

Q You have heated steam flowing down to the gas point?

A That steam pipe is insulated and buried, and where it goes over the face of the cliff on the escarpment, down to there it is rapid and insulated.

Q Now, I presume that that location in Section 8 that you have in mind, it is closer to the Shell Federal than the Skelly Federal is, so you probably take production from it down to that sales point, too, wouldn't you?

A That remains to be negotiated. I am not familiar with any gas contracts that Mrs. Grace may have entered into, if any.

Q I am talking about your proposed location, if you drill the well here.

A Oh, yes.

Q You would take your production down there?

A We anticipate that it would be down there. Now, we obtained some economics overall by doing these three wells on a turnkey bid from a pipeline contractor, and at this point we would have only the one well bid, and would have the move-in move-out cost attributed here, which would make it slightly higher than the actual cost on the other three wells.

Q What do you have down there, as far as the condensate

is concerned, when you have brought these three wet streams down to the sales point in Section 5, then what do you have?

A Each stream goes through an individual separator. The gas, the dry gas off these separators is run through a gas meter, individually metering these streams. The gas passes on to a dehydrator, and to our master meter. That meters all commingled streams.

Q Each one of these streams has a dehydrator on it?

A No, each of these streams after it is metered, goes into the common stream that passes through the dehydrator.

Q So what you have done for each well, you have a heater at the well, you have a line coming from the well, you have a separator and a meter?

A Yes, sir.

Q And then your separator meters the fluid, and it is commingled in a common tank, isn't it?

A Yes, that's right.

Q And the cost here of \$20,000 would be for the heater, the line, the separator, and the meter?

A And its portion of a dehydrator, because the dehydrator would require -- we are at the capacity of the dehydrator there now.

Q You would have to replace it with a bigger dehydrator?

A Yes, or an individual dehydrator.

Q Does that come to \$20,000?

A Yes, I took the actual invoices for this equipment on the other three wells, and this is one third of that amount.

Q Now, Mr. Henry, your estimated cost of \$8,200 for a tank battery, you had in mind a single installation for one well, I presume?

A Yes, and no sales line. We are not into any contract, so it was strictly for the heater, separator, and tank battery, and no money was put in there to build a line to the sales point.

Q You are assuming that the sales line would come to you?

A Yes. This was a point that would have to be negotiated. That is our basic difference in the AFE, and the total cost.

Q Then I don't want to get into some of these other differences. I think some of them have been explained. What are you proposing for a water source, Mr. Henry?

A I would propose that the water be furnished by the drilling contractor.

Q And under your \$9.10 a foot contract, would he assume water in that?

A I would assume he would, but that is something that

would have to be negotiated.

MR. NUTTER: Are there any other questions of Mr. Henry? You may be excused.

Mr. Brooks, I would like to ask you one more question. As far as the contracts that you are anticipating that you will receive from Marathon and Shell, will it make any difference as far as Fasken receiving these contracts or operating under these contracts, whether he is the operator of the well on the farmout or not?

MR. BROOKS: That matter hasn't been discussed with either Marathon or Shell, but I would assume not from the general tenor of our conversations. Insofar as they have been prepared, they assume Fasken would be.

MR. NUTTER: If the Commission designates Mrs. Grace as the operator, you think Fasken's contracts would still be good?

MR. BROOKS: I would think so.

MR. NUTTER: Do you gentlemen want to make closing statements?

MR. KELLAHIN: I wanted to recall Mr. McIntyre for one more statement.

MR. NUTTER: All right.

NORBERT McINTYRE

recalled as a witness by the Applicant Corinne Grace, having been previously sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. McIntyre, you testified as to the well location that has been proposed by Mrs. Grace, and have you actually visited this site?

A I have.

Q Now, you heard the description given of this site by Mr. Henry?

A Yes, sir.

Q And you heard his testimony to the effect that it would require removal of 14.7 feet from the surface, and a fill of some 75 feet in an arroyo to give access to it.

A My visit to that location was, as I previously stated, in a 1967 Buick Wildcat automobile and, of course, we did not run a cross-section across the location. We had no equipment to do so with us. But my experience in staking locations, which is not the greatest in the world, but in estimating what the cost would be for that location, I would say that probably \$6,000 is excessive.

Q Now, you heard Mr. Henry testify as to the road which gives access to this well location. Are you in agreement with what he stated about that road?

A Well, not to the extent that we have hairpin turns, and we would not be faced with two hairpin turns, because the location is rather north at the point that the road turns to go up on the hill.

Q Is the roadway a rough road?

A Well, not as rough as going into Cato, or Chaveroo, or some of the other fields. It is a good caliche road. I think they did a very good job on it.

Q Would you feel that the condition of that road and the matter of access to the well site would cause any increase in cost of the Grace move-in and move-out costs, or water hauling?

A Not excessively. That would depend -- if you had a rig within a mile of the location, I would say your costs would probably be not excessive, the difference in cost. They would have to go a little bit further from the blacktop to get to the Grace location, but overall, I wouldn't think this would be a point to be worried about.

MR. KELLAHIN: That is all I have.

MR. NUTTER: Any other questions of Mr. McIntyre?

MR. MORRIS: No, sir.

MR. NUTTER: You may be excused.

MR. KELLAHIN: If the Examiner please, I feel that since Mrs. Grace filed the first application and proceeded with the presentation of her testimony first, we are more or less in the position of being the applicant faced by an opponent on the other side, rather than having two distinct applications, although on the face of it we do. For that reason, I feel we should have the right to close.

MR. NUTTER: What we can do if we can't settle it any other way, we can call for opening and closing statements in each case.

MR. MORRIS: I have no objection to going first and being brief, Mr. Examiner.

May I ask ~~that~~ the telegram be read into evidence?

MR. NUTTER: We will read the telegram. This is a telegram addressed to the New Mexico Oil Conservation Commission from Houston, Texas, reading: "New Mexico Oil Conservation Commission Cases 4017 and 4043, compulsory pooling, Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico. Marathon Oil Company has committed itself to farmout to David Fasken, the Morrow Formation in and under the southwest quarter

of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, for the drilling of a Morrow test well in said Section 8. Pursuant to said commitment, Marathon has caused to be forwarded to the U.S.G.S., a designation of operator, designating David Fasken as operator of Marathon's U.S. Lease NM-022534-A, insofar as same covers the Morrow Formation in and under the southwest quarter of Section 8. Upon communitization of such section, Marathon strongly recommends that the Commission designate David Fasken as operator."

"Marathon Oil Company, by Warren B. Leach, Division Attorney."

MR. MORRIS: Mr. Examiner, the point that speaks loudest in these cases for designation of Mr. Fasken as operator is the fact that he has the commitment of both Marathon and Shell to farm out their acreage, and thereby will be the operator of three-fourths of the acreage in this unit. As operator of three-fourths of the acreage in this unit, Mr. Fasken will also be bearing three-fourths of the costs incurred in the drilling of a well, no matter where it is located. Certainly it requires very little argument, that whoever is bearing three-fourths of the cost of the well and is in a position to be the operator of the well, and wants to be operator of the well, should be designated as the operator of

the well.

I don't think it requires any argument to show that Mr. Fasken through Mr. Brooks and Mr. Henry, and their organizations, not only is able to be the operator of this well, but has a very distinct advantage in being an operator of this well since they drilled and completed the five other wells in this area, and are thoroughly familiar with the drilling and completion problems in the Morrow Formation in this very area.

As Mr. Henry testified, geologically there is not much difference in the two locations. However, there is a difference in them insofar as some of the risks involved in drilling the well are concerned, and insofar as the cost of drilling the well is concerned. Both as a matter of cost and of risk, and as being the operator of the well, if Mr. Fasken is designated the operator of the well, he should have the right to drill the well in the northeast quarter of the section at the proposed point. I don't believe that there is much dispute over the cost of supervision, although I would note that Mrs. Grace proposes \$200 and we propose \$100. The risk, as testified to by Mr. Henry, should be at least 40 per cent.

We respectfully submit that Mr. Fasken's application should be approved both as to designating him as the operator, and as to giving him the right to drill the well in the northeast

quarter of this section at his proposed location.

MR. KELLAHIN: If the Examiner please, I think we really are to the point of the two applications, which is simply who is going to be designated as the operator of the well. I think both parties agree that there should be a pool and the well should be drilled. There is a difference as to the location, and there is a difference, a very distinct difference in feeling as to who should be the operator.

Now, we were talking, for example, about equities crying out for one person to be designated. If we are getting into that field, I think the equities would lie in Mrs. Grace's favor. She has had a lease on this tract in her own name, which she purchased from the United States Government in 1963. Since that time, as she has testified, she has made consistent efforts to get a farmout agreement from both Shell and Marathon, who were the record owners of the lease. Being unable to do so, this continued from 1963 until 1965, she continued with these efforts. And then when it finally arrived to the point where a well should be drilled, she again contacted Shell and Marathon in December, in November and December of 1968 in an effort to get something done, and being unable to do so, she filed an application for compulsory pooling.

It was only in the early part of December, 1968, that

she learned that Mr. Fasken was attempting to get a farmout from Shell and Marathon. He had no farmout at that date, although Mrs. Grace, as I understand it, was told that Shell was working with him and would probably grant a farmout, at which time she called Mr. Fasken's representative in Midland, and had some discussion with him. He made no proposal to her, as to pooling the acreage or farming out, or taking any other action, either because they didn't own it at that time or because they didn't want to make a proposal to Mrs. Grace. No proposal was made to Mrs. Grace by Mr. Fasken's interest until after the hearing set for January 8th. Following that hearing, by several days, Fasken proposed to enter into a pooling agreement on a printed form which contains many blanks, and there was no proposal made as to what information or figures would be filled in these particular blanks.

Now, Mrs. Grace has committed herself to drill the well. I don't think there is any question as to her ability to drill the well. She drilled other wells in New Mexico, and while she is not an operator of numerous wells, she certainly hopes to be, and the only way she can be is to drill the acreage which she now holds, which she stated she wants to do. She has a competent staff to handle this drilling operation. She is in no different position on that score than Mr. Fasken, who also makes use of

consultants. Whether they are full time consultants operating in several states or parttime consultants operating in one state, I don't think is material.

I think the main factor we have to consider here is, is Mrs. Grace qualified as an operator of this well, and she has a competent group to work with in handling the operation of the well, the drilling and the operation, by experienced people.

As to the argument that Mr. Fasken will control three-fourths of the acreage, I would like to point out that when Mrs. Grace started this enterprise, Mr. Fasken was not even in the picture. Shell owned a half-section and Marathon owned a quarter, and nobody was able to reach any agreement. And Mrs. Grace, in the belief that Shell owned the acreage and Marathon owned the acreage, and which they did at the time, produced a forced pool action. The witnesses had already testified that even to that day an operating agreement has not been received. We have been unable to get one. We don't question Mr. Fasken's right to be in here at this time, but when you are talking about one-fourth as against three-fourths, we have to keep these things in mind. Nothing was done by any of these people until after action was taken by Mrs. Grace. She was first. She decided a well should be drilled, and she went

in there to get a well drilled, and it was not until that had occurred that anybody showed the slightest interest in drilling the well.

As to the operating costs, I think Mr. Morris stated that Mrs. Grace showed a cost of \$200 for operation and supervision, and Mr. Fasken \$100. I would like to point out it is my understanding of the \$100 stated by Mr. Fasken's witness was for overhead, whereas that for Mrs. Grace included overhead and a charge for the pumper, and the entire operation of the unit.

As to the well costs, I think on the basis of the questions you asked Mr. Butler, we are in substantial agreement as to the possibility of well costs here, and there is not any great difference in our estimates, and certainly they are about as close on both sides as either side can make them.

On this basis, we submit that Mrs. Grace having taken the initiative here, and being fully qualified and perfectly willing to drill and operate this well, she should be designated as the operator on the basis of the testimony that has been offered. We also feel that while Mr. Henry discounts the risk in this area, certainly on the basis of experience, which is well-known to this Commission, there are risks in drilling Morrow gas wells, risks which are quite serious, and justify a

substantial risk factor to be assigned to any operator as against a non-contributing owner. Thank you, sir.

MR. NUTTER: Thank you. I think I interpreted the direct testimony on those well costs as being for the \$200 that Mrs. Grace's people estimate, that the \$200 would include \$100 for administrative costs and \$100 for what we normally would just write into the order as being direct charges.

MR. KELLAHIN: That's correct.

MR. NUTTER: Do you have any rebuttal remarks to make, Mr. Morris?

MR. MORRIS: No, sir.

MR. NUTTER: Does anyone have anything further in Case 4017 or Case 4043? We will take the cases under advisement, and the hearing is adjourned.

I N D E X

<u>WITNESS</u>	<u>PAGE</u>
CORINNE GRACE	
Direct Examination by Mr. Kellahin	3
Cross Examination by Mr. Morris	14
Cross Examination by Mr. Nutter	22
Redirect Examination by Mr. Kellahin	26
NORBERT McINTYRE	
Direct Examination by Mr. Kellahin	28
Cross Examination by Mr. Nutter	37
Redirect Examination by Mr. Kellahin	40
Recalled as a Witness:	
Direct Examination by Mr. Kellahin	111
O. DOYLE BUTLER	
Direct Examination by Mr. Kellahin	42
Cross Examination by Mr. Nutter	55
RICHARD S. BROOKS	
Direct Examination by Mr. Morris	60
Cross Examination by Mr. Kellahin	67
JAMES B. HENRY	
Direct Examination by Mr. Morris	73
Cross Examination by Mr. Kellahin	98
Cross Examination by Mr. Nutter	106

I N D E X

(CONTINUED)

<u>EXHIBITS</u>	<u>MARKED</u>	<u>OFFERED AND ADMITTED</u>
Applicant Corinne Grace's Exhibit Number 1	3	13
Applicant Corinne Grace's Exhibits Numbers 2 and 3	28	37
Applicant Corinne Grace's Exhibits Numbers 4, 5, 6, 7	42	55
Applicant David Fasken's Exhibits Numbers 1, 2, 3, 4, and 5	73	98

STATE OF NEW MEXICO)
) ss.
 COUNTY OF BERNALILLO)

I, SAMUEL MORTELETTE, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Samuel R. Mortelette
 COURT REPORTER

I do hereby certify that the foregoing is
 a complete and correct transcript of the
 proceedings of the New Mexico Oil Conservation
 Commission held on Feb 5 1969 at 4017-4043
Albuquerque, New Mexico
Samuel R. Mortelette
 New Mexico Oil Conservation Commission

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 16, 1969

REGULAR HEARING

IN THE MATTER OF:)

(De Novo) Application of Corinne)
Grace for compulsory pooling,)
Eddy County, New Mexico.)

CASE NO. 4017

IN THE MATTER OF:)

(De Novo) Application of David)
Faskin for compulsory pooling,)
Eddy County, New Mexico.)

CASE NO. 4043

BEFORE: A. L. Porter, Jr., Secretary-Director

TRANSCRIPT OF HEARING

MR. PORTER: Case 4017.

MR. HATCH: De Novo application of Corinne Grace for compulsory pooling, Eddy County, New Mexico.

And I would like for you to call Case No. 4043 at the same time, if you would, please, sir.

MR. PORTER: Case 4043.

MR. HATCH: De Novo application of David Fasken, for compulsory pooling, Eddy County, New Mexico.

The Commission has received a request from the applicant for the De Novo hearing, David Fasken, that these two cases; the applicant for the De Novo hearing, be dismissed. We would like to request the Commission -- the order dismissing the cases, to allow any nonconsuming working interest owner in the pool unit twenty days from the date of the order in which to pay his share of the estimated well costs.

MR. PORTER: Twenty days?

MR. HATCH: Twenty days from the date --

MR. PORTER: The order was issued?

MR. HATCH: Yes, sir.

MR. PORTER: Any objection to the counsel's motion?

The Commission will dismiss the cases -- in

which cases? Will they be combined?

MR. HATCH: There was one order issued in that case.

MR. PORTER: In the two cases?

MR. HATCH: In the two cases, there was one order.

MR. PORTER: There will be an order of dismissal issued containing the clause as recommended by the counsel for the Commission.

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STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

I, CA FENLEY, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.



CA FENLEY - COURT REPORTER

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 13, 1969

REGULAR HEARING

IN THE MATTER OF:)
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(De Novo) (Continued from the
May 14, 1969 Regular Hearing)
Application of Corinne Grace for
compulsory pooling, Eddy County,
New Mexico.

Case No. 4017

BEFORE: DAVID F. CARGO, Governor
A. L. "PETE" PORTER, Secretary-Director

TRANSCRIPT OF HEARING

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27 JUN 8 20

MR. PORTER: The hearing will now come to order; the record will show there is a quorum present in the persons of the Chairman, David P. Cargo, Governor, and the Secretary-Director.

Before we take up the allowables, the allowable cases, I want to announce Cases 4017 and 4043 have been continued to the Regular Hearing, July 16, 1969, and all of the interested parties have been notified of this action.

I would also like to announce that Cases Nos. 4088 and 4089 have been continued to a Special Hearing date, which will be June 26th, and all of the parties in those cases have been notified by letter; each individual interested party. Now, Cases 4088 and 4089 will be heard at 8:00 o'clock A.M. here in Morgan Hall, June 26th, which is a Special hearing date.

We will take up now the consideration for oil allowable for the month of July; and I will ask Mr. Don Ryan and Mr. James E. Kapteina to stand and be sworn.

(Witnesses sworn)

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, KURLEEN E. McCUTCHEN, a Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing is a record of the proceedings had before the New Mexico Oil Conservation Commission on June 13, 1969; that the same was reported by me; and that the same is a true and correct record to the best of my knowledge, skill and ability.

Karleen McCutcheon
Court Reporter