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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF NAUMANN OIL & GAS,)
INC.)

CASE NO. 10,979

8 1994

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 26, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, May 26, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

May 26, 1994
Examiner Hearing
CASE NO. 10,979

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FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

3 EXAMINER CATANACH: Call the hearing to order
4 this morning for Docket Number 16-94.

5 (Off the record)

6 EXAMINER CATANACH: At this time we'll call Case
7 10,979.

8 MR. CARROLL: Application of Naumann Oil & Gas,
9 Inc., for compulsory pooling, an unorthodox gas well
10 location and a nonstandard gas proration and spacing unit
11 Eddy County, New Mexico.

12 EXAMINER CATANACH: Are there appearances in this
13 case?

14 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
15 the Santa Fe law firm of Kellahin and Kellahin, appearing
16 today on behalf of the Applicant, and I have two witnesses
17 to be sworn.

18 EXAMINER CATANACH: Any additional appearances?
19 Will the witnesses please stand and be sworn in?
20 (Thereupon, the witnesses were sworn.)

21 MR. KELLAHIN: Mr. Examiner, I have two witnesses
22 for you.

23 Mr. David Frye is a consulting landman. He was
24 the individual that was challenged to put together all
25 these town lots on the south side of the City of Carlsbad

1 to reformulate a gas spacing unit so that his client, Mr.
2 Jack Naumann, who is the president and principal of Naumann
3 Oil and Gas, Inc., could re-enter an old abandoned Morrow
4 gas well and attempt to recomplete it in what we've
5 identified as the Carlsbad-Strawn Gas Pool.

6 Mr. Frye will go through the details of how he
7 has consolidated the tracts to the best of his ability.
8 During the course of his work, he has found that this half
9 section, as a result of a governmental survey, is an
10 irregular size. We're dealing with 307 acres, plus or
11 minus.

12 In addition, the original well was drilled by C&K
13 Petroleum back in 1977 pursuant to a compulsory pooling
14 order and the approval of a nonstandard or unorthodox
15 location for that well. Obviously the well continues to
16 exist at an unorthodox location. Its location crowds
17 towards operations by OXY U.S.A., Inc. And they are a
18 client of mine, I've contacted them and they have consented
19 to the location. That is not objected to.

20 Mr. Frye will go through with you the details of
21 how he has identified the interest owners and how he has
22 consolidated the tracts and what he proposes to do with
23 regards to the allocation of interest in the tracts.

24 Mr. Naumann is a geologist by education and
25 experience, but he's also a practical oil and gas operator.

1 His expertise is to find old abandoned wells and to re-
2 enter them, and this is not his first effort. He will
3 describe for you what he has determined to be the advantage
4 of using these wells.

5 In addition, he has allocated costs for the value
6 of this existing wellbore and estimated for you what are
7 the additional costs required by him in order to re-enter
8 this well.

9 There is significant risk, and he will describe
10 for you the risk. He is seeking a 200-percent risk-factor
11 penalty with regards to this order.

12 At this time I'd like to call Mr. David Frye.

13 DAVID N. FRYE,

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

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

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

20 A. My name is David Nichols Frye. I'm a landman in
21 Plano, Texas.

22 Q. Mr. Frye, the microphone will not amplify your
23 voice in here, and there's some background noise from the
24 air conditioning, so if you'll speak up.

25 On prior occasions, sir, have you testified

1 before the Division as a petroleum landman?

2 A. I believe I have.

3 Q. You were hired by Naumann Oil and Gas, Inc., as a
4 petroleum landman for what purpose, sir?

5 A. To research the title on the west half of Section
6 7, find the ownership, acquire leases and put together a
7 drilling unit for the re-entry of the Carlsbad "7" Number
8 1.

9 Q. Is that something you have done for others,
10 locate interest owners and negotiate with them in order to
11 reach voluntary agreements?

12 A. Yes, sir, I've been doing that most of my career.

13 Q. In addition to finding these people and
14 negotiating with them, you have proposed to the individuals
15 specific terms of either farmouts, lease or participation
16 in this re-entry?

17 A. I've sent to all the owners out there an oil and
18 gas lease which I've offered to enter into with them or
19 offered them the opportunity to participate in a re-entry.

20 Q. Are you knowledgeable about the identity of these
21 individuals and the interest ownership participation factor
22 or calculation for their share of production from the well?

23 A. Yes, sir, I've calculated that.

24 MR. KELLAHIN: We tender Mr. Frye as an expert
25 petroleum landman.

1 EXAMINER CATANACH: Mr. Frye is so qualified.

2 Q. (By Mr. Kellahin) Mr. Frye, let's look at what
3 is marked as Applicant's Exhibit Number 1 and let you
4 identify that for us.

5 A. This is a plat of the west half of Section 7,
6 which was originally entered in the Commission records for
7 the original pooling of this section for the drilling of
8 the well.

9 Q. To what purpose did you use this plat?

10 A. This plat was the basis of -- that I used to
11 locate the tracts when I was running title on each of the
12 owners out there.

13 Q. As a result of that effort, do you have an
14 opinion as to what quantity of acreage is contained within
15 the proposed spacing unit?

16 A. Yes, sir, it's my belief after calculating all
17 the interest and all of -- looking at the patents, that
18 there are 307, plus or minus, acres in the west half of
19 Section 7.

20 Q. So we will know where it's shown on the display,
21 find for us the old C&K Petroleum Carlsbad "7" Number 1
22 well.

23 A. The location of the C&K Petroleum "7" Number 1 is
24 located 690 feet from the west line and 760 feet from the
25 south line, which is depicted by two circles and labeled

1 "proposed location".

2 Q. Can you identify for us or show us on this
3 display the lease that underlies the wellbore?

4 A. Yes, sir, the drill site lease on this tract is
5 300 -- was a described 35 acres, which included all of the
6 southwest quarter of the southwest quarter, less the Santa
7 Catarina Cemetery Association lease, and that's the drill
8 site.

9 Q. Have you obtained a lease from the interest
10 owners at the drill site tract?

11 A. Yes, sir. Merland, Inc., is the owners of
12 record, and I have acquired an oil and gas lease from them.

13 Q. Merland, Inc., owns the Minerals?

14 A. Yes, sir, they do.

15 Q. Who owns the surface?

16 A. Merland, Inc., also owns the surface.

17 Q. All right. This is a tract, then, that has not
18 been severed with regards to surface and minerals?

19 A. That is correct.

20 Q. Let me ask you, sir, to set aside the plat for a
21 moment and turn to what we have marked as Exhibit Number 2.

22 This is a tabulation consisting of 15 pages. Is this your
23 work, sir?

24 A. Yes, sir, this is my work.

25 Q. What does this represent?

1 A. This represents a tabulation of the owners of
2 what I believe to be all the interest in the west half of
3 Section 7. It includes various information such as their
4 names and addresses, the acreage -- the legal description
5 of the acreage they own, the net acres, the interest in the
6 acres and their unit participation based upon acreage
7 participation.

8 Q. Before we talk about the details, let's go across
9 the top column of the spreadsheet and have you explain to
10 the Examiner what these codes mean.

11 A. Okay. Lease Number is a number that I've
12 assigned. I started with lease number 100, so there aren't
13 any numbers less than that.

14 Gross Acres is -- the traditional explanation,
15 the number of surface acres in their tract.

16 Interest is their interest which in this case is
17 a decimal, so 1 being 100 percent, anything less than that
18 being a decimal.

19 Net Acres is their gross acres times their
20 interest.

21 Their Unit Participation is their net acres
22 divided by 307.02.

23 The Key --

24 Q. That's not a percentage?

25 A. No, sir.

1 Q. That's a decimal interest?

2 A. That's a decimal interest.

3 Q. Okay.

4 A. The Key is just a way -- It's the last name of
5 the party.

6 The next column is how I've designated whether
7 they've leased to me, whether they've agreed to participate
8 or if we haven't had an answer yet.

9 Of course the Owner is the owner name.

10 Address is self explanatory, the city, state and
11 zip.

12 And then the legal description is a description
13 of acreage they own.

14 Q. How many different tracts or leases were you
15 dealing with?

16 A. 298 tracts.

17 Q. How did you go about determining these were the
18 appropriate owners with the correct percentages?

19 A. I based my research on the abstracts or the
20 information contained in the abstracts of the Guaranty
21 Title in Carlsbad, New Mexico, and the county records of
22 the county clerk.

23 Q. How current is this information?

24 A. This information -- Some of it is more current,
25 but all of it is current up to the end of December.

1 Q. Having determined the ownership within the tract,
2 what then did you do?

3 A. Once I -- as I determined ownership, I would make
4 contact with the owners, offering to lease their minerals,
5 proposing a lease term and asking them to call me, describe
6 what we wanted to do and asked them to call me if they had
7 any questions.

8 Q. Sir, let's go through some of your
9 correspondence.

10 A. Okay.

11 Q. If you'll turn to what is marked as Applicant
12 Exhibit Number 3, would you identify and describe that
13 letter?

14 A. Exhibit 3 is a letter I sent in early December --
15 it's dated December 3rd -- wherein I described what we were
16 trying to do. And I offered -- I enclosed a lease in a
17 self-addressed envelope and offered to lease from all the
18 owners that I knew at that time. If they wanted to lease,
19 they were instructed to sign in front of a notary and then
20 return it to me in the envelope.

21 Q. At this point, had you acquired the lease at the
22 drill site from the Merland, Inc., company?

23 A. Merland, Inc., was the first lease I acquired. I
24 acquired that because I felt like it was critical to the
25 prospect.

1 Q. As part of that lease negotiation relationship,
2 did you obtain ownership and control of the existing
3 wellbore?

4 A. Yes, sir, I felt like it was important to control
5 the wellbore, because it was critical to our re-entry. So
6 I negotiated with Merland, Inc., to acquire specific use of
7 the wellbore for our re-entry purposes, and the exclusive
8 rights to the wellbore.

9 Q. As a result of the fact that the wellbore existed
10 within this lease ownership, you had to pay more for that
11 transaction or lease than you did for the other leases?

12 A. I felt like it was necessary to do that, and
13 through the course of negotiations it was borne out.

14 Q. Apart from that circumstance, did you offer
15 everyone else the same terms?

16 A. Everybody in the west half of Section 7 was
17 offered exactly the same terms to lease their minerals,
18 including the City of Carlsbad and other public entities.

19 Q. Did you obtain leases from the City of Carlsbad?

20 A. Yes, sir, I did, from the city council.

21 Q. Okay. How did you handle the mineral ownership
22 underlying the public streets?

23 A. It was my determination, and based upon
24 consultation with various attorneys, that ownership of the
25 minerals underlying the streets, as a matter of -- in New

1 Mexico is considered to be owned by the adjacent lot
2 owners, and I included each lot -- I included the minerals
3 under the streets and alleys as being owned by the adjacent
4 lot owner.

5 Q. All right. And with that position, then, you
6 negotiated with these people and have obtained leases for
7 some of these tracts on that basis?

8 A. Yes, sir.

9 Q. All right. After the first letter, of December
10 3rd, what is the next correspondence to these interest
11 owners?

12 A. The next correspondence is December 10th, and
13 that was sent to people who -- as I later discovered their
14 interest. It's essentially a identical letter to the
15 earlier letter.

16 Q. As you continued through the process and updated
17 and refined your list, did you provide further
18 correspondence to these individuals after December 10th?

19 A. Yes, sir, I sent a January 4th letter to
20 additional people as I learned of them.

21 Sometimes I'd get -- I would learn of a new
22 address or a new location, and I would send a follow-up
23 letter to them and make sure everyone got a chance to look
24 at my proposal.

25 Q. Okay. During this process of negotiating,

1 describe for us in a summary way what you were telling
2 these people.

3 A. What I did -- Obviously, I sent the letter and I
4 explained what we tried to do. And a lot of people would
5 call because they didn't fully understand it, and a lot of
6 these people are not sophisticated oil and gas people.

7 So I made sure that I would start at the
8 beginning. I would say what happened with the well, that
9 C&K Petroleum drilled the well to the Morrow formation,
10 they produced it for a couple of months, that they
11 determined that production was insufficient and plugged the
12 well and went about their business, that my partner and I
13 felt like there was a zone in the well that could be re-
14 entered and maybe produced and that C&K had gone off and
15 left some gas in the ground.

16 I said, We would like to lease all the minerals
17 out there and include them in the unit so that they could
18 be included as a royalty owner when we re-entered the well,
19 and hopefully produced from the Strawn formation.

20 I made sure to tell all of them that this is not
21 like the Beverly Hillbillies, that they had very small
22 interests, nobody's going to get very rich, and that as a
23 royalty owner hopefully they would receive enough revenue
24 to buy dinner a couple of times a year.

25 That was the basic story, and if they had more

1 questions I certainly answered them.

2 Q. The next Exhibit, 6, is correspondence dated
3 March 22nd of 1994. What's the basis for sending this
4 letter?

5 A. By March we determined that we had leased most of
6 what we were going to get, and we felt like the people that
7 were remaining out there wanted to participate, or at least
8 have that option.

9 So we sent a letter asking all of them to
10 participate -- we sent it by certified mail so that we
11 could determine that they received it -- and asking them to
12 join us in the well.

13 Q. And how did you send this letter?

14 A. We did send it by certified mail, return receipt
15 requested.

16 Q. Attached to that letter are what, sir?

17 A. The copies of the green cards that were returned
18 by the post office with the receiving party's signature.

19 Q. Now, this would have gone out to more parties
20 than you received green cards back?

21 A. That is correct.

22 Q. So you've sent it to everyone that was unleashed
23 at that point?

24 A. Yes, we did.

25 Q. And the documentation shows only those that

1 actually got the notice?

2 A. That is correct.

3 Q. All right, sir. Let's turn now to Exhibit Number
4 7. We've gone from March 22nd. Exhibit 7 is a letter of
5 April 22nd?

6 A. Yes, sir.

7 Q. What's the reason you sent this letter?

8 A. By April 22nd, we hadn't heard back from many of
9 the parties. You know, we had only heard back from a few
10 of them as to whether they wanted to participate or not.

11 So I sent another letter trying to point out how
12 important it was and that they needed to please make a
13 decision and return their -- and notify me of what they
14 wanted to do.

15 Q. Were you offering these parties the opportunity
16 to participate in the well?

17 A. Yes, I was.

18 Q. That was an alternative solution to leasing?

19 A. Yes, sir. In my letter I offered them the
20 opportunity to participate and to -- If they still didn't
21 want to participate, I offered to lease from them again.

22 Q. All right. As part of this correspondence, did
23 you provide these potential participants with a proposed
24 AFE and an indication of the costs that you were working
25 with so that they would have some range of expectation on

1 the costs?

2 A. Yes, sir. The first letter, Exhibit 6, the March
3 22nd letter, included an AFE with the full cost of the re-
4 entry.

5 Q. Okay. Did you advise them of your intent to
6 charge the interest owners with a valuation of the existing
7 wellbore?

8 A. Yes, sir, we included in that letter the fact
9 that we would expect them to pay their share of our
10 estimated value of the wellbore, being \$95,000.

11 Q. Mr. Naumann has provided you with his estimate of
12 the value of the existing wellbore?

13 A. Yes, sir, he has.

14 Q. And that was the \$95,000 and you communicated
15 that to all these people?

16 A. Yes, I did.

17 Q. In addition, you sent them an itemized AFE of the
18 re-entry recompletion costs?

19 A. Yes, I did.

20 Q. Okay. Let's turn now to the next topic, and that
21 is a notification. It's marked Exhibit 8, and it's dated
22 May 4th. Describe what you've done here.

23 A. This is a copy of a letter dated May 4th, which
24 was prepared by Mr. Kellahin, stating the notice of
25 compulsory pooling. We mailed it to all of the owners who

1 we knew of that had not made an election to participate or
2 lease.

3 We sent the letter certified mail to all the
4 parties, it described the fact that we were going to have
5 this hearing, that they were welcome to come and present
6 evidence and participate in the procedure.

7 Q. All right. And this mailing went out of your
8 office, out of -- under your direction?

9 A. Yes. I personally mailed all of these certified
10 mail, return receipt requested.

11 Q. And were they mailed more than 20 days prior to
12 the hearing?

13 A. Yes, sir, they were. They were mailed, most of
14 them, on May 6th.

15 Q. In addition to the conventional green cards that
16 you've attached copies of, there is a notice that's a
17 little different. The first receipt after the notice
18 letter, explain to the Examiner what that is.

19 A. This is a copy -- This is for a registered
20 letter. One of the owners, Carlos Orosco, lives in
21 England, and you can't send certified mail to England; you
22 have to send registered mail.

23 I did the same on the first letter, offering to
24 ask them to participate. His card was returned. As of
25 now, I have not received his card back for this registered

1 mail; however, he has called and left a message on my voice
2 mail, so I believe he has received it.

3 Q. Let me turn to Exhibit 9. Having gone through
4 all this effort to consolidate on a voluntary basis the
5 various interest owners, do you now have a tabulation of
6 those interest owners for which you have not yet been able
7 to obtain an agreement?

8 A. Yes, sir. This Exhibit 9 represents only the
9 parties who have not leased or have not paid their share of
10 the well cost and signed contracts yet.

11 Q. There is a code. If you read along the first
12 column and after the word "Key" and before the word
13 "Owner", there's another column. What do those codes mean?

14 A. There are four of them in this column, four
15 different codes.

16 The "N" means I've had no response but I have a
17 green card from them.

18 The "U" means that I apparently have a bad
19 address and have been unable to locate the Party.

20 "P" says they have agreed to participate, but
21 they have yet to pay their share.

22 And "F" means, I believe, they will agree to farm
23 out, however we do not have formal agreement yet.

24 Q. With regards to those addresses over the course
25 of your activity for which you got an envelope back and it

1 was obvious to you that you were not communicating with
2 them, what did you do to see if you could get a better
3 address?

4 A. I -- In each case, when I got a card back, I went
5 back to the tax office, tried to find a newer, more recent
6 address, went to the post office -- or to the phone book to
7 look for the name and another possible address.

8 If those two failed and didn't turn up a newer
9 address, then I called different people in Carlsbad who had
10 similar last names and, in some cases, people who were
11 offset owners, owned adjacent lots or something like that,
12 trying to locate some of these parties.

13 Most of the ones that were not located do not
14 live there, they reserved the minerals sometime back.

15 Q. Let's deal with some specific issues, and perhaps
16 we can use this Exhibit 9 to illustrate that.

17 If you'll turn to the second to the last page,
18 and if you'll read down towards the middle of page number
19 6, find the lease that you've numbered as lease 381.

20 A. Okay.

21 Q. That has to do with a town lot number 9 that is
22 shown under Clydine Wiley?

23 A. Yes, sir.

24 Q. For your information, as you know, the Division
25 has received correspondence from Ms. Wiley's attorney

1 indicating that there were two additional parties that
2 owned minerals within lot 9 that had not received notice.
3 Describe for us what's occurred.

4 A. In this case -- You may note that many of the
5 addresses are very long and have a lot of names. They're
6 joint ownership.

7 In this case, Clydine K. Lara Wiley should have
8 been -- We removed the other names and intended to put "et
9 al." after it, and it was a scrivener error. We felt like
10 we were giving them all notice when we were notifying her
11 that -- at her address, which was the address on the deed,
12 but we should have had it labeled, her, her brother and her
13 mother.

14 Q. Other than that clerical error with regards to
15 tract 381, are you aware of any other tracts for which you
16 have not attempted to notify people that you knew had an
17 interest?

18 A. I believe -- I really believe we have notified
19 everybody fully.

20 Q. All right. The interest owners on Exhibit 9 are
21 unleased mineral owners, are they not?

22 A. With the exception of Enron Oil and Gas and OXY
23 U.S.A.

24 Q. All right, and those are the last two entries
25 shown on here, and you're about to complete transactions

1 with both of these companies, are you not?

2 A. I believe so.

3 And there is one other exception: J.R. Rowan,
4 Inc., has just sent me correspondence. J.R. Rowan and his
5 wife own the minerals; they lease to J.R. Rowan, Inc., and
6 intend to participate with that lease.

7 Q. Do you have a recommended solution for the
8 Examiner with regards of how you and your partner want to
9 handle the interest owners in Tract 381, Ms. Wiley and her
10 brother and the individual with the life estate? What
11 would you like to do?

12 A. I think in that case that it wouldn't be
13 unreasonable for us to continue to attempt to negotiate an
14 agreement whereby they would either participate or lease.

15 But in the failure of that, my partner and I
16 would be perfectly willing to pay their share. It's an
17 extremely small interest, and I don't think that would be
18 unreasonable.

19 Q. Well, and that's the best possible world: You
20 pay their share, and if there's production they get their
21 share free of cost?

22 A. That is correct.

23 Q. All right. Other than Ms. Wiley's issue, the
24 Division has received correspondence from Mr. Bill Taylor
25 in which he raises the issue of paying a proportionate

1 share of the value of the existing wellbore. Are you aware
2 of that correspondence?

3 A. Yes, sir, I received a copy of that.

4 Q. Do you have any information or documentation to
5 indicate that Mr. Taylor in fact actually paid for a share
6 of the C&K well when it was drilled?

7 A. The only information I have that leads to that is
8 his saying he had paid his share. However, my notes
9 indicate that he had leased his minerals and was included
10 as a royalty owner in the initial unit.

11 Q. Can you take Exhibit Number 1, the plat of all
12 the tracts, and help us identify what you understand to be
13 the location of the mineral ownership of Mr. Taylor?

14 A. Okay. Lot 15, Block E. He's in Lot 15 of Block
15 E, which is -- I don't know if you can see the -- It would
16 fall in the north half of --

17 Q. Hang on just a minute, we'll figure it out.

18 A. Right here.

19 MR. KELLAHIN: Mr. Examiner, I've had the witness
20 point out to me what the tract is, and I've circled it in
21 red on my copy of the display.

22 Q. (By Mr. Kellahin) Have you had discussions with
23 Mr. Taylor?

24 A. Yes, sir, I've talked to Mr. Taylor on the
25 telephone.

1 Q. Do you as a petroleum landman have any question
2 about his right, title and interest to share in production
3 from the Strawn?

4 A. Other than the fact that he seemed to be
5 concerned about the quality of his title, I did not.

6 Q. Okay. He raises for you the issue of whether or
7 not he should have to compensate you for his proportionate
8 share of your value of the existing wellbore; that was his
9 issue, was it not?

10 A. That is correct.

11 Q. Apart from that issue, he said that he may want
12 to participate in the well?

13 A. He discussed that as a possibility. He also
14 would prefer that we leased at a much higher royalty and
15 bonus.

16 Q. What is his net interest in the spacing unit?

17 A. Mr. Taylor has a .000632 in the 307-acre unit.

18 Q. Are you aware of any other interest owner that
19 has come forward to you that's in a similar position as Mr.
20 Taylor?

21 In other words, the assertion that he has paid
22 for the existing wellbore when it was drilled in 1977 and
23 therefore feels that he should not be required to pay again
24 for the re-entry?

25 A. Mr. Taylor is the only party that's mentioned

1 that as a possibility.

2 Q. Without committing you to a position and have to
3 niggle over how to resolve that legal issue, what do you
4 propose to do with regards to Mr. Taylor's interest?

5 A. My partner and I have discussed it, and if Mr.
6 Taylor can document in any manner that he's paid his share
7 of the well costs, we would be glad to -- we would, in
8 effect, carry his share of the well cost.

9 Q. Of the value of the --

10 A. -- the wellbore.

11 Q. -- the existing well and that he would be charged
12 only with his proportionate share for the future costs for
13 the re-entry and completion into the Strawn?

14 A. That's right, future costs beginning with the re-
15 entry.

16 Q. Do you have a recommendation to the Examiner with
17 regards to what overhead rates you propose to use for this
18 operation?

19 A. I believe we propose to use \$3500 as a drilling-
20 well rate and \$350 as a producing-well rate.

21 Q. The Strawn is approximately what depth in this
22 area, Mr. Frye?

23 A. It's just over 10,000 feet.

24 MR. KELLAHIN: Mr. Examiner, the *Ernst and Young*
25 tabulation for 1993 shows that the monthly drilling well

1 rate for wells at this depth is \$5462, the average monthly
2 producing well rate is \$548.

3 So this is substantially below average as
4 tabulated by the accountants.

5 Q. (By Mr. Kellahin) After this hearing, will you
6 continue to negotiate and discuss and obtain leases from
7 parties that have not yet leased with you?

8 A. I believe we will. I believe there are several
9 parties that will elect to go ahead and lease.

10 Q. At some point, however, you simply have to stop
11 the process and you want the Division to issue you a
12 pooling order so that you can utilize that in the event
13 that you can't obtain leases?

14 A. Yes, we would very much like for the Commission
15 to enter into a pooling order.

16 MR. KELLAHIN: That concludes my examination of
17 Mr. Frye.

18 We move the introduction of his Exhibits 1
19 through 9.

20 EXAMINER CATANACH: Exhibits 1 through 9 will be
21 admitted as evidence.

22 Mr. Kellahin, do you know the order number that
23 approved the original pooling?

24 MR. KELLAHIN: Yes, sir, we have copies of that.
25 It's Order Number R-5451.

EXAMINATION

1
2 BY EXAMINER CATANACH:

3 Q. Mr. Frye, I'm a little bit curious and would like
4 you to go into a little bit more on how you've allocated
5 the mineral interests underneath the streets again.

6 A. What I did is, I went on a lot-by-lot case, and I
7 calculated -- I used this plat, which is also the same plat
8 that the City of Carlsbad uses for their taxes and their
9 streets and alleys. And where I could I went back to -- if
10 I couldn't read the dimensions of the lots off the plat, I
11 went back to the original subdivisions, I calculated
12 basically the acreage for each lot out there and summed
13 them up and came up with the 307, which, when I went back
14 to verify that the patents were in fact a substandard
15 section, it proved it out.

16 Q. So you just more or less split the street in half
17 and then allocated to the interest owner?

18 A. If a lot was, say, 100 feet by 50 feet and there
19 was a 20-foot alley on one side and a 60-foot street on the
20 other, I would figure the area as being 140 by 50 square
21 feet.

22 Q. Are there any others where you could not do that,
23 where there weren't interest owners adjacent to the street?

24 A. All the tracts are against the street somewhere,
25 and the corner tracts, the corner lots, obviously, were

1 against two streets and an alley.

2 Q. Okay. This was originally -- You obtained the
3 lease from Merland; is that correct?

4 A. Merland, Inc., yes, sir.

5 Q. How much acreage did that lease contain?

6 A. We described 35.5 acres. And in fact, it
7 contains less because of the -- that southwest southwest
8 corner contains only 36.5 acres total, and Merland, Inc.,
9 had already deeded out to what is now Santa Catarina
10 Cemetery Association.

11 Q. Have you calculated what percentage of interest
12 you have consolidated at this point?

13 A. Yes, sir. On the back of Exhibit 2, on the last
14 page, page 15, I have a breakdown by the various categories
15 we described later, down in the bottom left corner. It's
16 the one that looks like this.

17 Q. According to this, you're trying to force-pool
18 about 12 percent of the interest?

19 A. Yes, sir.

20 Q. And about one percent was unknown?

21 A. Unknown ownership, yes, sir.

22 Q. Unknown ownership, okay.

23 A. Or -- I say unknown ownership; that's not fair.
24 There are two very small tracts that I cannot determine who
25 owns them. And the remainder are unknown location; I can't

1 locate them.

2 Q. Have you -- Since you found out about the Wiley
3 interest, have you been in contact with those other
4 parties?

5 A. With -- No, I haven't. We found out about that,
6 I believe, last Friday, and I have yet to contact them.
7 Actually, I found about it Monday.

8 Q. Do you intend to contact those parties?

9 A. Oh, yes, I do.

10 Q. And it's your testimony that you will carry those
11 interests or pay for those interests?

12 A. I believe Clydine K. Lara Wiley was adequately
13 notified. I believe her mother who has a life estate, and
14 her brother who has a half interest as the remainderman, I
15 believe they did not receive proper notice, and I would
16 carry those, yes, sir.

17 Q. Carry -- Not the Clydine Wiley interest?

18 A. I believe that Clydine K. Lara Wiley owns a
19 remainderman's interest in one half of that .000403 and
20 that her brother owns a remainderman interest in the other
21 half of .000403. And so I -- But I believe her interest
22 has been properly notified.

23 Q. So you would carry half of the .000403?

24 A. As a remainderman, and then all of it for the
25 life estate of the mother.

1 Yeah, Constancio A. Lara is the mother -- Excuse
2 me, Josefina Lara is the mother.

3 Q. I would appreciate it if you would keep the
4 Division apprised of your negotiations with these parties
5 that you haven't identified, maybe send us copies of the
6 correspondence that you have with these parties.

7 A. The future correspondence?

8 Q. Yes, sir.

9 A. Sure.

10 Q. The one party, I'm sorry, that you said lived in
11 England --

12 A. Yes, sir, Carlos Orosco.

13 Q. -- did you say that he had received both the
14 original offer to participate?

15 A. He received the -- I know for it -- without a
16 doubt that he received the initial offer to please
17 participate, the first certified letter.

18 Q. Okay.

19 A. The second one I believe he's received, just
20 because he responded about the time he should have gotten
21 it, but I haven't gotten his card back yet.

22 Q. The second letter being the -- ?

23 A. The notice of the hearing.

24 Q. But you said you had something on your voice
25 mail?

1 occupation?

2 A. Henry Jack Naumann. I'm a geologist and oil and
3 gas operator in Midland.

4 Q. Summarize for us your education, sir.

5 A. I have a bachelor of science degree from Texas
6 Tech University in geology.

7 Q. What is your relationship with Naumann Oil and
8 Gas, Inc.?

9 A. I'm the president and sole owner.

10 Q. With regards to this project, what are you trying
11 to do?

12 A. I'm trying to establish gas production out of the
13 Strawn formation.

14 Q. And is this something that you have done before
15 in other formations, looking for wells to re-enter?

16 A. That's correct. I've done numerous different re-
17 entries, mainly in Texas. The last one I did in New Mexico
18 was just north of Carlsbad. It was also in the Strawn
19 formation, a very similar situation to this, almost an
20 identical zone.

21 Q. When and where did you obtain your degree in
22 geology?

23 A. Texas Tech.

24 Q. In what year, sir?

25 A. 1979.

1 Q. How long have you been a practical oil and gas
2 operator?

3 A. Since 1986.

4 MR. KELLAHIN: We tender Mr. Naumann as an expert
5 geologist and as a practical oil and gas operator.

6 EXAMINER CATANACH: Mr. Naumann is so qualified.

7 Q. (By Mr. Kellahin) Before we look at your
8 displays, describe for us your objective, the concept.
9 What's the plan?

10 A. Well, the basic plan here is to re-enter the old
11 C&K Carlsbad Number 1 "7" Well, which was drilled to the
12 Morrow formation. It was a marginal producer out of the
13 Morrow. I believe it produced for less than a year. It
14 was plugged and abandoned. The casing that was recoverable
15 was cut and pulled from the wellbore.

16 My plan is to re-enter the old well bore, drill
17 the plugs out, attempt to tie back onto the cutoff casing,
18 cement it in place, and perforate, acidize and attempt to
19 establish production from the Strawn carbonate.

20 Q. Have you made a geologic investigation of your
21 opportunity in the Strawn zone?

22 A. Yes, I've studied the Strawn out here, all
23 throughout Eddy County, in the Carlsbad area, and this
24 project was based upon, again, my knowledge and study of
25 the Strawn and the success that I had to the north of town

1 and with analog producers that we have off to the east of
2 this, of the Carlsbad Number 1 "7" Well.

3 Q. Have you prepared any geologic displays of the
4 Strawn?

5 A. Yes, the Exhibit Number 10.

6 Q. Does this represent your work?

7 A. Yes, this does.

8 Q. Describe for us what it shows.

9 A. Okay. Exhibit Number 10 is an isopach or a
10 thickness map of what I'm calling the Third Strawn zone.
11 It's the third carbonate that's present from the top of the
12 Strawn formation.

13 This is our main objective on the re-entry of the
14 Carlsbad Number 1 "7" Well. And this map illustrates a
15 porosity cutoff of five percent or greater porosity which
16 is present, and this is from analysis of the downhole open-
17 hole logs on these wells.

18 It's my opinion that production occurs from five
19 percent or greater to make a commercial formation within
20 the Strawn formation.

21 This map represents the total thickness of that
22 zone.

23 Q. If we look at Section 7 and look at the southwest
24 quarter, it will be point A on the A-to-A' cross-section
25 we're going to show in a minute, but it's a well you have

1 identified as potentially having six feet of net pay?

2 A. Yes, sir, that's correct.

3 Q. With a porosity greater than five percent?

4 A. That is correct.

5 Q. Have there been any other attempts to produce the
6 Strawn gas zone in the immediate vicinity?

7 A. The nearest completions are the ones that I've
8 got designated with green circles around those. Those were
9 Strawn producers.

10 Q. If we look around the wellbore site, though, all
11 these gas-well symbols, were those gas wells deep enough to
12 have intersected the Strawn zone?

13 A. Yes, that is correct. Those were all Morrow
14 tests, and they did drill through the Strawn formation.

15 Q. Were any of those ever produced out of the
16 Strawn?

17 A. No, none of those were.

18 Q. How would you identify the level of risk of
19 obtaining commercial production out of the Strawn zone?

20 A. Well, there's several risks that we're going to
21 look at in here. Number one is the re-entry itself. The
22 re-entries are obviously a very risky business. We have
23 several things which I'll comment on here later, as far as
24 the risk with the re-entry.

25 The geological risk, my map here indicates that

1 we have potential porosity development across the west half
2 of Section 7. However, we have no indication, no control
3 up to the north.

4 The geological risk that we're dealing with here
5 is the areal extent of the reservoir. We could be dealing
6 with a very small reservoir which could potentially give
7 gas up, but of noncommercial rates.

8 Q. Go into Section 8 and the north half of 17.
9 Those were the three wells that did produce Strawn gas?

10 A. Yes, sir.

11 Q. And that is separated from your well by a well in
12 the east half, east half of 7 and has one foot?

13 A. Yes, sir, that's correct.

14 Q. Okay. Let's turn to the cross-section, Exhibit
15 Number 11, and specifically look at this zone of interest.

16 How have you identified your target zone on the
17 cross-section? Is there a color code?

18 A. Yes. If you notice, the zone, the objective
19 zone, is colored in blue. And I've highlighted the
20 porosity greater than five percent in orange; it's colored
21 in orange.

22 Q. Is there any inherent difficulty or complexity
23 that challenge you as a geologist to using the quality or
24 type of log for the Carlsbad "7" Well in order to make your
25 analysis?

1 A. Yes, we have two different types of porosity logs
2 that I've got present here on the cross-section.
3 Unfortunately, these are the only logs that were run across
4 these wells.

5 Our objective well, the C&K Carlsbad 1-7, was
6 logged with an acoustic velocity log, which basically
7 identifies primary porosity. This is not a great tool for
8 the Strawn out in through here, and as you can see it does
9 not identify, just what appears to be an extremely thick
10 zone.

11 So there is a risk as far as we're looking at
12 there, as far as the quality that we have.

13 Q. The log is sufficient that you can correlate this
14 zone and at least identify it as a Strawn that is
15 correlative to the Strawn on the other wells in the cross-
16 section?

17 A. That's correct. If you notice on the cross-
18 section, again, what I've identified there in the heavy
19 black is Carlsbad Strawn pay, the third Strawn zone, which
20 is the thickness map of the isopach, that it does correlate
21 to the producing wells off to the east.

22 Q. And that is the primary best potential in the re-
23 entry, is looking at this third zone, if you will, of the
24 Strawn?

25 A. That's correct. That's the one and only

1 objective that we really have within this wellbore.

2 Q. In terms of a percentage, what would you assign
3 as the risk to the geologic component of the reservoir?

4 A. At least 200 percent. I would feel that it would
5 be higher, actually, as far as the geological risk goes.

6 Q. Let's turn to the mechanical risk, the risk
7 involved in actually doing this work.

8 Have you prepared a schematic that shows us the
9 current configuration of the wellbore?

10 A. Yes, that's Exhibit Number 12.

11 Q. Describe for us what this shows.

12 A. This is a schematic of the wellbore as it is
13 situated today. This was taken from the New Mexico Oil and
14 Gas Commission records as provided by C&K from the
15 inception of drilling the well to the date that it was
16 plugged.

17 Q. When C&K abandoned this well, describe for us
18 using this illustration what they did to abandon the well.

19 A. The first thing that C&K did is, they attempted
20 to retrieve their 5-1/2-inch casing, which was the
21 production casing set in the well to produce the Morrow.
22 They attempted to shoot this off at 10,000 feet and found
23 that they could not free the casing, which was possibly due
24 to cement. There is no bond log that is available on this
25 well.

1 They then -- Since they could not pull the casing
2 free, they then went up to a point at 7620 feet, shot and
3 successfully pulled 7620 foot of 5-1/2-inch casing from the
4 wellbore.

5 At that point, they then set the required plugs,
6 which were four, which are identified on the schematic, and
7 successfully plugged and abandoned the well.

8 Q. Have you utilized Division records to calculate
9 what in your opinion is the top of the cement in the
10 wellbore?

11 A. Yes, actually I had a reservoir -- a drilling
12 engineer calculate the recorded volumes as reported by C&K
13 for this cement and the borehole volumes as identified on
14 the caliper logs of the downhole logs, and he came up with
15 an approximate calculated top of the cement of 9000 feet.

16 Q. With C&K having pulled the 5-1/2-inch casing at
17 approximately 7620 --

18 A. Uh-huh.

19 Q. -- what is the status of your wellbore from there
20 on up to the surface?

21 A. From there to the surface we have an open-hole
22 gap, from 7620 to 2625. That depth is where the last
23 casing was set and left in the hole, which is 10-3/4-inch,
24 which is remaining.

25 So we have a gap, an open-hole gap, from 2625 to

1 7620. There are four plugs from that point up to the top
2 of the surface of the wellbore.

3 Q. As an operator, Mr. Naumann, identify for us the
4 areas of potential risk that you face in re-entering this
5 well and establishing at least the opportunity to test the
6 Strawn.

7 A. Well, the greatest risk that we're going to deal
8 in through here -- There's several.

9 The first is, once we drill through these initial
10 plugs which are situated inside the surface casing, we have
11 two plugs which are situated inside the open hole at 5000-
12 foot range. There's an obvious risk of stabbing and
13 getting realigned or not aligned within the wellbore and
14 actually going off in the formation. And once that occurs,
15 it's extremely difficult to get back into the wellbore.

16 The second thing is to tie back onto the shot off
17 casing. That can be somewhat difficult at times. It
18 requires several days of delicate work to attempt to dress
19 the top of the stub to make it sufficient where we could
20 attempt to tie back on with additional 5-inch casing.

21 The third risk that we're dealing with is the
22 spot at 10,000 foot where they attempted to shoot the
23 casing off. We have no idea what the situation of that is.
24 It could be a collapsed casing; we just don't know. We
25 could successfully tie on at 7620 and find out at 10,000

1 feet. That's as far as we can go do a collapsed situation.

2 So that's obviously an inherent risk.

3 Q. Do you have an opinion in terms of a percentage,
4 the level of risk that you're undertaking and assuming as
5 an operator for the mechanical portion, re-establishing the
6 opportunity in the Strawn?

7 A. Yes, I feel at least 200 percent as far as the
8 risk of the re-entry.

9 Q. Have you made an investigation of what the future
10 costs are to take the well as it exists now and attempt to
11 establish production?

12 A. Yes, I've prepared an Authority for Expenditure,
13 which is listed as Exhibit Number 13, and this is an
14 estimated cost. We put approximately a five- to ten-
15 percent contingency onto this.

16 This AFE calls for \$330,230 to successfully re-
17 enter, tie back on and establish production within the
18 Strawn formation.

19 Q. Apart from the value of the existing wellbore,
20 then, Exhibit 13 represents future costs?

21 A. That is correct.

22 Q. Is this the same exhibit that Mr. Frye has
23 circulated to all the potential participants in the well?

24 A. Yes, sir, it is.

25 Q. Summarize for us the costs.

1 A. Basically you have your initial damages as far as
2 your surface, your location, your re-entry, which is listed
3 there as a drilling footage rate, which actually we don't
4 have a drilling rig out here, but a re-entry rig, which is
5 done on an hourly or daily basis.

6 You have any additional drilling cost that's over
7 and above the contract, that I agree with, with the
8 contractors, bit cost, fuel cost, any type of mud or
9 chemicals that's required to potentially get us a little
10 easier down into the wellbore.

11 We have cement cost, casing cost, test cost.
12 We'll have to go down and test the zone at 10,000 and
13 pressure up and potentially squeeze that zone with cement.

14 And additional noncontrollable rental-type
15 services as far as to get us to tie back on.

16 Other than that, when we go in to complete we'll
17 have --

18 Q. At this point, then, before completion, then,
19 your estimation is that it could cost \$135,000-plus?

20 A. Yes, sir, that's correct.

21 Q. All right. You get to that point, then.
22 Summarize for us what is the total cost attributed to
23 completing the well.

24 A. If we're successful from that point, the
25 approximate cost would be \$194,700.

1 Q. What is your expectation with regards to any
2 stimulation program required for completing the well?

3 A. The Strawn formation out here is -- It's rather
4 unique. It requires a fairly large -- an acid-frac type of
5 treatment. You have to initially go in with a small
6 stimulation and then follow it up by a rather expensive
7 gelled-acid job to establish production.

8 Q. Assuming you're successful, what are the total
9 completion costs estimated for the well?

10 A. The estimated total completion cost is \$330,200.

11 Q. Of which \$194,000-plus is attributed to the
12 actual completion and the tubulars and others incidental to
13 that activity?

14 A. Yes, sir, that is correct.

15 Q. Was this AFE prepared with the assistance of
16 drilling and completion engineers that had expertise with
17 regards to this topic?

18 A. Yes, sir, that is correct.

19 Q. In your opinion, do you believe this AFE to be
20 fair and reasonable?

21 A. Yes.

22 Q. Let's address, now, the valuation of the existing
23 wellbore.

24 A. Okay.

25 Q. Identify for us Exhibit Number 14. What does

1 that show?

2 A. Exhibit Number 14 is another Authority or AFE,
3 Authority for Expenditure.

4 This was prepared for me by Moore and Associates
5 of Odessa, Texas, who is an independent drilling
6 consultant.

7 They came up with a proposal as if we were going
8 to drill the well from start to finish as a Strawn test.

9 Q. And what is their estimate of a new Strawn test
10 well in this area?

11 A. For a completed Strawn test, their estimation
12 comes up to be \$639,225.

13 Q. How does this number compare to what C&K advised
14 the Division was their anticipated cost of the well
15 originally when they drilled it back in 1977?

16 A. From the AFE that I have seen from the records,
17 in 1977 this is within, I think, \$2000 of the original AFE
18 that C&K came up with in 1977.

19 Q. How do you propose, Mr. Naumann, to attribute
20 those costs and relate it back to present value of the
21 existing wellbore, as you now have it?

22 A. Well, the way we look at this, the wellbore, the
23 way it's situated out there currently, actually has a
24 little bit more value than -- as if you were going -- You
25 don't have a dryhole sitting there; you actually have some

1 casing which is in place, which again has value.

2 So to get to the point where we are, the
3 estimated dry hole cost is \$406,000. We're actually
4 probably dealing with a little bit more.

5 Q. So if we're dealing with dryhole costs of a
6 little over \$400,000, how far have you apportioned or taken
7 a percentage of that to come up with a value for the
8 existing wellbore that you're allocating back to the
9 interest owners?

10 A. We've come up with approximately a 25-percent
11 figure.

12 Q. So 25 percent of what it would cost you currently
13 to do the work is assigned back to the existing value of
14 this wellbore, and that's the \$95,000?

15 A. Yes, sir, that's correct.

16 Q. In your opinion, is that a fair and reasonable
17 way to allocate a determined value for the existing
18 wellbore?

19 A. Yes, I believe it is.

20 MR. KELLAHIN: That concludes my examination of
21 Mr. Naumann, Mr. Examiner.

22 We move the introduction of his Exhibits 10
23 through 14.

24 EXAMINER CATANACH: Exhibits 10 through 14 will
25 be admitted as evidence.

EXAMINATION

1
2 BY EXAMINER CATANACH:

3 Q. Mr. Naumann, what is the actual value you've come
4 up with as far as the value of the wellbore?

5 A. Actually, we came up with \$95,000, which was
6 based upon the AFE that I had, and my engineers had
7 prepared for me in-house, which our AFE was, I believe -- I
8 do not have that present, but I believe it was just a few
9 thousand dollars' difference than the AFE prepared by Moore
10 and Associates.

11 Q. The exact \$95,000 was arrived at how?

12 A. Through the AFE prepared for me in-house. If you
13 use the 25-percent figure that we used on this \$406,000, I
14 think it comes out to like \$98,000. Actually a little
15 higher.

16 Q. \$101,000 actually.

17 A. Is it \$101,000?

18 Q. So you have an in-house AFE that's lower than --

19 A. It's a little bit lower, that's correct.

20 Q. How did you arrive at 25 percent?

21 A. Well, the 25-percent figure was based on a lot of
22 the assumptions of penalties that we've been attributed to
23 dealing with major oil companies on some of the terms that
24 we've had to go under with them on certain ventures, be it
25 backends or farmouts or whatever.

1 Q. Are you talking about an exact kind of situation
2 that you've dealt with major oil companies on?

3 A. Oh, sure, I've, you know, dealt with those guys
4 on -- or different companies, and actually I've had up to
5 33- and 50-percent figures. I felt the 25 percent was on
6 the low end.

7 Q. Have you -- As far as the Enron and OXY
8 interests, have they agreed to this amount?

9 A. I am not aware if they have or have not. I think
10 Mr. Frye might be able to answer that. I believe we've
11 come to terms with the lease or farmout with OXY and Enron
12 groups or --

13 EXAMINER CATANACH: Let me ask Mr. Frye. Go
14 ahead, Mr. Frye, go ahead and answer that question if you
15 can.

16 MR. FRYE: We're still negotiating with them. Of
17 course, they're not -- We don't have a formal agreement
18 from Enron, and we're still looking at OXY's.

19 In neither case have they allowed us to include
20 the costs, the value of the wellbore in -- Well, I guess in
21 either case it didn't -- into a payout because they're just
22 getting an override. So now that I think about it, it's
23 not been addressed; it's unnecessary in the direction we're
24 going in.

25 MR. KELLAHIN: I'm not sure he didn't confuse

1 you.

2 MR. FRYE: Yeah.

3 MR. KELLAHIN: The arrangement with Enron and OXY
4 is intended to be where their interest is carried. They're
5 going to receive an override. And so the allocation of
6 costs of the current wellbore is not a component of those
7 deals. They're going to have to pay for it.

8 EXAMINER CATANACH: Okay.

9 MR. FRYE: Much better.

10 Q. (By Examiner Catanach) Mr. Naumann, the Strawn
11 well in the northeast quarter of Section 8, is that a
12 commercial Strawn well?

13 A. With the six-foot designation?

14 Q. Yes, sir.

15 A. Yes, that is a commercial well.

16 Q. Was the Strawn interval not tested in the
17 wellbore, in this wellbore?

18 A. In the C&K 1 "7", no, it was not.

19 Q. You've got pretty good well control around that
20 wellbore; is that correct?

21 A. We have good well control off to the east and to
22 the west. Obviously with the town of Carlsbad there are no
23 wells to the north, so we have no control to the north.

24 Q. Is there any other potential in the wellbore
25 besides the Strawn?

1 A. Not that I have seen. I feel that basically this
2 is going to be a Strawn or nothing for us.

3 EXAMINER CATANACH: That's all we have, Mr.
4 Kellahin.

5 MR. KELLAHIN: That concludes our presentation,
6 Mr. Examiner.

7 (Off the record)

8 EXAMINER CATANACH: Thomas, excuse me, we're not
9 done with you. Maybe you can address these issues.

10 Mr. Kellahin, insofar as the interests that were
11 not notified of this proceeding --

12 MR. KELLAHIN: Yes.

13 EXAMINER CATANACH: -- we've come up with a
14 couple of suggestions.

15 We'd like for you to try and obtain a waiver of
16 notice for the hearing, a waiver of objection to not being
17 provided notice of the hearing.

18 MR. KELLAHIN: Okay.

19 EXAMINER CATANACH: Or if you -- Or if the
20 Applicant does make a deal with these parties, I think that
21 would be sufficient to waive the notice requirement.

22 But I think at this point we'll take the case
23 under advisement, but I think those interest owners still
24 have the opportunity to object, and if they object we'll
25 re-open the case.

1 MR. KELLAHIN: Well, I don't think there's any
2 question they would have that opportunity.

3 EXAMINER CATANACH: So I think you need to either
4 get a waiver or reach an agreement with these parties, some
5 kind of agreement.

6 MR. KELLAHIN: That's our intent, Mr. Examiner.

7 I think Mr. Frye has done an incredible job with
8 almost 300 interest owners, and to have one glitch like
9 this is amazing. And we'll do what he just offered to do;
10 we'll continue to talk to them, we'll notify them, we'll
11 specify the opportunity. They can come back to open this
12 case up if they care to discuss these issues.

13 But I'm hopeful we can resolve it and this tiny
14 little interest is not an issue for anybody.

15 EXAMINER CATANACH: Okay. Well, keep us posted
16 on the efforts and what's going on.

17 There being nothing further in this case, Case
18 10,979 will be taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 9:30 a.m.)

21 * * *

22
23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 10979,
heard by me on July 26 1994.

25 David R. Catanch, Examiner

Oil Conservation Division

