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MR. STAMETS: Call the next case, 5146.

MR. DERRYBERRY: Case 5146. Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico.

MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant, Cox and Eaton, appearing on behalf of Midwest Corporation. We have one witness and three Exhibits.

MR. STAMETS: Any other appearances in this case?

MR. LINES: Farrell Lines appearing for Michael Grace. At this time we would ask for a continuance in this Hearing. We have some leases in Township 25 and 26 South, Range 25 East, Eddy County. However, we haven't been able to determine from the publications here exactly what is going to be included in 5120 acres. We're not sure whether our land is included or whether it isn't. We've never even had the chance to determine whether or not we are in agreement or whether we feel there is justification or not justification for this.

MR. HINKLE: We cannot consent to continuance of this case because this well has to be drilling in order to save the leases in the unit in a very, very short time.

MR. LINES: In the future, when these kinds of cases are advertised is there any way to let us know what it is talking about. Many, many acres here. Let's --

(Whereupon, a discussion was held off the record.)

MR. STAMETS: Mr. Lines, I'm going to deny your Motion for continuance and proceed with this case at this time.

FRANK L. SCHATZ

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

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name, your residence, and by whom you are employed?

A My name is Frank L. Schatz, S-c-h-a-t-z. My residence is Midland, Texas and I'm employed by Midwest Oil Corporation as Regional Exploration Manager of the Midland office.

Q Have you previously testified before the Commission?

A I have.

Q And qualified as a petroleum geologist?

A Yes, sir.

Q Are these a matter of record?

A Yes, sir.

Q Are you familiar with the Application of Midwest

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in this case?

A I am.

Q What is Midwest seeking to accomplish?

A Midwest seeks to put together an eight-section unit in Township 25 and 26 South, Range 25 East for the drilling of a 12,000-foot Morrow test to be located in the southeast quarter of Section 2, Township 26 South, Range 25 East.

Q This is to be known as the Target Unit Area?

A Yes, sir.

Q Have you prepared, or has anyone prepared under your direction three Exhibits for introduction in this case?

A I prepared or had them prepared under my direction, Exhibits 1 and 3. Exhibit No. 2 is a letter from the U.S.G.S.

Q Refer to Exhibit 1 and explain what this is, what it shows?

A Exhibit No. 1 is a sub-surface structure map contoured on top of the Morrow formation of Pennsylvanian H. Midwest leases are shown in yellow on the map. Production in the area is colored with the code shown at the bottom of the map. This sub-surface structure map at the north end where the production is indicated in the center of the map is the south part of the South Carlsbad Field. Moving then to the south, southwest, we encounter the Crawford and White

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City Pennsylvanian Fields and continuing on down in a straight line direction is the designated Target Unit.

Q Which is outlined in red?

A Which is outlined in red. Which the location is shown with a red dotted and with an arrow to it.

Q Has this area been designated as an area suitable and proper for unitization by the U.S.G.S.?

A It has, subject to conditions of the approval of a unit agreement.

Q This contains both State and Federal lands?

A Yes.

Q Referring to Exhibit 2, is this the letter of the U.S.G.S. designating the area one suitable for unitization?

A Yes, sir, it is.

Q The letter designating the area, called for the drilling of a Morrow Well, but not to exceed depth of 12,000 feet, is that correct?

A That's correct.

Q Is it your opinion that as a geologist that the well at 12,000 feet will test the Morrow in this area?

A To the best of my ability at this time.

Q Refer to Exhibit 3, which is the proposed formal unit agreement. Has this form, substantially the same form,

heretofore approved by the Commission where Federal and State lands are involved?

A Yes, sir, it is.

Q It has been approved or designated as to the form by the U.S.G.S. and what about the Commissioner of Public Lands?

A The Commissioner of Public Lands has been handed a copy of the unit agreement with Application and filing fee and he has told us verbally that on the surface it appears to be the same unit agreement previously approved by his office. If you wish to call him, he offered to come down and make an appearance as to that statement.

Q Is Midwest designated as the unit operator in the unit agreement?

A Yes, sir, it is.

Q This provides for the drilling of a well which has been referred to as the Morrow formation?

A Yes, it does.

Q That's provided for in Section 9?

A In Section 9.

Q What is the present status of execution of the unit by the working interest owners and the unit royalty owners?

A All of the working-interest owners in the unit have ratified a unit agreement and consented to the unit agreement. All, with exception of one percent of the overriding royalty owners in the area have agreed to ratify or have ratified the unit agreement. The one percent that is remaining to be ratified is expected to be in within two weeks.

Q So, you anticipate 100 percent committment both working interest and overriding royalty interest?

A That's true.

Q The unit agreement, I believe, provides for commencement of the well within six months. Do you intend to commence the well earlier than this?

A We intend to commence the well prior to February 1, which is the expiration date on the first expiring lease in the area.

Q In order to save that lease, the well must be commenced prior to February 1st, is that right?

A In order to save the lease, the unit must be approved and the well commenced by that date.

Q In your opinion, if this Application is approved, will the unit agreement be in the interest of conservation and prevention of waste and protect correlative rights?

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A Yes, it will.

MR. HINKLE: I would like to offer Exhibits 1, 2 and 3.

MR. STAMETS: Without objection, Applicant's Exhibits 1 through 3 will be admitted in evidence.

(Whereupon, Applicant's Exhibits Nos. 1 through 3 were admitted in evidence.)

MR. HINKLE: Do you have anything further you would like to add?

THE WITNESS: No.

CROSS EXAMINATION

BY MR. PORTER:

Q Is that expiring lease Federal or State?

A That's a Federal Lease. I would like to make a comment to clarify what might be of a concern to you when you look at the Exhibit "A" under the unit agreement. Federal Lease located in Section 3 and Section 11 shows an expiration date of 11-1-73. This Federal Lease was extended by the drilling of the Delaware sandpits in the northwest quarter, Section 11, so that lease should read 11-1-75.

Q So, it's actually in good standing?

A That lease is in good standing.

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MR. PORTER: Thank you.

MR. HINKLE: That's all we have.

MR. STAMETS: Are there any questions of this witness?

MR. LINES: I have no questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Schatz, is a copy of the unit agreement in the hands of the U. S. Geological Survey in Denver or Roswell at the time this application was filed?

MR. HINKLE: Did you file the formal unit agreement with your application for designation of the area?

A Yes, but we have not gone back to them with the changed form as it refers to the State and Federal lands.

MR. STAMETS: Any other question of the witness?

You may be excused. Anything further in this case?

(Witness is excused.)

MR. HINKLE: No, he did not file three copies of the unit agreement with the application, so, if you got two copies there and you have one more so that makes the three copies.

MR. STAMETS: Anyone else have anything they wish to offer in this case? Any statements?

MR. DERRYBERRY: Mr. Examiner, I would like to make a statement for the Commission in reply to the remark made by Mr. Grace's attorney as to the question regarding what we knew, if Mr. Michael Grace had any offsetting acreage to the proposed unit. I would like to say that to the Commission's knowledge, the decision made in approving any unit has no effect on any rights of any offsetting owners and for that reason the Commission does not feel that there should be any requirement of the location of the unit other than merely designating the County in which it is to be located should be required.

MR. LINES: I say in our defense that we have incurred other actions like this and in the other action the Commission didn't unitize because of objections we made. We brought our geologist in and produced and submitted other information. I think that in all fairness in this thing, we should have the opportunity to know whether or not we do

have offsets, in fact would have information that could be beneficial to the Commission. I simply can't shut out the opportunity to present it.

MR. DERRYBERRY: As I recall, that was extension of pool boundary rather than approval of a unit.

MR. LINES: We also had unitization hearing earlier that we appeared at.

MR. DERRYBERRY: I wanted to get the position of the Commission into the record.

MR. STAMETS: Anything further in this case?

We will take this case under advisement.

