

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Oryx Energy Case 9781
Company for compulsory
pooling, Eddy County, New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
October 18, 1989

ORIGINAL

A P P E A R A N C E S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

FOR THE APPLICANT: KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
117 N. Guadalupe
Santa Fe, New Mexico 87504
BY: W. THOMAS KELLAHIN, ESQ.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

Page Number

Appearances	2
KEITH NELSON	
Direct Examination by Mr. Kellahin	4
Cross-Examination by Hearing Examiner	16
Cross-Examination Continued by Hearing Examiner	21
DAVID ROJAS	
Direct Examination by Mr. Kellahin	26
Cross-Examination by Hearing Examiner	37
Certificate of Reporter	41

E X H I B I T S

Applicant's Exhibit 1	6
Applicant's Exhibit 2	8
Applicant's Exhibit 3	13
Applicant's Exhibit 4	13
Applicant's Exhibit 5	14
Applicant's Exhibit 6	19
Applicant's Exhibit 7	32
Applicant's Exhibit 8	34

1 HEARING EXAMINER: I'll call next case, No.
2 9781, which is the application of Oryx Energy Company
3 for compulsory pooling, Eddy County, New Mexico.

4 At this time I'll call for appearances.

5 MR. KELLAHIN: Mr. Examiner, my name is Tom
6 Kellahin of the Santa Fe law firm of Kellahin,
7 Kellahin & Aubrey. I'm appearing on behalf of the
8 applicant, and I have two witnesses to be sworn.

9 HEARING EXAMINER: Are there any other
10 appearances in this matter?

11 Will the witnesses please stand and be
12 sworn.

13 (Witnesses sworn.)

14 HEARING EXAMINER: You may be seated.
15 Mr. Kellahin?

16 MR. KELLAHIN: Thank you, Mr. Examiner.

17 KEITH NELSON,
18 the witness herein, after having been first duly sworn
19 upon his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Nelson, for the record, would you
23 please state your name and occupation.

24 A. My name is Keith Nelson. I'm a petroleum
25 landman.

1 Q. Mr. Nelson, on prior occasions have you
2 testified before the Division as a petroleum landman?

3 A. No, I have not.

4 Q. Would you take a moment and summarize for
5 the examiner your educational and employment
6 experience?

7 A. Yes. I am a graduate of Kansas State
8 University in the year of 1977 with a B.S. Degree in
9 Business Administration.

10 I have worked at Amoco Production Company
11 as a landman from 1980 to 1982, have been employed by
12 Oryx Energy Company and their successor-named Sun
13 Exploration Production Company since 1982 as a
14 petroleum landman.

15 In the approximately last year-and-a-half,
16 I've worked as a petroleum landman for Oryx Energy
17 Company in southeast New Mexico.

18 Q. When did you first become involved on
19 behalf of your company in an effort to consolidate the
20 acreage in Section 16 of 18 South, 27 East, in order
21 to form a spacing unit on a voluntary basis for the
22 drilling of the subject well?

23 A. Our initial efforts began in February of
24 1989.

25 Q. And that's when your efforts first began?

1 A. Yes.

2 Q. Subsequent to that time then, have you made
3 yourself familiar with the ownership involved in the
4 section as well as your direct involvement in trying
5 to consolidate on a voluntary basis that working
6 interest ownership?

7 A. Yes.

8 MR. KELLAHIN: At this time, Mr. Examiner,
9 we tender Mr. Nelson as an expert petroleum landman.

10 HEARING EXAMINER: Mr. Nelson is so
11 qualified.

12 Q. (BY MR. KELLAHIN) Mr. Nelson, let me
13 direct your attention, sir, to what is marked as
14 Exhibit No. 1, and would you take a moment and
15 identify that display for us?

16 A. Yes. It is a plat showing about a
17 nine-section area in Township 18 South, Range 27 East,
18 in Eddy County, New Mexico.

19 Q. The proposed well location is shown in
20 Section 16 is on the display?

21 A. Yes, being the east half of Section 16.

22 Q. How does Oryx identify that prospect or
23 that well?

24 A. We're calling the well the Scoggin Draw
25 State C No. 1.

1 Q. The proposed location is as identified on
2 the display, being in the northwest of the southeast
3 quarter?

4 A. Yes.

5 Q. What is your understanding of the
6 potentially productive formations that you're seeking
7 to penetrate with the well at this location?

8 A. The formations would be from below the top
9 of the Wolfcamp down through the Morrow formation.

10 Q. In order to consolidate the acreage for a
11 spacing unit for a well on gas spacing below the top
12 of the Wolfcamp to the base of the Pennsylvanian, Mr.
13 Nelson, what is your understanding of the acreage
14 required?

15 A. My understanding, it would be a 320-acre
16 spacing unit.

17 Q. You would propose to utilize the east half
18 of Section 16 for the spacing unit?

19 A. Yes.

20 Q. Would you use this display and summarize
21 for the examiner the various working interest
22 ownership within the east half of the section?

23 A. Yes. Starting in the west half, northeast
24 of Section 16, color-coded by the blue slash, is an
25 80-acre tract owned by Exxon Company USA. It

1 represents a 25 percent working interest in the unit.

2 Moving down to the red-slashed area which
3 encompasses the northwest quarter of the southeast
4 quarter and the south half of the southeast quarter,
5 it's a 120-acre tract owned by Chevron Company,
6 representing a 37-1/2 percent working interest in our
7 proposed unit.

8 Outlined in the yellow, an 80-acre tract
9 described as the southeast northeast and also the
10 northeast southeast is identified as being owned by
11 Oryx Company. We have obtained the rights to this
12 tract through a farm-in with Amoco Production
13 Company.

14 And the last tract being a 40-acre tract in
15 the northeast northeast of Section 16, owned by the
16 Schneider family, representing a 12-1/2 percent
17 working interest.

18 Q. Mr. Nelson, let me show you what is marked
19 as Exhibit No. 2. Does that exhibit represent a
20 summary of your efforts to obtain voluntary
21 participation in the spacing unit?

22 A. Yes, it does.

23 Q. Without reading all the details of the
24 summary, would you simply indicate to us when you
25 first made contact with the other working interest

1 owners in the spacing unit about their possible
2 participation in the well?

3 A. Yes. I started my efforts approximately
4 February 20th of 1989 by proposing to the working
5 interest owners that they farm out to Oryx, allowing
6 us to drill a Morrow test and earn their interest by
7 commercial production. It took the company several
8 months to evaluate our proposal. Exxon declined our
9 proposal approximately a month later.

10 We were in an evaluation stage until
11 approximately July of 1989. And therein, at that
12 time, Oryx and Amoco agreed to farm-out terms, whereby
13 Amoco would allow us to earn their interest by
14 drilling a commercial well, including their interest
15 in a unit for the well.

16 Q. When we look at Exhibit No. 1 then, am I
17 correct in understanding that the area outlined in the
18 yellow outline now includes the Amoco farm-out
19 interest?

20 A. Yes.

21 Q. What, as of the date of the hearing today,
22 is the status with regards to Exxon's participation in
23 the well?

24 A. Exxon has responded to our proposals with
25 their desire to not participate or not to farm out,

1 but to elect a nonconsent provision, either dictated
2 through the spacing order or voluntarily agreed to
3 under a joint operating agreement.

4 Q. As of the date of the hearing then, you're
5 seeking to pool the Exxon interest in an appropriate
6 entered forced-pooling order in this case?

7 A. Yes.

8 Q. With regards to the Schneider interest in
9 the northeast of the northeast of the section, what is
10 the current status of your efforts to get their
11 participation in the well as of today?

12 A. The Schneiders are an interesting tract,
13 and I'd like to elaborate briefly on that.

14 Amoco Production Company owns the northeast
15 northeast of Section 16 down to the top of the
16 Wolfcamp, and the Schneiders own from the top of the
17 Wolfcamp down through our objective depth.

18 Our initial record checks and also Amoco
19 themselves were claiming this interest until
20 approximately July of this summer, at which time both
21 Amoco and Oryx, by doing further record checks,
22 determined that Amoco only owns the shallow rights in
23 that tract, and the Schneider family indeed owned the
24 rights to the formation we were wishing to test.

25 Q. Having determined the ownership interest of

1 the Schneider family in the deep gas rights in that
2 particular area, have you subsequently been in contact
3 with their various representatives?

4 A. Yes, we have.

5 Q. What is the current status of your efforts
6 to get their commitment to the well?

7 A. The Schneider family is very much
8 interested in seeing a test drilled. They do not
9 desire to participate nor go nonconsent. I believe
10 we're very close.

11 They have indicated by the 20th of this
12 month, they would come to an agreement with us
13 concerning farm-out terms, very similar to what Amoco
14 has received.

15 Q. Let me direct your attention now to the
16 Chevron interest in section. What is the current
17 status of your efforts to get Chevron committed to the
18 well?

19 A. Chevron has been evaluating our proposal
20 for most of the time that I've detailed the efforts on
21 Exhibit No. 2.

22 On the 13th of October, we received a
23 telecopy from Chevron, offering farm-out terms,
24 whereby they chose not to participate or go
25 nonconsent, but offered to farm out their interest to

1 us instead of participating or going nonconsent.

2 Q. As of today then, is it my understanding
3 that you desire to have the Chevron interest subject
4 to a pooling order entered in this case?

5 A. Yes.

6 Q. Identify for us when you first submitted
7 the AFE for the drilling of this well to the other
8 working interest owners.

9 A. The other owners received our AFE, I
10 believe, on or about August 11.

11 Q. Have you received any objection from any
12 working interest owners to the itemized AFE that you
13 submitted to them?

14 A. No.

15 Q. Have you received any objection from any
16 party to having Oryx Energy Company be the operator of
17 the well?

18 A. No.

19 Q. Have you had any objection from any of the
20 parties as to the well location or the orientation of
21 the spacing unit for the well?

22 A. No.

23 Q. I show you what is marked as Exhibit No. 3,
24 Mr. Nelson, and ask you to identify the package of
25 correspondence and letters that's shown as Exhibit No.

1 3.

2 A. Yes. Exhibit No. 3 details letters from
3 myself and from Perry & Perry, an independent landman
4 hired on a contract basis to assist us in completing
5 this project.

6 It describes various letters to the working
7 interest owners, offering them various options, and
8 asking that they make some election towards our
9 proposal to drill this test well.

10 Q. Apart from the telephone calls and oral
11 communications with the various working interest
12 owners, identify for us what piece of correspondence
13 represents the first written proposal by Oryx to the
14 various working interest owners for the well.

15 A. The first correspondence is dated February
16 20, 1989, initially proposing that the parties farm
17 out to Oryx for drilling this test well.

18 Q. Have you had any party indicate to you that
19 they had any objection to the AFE that's represented
20 on Exhibit No. 4, which I now show you?

21 A. No, we have not.

22 Q. And this is the AFE that you submitted to
23 them by letter of August 11, 1989?

24 A. Yes.

25 Q. To the best of your knowledge, Mr. Nelson,

1 do the AFE costs shown on that Exhibit No. 4 still
2 represent the estimate of current costs for the well?

3 A. Yes, they do.

4 Q. I direct your attention to Exhibit No. 5 at
5 this time, Mr. Nelson. Would you identify this
6 exhibit for us?

7 A. Yes. It's an A.A.P.L. Form 610, 1982,
8 Model Form Operating Agreement, the form of which we
9 propose to use should any party wish to join us in
10 drilling the test well.

11 Q. With regards to the overhead rates that are
12 set forth in the joint operating agreement, would you
13 identify for the examiner and the copies you attached
14 to that agreement what overhead rates you propose to
15 utilize?

16 A. Yes. On page 4 of the COPAS overhead
17 rates, which are towards the back of the agreement, we
18 propose the drilling well rate of \$5,800 and a
19 producing well rate of \$580.

20 Q. Let me show you what is a copy of the Ernst
21 & Whinney 1988 survey results of average well costs
22 for drilling well rates and producing well rates for
23 southeastern New Mexico, and ask you, Mr. Nelson, have
24 you had an opportunity to find on that survey the
25 average well costs, operating charges, for the depth

1 involved for your well?

2 A. Yes, I have.

3 Q. What does the Ernst & Whinney 1988 survey
4 show to be the average rates?

5 A. The average rates quoted on the Ernst &
6 Whinney survey results indicate \$4,940 for the
7 drilling well rate and \$524 for a producing well rate.

8 Q. And the rates that you had proposed in your
9 joint operating agreement were what, again, sir?

10 A. \$5,800 for a drilling well rate, and \$580
11 for a producing well rate.

12 Q. What is the basis for your recommendation
13 to the examiner that he utilize, for purposes of this
14 pooling order, a rate that's higher than the Ernst &
15 Whinney averages?

16 A. Our rates are based on our historical
17 overhead cost of doing business. The rates I am
18 proposing are rates we do use and are derived from our
19 internal calculations based on our historic cost of
20 conducting our business.

21 Q. Can you identify for us any recently
22 approved joint operating agreement that has the
23 proposed rates that you're recommending to the
24 examiner that has been agreed to by any other working
25 interest owner?

1 A. I do have an operating agreement that was
2 used by our company approximately two years ago to
3 drill a well in this general vicinity, which have
4 rates in that agreement that are very similar, very
5 comparable to the rates that we're proposing to use
6 for this well.

7 Q. Have you had any disagreement or objection
8 from any of the proposed working interest owners to
9 the overhead rates that you're recommending to the
10 examiner in this case?

11 A. No.

12 MR. KELLAHIN: That completes my direct
13 examination of Mr. Nelson, Mr. Examiner.

14 We would at this time move the introduction
15 of Exhibits 1 through 5.

16 HEARING EXAMINER: Exhibits 1 through 5
17 will be admitted into evidence.

18 CROSS-EXAMINATION

19 BY HEARING OFFICER:

20 Q. Mr. Nelson, I see it wasn't until October
21 4, 1989, that the Schneider family was actually
22 contacted. Am I getting that right?

23 A. Yes, that's correct.

24 Q. When did they receive a copy of, or did you
25 submit to them a copy of the operating agreement?

1 A. No, I did not. In fact, none of the
2 parties have received a Model Form Operating
3 Agreement.

4 Q. Your testimony about the overhead charges,
5 you said nobody has objected to them. Where would
6 they have known about the overhead charges that you
7 were planning on requesting?

8 A. They would have inquired or would have had
9 to inquire about what rates we were using. I feel
10 that our rates are very comparable to those used by
11 Exxon, Amoco, and Chevron. We conduct business with
12 these companies on a regular basis, and the rates are
13 very comparable to what they use, and I think they
14 assumed that those rates would apply in this case
15 also.

16 Q. Have they inquired about this particular
17 well, what the overhead charges were?

18 A. No.

19 Q. How about the Schneider family, have they
20 inquired yet?

21 A. No.

22 Q. Just for the record, too, I see, while
23 preparing the advertisement, that the Empire Abo Unit
24 is in this general area; is that correct? Are you
25 familiar with the Empire Abo Unit?

1 A. A little bit, yes.

2 Q. When you say "a little bit," tell me what
3 you do know about it. I just want to make sure that
4 we do have this on the record.

5 A. I'd like to find my plat.

6 (Witness referred to document.)

7 Yes. It appears that if the outline of the
8 Empire Abo Unit is correct on my map that I'm looking
9 at, it appears that the entire east half of Section
10 16, except for the southeast southeast quarter, falls
11 within the Empire Abo Unit.

12 Q. Do you know what the parameters in the
13 Empire Abo Unit are? Do they just include one
14 particular producing formation?

15 A. I believe they do, and I think I can maybe
16 quote those depths that the unit encompasses.

17 Q. Or do you know the formation, by chance, if
18 it's just the Abo?

19 A. I believe it's just the Abo, occurring from
20 approximately 5325 feet down to 6533 feet.

21 Q. This is well above the vertical limits
22 which you are requesting today in this particular
23 compulsory pooling case?

24 A. Yes.

25 Q. So the Empire Abo Unit would not be

1 affected at all?

2 A. Not at all.

3 HEARING EXAMINER: Are there any other
4 questions of this witness?

5 MR. KELLAHIN: There may be one, Mr.
6 Examiner. Let me get my Certificate of Notification
7 of Hearing. And if that results in any additional
8 questions for Mr. Nelson, he's available to answer
9 those.

10 If I might take a moment.

11 HEARING EXAMINER: Please.

12 MR. KELLAHIN: Mr. Examiner, our proposed
13 Exhibit No. 6 is my Certificate of Mailing, which
14 indicates I have taken from the application for
15 hearing filed with this office on September 25 and
16 have by certified mail submitted that to Exxon,
17 Chevron, and Schneider, et al.

18 As of the 25th of September, to the best of
19 my knowledge, I have received no objections or
20 inquiries from those parties about their opposition to
21 the case. The information derived by which the
22 notices were sent was from Mr. Nelson.

23 HEARING EXAMINER: Maybe I'm still a little
24 confused here about the Schneiders. On September 25,
25 this Exhibit No. 6, this is the document that was sent

1 to Mr. Joseph F. Schneider?

2 MR. KELLAHIN: That was the address I had
3 as a possible interested party that had acreage in the
4 spacing unit, and I was advised to provide them with
5 notification of the hearing that we have today.

6 HEARING EXAMINER: How many Schneider
7 interests are there?

8 MR. KELLAHIN: And that's the reason I had
9 Mr. Nelson remain on the stand, Mr. Examiner, because
10 I cannot tell you, and perhaps Mr. Nelson can identify
11 with particularity the various Schneider individuals.

12 This is the only address I had available
13 for notification.

14 HEARING EXAMINER: Mr. Nelson, do you want
15 to respond, please.

16 THE WITNESS: Yes. There are three
17 Schneider family members that each own an undivided
18 third interest in the 40-acre tract, being the
19 Northeast Northeast of Section 16. A Mr. Joseph P.
20 Schneider, who now resides in Pebble Beach,
21 California, a Mrs. Esther Schneider Dedingler, who
22 lives in Torrance, California, and a Miss Veronica
23 Schneider, who resides in El Paso, Texas.

24 HEARING EXAMINER: Are you aware, either
25 one of you, if Joseph Schneider actually received the

1 notification of this particular hearing on your
2 September 25th docket, Mr. Kellahin or Mr. Nelson?

3 MR. KELLAHIN: The return receipt card has
4 not come back to us, Mr. Examiner; so I don't have
5 documentation that he actually received notice.

6 If the examiner feels it appropriate, we'll
7 attempt to notify again Mr. Schneider, as well as
8 Esther and Veronica Schneider, whose names and
9 addresses have surfaced since this September
10 notification.

11 CROSS-EXAMINATION

12 -Continued-

13 BY HEARING EXAMINER:

14 Q. Have you actually been in contact with any
15 of the three Schneiders, either by telephone --

16 A. Yes.

17 Q. You have? So you've actually talked to Mr.
18 Joseph Schneider?

19 A. Yes.

20 Q. In your conversations with him, did you
21 discuss this hearing with him?

22 A. Yes.

23 Q. When were those conversations?

24 A. They took part several times from the date
25 of October 5th, when we were first able to locate the

1 family. They were conducted by both myself and Mr.
2 Wes Perry, who helped us in locating the Schneider
3 family.

4 Q. And in your letter of October 13, at least
5 Mr. Joseph Schneider, and you sent a carbon copy to
6 Esther and Veronica, I believe -- that's the
7 Schneiders which you referred to earlier that had
8 interests?

9 A. Yes.

10 Q. In there, you mentioned the October 18
11 hearing; is that correct?

12 A. Yes.

13 Q. I assume this was a follow-up letter of
14 your telephone conversation?

15 A. Yes.

16 Q. But they have not signed to date?

17 A. No.

18 Q. Were those letters that you sent out
19 October 13, were those return receipt requested, by
20 chance?

21 A. It doesn't indicate that they were on the
22 letter. The addresses for all three Schneiders were
23 provided to us by the Schneider family. We found --
24 located Veronica Schneider in El Paso, and she was
25 able to put us in touch with Joseph and Esther and

1 gave us their current addresses and just a brief
2 outline of our talks.

3 They're very interested in seeing
4 activity. They're not interested in participating.
5 They are not in the oil business, nor are they
6 interested in going under a nonconsent where they
7 would not receive any royalty until a payout, we got
8 our cost back plus 200. We are negotiating to give
9 them an override in the well so they could receive
10 revenue from initial production, if we find.

11 HEARING EXAMINER: Mr. Kellahin, I'm in
12 somewhat of a quandary here. It doesn't appear the
13 Schneiders interest after they had been discovered,
14 and there's really no due notification which has been
15 followed according to Rule 1207 of the New Mexico Oil
16 Conservation Division.

17 MR. KELLAHIN: I would agree.

18 HEARING EXAMINER: How would you propose we
19 might handle this?

20 MR. KELLAHIN: Let's let Mr. Nelson make a
21 choice. I think there are two choices. One is to
22 continue the case until the full notice period expires
23 until the notification of all three Schneiders, or
24 give him the opportunity to delete them from the
25 effect of the pooling order at this time in

1 expectation that he can reach a voluntary agreement
2 with them.

3 In the absence of a voluntary agreement, he
4 would have to come in, reopen the case, and add those
5 parties at a later date.

6 I think either one of those choices is
7 appropriate, and he may simply choose, if you'd like
8 to take a moment.

9 Do you want to talk to the other
10 representatives?

11 THE WITNESS: Yes, I would.

12 MR. KELLAHIN: May we take a moment and see
13 how to resolve this? I think that's the easiest thing
14 to do.

15 HEARING EXAMINER: Before we do, let's keep
16 this in mind. Either way, it might be beneficial to
17 continue this case to the 11-15-89 hearing. In case
18 there is an agreement reached, they can be dismissed
19 at that time.

20 I just thought I'd throw that out, but I'll
21 let you discuss that, and if you'd like, we'll take a
22 five-minute recess.

23 MR. KELLAHIN: Thank you, Mr. Examiner.

24 HEARING EXAMINER: Let's take a five-minute
25 recess.

1 (Thereupon, a recess was taken.)

2 HEARING EXAMINER: This hearing will come
3 to order.

4 Mr. Kellahin?

5 MR. KELLAHIN: Mr. Examiner, during the
6 break, we have discussed the options with
7 representatives of Oryx Energy Company, and we propose
8 on the record, Mr. Examiner, that we complete the case
9 today, but that we will specifically delete from the
10 force and effect of this pooling order the interests
11 of Joseph P. Schneider, Esther Schneider, and Veronica
12 Schneider.

13 In the absence of getting agreement
14 subsequent to the order from those individuals, then
15 we'll seek to-reopen the case and proceed with the
16 pooling of their interests.

17 But we would like to acknowledge on the
18 record that we intend to delete for purposes of this
19 order their 12-1/2 percent interest.

20 HEARING EXAMINER: Thank you, Mr.
21 Kellahin. The record will show, and you may continue.

22 MR. KELLAHIN: Thank you. That completes
23 my examination of Mr. Nelson.

24 We would at this time call Mr. David
25 Rojas. Mr. Rojas is a petroleum geologist with Oryx

1 Energy Company, Mr. Stogner.

2 DAVID ROJAS,

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

5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q. Mr. Rojas, for the record, have you on
8 prior occasions testified before the Division as a
9 petroleum geologist?

10 A. Yes, I have.

11 Q. Pursuant to your employment by your
12 company, have you made an investigation of the geology
13 with regards to this Scoggins Draw C No. 1 Well?

14 A. Yes, I have.

15 MR. KELLAHIN: We tender at this time Mr.
16 Rojas as an expert petroleum geologist.

17 HEARING EXAMINER: Mr. Rojas is so
18 qualified.

19 Q. (BY MR. KELLAHIN) Mr. Rojas, let's go back
20 to Exhibit No. 1. Do you have that before you, sir?

21 A. I do.

22 Q. Mr. Nelson used this to identify the
23 working interest owners within the spacing unit, but I
24 notice on that display there are some contour lines
25 that appear to be on the structure of some

1 formations. Is that true?

2 A. Yes. They are on top of the lower Morrow
3 formation.

4 Q. Are these structural contour lines that you
5 have interpreted from available geologic information?

6 A. Yes, they are.

7 Q. Is this a prospect that you have developed
8 with regards to locating and potentially producing
9 from various deep gas formations?

10 A. Yes. Mainly from the Morrow formation,
11 yes.

12 Q. When did you first start working on this
13 project as a geologist?

14 A. I began working on this prospect about one
15 year ago.

16 Q. Would you identify for us what in your
17 opinion are the likely producing formations below the
18 top of the Wolfcamp at this location?

19 A. Within this township and range, being
20 Township 18 South, Range 27 East, formations below the
21 Wolfcamp and above the Mississippian, of those
22 formations, the only producing horizons are the Atoka,
23 the Strawn, and the Morrow. Only marginal wells have
24 been completed in this township and range in the Atoka
25 and the Strawn. Therefore, the primary target is the

1 Morrow formation.

2 Q. Have you studied the available information
3 in order to reach a geologic conclusion about the risk
4 factor penalty to recommend to the hearing examiner
5 for entry in this forced pooling case?

6 A. Yes, I have.

7 Q. Have you satisfied yourself that there is
8 sufficient information from which you can reach a
9 geologic opinion on the risk factor?

10 A. Yes, I have.

11 Q. Have you reached such an opinion?

12 A. Yes.

13 Q. What is that opinion?

14 A. My opinion is that the risk factor in this
15 township and range for drilling a Morrow well and
16 completing it is a sufficient amount to require a 200
17 percent penalty.

18 Q. Would you give us a brief summary of the
19 major reasons that caused you to reach that opinion?

20 A. Okay. The deposition of the Morrow in the
21 area, there are northwest southeast orientations of
22 the channels within which the sands were deposited
23 throughout the Morrow time, and these channel
24 developments were very discontinuous in nature.

25 Therefore, the sand developments are more

1 in pods or lenses. This discontinuity lends itself to
2 causing almost any well drilled for the Morrow
3 formation as being a wildcat well.

4 Q. Let's find your proposed location in
5 Section 16 and then show us how to find on Exhibit No.
6 1 the closest Morrow-producing gas well.

7 A. The closest, currently producing Morrow gas
8 well is located in the southeast quarter of the
9 southwest quarter of Section 15. This well is to the
10 east of the proposed location.

11 There is another well which previously
12 produced from the Morrow to the west of the proposed
13 location, located in Section 17, as seen on this
14 exhibit. This well cumulatively produced only 1.4 Bcf
15 of gas from the Morrow formation.

16 Q. When you look up in the northwest to the
17 northwest of 15 on the display --

18 A. Yes.

19 Q. -- there is a black dot and the number 1?

20 A. Yes.

21 Q. What does that represent, Mr. Rojas?

22 A. This represents a well which was drilled in
23 an attempt to produce from the Morrow. It was
24 unsuccessful. The well was recompleted or was
25 completed initially in the Abo and currently produces

1 from that formation.

2 Q. When we look at the structural relationship
3 of the well in the southwest corner of Section 15,
4 follow your contour lines and move upstructure in
5 Section 21, which is to the south of your location --

6 A. Yes.

7 Q. -- there is a well symbol at that point, is
8 there not?

9 A. There is.

10 Q. What is that well?

11 A. This well, I believe you're speaking of the
12 well in the northwest quarter of the northeast quarter
13 of Section 21. This is a dry hole that was drilled
14 back in 1984. This well also was an attempt to make a
15 Morrow completion.

16 The well, which is represented on a
17 cross-section which I will use as an exhibit here in a
18 moment, this well did encounter the Morrow sands.
19 However, they were found to be nonproductive.

20 Q. Am I correct in understanding your display
21 that the closest Morrow penetration to your proposed
22 location is, in fact, a dry hole?

23 A. Yes.

24 Q. And that the closest, nearest producing
25 Morrow well is in Section 15 in the southwest quarter,

1 and that is three-quarters to a mile away from your
2 location?

3 A. It is.

4 Q. Describe for us the type of producing gas
5 well that is in Section 15, in terms of whether it's
6 successful, commercial, whatever criteria you use to
7 judge a commercial well by.

8 A. This well was drilled back in 1988 by Oryx
9 Energy, and the well is currently producing two
10 barrels of condensate a day and 798 Mmcf. The well
11 has cumulatively produced 1.6 Bcf, and 751,000 barrels
12 of oil or barrels of condensate -- excuse me. I said
13 those in reverse order.

14 It has produced -- one moment. Let me
15 review what I just said. It has cumulatively produced
16 798 barrels of condensate and 751,000 Mcf.

17 Q. Is that the best producing Morrow gas well
18 that is shown on this display?

19 A. Let me review. No. The well just south of
20 that well in Section 22, being in the southeast
21 quarter of the northwest quarter of that section was
22 also drilled by Oryx, and that well has cumulatively
23 produced 1.7 thousand barrels of condensate and 944
24 Mmcf.

25 Q. So am I correct in understanding that as we

1 move to the west from both of those wells, we're
2 moving into an area that's more speculative with
3 regards to the production of gas from the Morrow
4 formation?

5 A. Yes.

6 Q. And, in fact, as we move to the west, we
7 are likely to encounter wells that either are dry
8 holes or are not commercial?

9 A. That is very possible.

10 Q. Let's go to Exhibit No. 7, Mr. Rojas, and
11 have you identify and describe your cross-section.

12 A. This is a stratigraphic cross-section with
13 a datum on the Chester formation. It delineates the
14 sand body developments within the middle and lower
15 Morrow wells around the proposed location. Those sand
16 body developments are indicated on the cross-section
17 in yellow.

18 The section serves to indicate the lack of
19 continuous sand developments in the area and the fact
20 that not only do you have to worry about the presence
21 of the sand, but you have to worry about the presence
22 of productive sand. This being represented by the dry
23 hole in the middle of the cross-section, being the
24 Yates Petroleum Rio Pecos RS Federal No. 1 Well,
25 which, as I had previously testified, was a dry hole

1 but then encountered the sands in the Morrow.

2 However, due to there being overbank deposits, they
3 are nonproductive.

4 Q. On the display, you have identified various
5 stringers or zones within the Morrow and have shaded
6 them in the orange or yellow shading?

7 A. Yes.

8 Q. What does that tell you? What is that
9 shading for?

10 A. Those are the sand body developments.

11 Q. That represents the sand in the formation?

12 A. Yes, sir.

13 Q. What is shown by the red dot on the Oryx
14 Scoggins Draw Federal Comm No. 1 well log?

15 A. All of the red marks you see on this
16 cross-section represent the perforated intervals of
17 each of the wells.

18 Q. By what criteria have you judged and
19 identified the formation sand as colored on the
20 display in yellow?

21 A. Using my knowledge of the log responses,
22 these logs are all, with the exception of the far left
23 log, are neutron density logs, and you can tell by
24 interpreting those logs the presence or absence of
25 sand.

1 In addition, I believe at least two of the
2 wells have got what is called the P.E. curve,
3 photoelectric curve, on the log, and this serves to
4 delineate the presence of sand from limestone.

5 Q. In looking at the cross-sectional
6 stratigraphic display of the well log information, is
7 it correct to understand this display to show you that
8 as you move from east to west, the Morrow formation
9 becomes more heterogeneous, discontinuous, and ratty,
10 as we go to the west?

11 A. Yes.

12 Q. Is that part of the formation of your
13 opinion that the risk factor penalty of 200 percent is
14 appropriate?

15 A. It is.

16 Q. Let's go now, sir, to Exhibit No. 8. Did
17 you prepare this display as well?

18 A. Yes, I did.

19 Q. Identify and describe this for us.

20 A. Okay. This is a pie chart which shows the
21 risk involved in drilling a Morrow well in the
22 vicinity of the proposed location. It incorporates
23 all of the wells drilled that penetrated the Morrow
24 formation within Township 18 South, 27 East. It shows
25 --

1 Q. How many wells are inventoried in the
2 analysis?

3 A. There are 41 penetrations, and all 41 of
4 these wells were used in the analysis.

5 Q. Describe for us on the pie chart how you
6 have defined marginal, economic, and then the other
7 items within that chart.

8 A. Okay. I used a cutoff of 1 Bcf of gas as
9 an ultimate recoverable amount, calculated ultimate
10 recoverable amount for a cutoff to discern the
11 economic wells from the marginal wells.

12 These are common guidelines used by Oryx
13 Energy for a well of this depth.

14 The other two categories represented on the
15 Pie chart are the drilled and abandoned, or D and A,
16 or Other. This category represents wells that were
17 drilled, penetrated the Morrow, were either abandoned
18 upon the completion of drilling them, or they were
19 completed in horizons other than the Morrow.

20 The other slice of the pie denoted as
21 recent completion involves two wells which were
22 recently drilled in this township and range that have
23 not got sufficient production to allow me to calculate
24 whether or not they will be economic or marginal.

25 Q. When you look at the 46 percent of the

1 wells within the area that were drilled and abandoned
2 in the Morrow formation, did that include wells that
3 penetrated the Morrow formation, could not be produced
4 in the Morrow, and then were completed in some other
5 formation?

6 A. This is correct.

7 Q. And 46 percent of them were unsuccessful in
8 that formation?

9 A. That's correct.

10 Q. How do you judge a marginal well, the 22
11 percent?

12 A. These marginal wells are wells which did
13 derive a completion within the Morrow, but, however,
14 do not calculate out to have ultimate recoveries of
15 over a Bcf of gas.

16 I have gone through this chart and reworked
17 it to use a smaller amount of ultimate recoverable
18 reserves to further identify the fact that the
19 possibility of deriving an economic Morrow well in
20 this township and range is still a very high risk
21 well.

22 By using an ultimate recoverable cutoff of
23 500 Mmcf, instead of 1 Bcf, and even using this
24 cutoff, the economic category on the pie chart would
25 read 34.2 percent instead of 26.8. Therefore, you

1 still would have only a third, or approximately 33
2 percent chance of deriving an economic Morrow well
3 even using a cutoff of 500 Mmcf.

4 Q. What is then your ultimate conclusion, Mr.
5 Rojas, with regards to your recommendation of a risk
6 factor penalty to be assessed in this pooling case
7 against any nonconsenting working interest owners?

8 A. My conclusion is that, in my opinion, the
9 risk factor involved in arriving with a successful
10 Morrow completion is extremely high, and, therefore,
11 does justify the 200 percent penalty requested in this
12 case.

13 MR. KELLAHIN: Mr. Examiner, that concludes
14 my examination of Mr. Rojas.

15 We would move the introduction of his
16 exhibits. I believe they are 7 and 8.

17 HEARING EXAMINER: Yes. Exhibit 7 and 8
18 will be admitted into evidence.

19 CROSS-EXAMINATION

20 BY HEARING EXAMINER:

21 Q. Mr. Rojas, we're talking about forced
22 pooling all formations down from the Wolfcamp to the
23 base of the Morrow?

24 A. That's correct.

25 Q. Are there any Wolfcamp pools, or what is

1 the nearest Wolfcamp producer to this well, do you
2 know?

3 A. There is no Wolfcamp producer in this
4 township and range, sir.

5 Q. Let's look at the Upper Pennsylvanian
6 formation in this area. Are there any producing wells
7 or pools within, say, above the Strawn?

8 A. Above the Strawn? No, sir. The Strawn is
9 the only one. There were three completions in this
10 township and range that did complete in the Strawn,
11 and, in fact, two of those completions are represented
12 on Exhibit No. 1.

13 I direct your attention to Section 11 in
14 the southwest quarter of the southwest quarter. This
15 well was completed in the Strawn in 1984, cumulatively
16 produced only 6 Mmcf and was abandoned.

17 The other Strawn well is in Section 21,
18 close to the dry hole that I previously was
19 discussing. This well was drilled back in 1977 and
20 was unsuccessful in the Morrow and had to complete in
21 the Strawn formation and only cumulatively produced 27
22 Mmcf of gas.

23 Q. How far is that well away?

24 A. The exact footage I am uncertain of, but I
25 would say it's approximately three-quarters of a mile

1 south of the proposed location.

2 Q. Where is that well again? I guess I'm
3 missing it. I thought you said Section 11, or did you
4 move on to another one?

5 A. I moved on to another one. I'm sorry.

6 Q. You're talking about the well in the
7 southeast of the northeast of 21?

8 A. That is correct.

9 Q. How about the Atoka?

10 A. There are two wells which did complete in
11 the Atoka. One of them currently does produce. Both
12 of these wells are located to the north of this mapped
13 area that I have shown you. They are in Sections 3
14 and 9 of this township and range.

15 The well in Section 3 only cumulatively
16 produced 7 Mmcf of gas, and the well in Section 9,
17 which completed in the Atoka, is still producing and
18 has only produced a cumulative production of 96 Mmcf.

19 Q. But there are no other Atokas to the south
20 of this proposed well?

21 A. No, sir.

22 HEARING EXAMINER: I have no other
23 questions of Mr. Rojas.

24 Are there any other questions of this
25 witness?

1 MR. KELLAHIN: No, Mr. Examiner.

2 HEARING EXAMINER: You may be excused.

3 Is there anything further in case 9781?

4 MR. KELLAHIN: That completes our
5 presentation.

6 HEARING EXAMINER: Mr. Kellahin, before I
7 take this case under advisement today, in hopes my
8 general counsel comes back before noon, I would like
9 to hold off before taking this case under advisement
10 in hopes he's here, but if we get through for the day,
11 then we will take it under advisement at that time.

12 I just want to double-check myself and make
13 sure I'm not missing something. Since the request to
14 exclude certain parties from a compulsory pooling is
15 more of a legal question, I feel I should talk with
16 him first.

17 MR. KELLAHIN: Yes, sir.

18

19

20

21

22

23

24

25

