

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10485

IN THE MATTER OF:

The Application of Mewbourne
Oil Company for compulsory pooling,
Eddy County, New Mexico.

BEFORE:

DAVID R. CATANACH
Hearing Examiner
State Land Office Building
June 25, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel

State Land Office Building

Santa Fe, New Mexico 87504

1 EXAMINER CATANACH: Let's call the
2 hearing back to order and call at this time Case
3 10485.

4 MR. STOVALL: Application of Mewbourne
5 Oil Company for compulsory pooling, Eddy County,
6 New Mexico.

7 EXAMINER CATANACH: It's my
8 understanding this case was originally heard June
9 11 and had to be readvertised. We're calling the
10 case now for any additional appearances or
11 testimony.

12 There being none, we'll take Case 10485
13 under advisement.

14 [And the proceedings were concluded.]
15
16
17
18

19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 10485,
22 heard by me on June 25 1992.
23 David L. Catanch, Examiner
24 Oil Conservation Division
25


1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
5 COUNTY OF SANTA FE)

6 I, Debbie Vestal, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that
8 the foregoing transcript of proceedings before
9 the Oil Conservation Division was reported by me;
10 that I caused my notes to be transcribed under my
11 personal supervision; and that the foregoing is a
12 true and accurate record of the proceedings.

13 I FURTHER CERTIFY that I am not a
14 relative or employee of any of the parties or
15 attorneys involved in this matter and that I have
16 no personal interest in the final disposition of
17 this matter.

18 WITNESS MY HAND AND SEAL JULY 7, 1992.
19

20
21 
22 _____
23 DEBBIE VESTAL, RPR
24 NEW MEXICO CSR NO. 3
25

NEW MEXICO OIL CONSERVATION DIVISION

STATE LAND OFFICE BUILDING

STATE OF NEW MEXICO

CASE NO. 10485

IN THE MATTER OF:

The Application of Mewbourne Oil
Company for compulsory pooling,
Eddy County, New Mexico.

BEFORE:

MICHAEL E. STOGNER

Hearing Examiner

State Land Office Building

June 11, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel

State Land Office Building

Santa Fe, New Mexico 87504

FOR THE APPLICANT:

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Post Office Box 2523

Santa Fe, New Mexico 87504

BY: ERNEST L. PADILLA, ESQ.

FOR MARATHON OIL COMPANY:

KELLAHIN, KELLAHIN & AUBREY

Post Office Box 2265

Santa Fe, New Mexico 87504-2265

BY: KAREN AUBREY, ESQ.

I N D E X

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1 EXAMINER STOGNER: Call the next case,
2 No. 10485.

3 MR. STOVALL: Application of Mewbourne
4 Oil Company for compulsory pooling, Eddy County
5 New Mexico.

6 EXAMINER STOGNER: Call for
7 appearances.

8 MR. PADILLA: Mr. Examiner, Ernest L.
9 Padilla, Padilla & Snyder, Santa Fe, New Mexico,
10 for the applicant, Mewbourne Oil Company.

11 EXAMINER STOGNER: Any other
12 appearances?

13 MR. PADILLA: I have two witnesses.

14 EXAMINER STOGNER: Any other
15 appearances?

16 MS. AUBREY: Mr. Stogner, Karen Aubrey
17 for Marathon Oil Company. I have no witnesses,
18 but we did file a prehearing statement in this
19 case asking that it be continued since there is a
20 mistake apparently in the advertisement.

21 Also I understand that there is some
22 question about the interest of the applicant
23 above the San Andres and a portion of the
24 application is going to be dismissed. Marathon
25 doesn't have any particular objection to you

1 proceeding today and readvertising the case or
2 continuing it, whatever the Examiner wants to
3 do.

4 EXAMINER STOGNER: Mr. Padilla?

5 MR. PADILLA: Mr. Examiner, we want to
6 proceed with the case today. We feel that
7 Marathon has had service of the application. The
8 sole error has been an error due to
9 advertisement, and if there's prejudice to
10 Marathon, it should not be by virtue of the
11 publication.

12 EXAMINER STOGNER: What about Ms.
13 Aubrey's opening remarks?

14 MR. PADILLA: Mr. Examiner, my
15 understanding and I think Mr. Haden, our landman,
16 will be more precise in detailing exactly what
17 interest Mewbourne actually has, my understanding
18 is that they do not have the right to drill any
19 wells or they only have rights from 500 feet
20 above the San Andres to the base of the Morrow
21 Formation.

22 So to the extent that our application
23 includes lands and formations from the surface to
24 500 feet above the San Andres, we would request
25 that that portion of the application be

1 dismissed.

2 EXAMINER STOGNER: All else remaining
3 the same, that being the 320-, 160-, 80-, and
4 40-acre spacings?

5 MR. PADILLA: Yes.

6 EXAMINER STOGNER: In that case I will
7 allow the applicant to put on his witnesses
8 today, but due to the advertisement error, this
9 case will be continued and readvertised for the
10 June 25 hearing.

11 MR. PADILLA: First of all, Mr.
12 Chairman, I'd like to hand you my affidavit of
13 service.

14 MR. STOVALL: Mr. Padilla, are your
15 witnesses the same as in the previous case?

16 MR. PADILLA: Yes, they are.

17 MR. STOVALL: So they will remain under
18 oath and --

19 MR. PADILLA: Qualified.

20 MR. STOVALL: -- qualified.

21 EXAMINER STOGNER: That is one Mr.
22 Dexter Harmon and Mr. Paul Haden; is that
23 correct?

24 MR. PADILLA: That is correct.

25 EXAMINER STOGNER: Let the record so

1 reflect.

2 MR. PADILLA: Call Mr. Paul Haden at
3 this time.

4 EXAMINER STOGNER: For the record, Mr.
5 Haden, I'll remind you that you are still under
6 oath from the previous case.

7 MR. HADEN: Yes.

8 D. PAUL HADEN

9 Having been duly sworn upon his oath, was
10 examined and testified as follows:

11 EXAMINATION

12 BY MR. PADILLA:

13 Q. Mr. Haden, as you testified in the
14 prior hearing, you're from Midland, Texas, and
15 you are a petroleum landman for Mewbourne Oil
16 Company; is that correct?

17 A. That's correct.

18 Q. Mr. Haden, have you prepared certain
19 exhibits for introduction at this hearing today
20 that relate to the land matters specific to this
21 particular case?

22 A. Yes, I have.

23 Q. Mr. Haden, I'd like for you to refer to
24 what we have marked as Exhibit No. 1 and have you
25 describe what that is and what it contains.

1 A. Exhibit No. 1 is a land plat of the
2 area which indicates our proposed well location
3 for our 10,900 foot Morrow test well. This
4 location is indicated by a red dot. The spacing
5 unit which we are allocating to such well is
6 shaded yellow. That is in the west half of
7 Section 18.

8 This well is located at a location 1980
9 feet from the north line and 990 feet from the
10 well line, which is an orthodox location.

11 Q. Mr. Haden, this plat only shows a
12 320-acre proration unit; is that correct?

13 A. That is correct.

14 Q. And what would be the other proration
15 units that you seek to force pool in your
16 application?

17 A. In addition to the 320 acres in the
18 west half of this Section 15, we are seeking to
19 pool the northwest quarter, the west half of the
20 northwest quarter, and also the southwest of the
21 northwest quarter of Section 15.

22 Q. Why did you seek to make the
23 application in this matter, Mr. Haden?

24 A. We have an interest in all of these
25 particular proration units by virtue of a farmout

1 agreement with Arco Oil & Gas Company.

2 Q. Mr. Haden, will Mewbourne be testing
3 and looking for a potential oil production, oil
4 or gas production from these upper zones?

5 A. That's right. We expect to run into
6 different oil and gas pay zones within those
7 stated proration units.

8 Q. But your primary objective is the
9 Morrow Formation?

10 A. Is the Morrow which is spaced on 320
11 acres.

12 Q. Mr. Haden, can you elaborate for the
13 Examiner exactly what interest Mewbourne owns or
14 controls in the west half of Section 15?

15 A. Okay. By virtue of a farmout agreement
16 with Atlantic Richfield Company covering the
17 northeast and northwest quarter, the
18 northwest-northwest, the southwest-northwest, the
19 southeast-northwest, the northwest-southwest, we
20 have an agreement wherein they farmed out their
21 rights, operating rights, from a depth of from
22 below 500 feet from the top of the San Andres
23 formation to the top of the Mississippian/Chester
24 lime formation.

25 Q. Mr. Haden, earlier I described to the

1 Examiner that we were dismissing our application
2 500 feet above the San Andres to the surface.
3 Was that --

4 A. That would be in order.

5 Q. Okay. And that is what Mewbourne
6 wishes with regard to dismissal of a portion of
7 the application?

8 A. That's correct.

9 Q. Let's go to Exhibit No. 2 and have you
10 identify that for the Commissioner and describe
11 what it portrays?

12 A. Exhibit No. 2 is a listing of the
13 tracts that we are requesting forced pooling. It
14 lists the ownership in said tracts as to rights
15 500 feet beneath the top of the San Andres
16 Formation to the base of the Morrow Formation
17 underlying the west half of Section 15 of
18 Township 18 South, Range 28 East.

19 It also gives the percentage ownership
20 in those operating rights as to who is committed
21 and who is not as to the drilling of this well.

22 Q. Who are the interest owners who have
23 not committed their interests to drilling the
24 well?

25 A. Thus far they are Marathon Oil Company,

1 DEKALB Energy Company, and Exxon Corporation.

2 Q. Mr. Haden, does Exhibit 3 indicate the
3 type of efforts that you have made in attempting
4 to secure joinder for drilling this well?

5 A. Yes. That represents my written
6 correspondence with all of these companies.

7 Q. Does it represent in any way any verbal
8 communications that you have had with these
9 companies?

10 A. There are a few notes as to my verbal
11 communications that are set forth in this
12 exhibit.

13 Q. When was the first time that you began
14 your efforts to seek joinder for drilling this
15 well?

16 A. As to Exxon, we first offered to
17 purchase their interest back in October of 1990.
18 We have subsequently offered to farm-in their
19 interests and/or purchase their interests or have
20 them join in the well since that time.

21 Q. Mr. Haden, are you still negotiating
22 with Exxon regarding their interests?

23 A. Yes, we are still negotiating with
24 them. However, they have offered to sell their
25 interests under certain terms that we are still

1 considering.

2 Q. In terms of today's hearing and in
3 terms of the potential order that may be issued
4 by the Oil Conservation Division, where do you
5 stand with Exxon?

6 A. We believe that we probably would be
7 able to reach an agreement with them probably
8 within the next month. They have been slow thus
9 far in giving us a response as to our previous
10 offers, but now it looks like they are coming
11 along.

12 Q. How does Exhibit 3 show the efforts
13 that you made initially to contact DEKALB?

14 A. Yes. I do have some copies of some
15 letters, the first of which was dated September
16 of 91 wherein we offered to purchase their
17 interests in this land among other lands. We
18 have since offered, again offered to purchase
19 their interests back in April of 92. And May 92
20 we offered to purchase, farm-in, or ask them to
21 join us in drilling this well.

22 Q. What kind of a response have you
23 received from DEKALB?

24 A. Again, they are in the process of
25 selling their company. The landman has indicated

1 that right now they just can do nothing as far as
2 our proposals. We hope to get a farmout or
3 purchase their interests. But we don't know when
4 that day will occur.

5 Q. Is the reaction the same as it was in
6 the previous case where you were essentially told
7 to do what you have to do?

8 A. That is correct.

9 Q. Okay. How about Marathon, when did you
10 first start talking to Marathon?

11 A. As to Marathon, we first offered to
12 purchase, farm-in, or have them join in the
13 well. This was dated April 92. Again in May 92,
14 we offered to purchase their interests or farm
15 their interests in or have them join us in the
16 well.

17 They have since responded by letter. I
18 don't have that letter right in front of me at
19 the moment. But it is in this Exhibit 3. The
20 gist of this letter was that they would farmout
21 their interests to us for our Morrow test well.
22 But they would only give us the Atoka and Morrow
23 rights, nothing up-hole of those. We feel we
24 need those rights to reduce the economic risk.

25 So far we have told them that we cannot

1 accept the farmout on those terms. We need the
2 additional rights, the same rights that we have
3 requested from the other operators concerned in
4 this well.

5 Q. Are you still continuing to talk to
6 Marathon?

7 A. Yes, we are.

8 Q. Do you expect that you will reach some
9 resolution prior to an order being issued by the
10 Oil Conservation Division?

11 A. We believe that we will reach some sort
12 of agreement. I know Marathon does not want to
13 be force pooled.

14 Q. Do you have anything further concerning
15 Exhibit No. 3, Mr. Haden?

16 A. No, I do not.

17 Q. Let's go on to what we have marked as
18 Exhibit No. 4 and have you describe what that is
19 to the Examiner.

20 A. Exhibit No. 4 is a copy of our AFE,
21 which is an estimated well cost of our Morrow
22 test well.

23 Q. Mr. Haden, did you prepare this AFE
24 yourself?

25 A. No, I did not. Our drilling people

1 did.

2 Q. Are you familiar with the well costs as
3 shown by the bottom lines on this AFE for
4 drilling costs in this area of southeast New
5 Mexico?

6 A. Yes, I am. Those costs for dry hole as
7 set forth on the AFE is 4,000 -- excuse me,
8 \$453,283. For a completed well we're estimating
9 the cost at \$814,588. This is for a 10,900 foot
10 test well.

11 Q. Do the figures shown, the bottom lines
12 shown on this AFE, are they representative as far
13 as your knowledge is concerned for drilling wells
14 in this area in southeast New Mexico?

15 A. Yes, they seem to be in line with the
16 cost in the immediate area. In fact, we have one
17 well in the west half of Section 6 which was
18 drilled to the Morrow this year, and those costs
19 look like they are in line with this.

20 Q. Okay. Do you have anything further on
21 Exhibit No. 4?

22 A. No, I do not.

23 Q. Let's go to Exhibit No. 5 and have you
24 tell the Examiner what that is.

25 A. Exhibit No. 5 is a copy, a blank copy

1 of the COPAS 1984 On-Shore Accounting Procedure
2 for Joint Operations.

3 Q. Mr. Haden, is this Exhibit 5 submitted
4 for purposes of asking for escalation or
5 adjustment of the overhead charges that you will
6 recommend to the Division?

7 A. Yes. Under Article III of said
8 accounting procedure, it sets forth an escalation
9 well rate clause.

10 Q. And this is a standard industry
11 document that is exhibited by Exhibit No. 5?

12 A. That's correct. These -- this exhibit
13 is made a part of most joint operating
14 agreements. In fact, I would say all.

15 Q. What recommendation do you have to the
16 Examiner for overhead charges for producing and
17 drilling well rates?

18 A. We are proposing a -- well, drilling,
19 \$6,425 and for producing, \$642.

20 MR. STOVALL: Mr. Padilla?

21 MR. PADILLA: Yes, sir.

22 MR. STOVALL: Are you about to propose
23 justifying those rates and comparisons with the
24 Ernst & Young?

25 MR. PADILLA: Yes, sir.

1 MR. STOVALL: Would it makes sense to
2 incorporate that portion of the testimony from
3 the previous case?

4 MR. PADILLA: It would make a lot of
5 sense. And if it's your wish, I would move or
6 ask that that be incorporated from the previous
7 case so we won't have to go through the same
8 thing again.

9 EXAMINER STOGNER: Ms. Aubrey, do you
10 have any objections?

11 MS. AUBREY: I have no objections.

12 EXAMINER STOGNER: And you were present
13 whenever that cross-examination in Mr. Jim
14 Bruce's --

15 MR. STOVALL: Direct examination.

16 EXAMINER STOGNER: I'm sorry. --
17 direct examination by Jim Bruce for this witness
18 in the previous case?

19 MS. AUBREY: Yes, sir, I was present on
20 behalf of Marathon Oil Company.

21 EXAMINER STOGNER: Okay. So be it.
22 That part of the record will be incorporated in
23 this case.

24 MR. STOVALL: And that case for
25 reference is 10484.

1 Q. (BY MR. PADILLA) Mr. Haden, what type
2 of risk penalty factors are used in your
3 operating agreements?

4 A. Generally they are 300 percent. In
5 this case we're asking for the well cost plus 200
6 percent as a risk factor.

7 Q. And your geologist is going to testify
8 as to the geologic risk of drilling this well?

9 A. That's correct.

10 Q. Mr. Haden, do you have anything further
11 to add to your testimony other than that you wish
12 that Mewbourne Oil Company would be designated
13 the operator under an order of the Oil
14 Conservation Division?

15 A. That's correct. I have nothing else to
16 add.

17 MR. PADILLA: Mr. Examiner, I pass the
18 witness at this time. And we offer Exhibits 1
19 through 5.

20 EXAMINER STOGNER: Are there any
21 objections?

22 MS. AUBREY: No objectionS.

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

25 Ms. Aubrey, your witness.

1 MS. AUBREY: Thank you.

2 EXAMINATION

3 BY MS. AUBREY:

4 Q. Mr. Haden, Exhibit No. 4 is your AFE
5 for the well which would be completed to the
6 deepest zone; is that correct?

7 A. That's correct.

8 Q. Have you proposed an AFE to the working
9 interest owners for wells completed in the
10 shallower zones?

11 A. No, we have not.

12 Q. Does this AFE that you have submitted
13 today as Exhibit 4 include any completion costs
14 to either the -- to any of the shallower zones?

15 A. No. This is strictly for a Morrow test
16 well.

17 Q. In seeking voluntary participation of
18 the working interest owners in the 320, what
19 efforts have you made to seek voluntary
20 participation of those working interest owners in
21 the 40-, the 80-, or the 160-acre proration units
22 that you're seeking to pool today?

23 A. That correspondence is the same as for
24 the Morrow test well.

25 Q. Well, in connection with that

1 correspondence, have you given those folks an AFE
2 proposing --

3 A. Yes.

4 Q. -- well costs?

5 A. Yes, we have. Yes.

6 Q. For those shallower zones?

7 A. Not for the shallow zones. For the
8 Morrow test well. That's all we are concerned
9 with at this point.

10 Q. Now, let me see if I can make my
11 question clear to you. According to your Exhibit
12 No. 2, Marathon has a 100 percent interest in the
13 southeast quarter of the southwest quarter; is
14 that correct?

15 A. Yes, that's correct.

16 Q. Okay.

17 A. In the southeast-southwest quarter,
18 yes, Marathon owns 100 percent of the rights.
19 And that is to depths 500 feet beneath the top of
20 the San Andres Formation to the base of the
21 Morrow Formation.

22 As to the rights in which Marathon owns
23 up-hole of that, I don't know. They may have
24 those rights also.

25 Q. And Exxon Corporation has 100 percent

1 of two 40-acre tracts; is that correct?

2 A. That's correct.

3 Q. Do I read this correctly, they are not
4 contiguous tracts; they are cornering tracts?

5 A. Right.

6 Q. Have you proposed to either of these
7 working interest owners the costs of drilling and
8 completing a well in either of those three
9 40-acre tracts?

10 A. Their interest simply is for our test
11 well.

12 Q. So the answer to my question is no?

13 A. No. We have not proposed shallow test
14 wells to these corporations: Exxon, Marathon.

15 Q. And you have not tendered AFEs for
16 drilling and completing a well to any depth other
17 than the depth required to test the 320-acre
18 proration unit?

19 A. That's correct.

20 Q. Your Exhibit No. 2 sets out percentage
21 ownership operating rights. Is that in the 320?

22 A. That's in all of the land described
23 above. As to the percentage ownership, yes, that
24 does describe 320 acres --

25 Q. Do you have --

1 A. -- on a percentage basis.

2 Q. Okay. Do you have an exhibit for the
3 Examiner today showing Mewbourne's percentage
4 ownership in the 40s, the 80, or the 160?

5 A. All I have for the Examiner is what is
6 set out above. It describes certain tracts of
7 land and the ownership of that acreage. It does
8 not specifically say that this is as to shallow
9 rights.

10 As set out on this ownership, this is
11 the ownership as to all depths, 500 feet beneath
12 the top of the San Andres Formation to the base
13 of the Morrow.

14 Q. Mewbourne's interest is not undivided
15 across the 320, is it?

16 A. No, it is not. As set forth on this
17 Exhibit No. 2, it has Atlantic Richfield
18 Company: Interest owned, 72/144. And that
19 ownership is the same in the northeast-northwest
20 quarter, in the northwest-northwest,
21 southwest-northwest, southeast-northwest, and
22 northwest-southwest quarter.

23 Q. I think I understand your testimony.

24 A. As to obtaining a farmout from these
25 companies, we would like to have a continuous

1 development provision set forth in the farmout
2 agreement for these shallower rights as we do
3 have an interest in portions of the spacing unit
4 for shallow rights as to certain depths.

5 MS. AUBREY: That's all I have, Mr.
6 Haden. Thank you.

7 EXAMINER STOGNER: Thank you, Ms.
8 Aubrey.

9 Mr. Padilla, any redirect?

10 FURTHER EXAMINATION

11 BY MR. PADILLA:

12 Q. Mr. Haden, I guess I would have to ask
13 you to elaborate why you are requesting from
14 these companies a continuous drilling or
15 continuous development provision. Would that
16 include authority to use or go down to the
17 Morrow, and then if that's unsuccessful come back
18 and complete at a shallower zone?

19 A. That's right. These other zones we
20 feel are needed to reduce economic risk in
21 drilling this Morrow test well. That's why we
22 are requesting such shallow rights.

23 Q. Has Mewbourne been involved in
24 situations where -- or do you know of any
25 situations where a well has been drilled to a

1 deeper zone and then some kind of completion has
2 occurred in this zone that has not been forced
3 pooled or pooled in some manner?

4 A. Yes, I'm familiar with the particular
5 occurrence. I believe it was Yates Energy
6 Company. They drilled a test well, I'm not
7 certain as to the target zone, but they drilled a
8 test well on Chevron's acreage.

9 They force pooled Chevron but not as to
10 all proration units. They apparently made a San
11 Andres oil well, I believe, and it was a very
12 good well of which they were not covered under
13 the pooling.

14 Q. Are you trying to prevent this type of
15 situation from occurring once you have risked the
16 drilling of a well in Section 15?

17 A. That's correct.

18 MR. PADILLA: I don't have anything
19 further, Mr. Examiner.

20 EXAMINER STOGNER: Thank you, Mr.
21 Padilla.

22 Any other questions of this witness?

23 MS. AUBREY: Yes, Mr. Stogner.

24 FURTHER EXAMINATION

25 BY MS. AUBREY:

1 Q. Mr. Haden, have you any proposal for
2 allocation of completion costs or drilling costs
3 between the zones that you're seeking to pool
4 today?

5 A. Not at this point we do not. Those
6 completed or recompletion costs would go into the
7 cost of the well. Those costs would be added as
8 a well cost.

9 Q. Well, let's assume that the well is not
10 productive in the 320-acre spacing proration unit
11 and that you come up-hole and recomplete in a
12 zone in which the ownership interest is
13 different.

14 Do you have a proposal for allocating
15 the cost of drilling to the deeper zone and then
16 coming back up-hole and completing?

17 A. Seems to me we've drilled the well. We
18 have risked financially in drilling the well. I
19 think the well cost of that initial test well
20 should go in with it because that's risk. That
21 cost should be added in with the recompletion
22 cost.

23 Q. So you would attempt to recover the
24 cost of drilling the well to your deepest
25 objective, 10,900 feet is what's shown on the

1 AFE?

2 A. That's correct.

3 Q. And intend to charge working interest
4 owners in the smaller proration units at
5 shallower depths with the entire cost of going to
6 10,900?

7 A. That's right.

8 Q. That would be your intent?

9 A. That's right. This is a customary
10 practice in the oil patch. As an operator we
11 have some nonoperators under our joint operating
12 agreement. We propose the well under the
13 operating agreement. They go. They elect not to
14 participate in the well. They go a nonconsent.
15 Therefore, they are out of that well until the
16 well has paid out. This is the same sort of
17 situation. They don't come back in as a working
18 interest owner in production until that well has
19 paid out.

20 Q. Mr. Haden, are you aware of the COPAS
21 proposed formula for allocation of well costs
22 between shallow producing zones?

23 A. I'm not familiar with that.

24 Q. That's all I have, Mr. Stogner.

25 EXAMINER STOGNER: Thank you, Ms.

1 Aubrey.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. In looking at Exhibit No. 2, Mr. Haden,
5 and I'm looking at the first two sets of
6 interest, one just for the 40 acres containing
7 the northeast of the northwest quarter, and it
8 has a Mewbourne Oil Company operator owning 72
9 out of 144; DEKALB having 23 out of 144; and
10 Marathon having 49 out of 144.

11 These same figures go for the remaining
12 160 acres contained in the remaining portion of
13 the northwest quarter and also inclusive of the
14 northwest of the southwest quarter. Those
15 figures appear to be the same. Is this not the
16 same lease? Is not the same acreage?

17 A. It is the same lease.

18 Q. It is the same lease?

19 A. Right.

20 Q. Why were they split up like this?

21 A. That's how those interests were
22 assigned out under the chain of title in such a
23 manner as described.

24 Q. But you don't know why, although
25 they're identical?

1 A. I don't know why. Apparently it's
2 under the same lease. I believe it's either a
3 647 or 648 lease, one of the two. Those leases
4 were dated November 1922.

5 Q. Okay. If this well was spaced on 320
6 acres, then the percentage of the ownership is
7 shown down at the bottom?

8 A. That's correct.

9 Q. Now, the next size proration we have is
10 160 acres.

11 A. Okay.

12 Q. So that would be the 72-23-49 split; is
13 that correct?

14 A. Right.

15 Q. And also if it was an 80-acre spacing,
16 either made up of the west half of the northwest
17 or the south half of the northwest, that would
18 also be a 72-23-49 split; is that correct?

19 A. That's correct.

20 Q. And if it was spaced on 40-acre
21 spacing, still remains the same, 72-23-49 split?

22 A. That's right.

23 Q. And as advertised, we'll go through
24 more or I expect more from the geologist on the
25 80-acre spacing, which would only include one

1 pool up here, and that's the undesignated
2 Travis-Upper Pennsylvanian; that's the only pool
3 out there nearby that's spaced on 80?

4 A. Right.

5 EXAMINER STOGNER: I don't have any
6 other questions of Mr. Haden. Are there any
7 other questions of this witness?

8 MR. PADILLA: I have none, Mr.
9 Stogner.

10 EXAMINER STOGNER: If not, he may be
11 excused.

12 Mr. Padilla?

13 MR. PADILLA: Call Mr. Harmon at this
14 time.

15 EXAMINER STOGNER: Mr. Harmon, I'll
16 also remind you from the previous case you are
17 still under oath.

18 DEXTER L. HARMON

19 Having been duly sworn upon his oath, was
20 examined and testified as follows:

21 EXAMINATION

22 BY MR. PADILLA:

23 Q. Mr. Harmon, you're also from Midland,
24 Texas, and you've been qualified as an expert in
25 the previous case; correct?

1 A. Correct.

2 Q. And your first name is Dexter?

3 A. That's right.

4 Q. Okay. Mr. Harmon, have you prepared
5 certain exhibits for demonstrating the geologic
6 risk in this drilling venture?

7 A. I've had exhibits prepared under my
8 supervision for this venture.

9 Q. What is your title at Mewbourne?

10 A. I'm district geologist, Mewbourne Oil
11 Company.

12 Q. What did you have prepared?

13 A. I had three exhibits prepared, a
14 production study, a cross-section, and a
15 structure map.

16 Q. Let's go to what we have marked as
17 Exhibit No. 6 and have you tell the Examiner what
18 that is.

19 A. Exhibit No. 6 is a production study in
20 the area of the deeper producing horizons, namely
21 the Cisco, Atoka, and Morrow.

22 Q. What are the Cisco wells depicted on
23 this exhibit?

24 A. Cisco wells are colored in blue.

25 Q. And Atoka?

1 A. Atoka is colored in purple; the Morrow
2 is indicated by the orange.

3 Q. Mr. Harmon, what is this exhibit
4 designed to show?

5 A. Exhibit 6 is a nine-section area. This
6 shows 13 Morrow penetrations, none of which were
7 drilled in Sections 15 or 21. Of the thirteen
8 penetrations, five were economic producers. And
9 of the five economic producers, one was a very
10 good well with a good return on investment.

11 Q. Which well was that?

12 A. This well in the south half of Section
13 23 made 2.9 Bcf. And I might note that that is
14 14,611 barrels of oil. It's a typo on the map
15 there.

16 Q. That's for the well in the south half
17 of Section 23?

18 A. Right.

19 Q. So instead of MM it should say B0?

20 A. Correct.

21 Q. Okay. Let's start up at the northwest
22 portion of that exhibit and have you describe the
23 wells in Sections 9 and 16.

24 A. The wells in Sections 9 and 16 are
25 Morrow wells. They're in the North Illinois Camp

1 Morrow Pool. The well in the north half of
2 Section 9 made 1.2 Bcf and 4,000 barrels of oil.
3 The well in the south half of Section 9 made 1.5
4 Bcf and 12,200 barrels of oil.

5 Moving down to Section 16, the well in
6 the east half made 1.3 Bcf and 8,800 barrels of
7 oil, while the well in the west half of Section
8 16, drilling an uneconomic producer, at 34
9 million cubic feet of gas.

10 Q. Were any of these wells in Sections 9
11 and 16 economic producers in your opinion?

12 A. In my opinion it looks like they
13 probably got their money back on these wells.
14 Probably in Section 9 one well would have drained
15 the reserves you see combined in both of them,
16 and that would have been an economic well if it
17 would have all been out of one well.

18 Q. How about the wells in Section 16?

19 A. Oh, a billion-three over ten years is
20 probably not economic.

21 Q. Is that the combined amount for both
22 wells?

23 A. Correct. You could add them up. It's
24 one billion three -- or a billion-four, I guess,
25 rounded off.

1 Q. I notice that you have a dry hole in
2 Section 10, no wells in Section 15, and another
3 dry hole in Section 22. So essentially you have
4 no production in that line of sections between
5 the two pools, the North Illinois Morrow and the
6 -- well, I'm not sure what the pool is on
7 Section 23. Is that the --

8 A. Right. There's no Morrow producers in
9 10, 15, or 22.

10 Q. What is the pool in the southeast
11 portion of that exhibit?

12 A. That is the Turkey Track North Morrow
13 Pool.

14 Q. And I guess you're in no man's land as
15 far as both pools are concerned with your
16 proposed location on Section 15?

17 A. We're in between the two pools, and we
18 hope to connect them or extend them.

19 Q. What else is this exhibit designed to
20 show, Mr. Harmon?

21 A. Shows the line of cross-section, D to D
22 prime, going from the northwest corner of the map
23 to the southeast. This is the general direction,
24 we believe. Sands are deposited in this area.
25 The west half of Section 15 is outlined in yellow

1 to show the proration unit. And the proposed
2 location is an open circle marked at 1980 from
3 the north line and 990 from the west line.

4 Q. Are you ready to move onto the
5 cross-section now?

6 A. Yes.

7 Q. Let's go to the cross-section and have
8 you tell the Examiner what's shown on that
9 cross-section.

10 A. This is a stratigraphic Atoka-Morrow
11 cross-section, D to D prime. Goes from the
12 northwest to southeast through the area. Each
13 individual Morrow sand in the area has been
14 broken out and given a color name for
15 identification and mapping purposes.

16 Below each log is a scout ticket and
17 some Dwight's production data. Perforations are
18 colored in red in the center depth column of each
19 log. And drill stem test intervals are also
20 marked in the center column on each log.

21 Q. Which is the best well shown on that
22 exhibit?

23 A. A good well is the one at the end of
24 the cross-section at D prime.

25 Q. Why is that the best well?

1 A. It's made 2.9 Bcf in its lifetime. And
2 from the production map you can still see it
3 makes over half a million a day.

4 Q. Mr. Harmon, in terms of sand thickness,
5 it looks like the sands that you've depicted in
6 green are probably the thicker sands in that
7 cross-section; is that correct?

8 A. That's correct. They don't seem to be
9 economic producers in this area. The second well
10 from the end in the north half of Section 23
11 perforated the green sand and only made 215
12 barrels of oil out of it before recompleting to
13 the Atoka, which is colored in purple on the
14 cross-section.

15 Q. How about the other -- so the Atoka is
16 the purple and -- well, let me before I move on,
17 what kind of production do you find in this area
18 in the Atoka?

19 A. The Atoka hasn't been found to be
20 economic so far in this area. That zone has only
21 made 147 million cubic feet in the first nine
22 months of production. It doesn't seem to be a
23 strong well.

24 Q. Any other wells shown on the
25 cross-section that have any kind of significant

1 Atoka production?

2 A. No. The well on the end in the north
3 half of Section 9 drill stem tested water out of
4 the Atoka.

5 Q. Okay. You've already discussed the
6 green sand. What's below the green sand?

7 A. Green sand is the Middle Morrow Sand,
8 and below that we have the Lower Morrow Sands.
9 And we've colored them pink, orange, and brown.

10 Q. Which is your primary objective in
11 drilling this well to the Morrow, which sand?

12 A. The primary objective is the brown
13 sand.

14 Q. And where is that located in terms
15 of --

16 A. It's the lower-most sand on the
17 cross-section. It produces in two wells in
18 Section 9, and we hope to extend that
19 production. Those wells also produce from the
20 orange sand. And the well in the south half of 9
21 is also perforated in the several other sands.

22 Q. In terms of the proposed location, what
23 kind of risk is shown by this cross-section?

24 A. Well, the risk is hitting the sands
25 with enough porosity to be an economic well.

1 These sands are channel ice sands. They meander
2 through the area from the northwest to the
3 southeast. And, as you can see, they have
4 porosity in some places and some places they
5 don't. It's a --

6 Q. Can you show that from the
7 cross-section? Where do you have porosity in
8 some places and in other places you don't?

9 A. The first well on the cross-section has
10 porosity in the orange and brown sands. The next
11 well is a neutron log. It's hard to tell exactly
12 what porosity they do have. And the third well
13 on the cross-section no longer has brown sand
14 porosity, but it does have a little orange
15 porosity.

16 And then you move to the next well in
17 the cross-section on the other side of the
18 proposed location, and none of the zones have
19 good porosity developed in the Lower Morrow. So
20 it kind of comes and goes.

21 Q. Do you have anything further concerning
22 Exhibit No. 8 -- I'm sorry, Exhibit No. 7?

23 A. No.

24 Q. How about Exhibit No. 8, what is that?

25 A. Exhibit No. 8 is a structure map based

1 on the top of the Lower Morrow. It shows
2 southeast dip in this area of about 200 foot per
3 mile. Our proposed location is about 50 foot
4 down-dip of the Morrow producer in the west half
5 of section -- in the east half of Section 16.

6 Q. When you say that you're 50 feet
7 down-dip, what does that mean in terms of the
8 prospect?

9 A. Oh, as you go down-dip, you run the
10 risk of getting into water zones and, you know,
11 the lower you go down-dip, the more likely that
12 is to occur.

13 Q. Mr. Harmon, do you have anything
14 further on this exhibit?

15 A. No, I don't.

16 Q. Mr. Harmon, do you have a
17 recommendation to the Examiner as to what kind of
18 risk factor should be assessed for drilling this
19 well?

20 A. We think there's a substantial risk
21 there. We're recommending well costs plus 200
22 percent penalty.

23 Q. That's a maximum percent?

24 A. Yes, it is.

25 Q. Mr. Harmon, in your opinion would

1 approval of this application be in the best
2 interests of conservation, the protection of
3 correlative rights, and the prevention of waste?

4 A. Yes, it would.

5 MR. PADILLA: Mr. Examiner, we offer
6 Exhibits 6, 7, 8, and we pass the witness at this
7 time.

8 EXAMINER STOGNER: Are there any
9 objections?

10 MS. AUBREY: No objections.

11 EXAMINER STOGNER: Exhibits 6, 7, and 8
12 will be admitted into evidence at this time.

13 Thank you, Mr. Padilla.

14 Ms. Aubrey, your witness.

15 MS. AUBREY: I have no questions.

16 EXAMINER STOGNER: Nor do I.

17 Are there any questions of Mr. Harmon?
18 If not, he may be excused.

19 Is there anything farther in this
20 case?

21 MR. PADILLA: Nothing further.

22 EXAMINER STOGNER: Ms. Aubrey, anything
23 further?

24 MS. AUBREY: No, sir.

25 EXAMINER STOGNER: Does anybody else

1 have anything further in Case 10485? If not,
2 this case will be taken under advisement.

3 Let's take a 20-minute recess.

4 [Discussion off the record.]

5 I previously stated that 10485 was
6 taken under advisement; however, I just
7 remembered that due to the readvertisement
8 necessary, this case will be continued and
9 readvertised for the June 25 hearing.

10 With that, let's take a 20-minute
11 recess.

12 [And the proceedings were concluded.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10485,
heard by me on 11 June 1992.
 Examiner
Oil Conservation Division


CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Debbie Vestal, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL JUNE 22, 1992.



DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3