

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

19 February 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Amoco Production Com-
pany for compulsory pooling, Union
County, New Mexico.

CASE
8829
8830

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

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I N D E X

STATEMENT BY MR. MOTE

4

JERRY D. WEBB

Direct Examination by Mr. Mote

6

Cross Examination by Mr. Stogner

18

JAMES C. ALLEN

Direct Examination by Mr. Mote

20

Cross Examination by Mr. Stogner

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Redirect Examination by Mr. Mote

31

JERRY D. WEBB (RECALLED)

Recross Examination by Mr. Stogner

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1
2 MR. STOGNER: This hearing will
3 come to order.

4 At the request of the appli-
5 cant, Cases Numbers 8829 and 8830 will be consolidated for
6 purposes of testimony.

7 We will at this time call for
8 appearances in both of these cases.

9 MR. MOTE: Mr. Examiner, I'm
10 Clyde Mote, in association with Bill Carr, representing Amo-
11 co Production Company.

12 We'll have two witnesses.

13 MR. STOGNER: Are there any
14 other appearances?

15 There being none, will the wit-
16 nesses please stand and be sworn?

17
18 (Witnesses sworn.)
19

20 MR. MOTE: Mr. Examiner, this
21 will consist of two applications, 8829 and 8830, and al-
22 though they are prepared as separate cases, I have exhibits
23 in each one of these cases I'd like to give you at this
24 time.

25 This will the application of

1 Amoco for compulsory pooling of all mineral interests in the
2 carbon dioxide from the base of the Cimarron anhydrite mar-
3 ker to the top of the PreCambrian Basement underlying the
4 two pieces of property that are subject of this hearing,
5 both of them, each of them forming a standard 640-acre
6 pooled spacing and proration unit.

7 In both cases wells have
8 already been drilled.

9 I might point out that in Case
10 Number 8829 there was a mistake in the -- whatever you call
11 this, the docket, in referring to the well number. The --
12 that was the only error. They erroneously referred in this
13 docket as 311-K, when it should be 331-K. Other than that,
14 the well is in its location as stated in the application,
15 and I don't know whether or not you'd want to re-publish
16 that 8829 or not. We'll leave that up to your discretion.

17 But the well is properly lo-
18 cated other than that -- apparently that is a (not under-
19 stood) error in preparing the docket.

20 MR. STOGNER: It was an error
21 on my part; however, since the location was correct on this
22 and every other aspect, and this is the only well within
23 that section, is that right?

24 MR. MOTE: Yes, sir.

25 MR. STOGNER: Then I see no

1 problem of going ahead and continuing with this case and I
2 don't think a readvertisement will be necessary.

3 MR. MOTE: Good. We will ask
4 for a penalty of 200 percent.

5 We'll ask that Amoco be ap-
6 pointed operator for each of these units, and that we would
7 obtain cost and charges for supervision.

8 We'll first go into Case 8829,
9 exhibits dealing with that case.

10

11 JERRY D. WEBB,
12 being called as a witness and being duly sworn upon his
13 oath, testified as follows, to-wit:

14

15 DIRECT EXAMINATION

16 BY MR. MOTE:

17 Q If you would, Mr. Webb, please state your
18 name, by whom employed, and in what capacity and location?

19 A Jerry D. Webb. I'm employed by Amoco
20 Production Company as a petroleum landman in Houston, Texas.

21 Q And would you please relate your educa-
22 tional experience?

23 A I received a Bachelor of Business Admin-
24 istration degree from the University of Texas at Austin,
25 specially in the PLM program.

1 Q And when did you obtain your degree?

2 A December of 1981.

3 Q And upon your graduation where did you go
4 to work?

5 A I went directly to work for Amoco Produc-
6 tion Company in December of '81.

7 Q As a landman?

8 A Yes, sir.

9 Q And have you been in that occupation
10 since then?

11 A Yes, I have.

12 Q Would you please relate your experience,
13 your work related experience since joining Amoco?

14 A Yes. I've worked the Michigan area for
15 approximately the first two years of my experience. The
16 last two and a half years I've worked the New Mexico area.

17 In both areas my responsibilities in-
18 cluded supervision of brokers and their efforts to acquire
19 leases and secure title.

20 Q All right, and how long have you been in-
21 volved with the Bravo Dome Carbon Dioxide Gas Unit Area?

22 A I've worked on Bravo Dome almost exclu-
23 sively for the past two and a half years.

24 MR. MOTE: Is there any
25 question concerning this witness' qualifications as a

1 landman?

2 MR. STOGNER: Mr. Webb is so
3 qualified.

4 Q All right, if you would, in first Case
5 8829, go to your first exhibit, if you would.

6 What is this exhibit, Mr. Webb?

7 A Exhibit Number One is a map of the Bravo
8 Dome Carbon Dioxide Gas Unit, located in portions of Union,
9 Harding, and Quay County, New Mexico. The unit is operated
10 by Amoco Production Company and contains approximately
11 1,036,000 acres.

12 The area highlighted in yellow on the ex-
13 hibit is the 640-acre Section Number 33, which is the appli-
14 cation -- subject of this application.

15 Q In Case Number 8829.

16 A Yes.

17 Q All right, go to your second exhibit in
18 that case. What -- what does this exhibit show, Mr. Webb?

19 A The top half of this exhibit is a map of
20 the township within Union County wherein Section 33 is lo-
21 cated. This is Township 20 North, Range 35 East. High-
22 lighted is Section 33, which is again the subject of this
23 application.

24 The bottom portion of this exhibit is a
25 blow-up of that particular Section 33, wherein we've in-

1 cluded the names of the mineral interest owners and the res-
2 pective degree of ownership in the section.

3 Q With regard to Section 33 in Case Number
4 8829, your well is located in the southwest quarter, is that
5 correct?

6 A That is correct.

7 Q That's an existing well that's already
8 been drilled.

9 A Yes.

10 Q And where is your outstanding interest
11 that is unleased?

12 A The outstanding interest that's unleased
13 is in the northwest quarter.

14 Q Owned by whom?

15 A Owned by Alfred Kress, being an undivided
16 one-half mineral interest.

17 Q And does it appear from your records that
18 Amoco owns the control over all the other interests in the
19 entire section?

20 A Yes, that's correct.

21 Q All right, go to your Exhibit Number
22 Three in Case Number 8829. What is this, Mr. Webb?

23 A This is a breakdown of ownership of Sec-
24 tion 33, which breaks down by acreage description again who
25 the mineral owners are within the section, the interest

1 owned, and the status of that interest being leased to Amoco
2 or unleased.

3 Q And you again show your Alfred Kress in-
4 terest being the only one that's unleased.

5 A That's correct.

6 Q All right, let's go to Exhibit Number Four
7 in 8829.

8 If you would, please, just summarize for
9 the -- well, first of all, have you been able to locate Mr.
10 Kress?

11 A No, I have not.

12 Q If you would, please relate what is shown
13 by Exhibit Number Four, which is a documentation of your ef-
14 forts to locate this individual. Would you please just ex-
15 plain to the examiner the things that you've done and had
16 brokers do, and your -- in your attempt to locate Mr. Kress?

17 A Yes. I have supervision over five
18 brokers that actually live in Clayton, New Mexico, the coun-
19 ty seat of Union County, that work on titles for me.

20 One broker in particular, Mr. Claude
21 Neeley, a certified petroleum landman, undertook the task of
22 locating Mr. Kress.

23 We've been aware since 1981 that Mr.
24 Kress owned this interest and since then have been trying to
25 locate him. We made an intensive search, beginning in about

1 January or February of 1985, to locate Mr. Kress. Mr.
2 Neeley started keeping documentations of his efforts at that
3 time.

4 To begin with, the last instrument of re-
5 cord concerning Mr. Kress in Union County, was an affidavit
6 of mailing, which -- dated in the year 1955, which is filed
7 of record in the courthouse in Union County.

8 This affidavit indicated that Mr. Kress
9 was moving to Hawthorne, California.

10 Subsequently an address was given in that
11 affidavit. Letters were written to the address; returned
12 unable to forward. I have documentation, or the broker
13 tells me that in 1981 they contacted a realty company in
14 Hawthorne, California, and asked an individual to drive by
15 that address and there they determined that the address no
16 longer existed. There was an office building there then.

17 Mr. Kress talked with some of the old-
18 timers around Clayton, New Mexico, to see if anyone would
19 remember -- I mean Mr. Neeley talked with the oldtimers to
20 see if anyone would remember Mr. Kress. The only positive
21 response he got was someone told him they thought that Mr.
22 Kress had moved, you know, sometime subsequently to New York
23 and had a son named Robert and a son named Alfred, Junior,
24 and they thought that he worked for a company called Sacony
25 Vacuum Company.

1 Our broker, Mr. Neeley, determined that
2 was a subsidiary of Mobil. He got in contact with Mobil's
3 Employee Relations Department in New York and did not have
4 any success; they had no documentation on Alfred Kress.

5 Subsequently, he sent again a letter to
6 the last known address of Alfred Kress, which was returned
7 unable to deliver, return to sender.

8 He wrote a letter to the Social Security
9 Administration asking for help; never received a reply. He
10 wrote a letter to the U. S. Census Bureau asking for any in-
11 formation. He did receive a reply but they said that their
12 policy prohibited giving information on any individuals.

13 Up to that point we felt like we'd made a
14 reasonable effort.

15 Q So since about 1981 you've been trying to
16 locate this gentleman and have not been successful in doing
17 so to this time, is that correct?

18 A That's correct.

19 Q In your opinion has Amoco used reasonable
20 diligence in attempting to locate Mr. Kress?

21 A Yes.

22 Q In your opinion did Amoco have the right
23 to drill the well which is the subject of Docket Number
24 8829?

25 A Yes.

1 Q And in your opinion is pooling necessary
2 to avoid the drilling of unnecessary wells or to protect
3 correlative rights and prevent waste in Docket Number 8829?

4 A Yes.

5 Q All right, go to your Docket Number 8830
6 exhibits.

7 Go to your Exhibit Number One in Docket
8 Number 8830. Is this the same type of exhibit you had in
9 8829 showing the approximate location of the well in the
10 unit?

11 A Yes.

12 Q And it's also highlighted.

13 A Yes.

14 Q Go to your Exhibit Number Two. Is this
15 also like Exhibit Number Two in Docket 8829?

16 A Yes, it is.

17 Q All right, and please explain this exhi-
18 bit just a little further than --

19 A Okay. Again, the bottom portion of the
20 exhibit is a blow-up of the section, detailing the mineral
21 interest ownership.

22 An individual by the name of D. N. Caulk
23 is credited with ownership under various portions of this
24 section. Basically he owns an interest under the entire
25 north half except the northwest quarter of the northwest

1 quarter.

2 Q And other than the interest of D. N.
3 Caulk, Amoco has control over and is exercising leasehold
4 rights over the entire Section 33 in Docket Number 8830,
5 with the exception of the D. N. Caulk undivided mineral in-
6 terest, is that correct?

7 A Yes, sir.

8 Q All right, go to your Exhibit Number Three
9 in this 8830 -- is this a breakdown of the ownership showing
10 the leased and unleased in that section, as well?

11 A Yes, sir. Again this is a breakdown of
12 the ownership by acreage description, detailing the mineral
13 interest owned by each of the individuals.

14 Q And this again shows D. N. Caulk to be
15 the only unleased interest in the entire section.

16 A That's correct.

17 Q All right, and go to your Exhibit Number
18 Four in Docket No. 8830. Would you please explain what this
19 is?

20 A All right. Maybe I should talk just a
21 little bit before I get into this exhibit, what led up to
22 this exhibit was we determined that Mr. Caulk deceased in
23 1981. We found out that his probate or estate is still
24 open. It has not been closed.

25 We also determined that the executor for

1 that estate was a man -- or is a man by the name of Mr. R.
2 S. Cowles.

3 A broker under my supervision, again in
4 early 1985, contacted the executor for the estate and talked
5 with him about the various options, you know, to consolidate
6 this interest into this section.

7 The executor for the estate initially in-
8 dicated that he would look into the situation and get back
9 with us.

10 A subsequent telephone conversation about
11 a month later indicated that he still just had not had time
12 to look into it and would again get back.

13 The third telephone conversation, he in-
14 dicated that again he had been too busy and just had not had
15 time and it wasn't that important of a thing for them to
16 handle.

17 Subsequently, over the next seven months,
18 the executor of the -- well, let me -- there's an executor
19 of the estate and the executor has an attorney also handling
20 this estate. Apparently Mr. Caulk was a wealthy individual
21 owning property in 27 states and the executor would refer
22 all questions to the attorney and the attorney was the one
23 that kept putting off our broker.

24 So after talking to both the executor and
25 the attorney for the executor, our broker's phone calls were

1 not returned for a period of about seven months; just, he
2 could not get any reply at all.

3 At that point we elected to send to the
4 attorney for the executor of the estate this letter of op-
5 tions, as I'll call it, which set forth to them certain le-
6 gal options.

7 Amoco recognized that this interest would
8 need to be consolidated into that section and that would
9 either be voluntarily or by compulsory pooling So keeping
10 that in mind, we sent a letter offering option number one,
11 grant Amoco a lease for \$20.00 a net acre and a 3/16ths roy-
12 alty, and with no obligation to ratify the Bravo Dome Unit.
13 This would make them an owner in production from that sec-
14 tion only, and that well only.

15 A second option, they could grant Amoco a
16 lease on the same terms and ratify the Bravo Dome Unit if
17 they desired, making them an owner in production from the
18 entire unitized area.

19 Option number three, we offered them, ex-
20 tended the option to join in that well, to pay their propor-
21 tionate share up front of that well or out of production,
22 again with no obligation to join the Bravo Dome Unit but
23 just as to that well only.

24 Option number four, we offered them an
25 option to join in the entire Bravo Dome Unit with their

1 mineral interest again in cash up front or out of produc-
2 tion.

3 Q Okay, and you advised them by that let-
4 ter, did you not, that if none of them were accepted or if
5 you didn't hear from them, that you were going to apply for
6 this action which we're taking today in Docket 8830, is that
7 correct?

8 A Yes.

9 Q And have you heard from them since that
10 date?

11 A No, we have not.

12 Q And Exhibit Four-A is to the back of this
13 exhibit and it shows that this communication was received by
14 someone in the office of Mr. Michael W. Thom, was it not?

15 A That's correct. It's a certified mail
16 receipt.

17 Q And whom was it received by and when?

18 A Janet Pulley, September 9th, 1985.

19 Q Anything else in connection with this ex-
20 hibit?

21 A No, sir.

22 Q In your opinion has Amoco made a reason-
23 able, diligent effort to obtain the voluntary pooling of
24 this property?

25 A Yes.

1 Q And in regard to Docket 8830 is it your
2 opinion Amoco had the right to drill this well which has
3 been drilled on the section involved in Docket 8830?

4 A Yes, it is.

5 Q And in your opinion is pooling necessary
6 in Docket 8830 to avoid the drilling of unnecessary wells
7 and protect correlative rights and prevent waste?

8 A Yes, it is.

9 MR. MOTE: We'd move at this
10 time for the admission of Exhibits One through Four-A in
11 Docket Number 8829 and Docket -- and Exhibits One through
12 Four in Docket 8830, and tender the witness for examination.

13 MR. STOGNER: All the exhibits
14 which you mentioned will be admitted into evidence at this
15 time.

16
17 CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Mr. Webb, let's go over here to your ex-
20 hibit in Case Number 8830. When did you say the -- that Mr.
21 Caulk died?

22 A In 1981.

23 Q Who is -- you mentioned that there was an
24 attorney involved in here, and what that attorney Mr.

25

1 Michael Thom?

2 A Yes, it was.

3 Q How were these two unleased parties in
4 both of these cases, were they also contacted during the
5 time that the carbon dioxide unit was put into effect, or
6 being sought?

7 A Yes. Mr. Kress, of course, has been un-
8 locatable (sic) since, you know, 1981. We've been looking
9 for him since then, so an ongoing effort has been going on
10 since then.

11 With Mr. Caulk, the story is that in 1981
12 we were in a rush to drill approximately 150 wells in Bravo
13 Dome. This well was drilled without the benefit of formal
14 title opinion that -- from what was contained in our lease
15 files, and frankly, it was a mistake on our part. We
16 thought we had all the interest leased but subject to title
17 examination showed we didn't.

18 MR. MOTE: And to further an-
19 swer your question, Mr. Examiner, we have another witness
20 who will testify about notice concerning this hearing.

21 MR. STOGNER: Okay, thank you,
22 Mr. Mote.

23 I have no further questions of
24 Mr. Webb.

25 Are there any other questions

1 of this witness?

2 Mr. Webb may be excused.

3 Mr. Mote?

4 MR. MOTE: Call Mr. Allen to
5 the stand.

6

7 JAMES ALLEN,

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

10

11 DIRECT EXAMINATION

12 BY MR. MOTE:

13 Q Please state your name, by whom employed,
14 in what capacity and location.

15 A My name is James Allen. I'm Regional En-
16 gineering Supervisor for Amoco's Regulatory Affairs Group in
17 Houston.

18 Q Have you previously testified before this
19 Commission and have your credentials as a petroleum engineer
20 been accepted?

21 A Yes, sir.

22 MR. MOTE: Is the witness qual-
23 ified?

24 MR. STOGNER: Mr. Allen's
25 qualifications are acceptable.

1 Q Have you prepared a couple of exhibits
2 which were either prepared by you or under your supervision
3 and direction?

4 A Yes, sir.

5 Q Which will be the subject of your testi-
6 mony in both these dockets?

7 A Yes, sir.

8 Q All right, if you would, first with re-
9 gard to Docket -- Case Number 8830, 8829, I mean, would you
10 please turn to your exhibit which has been marked Exhibit
11 Number Five. This is, I believe, the notice that went out
12 to Mr. Kress in connection with the hearing which we're hav-
13 ing at this time, is that correct?

14 Q Yes, sir, Exhibit Number Five is a copy
15 of our letter to the last known address of Mr. Kress advis-
16 ing him of the hearing on this date.

17 We also attached a copy of our letter to
18 the Conservation Division requesting that this hearing be
19 set.

20 Q And what's the third page of your Exhibit
21 Number Five?

22 A The third page, Exhibit Five-A, is a copy
23 of the certification receipts, both front and back sides.
24 On the bottom of this exhibit is shown a copy of the re-
25 turned envelope. The letter was undeliverable.

1 Q And does it say why it was undeliverable?

2 A Yes, there was no such number.

3 Q All right. Let's go to your Exhibit Num-
4 ber Six in Docket 8829. What is this exhibit, Mr. Allen?

5 A Exhibit Number Six is a tabulation of the
6 actual costs encountered in drilling the well in Section 33.

7 Q And what is that total cost?

8 A The total cost, including both intan-
9 gibles and tangibles, is \$238,104.

10 Q Do you consider that reasonable consid-
11 ering the area and type of well that was drilled and com-
12 pleted?

13 A Yes, sir, I do.

14 Q Does this compare favorably with other
15 wells in the area?

16 A Yes, in fact this well is within 8 per-
17 cent of what we consider the average cost of drilling a well
18 now in the Bravo Dome Unit.

19 Q When was this well completed?

20 A December the 2nd, 1985.

21 Q Do you have a wellbore sketch of this well
22 in case the examiner wants to look at it?

23 A Yes, sir, we do.

24 Q All right. Is it your proposal that Amo-
25 co be designated operator of this well?

1 A Yes, sir.

2 Q All right, let's go to your Exhibit Num-
3 ber Seven in Case Number 8829. Would you please summarize
4 what you're asking this -- the Commission to do
5 with regard to 8829?

6 A Our Exhibit Number Seven is a summation
7 of the provisions which we recommend the order include.

8 One, that the pro rata share of the ac-
9 tual well costs attributable to the nonconsenting interest,
10 in this case Mr. Kress, be withheld from production;

11 That a risk penalty of 200 percent be as-
12 sessed;

13 That fixed rate supervision charges of
14 \$4500 while drilling and \$450 per month while producing be
15 assigned;

16 Also that all expenses for operating the
17 well again will be withheld from production;

18 That any unsevered interests will be con-
19 sidered a 7/8ths working interest and 1/8th royalty interest
20 and that any costs or charges are to be paid out of only the
21 working interest share and none from the royalty share.

22 Q All right, let's go to your Case Number
23 8830 and pick up your Exhibit Number Five in that case; Five
24 and Five-A, I believe, as was the exhibit in 8829.

25 Would you please explain what you show by

1 Exhibits Five and Five-A?

2 A Yes, sir, Exhibit Number Five was sent to
3 Mr. Cowles, again in care of Mr. Michael Thom, the attorney
4 in this case, in Oklahoma City.

5 It is the same as in the other case and
6 we advised him of the date of this hearing. We have also
7 attached a copy of our letter to the Conservation Division
8 requesting that this be set for hearing.

9 And Exhibit Five-A is a copy again of the
10 certified mail receipt.

11 Q And what is the date of your Exhibit Num-
12 ber Five, where you sent him notice of this hearing?

13 A Our letter dated January the 27th, 1986.

14 Q All right, let's go to Exhibit Number Six
15 in Case Number 8830.

16 What is this exhibit?

17 A Exhibit Number Six is the same as Exhibit
18 Number Five except in this case it was sent only to Mr.
19 Cowles and not to the attorney.

20 Q Okay, and what date do you have on this
21 notice?

22 A January the 28th, 1986.

23 Q And when does this show to be received by
24 the independent executor's office?

25 A It is received on February the 7th, 1986,

1 as shown on Exhibit Six-A.

2 Q All right, let's go to your Exhibit Num-
3 ber Seven in Docket Number 8830. Please explain what you
4 show by this exhibit.

5 A Again, Exhibit Number Seven is a tabula-
6 tion of the actual well costs encountered in drilling and
7 completing the subject well.

8 I might point out this cost is somewhat
9 higher than that showed in the previous one, primarily due
10 to the fact that it was drilled in '81 and we did encounter
11 lost circulation problems while drilling this well.

12 Q And this shows a total of tangible and
13 intangible of actual well completion costs of \$271,241, is
14 that correct?

15 A That is correct.

16 Q Do you consider this to be reasonable?

17 A Yes, sir.

18 Q Does this compare favorably with other
19 wells in Bravo Dome Unit?

20 A Yes, sir.

21 Q When was this well completed?

22 A The well was completed in August of 1981.

23 Q And when did it begin production?

24 A It was placed on production in July of
25 1985.

1 Q And when did it stop producing?

2 A It was shut-in in October of 1985.

3 Q And how much was produced while it was
4 being produced?

5 A Approximately 170.3-million cubic feet of
6 carbon dioxide.

7 Q And can you explain to the examiner why
8 it was put on production and then turned off?

9 A It is our understanding that's when we
10 became aware that the actual well was in the 160 acres where
11 there was a noncommitted interest.

12 Q Do you have a wellbore sketch for this
13 well, also, if the examiner wants to look at it?

14 A Yes, sir, I do.

15 Q And you also want Amoco to be designated
16 operator of this unit, as well.

17 A That is correct.

18 Q With regard to your Exhibit Number Eight
19 in Docket Number 8830, is this essentially the same as it
20 was in the other 8829 case number?

21 A Yes, sir, it includes the same provi-
22 sions.

23 Q All right. In your opinion will the
24 granting of this application avoid the drilling of unneces-
25 sary wells, protect correlative rights, and prevent waste?

1 A Yes, sir.

2 Q In your opinion are the terms and condi-
3 tions which Amoco has proposed just and reasonable as to
4 both dockets?

5 A Yes, sir.

6 Q Are you asking the Division to pool only
7 the CO2 rights in the Tubb formation in each of these sec-
8 tions which are the subject of Docket 8829 and 8830?

9 A That is correct.

10 Q All right, in your opinion will the terms
11 and conditions, if implemented by a compulsory order afford
12 the owner, or owners, of each tract within each of these
13 sections the opportunity to recover or receive without un-
14 necessary expense his just and fair share of the CO2 in the
15 Tubb formation under each of the sections?

16 A Yes, sir.

17 MR. MOTE: We offer into evi-
18 dence Exhibits, let's see, Five through Seven in Docket Num-
19 ber 8829, and Five through Eight in Docket Number 8830, and
20 offer the witness for questioning.

21 MR. STOGNER: Exhibits -- all
22 the exhibits that you alluded to will be admitted into evi-
23 dence at this time.

24

25

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Allen, let's look at the well in Case Number 8829 first of all. I see that that's over towards the boundary of the unit and also on Exhibit Number One you show quite a number of wellbores in there and I'm going to assume that that is the Bravo Dome wells producing from the carbon dioxide or completed in the carbon dioxide zone.

Is that correct?

A That's correct.

Q Okay. When this particular well was drilled, was there any offsetting wells to it?

A I'm sure there were since this well was drilled in 1985. I might point out -- yes, I'm sure there were. I don't know which ones were actually drilled and completed prior to this one on the offset wells, but there were a large number of wells in the southwest portion of the unit at that time -- southeast portion.

Q Are you aware of any drilling problems that this well encountered?

A This well did not encounter any particular drilling problems. We have encountered problems on a number of other wells in the Bravo Dome. There's been, that I'm aware of, at least five wells where we have either abandoned due to mechanical problems in the southeast portion of

1 the unit or where we have, due to isolated geological
2 reasons, have failed to encounter any (not understood) at
3 all. I might bring your attention to one I believe is in
4 Township 19 North, Range 34 East, in Section, I believe, in
5 the same section, 19, 33, excuse me, in Section 33, and this
6 is a well I believe that we will redrill because we did not
7 find any cuts present.

8 Q Are there any special drilling problems
9 out here in the Bravo Dome that's not encountered in any
10 other major oil and gas producing areas in the Panhandle of
11 Texas or southeastern New Mexico?

12 A As far as drilling problems are con-
13 cerned, probably not. The costs are considerably higher,
14 primarily due to the fact that the roads and locations are
15 quite expensive in this area.

16 Of course, in drilling and completing any
17 well there are some inherent risks, problems that may be en-
18 countered.

19 Q Okay. Let's go to the well location in
20 8830. This well appears to be fairly centrally located
21 within the Bravo Dome Unit Area. This well was drilled in
22 1981, is that correct?

23 A That's correct. That's when we initiated
24 a rather large drilling program.

25 Q Was this one of the first wells drilled

1 out there?

2 A It was one of the -- one of the first,
3 yes. I don't know that the -- some of the offsets were not
4 present when this was drilled.

5 Q Do you know if this well encountered any
6 specific drilling problems?

7 A Yes, this well encountered lost
8 circulation of about 1000 feet, I believe was the depth on
9 that.

10 Q Is this particular lost circulation zone
11 at 1000 feet apparent in some of the offset wells or (not
12 understood) problem?

13 A It's not -- we don't encounter it that
14 often.

15 Q You are seeking a 200 percent penalty in
16 both of these wells, is that correct?

17 A Yes.

18 Q That is the maximum allowed by the New
19 Mexico statute, is that correct?

20 A That is correct.

21 Q Could you elaborate a little further on
22 why you consider a 200 percent risk penalty on these wells
23 that are out there in the unit?

24 A Yes. In my opinion at any time an
25 operator initiates drilling and completing a well, whether

1 it's in Bravo Dome or somewhere in the Permian Basin area,
2 there is an inherent risk, just from the sheer fact that you
3 are drilling and completing. You may get a dry hole; you
4 may have a failure somewhere along at any point while you're
5 drilling and completing, and I believe an operator should be
6 entitled to that any time he assumes all the risk in drill-
7 ling and completing, and, of course, you're assuming risk
8 when the well goes on production for that time period, also.

9 Q How's the present market of oil going to
10 affect the carbon dioxide market?

11 A That's a question I can't answer.

12 Q Should that be considered as risk?

13 A I think it could be.

14 MR. STOGNER: I have no further
15 questions of Mr. Allen at this time.

16 Are there any other questions
17 of this witness?

18 MR. MOTE: Let me have a couple
19 of other questions.

20 MR. STOGNER: Mr. Mote.

21

22 REDIRECT EXAMINATION

23 BY MR. MOTE:

24 Q Mr. Allen, generally speaking, how is the
25 Bravo Dome Unit being developed? Is it developed by phases

1 and ordinarily wells are drilled in that phase and then they
2 step out by 640-acre drilling patterns from that central
3 area in each phase?

4 A Yes, sir, that's correct. The initial
5 phase is what's commonly referred to as Phase I, which is in
6 the southeast portion, and then as more demand became avail-
7 able a larger number of wells were drilled, which we common-
8 ly refer to as Phase II.

9 Q So in each one of these, 8829, 8830, just
10 because it looks like on these exhibits that there's a bunch
11 of wells all the way around them now, doesn't mean that's
12 what was the case at the time those wells were drilled. Or-
13 dinarily, there would have been no wells, probably, off to
14 the west or south at the time that well was drilled that
15 would give any confidence that that well was productive, is
16 that correct?

17 I'm speaking in general terms.

18 A From a general standpoint, yes, sir.

19 Q Okay, and also on Exhibits Number One in
20 both 8829 and 8830 you show quite a few dry holes that have
21 been encountered, is that correct?

22 A Throughout the unit that is correct.

23 Q And you've got several dry holes that
24 didn't connect up with any hydrocarbons, I mean with any
25 CO2, is that correct?

1 A Yes, but of course I've mentioned that we
2 are in this area where it is highly -- a large number of
3 wells, we in two instances failed to encounter the Tubb at
4 all, which we did not anticipate.

5 MR. MOTE: I believe that's all
6 the questions I have.

7 MR. STOGNER: Thank you, Mr.
8 Mote.

9 I'd like to ask Mr. Webb a
10 couple of questions.

11

12 JERRY WEBB,
13 a witness being recalled and remaining under oath, testified
14 as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MR. STOGNER:

18 Q Mr. Webb, will the monies attributed to
19 these particular interests, how will they be handled outside
20 of the unit operations?

21 A Well, I'm not -- you know, I'm not that
22 familiar with it. I understand that when he grants an or-
23 der, how -- how it will be handled will be contained in that
24 whether it be by escrow or -- I'm not exactly sure what
25 you're asking.

1 MR. MOTE: Mr. Allen might be
2 better qualified to answer that question.

3 MR. STOGNER: Okay, Mr. Allen,
4 you can answer that question.

5 MR. ALLEN: In -- in the 640
6 acres the costs and the royalty which is attributed -- at-
7 tributable of those interests which are not committed will
8 be based, of course, as I said, on a natural wellhead and
9 paid on their proportionate share on that individual well
10 only, and those funds will be escrowed for those wells.

11 MR. STOGNER: Okay, that satis-
12 fies my question.

13 MR. MOTE: And then one other
14 thing we might tell the examiner, and that is that this will
15 all be from first run of production.

16 MR. ALLEN: That's correct.

17 MR. MOTE: Even though one of
18 these wells was on for a certain length of time and we shut
19 it in, nevertheless, any funds attributable to any interest
20 which is unleased, will be held from first production, at-
21 tributed to that -- put in escrow, or whatever, in connec-
22 tion with that individual's unleased interest.

23 MR. STOGNER: I believe you on-
24 ly had one well that was in that situation, did you not?

25 MR. ALLEN: Yes, that's cor-

1 rect.

2 MR. STOGNER: How much produc-
3 tion was taken off of that?

4 MR. ALLEN: It was 170.3-mil-
5 lion cubic feet.

6 MR. STOGNER: I have no further
7 questions of Mr. Allen or Mr. Webb so they may both be ex-
8 cused.

9 Is there anything further in
10 Cases Number 8829 or 8830 at this time?

11 MR. MOTE: No, sir.

12 MR. STOGNER: Both these cases
13 will be taken under advisement.

14

15 (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 (Commission) 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 Nos. 8829 + 8830
heard by me on 19 February 1986.

Michael J. Thomas Examiner
Oil Conservation Division