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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:) CASE NO. 11,022
APPLICATION OF BASS ENTERPRISES)
PRODUCTION COMPANY)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

July 21, 1994

Santa Fe, New Mexico

7661 7 1 1994

This matter came on for hearing before the Oil Conservation Division on Thursday, July 21, 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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July 21, 1994
Examiner Hearing
CASE NO. 11,022

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: TANYA M. TRUJILLO

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3
4 EXAMINER MORROW: Call the hearing to order in
5 Docket Number 21-94, and call case 11,022.

6 MR. CARROLL: Application of Bass Enterprises
7 Production Company for compulsory pooling, Eddy County, New
8 Mexico.

9 EXAMINER MORROW: And we'll call for appearances.

10 MS. TRUJILLO: Mr. Examiner, my name is Tanya
11 Trujillo from the law firm Campbell, Carr, Berge and
12 Sheridan, on behalf of the Applicant.

13 EXAMINER MORROW: Are there other --

14 MR. LANOUE: Mr. Examiner, I'm Glenn Lanoue with
15 Phillips Petroleum.

16 I just have a statement I'd like to read at the
17 end of the testimony.

18 EXAMINER MORROW: Give us your last name again,
19 Glenn.

20 MR. LANOUE: Lanoue, L-a-n-o-u-e.

21 EXAMINER MORROW: Will the witnesses please stand
22 to be sworn?

23 (Thereupon, the witnesses were sworn.)

24 MS. TRUJILLO: Mr. Examiner, the first witness I
25 have to call this morning is Wayne Bailey.

1 A. Yes.

2 Q. Are you familiar with the subject area?

3 A. Yes.

4 MS. TRUJILLO: Mr. Examiner, are the witness's
5 qualifications acceptable?

6 EXAMINER MORROW: Yes.

7 Q. (By Ms. Trujillo) Thanks.

8 Mr. Bailey, would you briefly state what Bass
9 seeks with this Application?

10 A. Bass seeks an order for the pooling of all the
11 mineral interests in all the formations developed on 320-
12 acre spacing within the south half of Section 12, Township
13 22 South, Range 30 East, Eddy County, New Mexico.

14 Q. Have you prepared certain exhibits for this case?

15 A. Yes.

16 Q. Would you turn to what has been marked as Bass
17 Exhibit Number 1 and identify this exhibit, please?

18 A. Exhibit 1 is the land map, which shows the
19 outline of the south-half proration unit, which will be
20 utilized for all gas-producing formations spaced on 320-
21 acre units.

22 The map also shows Bass's proposed well location,
23 which is an orthodox location 660 feet from the south line
24 and 1980 feet from the east line of Section 12.

25 Also the map shows the ownership of leasehold

1 interests owned by other parties besides Bass, being 80
2 acres owned by Phillips Petroleum Company in the north half
3 of the southwest quarter, and 40 acres owned by Mitchell
4 Energy in the southeast quarter of the southeast quarter.

5 Also shown on the plat is the outline of Bass's
6 James Ranch Unit.

7 Q. And the proposed well location is noted in green;
8 is that correct?

9 A. That's correct.

10 Q. Okay. What is the primary objective of this
11 proposed well?

12 A. We have two primary objectives: the Atoka
13 formation in the Undesignated Northeast Livingston Ridge-
14 Atoka Gas Pool, and the Morrow formation in the
15 Undesignated Cabin Lake-Morrow Gas Pool.

16 Q. Could you turn to what has been marked as Exhibit
17 2 and describe this exhibit, please?

18 A. Exhibit 2 shows the description of the leases
19 owned by Phillips and Mitchell and the proportionate
20 ownership of unit interests by virtue of their acreage in
21 the south half of Section 12.

22 Q. What are the respective interests?

23 A. Phillips Petroleum Company has 25 percent,
24 Mitchell Energy Company has 12.5 percent, and the various
25 Bass entities own 62.5 percent.

1 Q. And what is the percentage of the acreage that is
2 voluntarily committed to this well?

3 A. 62.5 percent.

4 Q. What is the status of the royalty under the south
5 half of Section 12?

6 A. Well, all the tracts in the unit are affected by
7 federal leases which are held by production.

8 Q. Mr. Bailey, could you move to what has been
9 marked as Exhibit 3 and identify that for the Examiner,
10 please?

11 A. Exhibit 3 is Bass's standard authority for
12 expenditure for the drilling and completion of the James
13 Ranch Unit Number 70 Well.

14 Q. And what is the total for a completed well?

15 A. \$1,594,000 for a completed well and \$1,107,000 is
16 the dryhole cost.

17 Q. Are these costs in line with what has been
18 charged by other operators in the area for similar wells?

19 A. Yes.

20 Q. Mr. Bailey, could you summarize the efforts you
21 have made to obtain voluntary joinder of all the working-
22 interest and mineral-interest owners in the proposed
23 spacing unit?

24 A. On June 3rd, 1994, Bass issued certified letters,
25 with an AFE attached, to Phillips and Mitchell, requesting

1 them to either farm out or participate in the proposed
2 James Ranch Number 70 Well.

3 Since that time, Bass representatives have had
4 numerous conversations with representatives of Phillips and
5 Mitchell, and Bass has also provided a proposed joint
6 operating agreement to both of the above parties by letter
7 dated June 17th, 1994, to Mitchell, and July 5th, 1994, to
8 Phillips, and Bass has continuously contacted the above
9 parties through July 15th, 1994.

10 Q. And were those most recent contacts made by
11 telephone?

12 A. Yes.

13 Q. And are those contacts you just described
14 identified in Exhibit 4? Is that correct?

15 A. Yes, that's correct.

16 Q. Okay. In your opinion, have you made a good-
17 faith effort to locate all the individuals and obtain their
18 voluntary joinder?

19 A. Yes.

20 Q. Mr. Bailey, could you move to what has been
21 marked as Bass Exhibit Number 5?

22 Is Exhibit Number 5 an affidavit confirming that
23 notice of today's hearing has been provided as required by
24 OCD rules?

25 A. Yes.

1 Q. And this exhibit shows that notice was mailed to
2 Phillips Petroleum Company and Mitchell -- Mitchell Energy
3 Company; is that correct?

4 A. That's correct, yes.

5 Q. Okay. Mr. Bailey, have you made an estimate of
6 the overhead and administrative costs while drilling this
7 well and also while producing this well, if it is a
8 successful well?

9 A. Yes, we will incur overhead costs of \$6000 per
10 month as overhead while drilling and \$600 per month while
11 producing.

12 Q. Does Bass request that the monthly overhead
13 charges be adjusted in accordance with the COPAS
14 procedures?

15 A. Yes, the normal procedure is to adjust the
16 overhead charges according to the U.S. Bureau of Labor
17 statistics index of average weekly earnings of crude
18 petroleum and gas production workers.

19 For the basis of those adjustments, I refer to
20 Exhibit 6.

21 Q. Okay, Exhibit 6 is provided; is that correct?

22 A. That's correct.

23 Q. And are these costs in line with what is being
24 charged by the operators in the area?

25 A. Yes, and these amounts are acceptable and in line

1 with the amount stated in the 1993 *Ernst & Young* guidelines
2 for drilling and production overhead.

3 Q. Do you recommend that these figures be
4 incorporated into any order that results from the hearing?

5 A. Yes.

6 Q. And do you seek to be the designated operator of
7 the proposed well?

8 A. Yes.

9 Q. Mr. Bailey, were Exhibits 1 through 6 prepared by
10 you or compiled under your direction and supervision?

11 A. Yes.

12 MS. TRUJILLO: I have no further questions of
13 this witness, Mr. Examiner, and I offer Exhibits 1 through
14 6 into the record.

15 EXAMINER MORROW: 1 through 6 are admitted into
16 the record.

17 EXAMINATION

18 BY EXAMINER MORROW:

19 Q. Mr. Bailey, the rates, you say those are in line
20 with *Ernst & Young*. Are they higher or -- They seem a
21 little higher than the *Ernst & Young* rates, right off. I
22 don't have a copy with me. Do you have a copy with you?

23 A. Yes, sir.

24 Q. And it shows --

25 A. And it shows that for the 10,000- to 15,000-foot

1 bracket for gas wells, is \$5462 for the drilling well
2 overhead rate. And we're on the extreme high end of that;
3 we're going to 14,100.

4 Q. Okay.

5 A. So if you increase theirs proportionately, then
6 you get a little bit over \$6000, so...

7 Q. Okay.

8 A. And this is what we've been charged by the
9 companies for wells of this depth.

10 Q. In your discussion with Phillips and Mitchell,
11 did you have any backlash over those proposals, rates, or
12 did any -- did they --

13 A. No, sir, I didn't receive any comments on that.

14 Q. Okay. Now, were you going -- You didn't tell us
15 what the status of your negotiations with Phillips and
16 Mitchell are, did you? Or did you? Maybe you did. They
17 just haven't responded or -- ?

18 A. Well, we've had discussions, we've had ongoing
19 discussions with them. Mostly I was talking to Mitchell
20 personally, and we had a landman with Bass that was talking
21 to representatives of Phillips.

22 And we did have some movement towards an election
23 by both of those companies to voluntarily join, but nothing
24 was successful.

25 Q. Okay.

1 A. And we will continue to try to seek voluntary
2 joinder in the event we get an order here.

3 EXAMINER MORROW: Okay. Thank you, Mr. Bailey.
4 Appreciate your testimony.

5 THE WITNESS: Thank you.

6 MS. TRUJILLO: Mr. Examiner, my second witness is
7 Chris Gholston, a geologist from Bass.

8 CHRIS GHOLSTON,

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

11 DIRECT EXAMINATION

12 BY MS. TRUJILLO:

13 Q. Mr. Gholston, could you state your full name and
14 place of residence, please?

15 A. Chris Gholston, Fort Worth, Texas.

16 Q. By whom are you employed and in what capacity?

17 A. Bass Enterprises Production Company, geologist.

18 Q. Have you previously testified before this
19 Division?

20 A. No, I have not.

21 Q. Could you summarize your educational background
22 and work experience, please?

23 A. I received a BS in geology from the University of
24 Texas in Austin in 1984, a master's in geology from the
25 University of Texas in Austin, 1987.

1 I spent two years with Marathon Oil Company in
2 Houston working offshore Gulf of Mexico, five years with
3 Marathon Oil Company in Midland working the Permian Basin,
4 and I've been recently hired by Bass.

5 Q. Are you familiar with the Application filed in
6 this case?

7 A. Yes, I am.

8 Q. And are you familiar with the subject area?

9 A. Yes, I am.

10 MS. TRUJILLO: Mr. Examiner, are the witness's
11 qualifications acceptable?

12 EXAMINER MORROW: Yes.

13 Q. (By Ms. Trujillo) Mr. Gholston, could you
14 identify and review what has been marked as Bass
15 Enterprises Exhibit Number 7, please?

16 A. Yes, Exhibit 7 is a type log of the Mitchell
17 Apache 13 Federal Number 1 in Section 13, Township 22
18 South, Range 30 East, Eddy County, New Mexico.

19 The type log is marked with the primary
20 objectives of the proposed James Ranch Unit Number 70 well,
21 starting at the deepest reservoir, the lower Morrow "B"
22 sand, the middle Morrow "C" sand, middle Morrow "A" sand
23 and the Atoka sand, all of which are Pennsylvanian in age.

24 Q. Are you prepared to make a recommendation to the
25 Examiner as to the risk penalty that should be assessed

1 against a nonconsenting interest owner?

2 A. Yes, I am: 200 percent or the maximum authorized
3 by the statute.

4 Q. Mr. Gholston, could you identify and review what
5 has been marked as Bass Exhibit Number 8?

6 A. Yes, Exhibit 8 is the Morrow map of the James
7 Ranch unit area.

8 The black contours on the map are a structure map
9 made on top of the lower Morrow. They show a south-
10 southeast-plunging anticlinal nose.

11 The blue contours are the net sand isopach on the
12 middle Morrow "C" sand. They show a narrow linear belt of
13 "C" sand draped over and parallel to the structural nose.

14 The dashed green line is the productive limit of
15 the reservoir.

16 This structural and stratigraphic setting is
17 representative for all the Morrow pay zones in the James
18 Ranch unit area.

19 The red dots represent the middle Morrow "C" sand
20 producers. Other wells in the area have produced from the
21 lower Morrow "B" and middle Morrow "A" sand.

22 Based on this interpretation, the proposed
23 location for the James Ranch unit number 70, shown by the
24 green dot in the south half of Section 12, is both updip
25 and downdip of Morrow production and stratigraphically

1 along trend, showing good Morrow potential.

2 Q. And what does this map tell you about the risks
3 associated with this well?

4 A. If it's okay, I'd like to discuss that after I
5 discuss Exhibit 9.

6 Q. Okay, let's move to Exhibit 9 then. Would you
7 identify that?

8 A. Exhibit 9 is the Atoka map. Again, the black
9 contours are the structure map made on the top of the
10 Atoka, and it shows a very similar south-southeast-plunging
11 anticlinal nose.

12 Again, the blue contours are the net sand isopach
13 of the Atoka sand. They also show a similar-trending sand
14 belt.

15 And also the green dashed line is again the
16 productive limit of the sand.

17 Together with Exhibit 8, these maps show that the
18 structural and depositional settings did not change
19 dramatically from Morrow to Atoka time.

20 Again, the red dots are the Atoka sand producers
21 in the area, and the proposed location, the green dot again
22 is structurally updip and stratigraphically along trend of
23 the sand production in Section 13, which is the type log
24 previously mentioned.

25 This well has not produced very long, but

1 originally flowed 4.3 million cubic feet of gas per day.
2 The other producer to the south in Section 25 flowed at a
3 rate of 2 million cubic feet of gas per day.

4 There are numerous Atoka sand producers just
5 south of where this map ends, so it's clear that there's
6 good Atoka sand potential for the proposed location.

7 Q. Are the risks that you described what leads you
8 to the conclusion that the 200-percent penalty is the
9 correct recommendation?

10 A. Yes, there's minor structural risk. You do need
11 to be on the flank or near the crest of the structural nose
12 to have an economic well.

13 The most significant risk is stratigraphic. You
14 can see these linear sand belts. They're actually shallow
15 marine sandbars. They're very narrow -- maybe a half mile
16 to a mile wide -- and they can certainly be easily missed
17 with a wellbore.

18 So yes, that is why I am recommending the 200-
19 percent penalty or maximum by statute.

20 Q. Do you believe that there's a chance that you
21 could drill a well at the proposed location that would not
22 be a commercial success then?

23 A. Yes.

24 Q. In your opinion, will granting this Application
25 be in the best interest of conservation, the prevention of

1 waste and the protection of correlative rights?

2 A. Yes.

3 Q. Mr. Gholston, have you reviewed Exhibits 7
4 through 9 so that you are able to testify to their
5 accuracy?

6 A. Yes.

7 MS. TRUJILLO: At this time I offer Exhibits 7
8 through 9, and I have no further questions for the witness.

9 EXAMINATION

10 BY EXAMINER MORROW:

11 Q. Is -- Let's see, where is the well that you're
12 drilling out there now? I think you have a well going in
13 this area; is that correct?

14 A. It's to the south of the end of the map there.

15 Q. It's shown on the south part of the map, or is it
16 south of --

17 A. No, it's not. It's south of the limit of this
18 map.

19 Q. Okay. What's the objective for that well? Is it
20 the --

21 A. Same objectives: the Morrow and the Atoka sands.

22 Q. Different structure or maybe a different -- It
23 looks like this one plays out before the end of the map.

24 A. Well, the sand trends come and go. The
25 structural trend is the same.

1 Q. Okay.

2 A. I couldn't say absolutely for sure whether it
3 connects up as the same sand trend or not.

4 Q. And this would be -- let's see, fairly close to
5 the WIPP area. I guess your proposed location here would
6 be --

7 A. We're just outside of that, that dotted line
8 there that runs across the north of Section -- It looks
9 like 18. And then the west side of 18, that is the
10 boundary of the WIPP area.

11 Q. And is there any -- I guess we don't have a rule
12 that requires any standoff from that WIPP area. I know
13 they've got some built-in --

14 A. To the best of my knowledge, our location is in
15 accordance with everything in that area.

16 Q. It would be in the potash area, I guess, wouldn't
17 it?

18 A. No, sir, I -- well --

19 MR. BAILEY: We have a permit to drill the well
20 at this location, so...

21 THE WITNESS: I believe we're outside.

22 MR. CARROLL: Permit from who? The feds?

23 MR. BAILEY: BLM, yeah, if I'm allowed to say
24 that.

25 EXAMINER MORROW: Well, you are as far as I'm

1 concerned; you've been sworn. I'll let you.

2 Okay, well -- so you're -- You don't know if
3 you're in the potash area or not though, or if it's a
4 barren area or what it is?

5 MR. BAILEY: It's an area of limited potential in
6 the potash, as far as we've been told.

7 EXAMINER MORROW: And it will be a vertical well,
8 I assume?

9 MR. BAILEY: Yes, sir.

10 THE WITNESS: Yes.

11 EXAMINER MORROW: And do you know if -- Well, it
12 will be subject to R-111-P, our order that requires --

13 MR. BAILEY: This is in the R-111-P area.

14 EXAMINER MORROW: And you'll set the pipe as is
15 required by --

16 MR. BAILEY: It's pipe test anyway, so...

17 EXAMINER MORROW: Pardon?

18 MR. BAILEY: It's a pipe well. I mean, we have
19 to set an intermediate string, so -- Yes, we will. Yes,
20 sir.

21 EXAMINER MORROW: Well, I think that where you're
22 drilling now is complying, so...

23 Do you have any questions?

24 MR. CARROLL: No.

25 Q. (By Examiner Morrow) Okay, on each map the blue

1 is the --

2 A. The net sand isopach.

3 Q. -- isopach. And the black is the structure?

4 A. Yes, sir.

5 Q. Okay, and I guess the limit in each case is --

6 A. To simply --

7 Q. Structure doesn't have anything much to do with
8 it, apparently?

9 A. No, sir, as long as you're close to that
10 structural nose.

11 EXAMINER MORROW: Okay. Thank you, Mr. Gholston.
12 Appreciate your testimony.

13 MS. TRUJILLO: Nothing further, Mr. Examiner.

14 EXAMINER MORROW: All right, Case 11,022 will be
15 taken under advisement.

16 Oh, wait, back up. I need to hear from --
17 Subtract that.

18 We'll hear from Mr. Lanoue. Go ahead.

19 MR. LANOUE: I have a letter here addressed to
20 Jim Morrow, the Chief Hearing Examiner, Oil Conservation
21 Division, with reference to Case Number 11,022, Docket
22 Number 21-94, Application of Bass Enterprises Production
23 Company for compulsory pooling, Eddy County, New Mexico.

24 Statement of objection from Phillips Petroleum
25 Company:

1 Dear Mr. Morrow:

2 Phillips Petroleum Company ("Phillips") hereby
3 objects to and protests the Application of Bass
4 Enterprises Production Company for the compulsory
5 pooling of Phillips' mineral interests in all
6 formations developed on 320-acre spacing to the base
7 of the Morrow formation in and under the south half of
8 Section 12, Township 22 South, Range 30 East, New
9 Mexico principal meridian, Eddy County, New Mexico.

10 Contrary to statutory requirements, Bass failed
11 to attempt to reach an agreement with Phillips in a
12 timely manner prior to filing its Application for
13 compulsory pooling.

14 Bass first informed Phillips of its desire to
15 drill a Morrow test well in the south half of Section
16 12, Township 22 South, Range 30 East, by a letter
17 dated June 3rd, 1994, from Bass requesting a farmout
18 of Phillips' acreage, hereinafter "Bass farmout
19 request".

20 Upon receipt, Phillips began to process and
21 evaluate the Bass farmout request through its normal
22 procedures, which takes several weeks, since any
23 farmout request must be evaluated by several
24 departments within Phillips. Bass made no further
25 efforts to contact Phillips during June, 1994, in

1 regard to the farmout request.

2 On July 1st, 1994, Phillips received the Bass
3 Application for compulsory pooling.

4 On July 7th, 1994, Phillips received from Bass a
5 proposed operating agreement for the Morrow test well,
6 covering the south half of Section 12, Township 22
7 South, Range 30 East, only as to depths and formations
8 below the top of the Wolfcamp formation.

9 The Bass Application seeks compulsory pooling of
10 all depths, although there is already two producing
11 wells in shallower formations in the proposed
12 proration unit. Therefore, the Bass Application
13 should be denied.

14 In the event the Division grants the Bass
15 Application for compulsory pooling, Phillips requests
16 that no risk factor penalty be assessed against
17 Phillips' interest for the reasons stated above and
18 for the additional reason that there is current
19 production from the Morrow formation in close
20 proximity to the proposed Morrow test well, making it
21 a relatively low-risk development well.

22 In the alternative, Phillips requests a 60-day
23 postponement of this hearing. Phillips is making this
24 request for continuance, not for the purpose of delay
25 but rather so that Phillips may have a fair and

1 that the Bass Application for compulsory pooling is for all
2 depths. I guess I would read that that it's for all depths
3 spaced on 320 --

4 MR. LANOUE: Okay.

5 EXAMINER MORROW: -- and the shallower depths
6 probably would be --

7 MR. LANOUE: Would be excluded from that?

8 EXAMINER MORROW: I would -- That would be my
9 reading of the way the --

10 MR. LANOUE: Okay.

11 EXAMINER MORROW: -- notice was written.

12 MR. LANOUE: Our reading of it was when we
13 received the operating agreement, it was specific as to the
14 depths that were excluded, and when we got the Application
15 it made no reference to any depth limitations.

16 EXAMINER MORROW: Okay. Well, the way the
17 Application is styled and, if an order is issued, the way
18 it would be issued would be that it would be issued for all
19 formations that would be spaced on 320.

20 MR. LANOUE: Okay. So in other words, any 320-
21 acre spacing would not include shallow --

22 EXAMINER MORROW: More than likely wouldn't. I
23 don't know of any above the Wolfcamp.

24 MR. LANOUE: It wouldn't include any 160-acre or
25 40-acre proration units --

1 EXAMINER MORROW: No --

2 MR. LANOUE: -- if they say it's spaced for 320?

3 EXAMINER MORROW: -- that's right.

4 MR. LANOUE: Okay.

5 MR. CARROLL: I've got another question.

6 EXAMINER MORROW: All right, go ahead.

7 MR. CARROLL: Mr. Lanoue, you said it takes
8 Phillips several weeks to evaluate a farmout request?

9 MR. LANOUE: Yes, it does. When I receive it, I
10 get it -- We receive farmout requests constantly. So, you
11 know, we don't want to go in and, just because somebody
12 sends it in today and says that they're going to force-pool
13 us within three weeks -- we --

14 What normally happens is, we'll get like ten or
15 twenty farmout requests in. We have to do those in
16 chronological order to be fair to everybody.

17 So when I get them in, I process them through. I
18 send them to our geologist, he does his work. He sends it
19 to the engineering department, they do their work. We send
20 it down to our Houston partnership operations group, which
21 in this case Bass would be the operator, so then they would
22 need to evaluate it as far as the operating agreement and
23 the terms and everything, if we want to farm it out or if
24 we want to participate. We have two different sets of
25 economics that we run on it.

1 MR. CARROLL: Well, it appears Bass gave you four
2 weeks, and you're saying it takes several. Now, how many
3 weeks is several weeks?

4 MR. LANOUE: Well, what we're saying here is, by
5 the time -- whenever we received the farmout request on
6 June 3rd, we didn't receive any response from them, so we
7 just -- we were processing it.

8 And then all of a sudden in the mail we get a
9 compulsory pooling, if you know what I mean.

10 We aren't -- We didn't put any sense of urgency
11 on this farmout request to move it ahead of other farmout
12 requests, is what I'm saying.

13 MR. CARROLL: I guess my question, what is --

14 MR. LANOUE: "Several weeks" mean?

15 MR. CARROLL: -- "several weeks"? Your normal
16 procedure takes several weeks.

17 MR. LANOUE: Yes, it would take several weeks for
18 us to make a decision --

19 MR. CARROLL: Well, I guess four is several, so
20 what's your definition of "several"?

21 MR. LANOUE: Okay, three, four. Three or four
22 weeks.

23 And that's where we get the decision whether we
24 want to participate or farm out. Then we start our
25 negotiations.

1 MR. CARROLL: Okay.

2 EXAMINER MORROW: Do you all operate wells in the
3 area? You do, don't you?

4 MR. LANOUE: Yes, sir. Yes, we do.

5 EXAMINER MORROW: Well, do the cost and the
6 operating expense appear reasonable to you?

7 MR. LANOUE: We don't have any problem with those
8 overhead rates.

9 Where we had exception was -- Well, we had
10 exception throughout the operating agreement, and they also
11 have a 400-percent nonconsent penalty in the operating
12 agreement, in addition to a lot of other clauses that we
13 disagree with.

14 MR. CARROLL: -- been sworn --

15 MR. LANOUE: No, I haven't been sworn in. I
16 mean, if you want me to.

17 EXAMINER MORROW: All right, we'll ask you --

18 MR. CARROLL: Since you've been testifying, we'd
19 better swear you in.

20 MR. LANOUE: Okay.

21 MR. CARROLL: Do you swear you told the whole
22 truth and nothing but the truth, so help you God?

23 MR. LANOUE: Yes, I do, and have.

24 MR. CARROLL: And will?

25 MR. LANOUE: And will.

1 that's appropriate.

2 EXAMINER MORROW: Fine.

3 MS. TRUJILLO: We did not receive a copy of this
4 letter until just a few minutes ago.

5 EXAMINER MORROW: All right, we'll ask Mr.
6 Bailey --

7 MS. TRUJILLO: Mr. Bailey?

8 EXAMINER MORROW: -- to stand back up.

9 MS. TRUJILLO: Back up here. And I assume the
10 witness is already sworn?

11 EXAMINER MORROW: Yes.

12 MR. BAILEY: Well, the letter states --

13 MS. TRUJILLO: Excuse me.

14 MR. BAILEY: Okay.

15 WAYNE BAILEY,

16 the witness herein, having been previously duly sworn upon
17 his oath, was examined and testified as follows:

18 FURTHER EXAMINATION

19 BY MS. TRUJILLO:

20 Q. Mr. Bailey, did you have a comment on the letter
21 dated July 20th, 1994, to Mr. Jim Morrow from Elizabeth
22 Harris?

23 A. Yes, on page 2, in number C, it states that Bass
24 made no further efforts to contact Phillips during June,
25 1994.

1 But we have a telephone schedule where a Bass
2 representative attempted to contact Mr. Lanoue and did not
3 get a telephone call back.

4 I'd also like to point out --

5 Q. What was the date of that?

6 A. June 22nd.

7 And I'd also like to point out that, as you
8 stated, that item F is mistaken.

9 And also one of the reasons for the urgency in
10 this case is that it's possible that we could be getting
11 drained from either one or both of these two formations, so
12 it was necessary for us to -- We want to drill the well as
13 soon as possible, and that's why we could not continue a
14 long, drawn-out further contact with Phillips.

15 And also, we will continue to talk to Phillips
16 and Mitchell in this regard, and hopefully come to a
17 mutually satisfactory agreement in way of an operating
18 agreement or a farmout, prior to the drilling of the well.

19 And also, I'd like to mention that we were
20 never -- prior to this hearing, we were not advised by
21 Phillips of their position that they stated today.

22 Q. And Mr. Bailey, you request that your Application
23 be taken into advisement today?

24 A. Yes.

25 MS. TRUJILLO: Thank you, nothing further.

FURTHER EXAMINATION

1
2 BY EXAMINER MORROW:

3 Q. Mr. Bailey, some of the times or questions by
4 Phillips in their letter, would those work in -- would
5 there be any way you could work those into your planned
6 drilling schedule, or do you think you'll start this well
7 fairly --

8 A. Are you talking about the 60-day postponement?

9 Q. Yes.

10 A. That would possibly limit our ability to recover
11 the potential reserves that we have under our leases, and
12 we would -- You know, without making a prepared statement,
13 you know, I would say no, that that would not fit into our
14 plans.

15 EXAMINER MORROW: Okay. Do you have anything
16 else?

17 Thank you, sir, appreciate it.

18 MS. TRUJILLO: Thank you.

19 EXAMINER MORROW: Mr. Lanoue, do you have
20 anything more?

21 MR. LANOUE: Just one in regard -- into paragraph
22 C.

23 The phone calls that I had with Bass was not in
24 relation to the farmout; it was in relation to a well that
25 we had drilled in the south half -- or north half of the

1 southwest quarter. They were interested in taking this
2 well over as an injection well for a Delaware well that
3 they have right next door to this well.

4 And those were the only phone calls that I have
5 of them. Nothing was brought up about the farmout request.

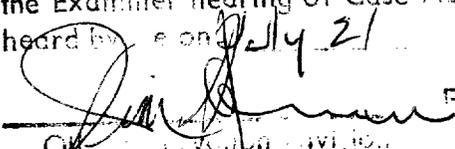
6 EXAMINER MORROW: Thank you, sir.

7 If there's nothing further, then at this time
8 Case 11,022 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at
10 9:00 a.m.)

11 * * *

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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. 11022
heard by me on July 21 1974.

OF THE COURT REPORTING DIVISION

