

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

22 May 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for si- CASE
multaneous dedication and compulsory 8606
pooling, Lea County New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Jeff Taylor
Division:	Attorney at Law
	Legal Counsel to the Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87501

For the Applicant:

1
2 MR. STOGNER: Call next Case
3 No. 8606.

4 MR. TAYLOR: The application of
5 Doyle Hartman for simultaneous dedication and compulsory
6 pooling, Lea County, New Mexico.

7 Applicant has requested that
8 this case be continued.

9 MR. STOGNER: Case No. 8606
10 will be continued to the Examiner's Hearing scheduled for
11 June 5, 1985.

12
13 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY
that the foregoing Transcript of Hearing before the Oil Con-
servation Division was reported by me; that the said tran-
script is a full, true, and correct record of the hearing,
prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8606
heard by me on 22 May 1985.

Michael E. Stogner, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

5 June 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for simultaneous dedication and compulsory pooling, Lea County New Mexico.

CASE
8606

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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2
3 MR. QUINTANA: We'll call next
4 Case 8606.

5 MS. LUNDERMAN: Application of
6 Doyle Hartman for simultaneous dedication and compulsory
7 pooling, Lea County, New Mexico.

8 There's been a motion in this
9 case for continuance until June 19.

10 MR. QUINTANA: Case 8606 will
11 so be continued until June 19, 1985.

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13 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY
that the foregoing Transcript of Hearing before the Oil Con-
servation Division was reported by me; that the said tran-
script is a full, true, and correct record of the hearing,
prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete and correct record of the proceedings in
the Examiner's hearing of Case No. 8606,
heard by me on June 5, 1985.
Gilbert F. Quintana, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

19 June 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for si- CASE
multaneous dedication and compulsory 8606
pooling, Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Jeff Taylor
Division:	Counsel for the Division
	Oil Conservation Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87501

1 MR. STOGNER: Call next Case
2 No. 8606.

3 MR. TAYLOR: Application of
4 Doyle Hartman for simultaneous dedication and compulsory
5 pooling, Lea County, New Mexico.

6 MR. STOGNER: At the request of
7 the applicant, Case No. 8606 will be so continued to the
8 Examiner's hearing scheduled for July 2, 1985.

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10 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division was reported by me; that the said
transcript is a full, true, and correct record of the
hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8606
heard by me on 19 June 19 85.
Michael P. Higgins Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
2 July 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for simultaneous dedicaton and compulsory pooling, Lea County, New Mexico. CASE 8606

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For Doyle Hartman: William F. Carr
Attorney at Law
CAMPBELL & BLACK P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501

For Lortscher Family Trust: Mark K. Adams
Attorney at Law
RODEY LAW FIRM
Post Office Box 1888
Albuquerque, New Mexico 87103

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I N D E X

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RUTH SUTTON

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Adams

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WILLIAM P. AYCOCK

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Adams

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Cross Examination by Mr. Taylor

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Cross Examination by Mr. Quintana

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STATEMENT BY MR. ADAMS

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STATEMENT BY MR. CARR

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E X H I B I T S

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Hartman Exhibit One, Plat

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Hartman Exhibit Two, Flow Chart

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Hartman Exhibit Three, AFE

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Hartman Exhibit Four, Correspondence

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Hartman Exhibit Five, Receipts

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Hartman Exhibit Six, Land Map

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Hartman Exhibit Seven, Well Logs

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Hartman Exhibit Eight, Schematic

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Hartman Exhibit Nine, Well History

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Hartman Exhibit Ten, C-104

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Hartman Exhibit Eleven, Data

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Hartman Exhibit Twelve, Tabulation

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Hartman Exhibit Thirteen, Operating Agreement

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2 MR. QUINTANA: We'll call Case
3 8606.

4 MR. TAYLOR: The application of
5 Doyle Hartman for a simultaneous dedication and compulsory
6 pooling, Lea County, New Mexico.

7 MR. CARR: May it please the
8 Examiner, my name is William F. Carr with the law firm Camp-
9 bell and Black, P. A. of Santa Fe, Appearing on behalf of
10 Mr. Hartman.

11 I have two witnesses.

12 MR. QUINTANA: Are there other
13 appearances in this case?

14 MR. ADAMS: Yes, sir. Mark
15 Adams of the Rodey, Dickason, Sloan, Akin, and Robb, P. A.
16 law firm, appearing on behalf of Marilyn Tarlton, Trustee
17 of the Lortscher Family Trust.

18 MR. QUINTANA: Are there other
19 appearances in this case?

20 If not, Mr. Carr, would you
21 have your witnesses please stand up and be sworn in at this
22 time?

23
24 (Witnesses sworn.)
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1
2 RUTH SUTTON,

3 being called as a witness and being duly sworn upon her
4 oath, testified as follows, to-wit:

5
6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q Will you state your full name and place
9 of residence, please?

10 A Ruth Sutton, Midland, Texas.

11 Q By whom are you employed and in what ca-
12 pacity?

13 A Doyle Hartman, as a landman.

14 Q Have you previously testified before the
15 Division?

16 A No, I have not.

17 Q Would you summarize your educational
18 background and your work experience for Mr. Quintana?

19 A I have a BA in psychology and an MBA in
20 finance, and sixteen years experience as a landman, the last
21 five years which are Certified Professional Landman.

22 Q For whom have you worked prior to your
23 employment with Mr. Hartman?

24 A I worked for (not understood) Oil Corpor-
25 ation for five years; for American Quazar, four years; and

1 for Union Texas Petroleum, four years.

2 Q And how long have you been with Mr.
3 Hartman?

4 A Two and a half years.

5 Q And at all times that you've just re-
6 viewed you were employed as a petroleum landman.

7 A Yes.

8 Q Are you familiar with the application
9 filed in this case on behalf of Mr. Hartman?

10 A Yes, I am.

11 Q And are you familiar with the subject ac-
12 reage?

13 A Yes.

14 MR. CARR: At this time we
15 would tender Ms. Sutton as an expert witness in petroleum
16 land matters.

17 MR. QUINTANA: Ms. Sutton,
18 where has most of your experience been in what area of the
19 country?

20 A It's been very varied; some New Mexico,
21 some Oklahoma, some Texas, about equal, I would say.

22 Since I've been in Hartman's office it's
23 been mostly in New Mexico.

24 MR. QUINTANA: Ms. Sutton is
25 considered a qualified landman.

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She may proceed.

Q Would you briefly state what Mr. Hartman seeks with this application?

A We are seeking to pool the Jalmat Gas right under the northwest quarter of Section 8 in Township 24 South, Range 37 East.

Q Have you prepared certain exhibits for introduction in this case?

A Yes, I have.

Q Would you please refer to what has been marked for identification as Hartman Exhibit Number One, identify this and review it for Mr. Quintana?

A This is a land plat that shows outlined in yellow the proposed unit.

The small, red dot is the proposed location for our infill well.

The other red location on there is the -- the Jack No. 1, also identified as the Langlie Mattix 214, and this also has some other information as to some Hartman operated Jalmat wells and some Langlie Mattix Unit wells.

Q Now you indicated that the well in the spacing unit, the one with the red circle around the well symbol, is identified both as a Langlie Mattix well and also as the Jack No. 1.

A Yes, sir.

1 Q Does this well have more than one opera-
2 tor?

3 A Yes, it does. Texaco operated the unit
4 portion of the well and Doyle Hartman operated the Jalmat
5 portion, dually completed.

6 Q And is Texaco using this as an injection
7 well in the Langlie Mattix?

8 A I believe so, yes, sir.

9 Q Would you now refer to what has been mar-
10 ked for identification as Exhibit Number Two?

11 A This is a flow chart that sort of deline-
12 ates the ownership of the Jalmat operating rights from the
13 original Federal lease down to the present owners, which are
14 colored in yellow.

15 Q Now you said this sort of indicates the
16 ownership. Has Mr. Hartman had a title opinion prepared
17 concerning this acreage?

18 A Yes, he did.

19 Q And what does that title opinion show?

20 A These are the figures as per the title
21 opinion that we had done.

22 When we purchased this lease from Sun we
23 were given figures that were -- did not match these. So
24 while the figures may be a little bit off, these are the
25 owners.

1 Q You're certain the --

2 A Percentages may be a little bit differ-
3 ent.

4 Q And do you know why the percentages may
5 be different?

6 A Apparently there's been some instrument
7 that was never recorded.

8 Q But you are convinced that these are all
9 the interest owners within the subject spacing unit.

10 A Yes.

11 Q Will you now refer to Hartman Exhibit
12 Number Three and review that, please?

13 A This is an AFE for our E. E. Jack No. 5.
14 It shows the dry hole cost of \$130,000 and completed well
15 cost of \$378,000. This has been furnished to all the work-
16 ing interest owners.

17 Q Are these costs in line with what's being
18 charged for other wells in the area?

19 A Yes.

20 Q Ms. Sutton, could you now summarize for
21 Mr. Quintana the efforts made by Mr. Hartman to obtain join-
22 der of the Tarlton interest in the proposed well?

23 A That would be mostly included in this ex-
24 hibit.

25 Q That's Exhibit Number Four?

1 A Exhibit Number Four is a copy of corres-
2 pondence that we have written to all of these people from
3 February through some dates in June, the last being June 4,
4 I believe.

5 Also we have made, I would guess, in ex-
6 cess of 25 to 30 telephone calls to these people at all
7 hours since we're dealing with three different time zones.

8 Q In your opinion has Mr. Hartman made a
9 good faith effort to locate and obtain the voluntary join-
10 der of all interest owners in this spacing unit?

11 A Yes.

12 Q Has Mr. Hartman drilled other Jalmat
13 wells in the area?

14 A Yes.

15 Q Would you now refer to what has been mar-
16 ked as Hartman Exhibit Number Five and identify that,
17 please?

18 A These are your certified mail notifica-
19 tions of the scheduled hearing for today.

20 MR. CARR: Mr. Examiner, with
21 your permission we will submit the return receipts as soon
22 as they all are received.

23 We do have one back from the --
24 from Robert Scott, who is one of the interest owners. We
25 have not received the other return receipts. I would, how-

1 ever, note that this case was originally docketed for May
2 22nd of this year and we do have return receipts from each
3 of the interest owners for that hearing.

4 Because of the continuance we
5 re-notified the interest owners of today's hearing.

6 Q Were Exhibits One through Five prepared
7 by you or compiled under your direction?

8 A Yes.

9 MR. CARR: At this time we
10 would offer Hartman Exhibits One through Five.

11 MR. QUINTANA: Exhibits One
12 through Five will be entered as evidence.

13 MR. CARR: And that concludes
14 my examination of this witness.

15 MR. QUINTANA: I have no ques-
16 tions of the witness at this time.

17 Would you care to cross exa-
18 mine?

19 MR. ADAMS: Yes, sir. I have
20 just a few questions.

21
22 CROSS EXAMINATION

23 BY MR. ADAMS:

24 Q Have you received any responses from Mrs.
25 Tarlton to any of the communications sent to her?

1 A Yes, we did.

2 Q In what form were those responses made?

3 A By phone and also by letter.

4 Q Are copies of the responses made by
5 letter included in your exhibit?

6 A I believe so. I have one dated May 29.

7 MR. CARR: Also April 26th.

8 A April 26th. Do you have others?

9 Q No, I believe that's -- Has Mrs. Tarlton
10 in her responses made reference to what she contends is an
11 existing and valid operating agreement?

12 A Yes, I believe she did.

13 MR. ADAMS: That's all I have.

14 I would like to make a
15 statement, Mr. Examiner, after --

16 MR. QUINTANA: Would somebody
17 point out that -- that letter?

18 Excuse me, you wanted to make a
19 statement at the end of the --

20 MR. ADAMS: Yes, sir.

21 MR. QUINTANA: Okay. You may
22 proceed.

23 I have no further questions of
24 the witness.

25 She may be excused.

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WILLIAM P. AYCOCK,

being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place
of residence?

A William P. Aycock, Midland, Texas.

Q Mr. Aycock, by whom are you employed and
in what capacity?

A By Doyle Hartman in connection with the
application contained under Case Number 8606.

Q Mr. Aycock, have you previously testified
before this Division and had your credentials accepted and
made a matter of record?

A Yes, sir, for the past fifteen years on a
fairly regular basis.

Q And were you qualified at that time as a
petroleum engineer?

A Yes, sir, I have been.

Q Are you familiar with the application
filed in this case on behalf of Mr. Hartman?

A I am.

1 Q And are you familiar with the subject
2 lands?

3 A Yes, sir.

4 MR. CARR: Are the witness'
5 qualifications acceptable?

6 MR. QUINTANA: They are. You
7 may proceed.

8 Q Mr. Aycock, have you prepared certain ex-
9 hibits for introduction in this case?

10 A I have.

11 Q Would you refer to what has been marked
12 for identification as Hartman Exhibit Number Six, identify
13 this, and review it, please?

14 A Hartman Exhibit Number Six, the first
15 page is a land map of, let's see, two, four, twelve sections
16 within the area of the lands that are the subject of this
17 application that have been subjected to a current study as
18 to the number of Jalmat producing wells contained thereon
19 the variation in quality of those wells.

20 Attached behind the land map is a tabula-
21 tion within that study area of all of the wells that have
22 been completed in the Jalmat interval, and both currently
23 active and active at one time, and you'll notify -- behind
24 that there is a tabulation of the -- by years of the number
25 of wells that are contained within that interval and the

1 amount of production that has been derived from the indi-
2 cated number of wells during that indicated year.

3 And I think the first thing to
4 be derived from this information is to look at the dates
5 that are involved and to see that there's a substantial
6 variation in the -- in the dates for the latest test and al-
7 so there's a substantial variation in the time at which the
8 various wells have been completed, and further than that,
9 there's a substantial variation in the quality of the wells
10 that are indicated to lie within this area.

11 The reason that the north --
12 north/south trending area was chosen is because we are near
13 the limit of production from one or more of the Jalmat zones
14 that lies in an easterly direction, as well as the fact that
15 it is a known fact that the depositional strike in the Jal-
16 mat interval throughout the area that produces from the
17 Yates and Seven Rivers formations is basically in a
18 north/south trending direction.

19 Q What sort of reservoir pressures are you
20 encountering in this area?

21 A We would expect to encounter plus or
22 minus about 100 psig initial reservoir pressure with the
23 prospective well, assuming that it is successfully completed
24 in the Jalmat, one or more of the Jalmat intervals.

25 Q Do you believe there's a chance that in

1 drilling additional wells on this unit that you could result
2 -- obtain a well that would not be a commercial success?

3 A In my professional opinion from having
4 reviewed these data and from my somewhat extensive exper-
5 ience in the entire Jalmat Pool, I would say there is about
6 a 1/3 chance of drilling a noncommercial well or a dry hole;
7 about a 1/3 chance of drilling a marginally attractive, eco-
8 nomically attractive; and about a 1/3 chance of drilling a
9 very attractive well in the Jalmat interval, and the reason
10 for that is twofold:

11 Number one is the fact that the subject
12 well, the E. E. Jack No. 1, which will show on the next ex-
13 hibit, is not even completed in the main reservoir that is
14 productive in the area, which is the Lower Yates. It's com-
15 pleted in the Upper Yates only.

16 Q Would you go to that exhibit now, which
17 is -- that's Exhibit Number Seven, and discuss that?

18 A Exhibit Number Seven contains scout
19 ticket informtion with well logs that show for the Doyle
20 Hartman E. E. Jack No. 1, which is the well that is the sub-
21 ject of this application and lies on the lands that are the
22 subject of this application, at 1980 feet from the north and
23 660 feet from the west lines of Section 8, Township 24
24 South, Range 37 East in Lea County, New Mexico.

25 The next well that is shown there is --

1 the next log that's shown there with scout ticket informa-
2 tion is the Alpha Twenty-One Production Company El Paso
3 Plant No. 1, which is located 1950 feet from the south line
4 and 660 feet from the west line of Section 32, Township 23
5 South, Range 37 East, which would be to the north of the
6 lands that are approximately a mile to a mile and a half
7 north of the lands that are the subject of this application.

8 The third set of information that's in-
9 cluded is for the Doyle Hartman Late Thomas No. 3 Well,
10 which is located 1980 feet from the south line and 2080 feet
11 from the east line of Section 17, Township 24 South, Range
12 37 East, which is approximately one mile south of the -- of
13 the indicated -- well, about a mile and a half south, I beg
14 your pardon, of the lands that are the subject of this ap-
15 plication.

16 And the last well that is included is the
17 Doyle Hartman Late Thomas No. 2, which is 1980 feet from the
18 south line and 990 feet from the west line of Section 17,
19 Township 24 South, Range 37 East.

20 Although Mr. Quintana was not the exa-
21 miner, there are at least three cases in the -- that were
22 conducted and the evidence has been entered previously that
23 contained the Late Thomas Lease in various capacities when
24 there was -- when there was contention over the locations at
25 which the Late Thomas 2 and 3 are -- were drilled, and al-

1 though I don't think we want administrative notice of them,
2 if Mr. Quintana needs additional data and additional infor-
3 mation about them, those files are available and there is a
4 tremendous volume of information contained in them.

5 Q Now, Mr. Aycock, what does Exhibit Number
6 Seven show you as to the producing zones and the completion
7 interval in the Jack No. 1?

8 A I will, with the indulgence of the
9 Examiner, I will point out that each log shows the top of
10 the Yates formation, the top of the Seven Rivers formation,
11 and the perforated intervals within both the Langlie Mattix
12 Pool and the Jalmat Pool.

13 The Jalmat Pool perforated intervals are
14 colored in yellow to make them easy to see at a glance and
15 you'll notice that for the E. E. Jack No. 1 it was completed
16 in the Jalmat from -- between depths of 2900 and 2984 feet
17 and was completed on September 5th, 1951.

18 On the Alpha Twenty-One Production Com-
19 pany El Paso Plant No. 1, the perforations are between
20 depths of 3002 and 3172 feet with seventeen perforations,
21 and it was completed on the 19th of October, 1979.

22 The Doyle Hartman Late Thomas No. 3 is --
23 the perforations are contained within three intervals be-
24 tween the depths of 2855 feet and 3177 feet, with twenty
25 perforations. That well was completed on the 11th of Octo-
ber, 1981.

1 And the Doyle Hartman Late Thomas No. 2
2 Well is completed in four basic perforated intervals between
3 depth of 2957 feet and 3226 feet with twenty perforations,
4 and that well was completed on the 28th of October, 1981.

5 So, in summary, it shows that all the
6 wells that have been completed in relatively recent years
7 have been completed basically in the Lower Yates with some
8 perforations in the Upper Yates, but that has not been the
9 major point of the completions that have been made and the
10 reason is because the Upper Yates is not the best developed
11 zone in this area and that is one of the reasons that Mr.
12 Hartman believes that the projected E. E. Jack No. 5 needs
13 to be drilled, because the existing E. E. Jack No. 1, as
14 shown by the first log here, has no perforated interval in
15 the Lower Yates; so therefore, whatever reserves are con-
16 tained therein, this lease is not participating in them.
17 The correlative rights of both the royalty owners and the
18 working interest owners are being violated because drainage
19 is taking place out of the Lower Yates to other leases that
20 are nearby and producing therefrom at attractive rates.

21 Q Mr. Aycok, is it possible that the
22 existing E. E. Jack No. 1 could be recompleted in the Lower
23 Yates?

24 A Not in a -- not practically and not ef-
25 fectively because it is a water injection well in the Lang-

1 lie Mattix zone and you cannot, there is no way that you can
2 work on the Yates zone without disturbing the operations of
3 the Langlie Mattix zone, which I suspect the unit operator
4 would -- would resist.

5 And there is another aspect of the
6 mechanical arrangement which we will go into next.

7 A Exhibit Number Eight is a schematic well
8 completion diagram, which shows the arrangement of the var-
9 ious strings of casing in the zones in which the existing E.
10 E. Jack No. 1 Well is completed.

11 I would particularly call the Examiner's
12 attention to the fact that the Langlie Mattix interval is
13 completed in both -- in perforations between zones of 3420
14 feet and 3456 feet, as well as in open hole between depths
15 of 3460 to a total depth of 3600 feet, all of these in the
16 Langlie Mattix Pool and it is completed -- that is on the
17 tubing side. It is completed with a conventional single
18 packer dual, which means that the gas production comes up
19 the annulus between the tubing that is set on a Baker packer
20 at 3379 feet and the existing 5-1/2 inch casing which is set
21 at a depth of 3460 feet, and the gas is produced from per-
22 forations between depths of 2864 to 2984 feet from the Upper
23 Yates zone.

24 At such time as the -- a combination fo
25 the accumulation of water that is contained both in the

1 liquid phase and in the vapor phase in the reservoir accumu-
2 lates in the well, and the reservoir pressure has declined
3 to the point that the flow velocity cannot be maintained at
4 a sufficient level to lift the water from the well, the zone
5 will die and at the time that it dies the only way that you
6 could restore production to it would be to open the sliding
7 sleeve that's indicated on the schematic immediately above
8 the packer, and to do that you would have to interrupt the
9 operation of the Langlie Mattix water injection, as well as
10 cause communication between the two zones.

11 The likelihood is that in attempting to
12 swab the lower zone, unless you could place a mechanical
13 plug of some kind and simply backflow water from the high
14 pressure Langlie Mattix perforations and not only not ever
15 be able to re-establish communication between the Jalmat be-
16 cause so much waterflow during the time that the sleeve was
17 open, that you would probably damage it and maybe you'd dam-
18 age it beyond repair.

19 So, at some time in the future the Jalmat
20 production from the E. E. Jack No. 1 is -- will be extant
21 from a mechanical standpoint.

22 That will be demonstrated by some other
23 exhibits that we have, but it basically shows that number
24 one, we have two operators with two different objectives in
25 two different pools that are trying to operate the same

1 well.

2 From an operational standpoint this is,
3 in our opinion, a very poor procedure, if nothing else.

4 Q Mr. Aycock, will you now go to Exhibit
5 Number Nine, identify that, and review it, please?

6 A Exhibit Number Nine is a history of the
7 dually completed wells that are completed both in the Jalmat
8 gas zone and in the Langlie Mattix Pool in the immediate
9 area of the lands that are the subject of this application.

10 On the first two pages are listed fifteen
11 wells and it also shows whether they were producers or in-
12 jectors and in what zone and then they show when the last
13 Jalmat production took place, and I would call the attention
14 of the Examiner in particular to the fact that in most cases
15 the last Jalmat production took place in the mid-seventies
16 to early eighties.

17 There are, out of the total of fifteen
18 wells there are only one, two, three, four of them in which
19 the Jalmat is still producing. The rest of them, the Jalmat
20 has been plugged off.

21 Further, the map that is attached as the
22 last portion of this Exhibit Number Nine, shows all of the
23 wells that are included on the tabulation that precedes the
24 map.

25 Q Would you now review Exhibit Number Ten?

1 A Exhibit Number Ten are copies of the
2 Forms C-104 for both the tubing side of the E. E. Jack No. 1
3 and the casing side of the E. E. Jack No. 1, verifying that
4 as to the Commission records the casing side is the Jalmat
5 Pool, which is operated by Doyle Hartman, and the tubing
6 side is the Langlie Mattix Pool, which was originally oper-
7 ated by Skelly Oil Company in the Meyers Langlie Mattix
8 Unit.

9 Also included as the first two -- the C-
10 104's in Exhibit Ten, are underlined the indication in the
11 New Mexico Engineering Committee Annual Report for 1984,
12 showing that the tubing side is carried as an injection well
13 and the casing side is carried as a producing well in the
14 Jalmat Pool.

15 Q Would you now go to Exhibit Number Eleven
16 and explain the purpose of including this exhibit?

17 A Exhibit Number Eleven is a combination
18 exhibit, the first page of which is page number three from
19 the Meyers Langlie Mattix Unit agreement, which includes a
20 definition of the unitized formation, and it, as is common,
21 as the Examiner is aware and as is common with these types
22 of agreements, it defines a unitized interval between cer-
23 tain depths in the Texas Pacific Oil Company's Blinbry "B"
24 No. 3 Well, that's located in Section 34, Township 23 South,
25 Range 37 East, and it defines it on a Schlumberger electri-
cal log.

1 The intent of this, as it is in all unit
2 agreements, is that these specific depths that are defined
3 by the horizontal planes at those locations, are not in-
4 tended to be a depth defined definition of the producing in-
5 terval, but a stratigraphically defined definition of the
6 producing interval and at a different structural position
7 than (not understood) would have to be correlated with the
8 log on any well to tell what the consistent interval would
9 be in that well.

10 Included is the -- both the Blinebry "B"
11 No. 3 "T", which is in Section 4, 23 South, 37 East, which
12 is really the Texas Pacific Blinebry. It was originally the
13 R. Olson. It's now the Texas Pacific and the interval is
14 defined there and shown thereon.

15 That's the second log. This same -- this
16 same discussion that's on the first page, is shown on the
17 log on the third page, which is the log of the well that is
18 used for the definition.

19 Also shown is the log for the Jack No. 3
20 Well in Unit C of Section 8, 24, 37, which shows that the
21 Jalmat interval correlates differently in the -- in the
22 stratigraphy from the depths that are indicated for the Lan-
23 glie Mattix Pool in the -- on the log of the well that is
24 used for the definition of a unitized interval.

25

1 Q So Exhibit Number Eleven is offered to
2 clarify exactly what the Jalmat interval is under the pro-
3 posed --

4 A As I understand it --

5 Q -- location.

6 A -- from Mr. Hartman and from Ms. Sutton,
7 part of the problem with communicating with the Tarltons is
8 that they do not understand that the depths that are in-
9 cluded within the Langlie Mattix Meyers Unit are not inten-
10 ded to be absolute depths but intended to be depths that de-
11 fine the stratigraphic interval that is constituted in the
12 Langlie Mattix Pool.

13 Q And Exhibit Eleven addresses that ques-
14 tion.

15 A That's correct.

16 Q Would you now go to Exhibit Number
17 Twelve?

18 A Exhibit Number Twelve is a tabulation of
19 yearly production beginning with 1970, the year 1970, and
20 going through January of 1985 for the Doyle Hartman Jack No.
21 1 Well.

22 And behind that we have also a tabulation
23 of the shut-in wellhead pressures that have been submitted
24 to the Oil Conservation Division, starting in 1970.

25 The next page is a conventional rate/time

1 curve which shows gas, the log of gas production rate as a
2 function of time, starting with the year 1973 and coming
3 forward and, as a matter of interest, it shows that Mr.
4 Hartman took over the operations in 1984 and it shows that
5 the production trend was increased at the time that he took
6 over operation of the well above the long time established
7 prior trend of production rates based upon annual average
8 production from 1973.

9 And the last page in this exhibit is a
10 relationship, is the -- on the vertical axis we have the
11 subsurface pressure divided by the consistent compressibil-
12 ity factor and along the horizontal axis we have cumulative
13 gas production in BCF.

14 Included are the -- all points that are
15 on the tabulation that is the third page of this exhibit,
16 plotted at the consistent points, and it indicates that the
17 original gas in place is approximately 6.1 BCF and that as
18 of April of 1985 the indicated shut-in pressure was 134
19 psia.

20 Q Now, Mr. Aycock, a few moments ago you
21 testified that in your opinion it was possible to drill an
22 additional well on this unit and it not be a commercial suc-
23 cess.

24 A That's correct.

25 Q Are you prepared to make a recommendation

1 to the Examiner as to the risk penalty that should be im-
2 posed on any --

3 A Yes, sir.

4 Q -- nonjoining interest owner? And what
5 is that figure?

6 A 200 percent.

7 Q And would you just summarize the basis
8 for that recommendation?

9 A The basis for that is the fact that, num-
10 ber one, we know we're dealing with low reservoir pressures.

11 Number two, because we're located within
12 approximately a half mile of a reservoir boundary in the Up-
13 per Yates formation, there is some stratigraphic risk invol-
14 ved.

15 In addition to that, there's always a
16 minor but mechanical risk that's involved in drilling and
17 completing any well in these low pressure zones and the bas-
18 ic point that mechanical risk is the fact that in order to
19 drill a well with water based mud you have to have a signi-
20 ficant overburden as to the reservoir pressures that are
21 contained in the target zones.

22 While you are drilling, until such time
23 as you establish equilibrium between the mud pressure and
24 the permeability of the formation face as controlled by the
25 mud solids that played out on the formation face as it im-

1 bibes the mud filtrate fluid, you can have a phenomenon that
2 we call differential sticking occur, which means that if the
3 drill collars become adjacent to the face of the formation
4 at the time that the mud filtrate flow is incurring into the
5 formation, the pressure differential created by that flow
6 will cause the drill collars to lie against the face of that
7 formation and the -- until that differential pressure is re-
8 leased the drill collars will be come stuck and it's impos-
9 sible to dislodge them by brute force pooling on them be-
10 cause the differential pressure is so great that it can't be
11 overcome by that.

12 So if -- if that happens and if you're
13 not able to relieve the differential pressure, or not able
14 to get the drill collars out of the hole, you could be talk-
15 ing about a significant amount of expense to watch over them
16 and get them out of the hole.

17 So really there are three risks involved
18 here.

19 Number one is the stratigraphic risk.

20 Number two is what is the reservoir pres-
21 sure actually going to be.

22 And, really, number three is a variation
23 of the stratigraphic risk and that is going to be what is
24 going to be the reservoir permeability as influenced by the
25 effective stimulation that I'm going to be able to achieve

1 at the location of the projected well.

2 And then number four is the mechanical
3 risk that's involved in drilling and completing the well.

4 Q Have you made --

5 A I might also point out that on the Late
6 Thomas 2 and 3, which are included in the -- in the previous
7 exhibit, that we were awarded a 200 percent penalty in the
8 forced pooling that was necessitated as to the Gulf Oil Com-
9 pany interest by the Commission at that time.

10 Q Mr. Aycock, have you made an estimate of
11 overhead and administrative costs while drilling and --

12 A Yes, I have.

13 Q -- producing the well?

14 A And that's included on page three of the
15 accounting procedure that's attached to the operating agree-
16 ment.

17 Q And that's part of Exhibit Number Four?

18 A That's part of Exhibit Number Four.

19 Q And what are those figures?

20 A Under Section I, Overhead, Subsection A,
21 Fixed Rate Basis, Drilling Well, \$5,500 per month; Producing
22 Well, \$550 per month.

23 Q Are these costs in line with what's being
24 charged for other wells in the area?

25 A They are for current -- currently exe-

1 cuted operating agreements.

2 Q And do you recommend that these figures
3 be incorporated into any order which results from this hear-
4 ing?

5 A I do.

6 Q Does Mr. Hartman seek to be designated as
7 operator of the proposed well?

8 A He does.

9 Q Now, I believe -- were you present when
10 Mr. Adams asked Ms. Sutton certain questions about the exis-
11 tence of a previous operating agreement?

12 A I was.

13 Q Are you familiar with the prior operating
14 agreement on this tract?

15 A I am.

16 Q In your opinion could an injection well
17 on this unit be drilled under any previous operating agree-
18 ment?

19 A It could not.

20 Q And why not?

21 A Because the nonconsent penalty is insuf-
22 ficient to justify the risks that are inherent in the drill-
23 ling of the well, as well as the fact that the overhead rate
24 that's indicated is far too low for contemporary conditions.

25 Q Could you wait and develop, further

1 develop this tract after the E. E. Jack No. 1 is lost?

2 A Well, you could, but there -- there are
3 two problems with it.

4 Number one, you're not participating in
5 the major reserves that probably lie beneath the tract right
6 now, because those are in the Lower Yates, which is, we pre-
7 viously testified, is not -- the E. E. Jack No. 1 is not
8 completed in the Lower Yates.

9 And Number Two, as the Commission is
10 aware from previous cases on this docket, if, even though
11 you're covered by an existing gas contract, if you wait and
12 allow a well to water out and let the gas production lapse
13 for some time, you're going to be looking, more than likely,
14 based upon our experience, at a significant lapse of time
15 before you can get recognition from the gas purchasers that
16 you do have a contract that -- in which they're obligated to
17 take the gas from your well.

18 You could easily be looking at six months
19 to a year to re-establish the fact that you have a valid
20 contract that covers these reserves if you wait until the E.
21 E. Jack No. 1 completely waters out.

22 Q Mr. Aycock, in your opinion will granting
23 this application be in the best interest of conservation,
24 the prevention of waste, and the protection of correlative
25 rights?

1 A Yes, it will, I believe.

2 Q Were Exhibits Six through Twelve prepared
3 by you or compiled under your direction and super-vision?

4 A They were.

5 MR. CARR: At this time, Mr.
6 Quintana, we would offer into evidence Hartman Exhibits Six
7 through Twelve.

8 MR. QUINTANA: Exhibits Six
9 through Twelve will be entered as evidence.

10 MR. CARR: And that concludes
11 my direct examination of Mr. Aycock.

12 MR. QUINTANA: I have some
13 questions of Mr. Aycock.

14 Mr. Adams, would you care to
15 cross examine the witness before I proceed with my ques-
16 tions?

17 MR. ADAMS: I have just a very
18 few questions, sir.

19

20 CROSS EXAMINATION

21 BY MR. ADAMS:

22 Q Mr. Aycok, you testified that you were
23 familiar with the nonconsent penalty provided in the January
24 16, 1951 operating agreement.

25 Can you tell us what that nonconsent

1 penalty is?

2 A I'll find the operating agreement and
3 read it to you.

4 MR. TAYLOR: Can we have a copy
5 of that?

6 MR. CARR: That --

7 A It's included in Exhibit Four, I believe.

8 MR. TAYLOR: Well, we have one
9 page of one.

10 A Okay, well, it's supposed -- I thought it
11 was. I beg your pardon. I have a copy of it somewhere
12 then, if you'll give me just a minute to find it.

13 MR. QUINTANA: Why don't we get
14 a couple of quick copies of that on our machine in there?

15 MR. TAYLOR: Off the record.

16

17 (Thereupon a discussion was had off the record.)

18

19 A It's a 200 percent penalty, as shown on
20 page 3, Section 5, Additional Wells.

21 Q When you say it's a 200 percent penalty,
22 you mean it's a --

23 A Well, it's a 100 percent penalty. It's
24 200 percent of the cost.

25 Q Thank you, so it's --

1 A Beg your pardon.

2 Q -- double the cost, in other words?

3 A It's double the cost rather than being
4 three times the cost as we are requesting of the Commission,
5 that's correct.

6 Q Which section of the operating agreement
7 provides for that penalty?

8 A Of the pre-existing or the suggested
9 operating agreement?

10 Q The January 16, 1951 operating agreement.

11 A Section 5, Page 3, under the subtitle Ad-
12 ditional Wells, about halfway down. Would you like for me
13 to read the sentence?

14 Q That would be fine.

15 A Starting on Line 6, near the righthand
16 margin, "In the event any party hereto shall fail to agree
17 to the drilling of a well desired by any other party, then
18 the parties desiring so to do may drill such well at their
19 own cost, risk, and expense, and in the event of production
20 they shall be entitled to receive the entire working inter-
21 est in the oil, gas, and casinghead gas produced therefrom,
22 until they shall have received out of the value of such pro-
23 duction, after deducting operating expenses, royalty pay-
24 ments, and any other charges against the same, an amount
25 equal to twice the cost and expense of drilling and complet-

1 ing said well."

2 And then it goes on further than that,
3 but that's the section to which you're referring and is --
4 is the reply to your answer.

5 Q That's correct. Thank you.

6 Could you tell us, please, what the
7 monthly charges are provided in this agreement?

8 A As I recall, they're \$75.00 month, but
9 let me find them and -- and be certain that my memory is
10 correct.

11 Oh, is it in the amendment? Okay. Yeah,
12 here it is right here.

13 The next to last page of the copy that I
14 have, no, it's the third from the last page, I believe, beg
15 your pardon, is an amendment to this operating agreement,
16 and it is dated October 15th, 1954, and it states under Sec-
17 tion 2, near as I can read it, that the portion of the ac-
18 counting procedure relating to overhead, and I'm unable to
19 read the first few words there, they're illegible, "to the
20 sum of \$25.00 per month per well", something drilled from
21 the date of the -- or completed as a dry hole.

22 So I would conclude that \$25.00 per month
23 per well is the -- under Section 2, and under Section 3, the
24 sum of \$75.00 per month is agreed to as a fair charge for
25 the allocation of District expense and something cost of

1 pumping, but all other direct labor charges to the leasehold
2 shall be billed as provided.

3 So, to answer your question, \$25.00 per
4 well per month is included as the overhead and the way I
5 read it, it's a total cost of \$100 per well per month only
6 is allowed to be billed to the joint account.

7 Q Thank you. That's all I have.

8

9 CROSS EXAMINATION

10 BY MR. TAYLOR:

11 Q Mr. Aycock, just looking at this agree-
12 ment, and we haven't had time to study it, but I see there's
13 a term of agreement here which says that if -- Paragraph 14,
14 which says that it shall remain in force and effect . . .
15 why don't you read that to us and explain your interpreta-
16 tion of it?

17 A Could I rejoin to that without answering
18 the question first and then --

19 Q Sure.

20 A -- see if that -- it's Mr. Hartman's
21 position that as he is now an owner of approximately 2/3rds
22 of the working interest, that the agreement has been termin-
23 ated, and if it becomes necessary to determine whether the
24 operating agreement that he is requesting is -- shall con-
25 trol, or whether the pre-existing operating agreement to

1 which you have referred controls, it is my opinion that that
2 will of necessity be handled in a forum other than this.

3 What Mr. Hartman is requesting is that he
4 be allowed to have a forced pooling order and proceed with
5 the drilling and if it becomes necessary to determine those
6 interests in another forum, then that will have to be ad-
7 dressed in that forum at that time, and if there is a dispute
8 as to -- at any time, that requires that these funds be
9 placed in suspense until that adjudication can be deter-
10 mined, then he'd be willing to do that.

11 But he cannot, he cannot wait to drill
12 the well and allow additional drainage to take place and the
13 possibility of maybe not losing the lease but having a less
14 than desired result, result from the drilling of the well
15 while he attempts to work out the problems as to the dis-
16 agreement about whether this pre-existing operating agree-
17 ment controls or not, and it is our opinion that, after our
18 discussions with Mr. Carr, that that is something, whether
19 or not this operating agreement, pre-existing operating
20 agreement controls, is outside the call of this hearing and
21 is not something that we should properly consider here.

22 Q Has he given notice, or anything in writ-
23 ing to the other parties in this matter?

24 A It's my understanding that he has.

25 Q That he considers that it's no longer

1 valid?

2 MR. CARR: I may go out of step
3 here with Mark's permission, and just tell you what our un-
4 derstanding of it is.

5 This is basically my closing
6 statement.

7 MR. ADAMS: Okay.

8 MR. CARR: It's Mr. Hartman's
9 position that the 1951 operating agreement has been termin-
10 ated by him.

11 If you look at the agreement,
12 the language plus the modification provides procedure for
13 termination. It also contains language as to whether or not
14 the terms of this agreement would then control, even after a
15 termination and a subsequent person taking over operations
16 of the well.

17 The question fo whether or not
18 this agreement is effective, we submit, is not really before
19 you, and we're arguing that with Mr. Adams, but we believe
20 that it has been, and if it is terminated, then we need a
21 pooling order.

22 If it has not been terminated,
23 then of course this agreement would control, but we remain
24 convinced that we've got to go forward and we've got to pro-
25 ceed with development and to do so we feel that there is a

1 risk in proceeding, having gone under these -- followed, we
2 believe, these termination procedures, and we think that we
3 would be assuming an unreasonable risk going forward without
4 the pooling order in place at that time.

5 And that's why we're here. I'm
6 certain Mr. Adams disagrees with whether or not we've ter-
7 minated the operating agreement.

8 MR. TAYLOR: Assuming that you
9 have not terminated the operating agreement, you still have
10 a right under it to have a forced pooling. The only differ-
11 ence would be --

12 A Whether we get 300 percent or 200 per-
13 cent. That's correct.

14 Q Okay.

15 MR. QUINTANA: And, of course,
16 the drilling costs and --

17 A Right.

18 MR. QUINTANA: -- the comple-
19 tion costs.

20 Which leads me to some ques-
21 tions I have for you.

22

23 CROSS EXAMINATION

24 BY MR. QUINTANA:

25 Q You said you asked for \$5000 while drill-

1 ling and \$500 while producing.

2 A Correct.

3 Q You said those are in line with costs in
4 the area.

5 Could you provide some additional docu-
6 ments --

7 A Yes, we'd be --

8 Q -- showing that; to back that up?

9 A -- delighted to. Mr. Carr, we'll pro-
10 vide to Mr. Carr, who can bring them to you, copies of other
11 agreements that show that this is what Mr. Hartman, who ope-
12 rates approximately 100 wells in this area, what his prac-
13 tice is.

14 Q Of course, you've asked for 200 percent,
15 which is the basis of whether you're going to drill that
16 well or not.

17 Yet you testified previously that, you
18 said there's a 1/3 chance that it will be a dry hole or 1/3
19 chance it will be a marginal well, and a 1/3 chance it will
20 be an attractive prospect.

21 To me that's, you know, not a full risk;
22 that's 66 percent of the total risk.

23 How do you come to the conclusion that
24 you can state 1/3, 1/3, and 1/3, and then ask for the maxi-
25 mum 200 percent?

1 A The fact that we have multiple risks. If
2 we had only one risk and that was either a dry hole or a
3 very attractive well, then -- then I would agree, but the
4 fact that we have multiple risk factors means that when you
5 compound all of those risks you could be looking at a -- at
6 a -- I'm telling you what my opinion is based on overall ex-
7 perience in the pool, but I'm also trying to impress upon
8 you the fact that at this location we have multiple risks
9 that are involved and based upon experience in the pool, the
10 probability is that some kind of completion will be
11 achieved; however, in an old pool like this with low reser-
12 voir pressures and a lot of old wells, who were drilled back
13 before the Commission required the procedures as to the ce-
14 menting and the amount of casing that's set, and that sort
15 of thing, there's no telling what you're going to find at
16 any given location in this pool.

17 You could ostensibly find enough water
18 that you could not ever make an attractive or even a commer-
19 cial completion any time in this pool at any place.

20 Probably that will not be the (not under-
21 stood). It is my opinion that the more likely risk is that
22 you'll either have insufficient permeability to produce at
23 attractive rates or insufficient permeability so that the
24 natural water saturation will be high enough that the rela-
25 tive permeability to gas will be low enough that you'll not

1 have commercial rates.

2 But nevertheless, you do have multiple
3 risk factors when -- when you drill this particular loca-
4 tion.

5 Q All right, thank you.

6 Would you please again explain to me, you
7 made a comment on Exhibit Number Eleven and you went into a
8 great deal then to define the unitized interval for the
9 Meyers Langlie Mattix Unit, and you stated that there were
10 some misunderstanding between Mr. Hartman and the opposing
11 party in this case, and would you explain to me what that
12 misunderstanding might be?

13 A The misunderstanding, as I understand it,
14 revolves around the fact that the Tarlton interests, and I
15 don't know which particular individual is involved in it,
16 but one or more of the people that are involved have inter-
17 preted the Meyers Langlie Mattix unit agreement in a literal
18 fashion and that regardless of structural position, the
19 fees, the depths that are contained herein are absolute
20 depths that are contained within the Langlie Mattix Pool and
21 therefore if you complete at some other depth, that -- in
22 the Jalmat Pool that would overlap with this, that you would
23 not -- you would not be completing a Jalmat well, rather
24 than the definition that the Commission has, which is that
25 the Langlie Mattix is, what, the bottom 200 feet of the

1 Seven Rivers and all of the Queen formation, and the Jalmat
2 Pool is everything that lies above that to the top of the
3 Yates formation.

4 Q Understood; clarified.

5 MR. TAYLOR: Mr. Carr, could we
6 have a copy --

7 MR. CARR: Yes.

8 MR. TAYLOR: -- of the oper-
9 ating agreement and could we also have a copy of any letters
10 Mr. Hartman may have sent purporting to terminate it --

11 MR. CARR: Yes.

12 MR. TAYLOR: -- at least as far
13 as notice is concerned.

14 MR. CARR: Yes.

15 MR. ADAMS: There is a 1954
16 amendment to the operating agreement, which probably should
17 be --

18 MR. CARR: Yes, and there is an
19 express paragraph in the '54 amendment that modifies that
20 termination and it's a question of reading all that to-
21 gether. We will supply that also.

22 MR. ADAMS: Will that be an ex-
23 hibit before the Division?

24 MR. CARR: I'll be glad to mark
25 that as such and that would be Hartman Exhibit Thirteen and

1 we will pull that together and would like to offer it now,
2 thought, so it's in the record.

3 MR. QUINTANA: Exhibit Thirteen
4 will be entered as evidence.

5 Let the record show that it
6 will be the 1951 and supplemental 1954 operating agreement
7 for the subject lease.

8 MR. TAYLOR: And the letter can
9 be, if there are any letters, can be the same, part of the
10 same exhibit.

11 MR. CARR: We'll attach those
12 to it.

13 MR. ADAMS: May I make a brief
14 statement, Mr. Examiner?

15 MR. QUINTANA: You may make any
16 statements you desire.

17 MR. ADAMS: I think that it's
18 clear by now that the position of Mrs. Tarlton is that the
19 January 16, 1951 operating agreement covering the entire in-
20 terest in the northwest quarter of Section 8, Township 24
21 South, Range 37 East, as modified by the 1954 amendment,
22 covers the relationships with respect to that land between
23 Mr. Hartman, who is the successor to the owners of 2/3rds of
24 the interest in the property, and Mrs. Tarlton, who owns, as
25 trustee, approximately 20 percent. I think Miss Sutton's

1 testimony indicated the precise ownership hasn't yet been
2 determined, but we will agree that it's in the range of 20
3 percent divided working interest.

4 That agreement, which was re-
5 ferred to in Mrs. Tarlton's April 26th, 1985, and May 29,
6 1985, letters to Mr. Hartman, which forms part of Hartman's
7 Exhibit Number Four, provides, as Mr. Aycock testified, a
8 penalty that amounts in effect to 100 percent of the usual
9 and necessary costs of developing, equipping, operating, and
10 marketing production from a well.

11 You recover the costs and ex-
12 penses plus 100 percent.

13 Paragraph 14 of that 1951 operating ag-
14 reement, which has been referred to, permits the termination
15 of the agreement by the operator under some circumstances by
16 following certain procedures, but I think the last part of
17 paragraph 14 is significant. That provides that even if the
18 operator effectively terminates the operating agreement, he
19 can take over operations of said lease on the same terms and
20 conditions as are imposed on the operator hereunder.

21 So we submit that even if Mr. Hartman has
22 effectively terminated the operating agreement and that de-
23 pends on whether he's followed the procedures prescribed in
24 the operating agreement as amended, that the terms and con-
25 ditions imposed by the operating agreement upon the operator

1 will continue.

2 Those terms and conditions include the
3 provision in Paragraph 5, which permits the recovery of 200
4 percent of costs and expenses and the provision of the modi-
5 fication adopted in 1954 to the operating agreement, which
6 permits, in effect, the recovery of \$100 per month as oper-
7 ating expenses.

8 So we would agree with Mr. Carr that the
9 Division really doesn't have authority and jurisdiction to
10 determine whether or not the operating agreement is in ef-
11 fect and what its provisions are.

12 We submit that the parties are bound by
13 the operating agreement and that is the basis on which Mrs.
14 Tarlton has proceeded and will continue to proceed.

15 Thank you.

16 MR. QUINTANA: Excuse me, I
17 forgot your name, sir.

18 MR. ADAMS: Adams.

19 MR. QUINTANA: Mr. Adams, if
20 you would submit a proposed order, if you would like to, I
21 would appreciate that, to get a good -- on paper, a good
22 point of view from both of you, points of view, including
23 any wording that you may want to in holding funds in some
24 type of suspense mode if you feel that you want to settle
25 this in a District Court, you can put that wording in there,

1 Mr. Adams, or whatever, I'd like to see a proposed order.

2 MR. ADAMS: All right. Thank
3 you.

4 MR. QUINTANA: Are there other
5 --

6 MR. AYCOCK: I haven't been ex-
7 cused yet.

8 MR. QUINTANA: Oh, yes. Are
9 there further questions of the witness?

10 If not, you may be excused.

11 Is there anything further in
12 Case 8606?

13 MR. CARR: I'd only like to
14 close by stating that if we have been successful at termin-
15 ating the operating agreement, before we can go forward with
16 any further development we would have to have a pooling or-
17 der to bring the acreage together.

18 Then, as we read these things,
19 and fight with Mr. Adams, if we're right and the old terms
20 no longer control, we would need a pooling order to spell
21 out those terms and so that's why we're before you today.

22 MR. QUINTANA: If not -- if
23 there is nothing further, the case will be taken under ad-
24 visement.

25

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division was reported by me; that the said
transcript is a full, true, and correct record of the
hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8606
heard by me on July 2 1985.

Gilbert P. Quintana Examiner
Oil Conservation Division