

1 STATE OF NEW MEXICO  
2 ENERGY AND MINERALS DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 STATE LAND OFFICE BLDG.  
5 SANTA FE, NEW MEXICO

6 12 June 1986

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Amoco Production Com- CASE  
10 pany for compulsory pooling, Union 8917 & 8919  
11 County, New Mexico.

12 BEFORE: David R. Catanach, Examiner

13  
14  
15 TRANSCRIPT OF HEARING

16  
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22  
23  
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## I N D E X

STATEMENT BY MR. MOTE

JERRY D. WEBB

Direct Examination by Mr. Mote 7

Cross Examination by Mr. Bateman 33

STEPHEN P. SCHEFFLER

Direct Examination by Mr. Mote 52

Cross Examination by Mr. Bateman 59

Cross Examination by Mr. Catanach 68

Redirect Examination by Mr. Mote 70

Recross Examination by Mr. Taylor 73

STATEMENT BY MR. BATEMAN 77

STATEMENT BY MR. MOTE 81

STATEMENT BY MR. BATEMAN 85

STATEMENT BY MR. MOTE 85

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

## E X H I B I T S

Amoco Exhibit One, Area Map	8
Amoco Exhibit Two, Map	8
Amoco Exhibit Two-A, Breakdown	9
Amoco Exhibit Two-B, Map	9
Amoco Exhibit Two-C, Recap	10
Amoco Exhibit Three, Packet	10
Amoco Exhibit Three-A, Title Opinion	15
Amoco Exhibit Three-B, Title Opinion	19
Amoco Exhibit Three-C, Title Opinion	43
Amoco Exhibit Four, Packet	21
Amoco Exhibit Five, Packet	28
Amoco Exhibit Six, Well Cost Data	53
Amoco Exhibit Seven, Well Cost Data	53
Amoco Exhibit Eight, Recommendation	
Opponents Exhibit A, Deed	43

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

4 We'll call next Case 8917.

5 Application of Amoco Production  
6 Company for compulsory pooling, Union County, New Mexico.

7 Are there appearances in this  
8 case?

9 MR. MOTE: Mr. Examiner, I'm  
10 Clyde Mote, representing Amoco Production Company in asso-  
11 ciation with Bill Carr of the firm of Campbell & Black, in  
12 Santa Fe.

13 We would also request that you  
14 call Docket No. 8919, as we will request that these two  
15 cases be consolidated for the purpose of taking testimony,  
16 as they more or less have the same testimony that will be  
17 presented in both cases and I think it would be of benefit  
18 and save time.

19 MR. CATANACH: At this time  
20 we'll call Case 8919, the application of Amoco Production  
21 Company for compulsory pooling, Union County, New Mexico.

22 And Case 8917 and Case 8919  
23 will be consolidated for the purpose of testimony.

24 Are there other appearances in  
25 this case?

1 MR. BATEMAN: Mr. Examiner, I'm  
2 Ken Bateman of White, Kock, Kelly, & McCarthy, appearing on  
3 behalf of Joy Beemer and Robert Williams, who are mineral  
4 interest owners in both cases involved and of course we have  
5 no objection to the consolidation.

6 MR. CATANACH: Thank you, Mr.  
7 Bateman.

8 Go ahead.

9 MR. MOTE: Mr. Examiner, this  
10 is the application of Amoco for compulsory pooling of all  
11 mineral interests in carbon dioxide only from the base of  
12 the Cimarron Anhydrite marker to the top of the PreCambrian  
13 Basement underlying Section 10, Township 19 North, Range 35  
14 East, in Union County, forming a standard 640-acre pool  
15 spacing and proration unit, and for the compulsory pooling  
16 of all mineral interests in carbon dioxide only in the same  
17 interval underlying Section 9, Township 19 North, Range 35  
18 East, in Union County, forming another 640-acre pool, spac-  
19 ing and proration unit, docketed as Cause 8917 and 8919,  
20 respectively, which we have requested be consolidated for  
21 hearing purposes.

22 Well No. 101 in Gas Unit 1935  
23 has already been drilled, completed and producing in Section  
24 10 and Well No. 091 in Gas Unit Number No. 1935 has already  
25 been drilled, completed and producing in Section 9.

1                   Amoco will ask the cost of  
2 drilling and completing, which will be the actual costs in-  
3 curred, which should be allocated to the unleased interests,  
4 as well as the actual operating costs and charges for super-  
5 vision; we will request that Amoco be designated operator  
6 and that a 200 percent penalty will be assessed for risks  
7 inherent in drilling and completing said wells.

8                   We'll call -- we have two wit-  
9 nesses in connection with this presentation.

10                   MR. CATANACH: Mr. Bateman, do  
11 you have any witnesses?

12                   MR. BATEMAN: Yes, Mr.  
13 Examiner, I have two that I may call to testify this  
14 morning.

15                   MR. CATANACH: Will all the  
16 witnesses please stand and be sworn in at this time?

17  
18                   (Witnesses sworn.)

19  
20                   MR. CATANACH: You may proceed,  
21 Mr. Mote.

22                   MR. MOTE: Call as our first  
23 witness, Mr. Jerry Webb.  
24  
25

1 JERRY D. WEBB,

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

4  
5 DIRECT EXAMINATION

6 BY MR. MOTE:

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

9 A Yes. Jerry Webb, employed by Amoco Pro-  
10 duction Company as a Petroleum Landman, Senior Grade, in  
11 Houston, Texas.

12 Q Have you previously testified before the  
13 Conservation Division and have your qualifications as a  
14 landman been accepted by the Division?

15 A Yes, I have, and yes, they have.

16 Q Are you familiar with the subject matter  
17 of this application?

18 A Yes.

19 Q I'll ask you to testify concerning cer-  
20 tain exhibits. Were these exhibits either prepared by you  
21 or under your supervision and direction?

22 A Yes.

23 MR. MOTE: Is there any ques-  
24 tion concerning Mr. Webb's qualifications?

25 MR. CATANACH: Any objection,

1 Mr. Bateman?

2 MR. BATEMAN: No objection.

3 MR. CATANACH: Mr. Webb is con-  
4 sidered qualified.

5 Q If you would, please turn to what you  
6 have shown and identified as Amoco Exhibit Number One and  
7 explain what is shown by this exhibit, Mr. Webb.

8 A Exhibit Number One is an area map showing  
9 the Bravo Dome CO2 Gas Unit. The unit is located in por-  
10 tions of Union, Harding, and Quay Counties, New Mexico. It  
11 contains 1,000,000 -- approximately 1,036,000 acres and is  
12 operated by Amoco Production Company.

13 Q Okay, go to your next exhibit, Exhibit  
14 Number Two. What do you show by this exhibit?

15 A Exhibit Number Two is a map. The upper  
16 portion of Exhibit Number Two is a map which is a blow-up of  
17 Township 19 North, Range 35 East. Highlighted on the upper  
18 portion is Section 9, which is the subject of our hearing.

19 The bottom portion of the plat is a blow-  
20 up of Section 9, wherein we've put the respective mineral  
21 interest ownership.

22 Highlighted are the unleased mineral  
23 owners, which are the subject of the application today,  
24 being Robert Williams, Joy Beemer, and E. W. Jones, et ux.

25 Q And the names and ownership are shown on

1 the exhibit as this being an entire section. In other  
2 words, the northwest quarter is Pauline McClurq (sic), et  
3 us, E. W. Jones, et ux, own the full 6/6ths interest in that  
4 northwest quarter, is that correct?

5 A That's correct.

6 Q And so that's true all over the entire  
7 exhibit.

8 A Yes, it is.

9 Q And the well is located in the southwest  
10 quarter of that section.

11 A That's correct.

12 Q All right, let's go your Exhibit Number  
13 Two-A. What do you show by this exhibit, Mr. Webb?

14 A Exhibit Number Two-A is a breakdown of  
15 ownership, basically a recap of the plat, the previous  
16 exhibit. It's a breakdown of ownership by mineral owner,  
17 gross acres, interest owned, net acres, and a status, being  
18 either leased or unleased.

19 Again we've highlighted the unleased  
20 individuals, Mr. Williams, Ms. Beemer, and E. W. Jones.

21 Q All right, anything further on this  
22 exhibit?

23 A No.

24 Q Go to your Exhibit Number Two-B. What  
25 do you show by this exhibit?

1           A           This is similar to the previous exhibit,  
2 two previous exhibits. The upper half of this exhibit is a  
3 blow-up of Township 19 North, Range 35 East, wherein Section  
4 10 is highlighted.

5                       The bottom portion of the exhibit is a  
6 blow-up of Section 10, wherein the mineral interest  
7 ownership is set out.

8                       Again highlighted are the unleased  
9 mineral owners, Williams and Beemer.

10           Q           Okay, go to your Exhibit Two-C. What do  
11 you show there?

12           A           This is a recapitulation of the previous  
13 exhibit for Section 10, setting out, again, by mineral owner  
14 gross acres, interest owned, net acres, and status, again  
15 highlighting the unleased mineral interest owners.

16           Q           All right. Let's go on to your Exhibit  
17 Number Three.

18                       Exhibit Number Three is a packet, is it  
19 not?

20           A           Yes, it is.

21           Q           And it's a packet of correspondence and  
22 mailings and certified mail receipts, and so forth, dealing  
23 with a particular interest. I believe it's the Robert  
24 Williams interest, is that correct?

25           A           Yes, sir.



1 Amoco a lease on terms being \$20.00 per net acre bonus, a  
2 3/16ths royalty, and not require that they ratify the Bravo  
3 Dome Unit. This would make them a royalty interest owner in  
4 the respective Sections 9 and 10 only.

5 Option number two was to grant Amoco a  
6 lease on the same terms as in number one, with the option to  
7 ratify the Bravo Dome Unit and make them a royalty interest  
8 owner in the entire unit production.

9 Option number three was to become a work-  
10 ing interest owner in just the specific wells in Section 9  
11 and 10, wherein they were offered the option to either pay  
12 up front in cash their proportionate share of expenses of  
13 the well, or out of production, therein offering a carried  
14 working interest situation.

15 Option number four was to become a work-  
16 ing interest owner in the entire Bravo Dome CO2 Gas Unit and  
17 allowing them to pay their proportionate share of expenses,  
18 either up front in cash or out of their proportionate share  
19 of production.

20 There were several exhibits attached to  
21 that letter, was there not?

22 A Yes, there was.

23 Q Which you do not include in this packet,  
24 is that correct?

25 A No.

1 Q The exhibits that were attached are men-  
2 tioned in that October 9th letter.

3 A Yes.

4 Q All right, now what -- before the October  
5 9th, 1985 letter was sent, what information did you have in  
6 your files concerning this unleased interest?

7 A Well, we were aware that the interest was  
8 unleased by a March 26th, 1982, title opinion, which con-  
9 firmed that Mr. Williams owned this unleased interest, or  
10 should I say that Tula Fern Williams owned the unleased in-  
11 terest. This -- on June 25th of 1982 we received a title  
12 curative status report regarding the subject title opinion,  
13 and it advised that Tula Williams was recently deceased and  
14 her interest had passed to her husband, Robert Williams.

15 In this title curative status report we  
16 were advised that the unleased interest owners were contac-  
17 ted regarding leasing. They were -- used the words, "hos-  
18 tile" towards Amoco, did not want to lease, and were --

19 MR. BATEMAN: Object to that,  
20 unless you're going to put it in the record: it's only hear-  
21 say.

22 MR. MOTE: I don't know that  
23 he's putting anything in the record other than his testi-  
24 mony.

25 MR. BATEMAN: He was testifying

1 with respect to some document, which we don't have in the  
2 record at this time.

3 MR. MOTE: I don't believe he  
4 is.

5 MR. CATANACH: What are you  
6 testifying with reference to, Mr. Webb?

7 A It's a curative status report. It is a  
8 piece of paper received from our brokers working under my  
9 supervision.

10 MR. BATEMAN: Were you testi-  
11 fying concerning the remarks made in that report?

12 A Yes.

13 MR. BATEMAN: Then I resubmit  
14 my objection on the basis of hearsay unless you have the re-  
15 port.

16 MR. MOTE: We will provide you  
17 that title opinion and offer it in evidence.

18 MR. BATEMAN: Do you have that  
19 with you at this time?

20 A Well, I'll have to dig in my briefcase.  
21 Do you want me to do it right now?

22 MR. BATEMAN: Yes.

23 A I have it right here. I did have it  
24 right here.

25 So I'll just go ahead and read from it.

1 MR. MOTE: Let's -- let's have  
2 it marked as Amoco Exhibit Number Three-A.

3 A Okay. Well, I'll need it to read from.  
4 It's my only --

5 MR. BATEMAN: Is there a signa-  
6 ture page on this?

7 A I don't know. Yeah, there's a third page  
8 to it.

9 Q Mr. Webb, I'll hand you what has been  
10 marked as Amoco Exhibit Three-A and would you please identi-  
11 fy that for the record?

12 A Exhibit Three-A is a title curative sta-  
13 tus report dated June 25th, 1982, submitted to us by Michael  
14 Marsoff (sic), an Amoco employee doing title work on the  
15 Bravo Dome CO2 Gas unit.

16 With regard to the unleased interest of  
17 Mr. Williams he reports:

18 "Tula Fern Miller Williams has recently  
19 died with her estate currently being probated. We have con-  
20 tacted the unleased interest owners and they are very hos-  
21 tile because the other members executed a lease.

22 They feel that the other lessors gave it  
23 away and they do not want us to recontact them unless we  
24 have \$1000 per acre bonus to offer."

25 MR. BATEMAN: Mr. Examiner, I

1 renew my objection to that. That is clearly hearsay with  
2 respect to the truth of that statement. The writer of that  
3 document is not here to testify with respect to what he did  
4 or did not do.

5 I would, however, concede that  
6 it is admissible with respect to the fact that that state-  
7 ment exists in that document but I do object to any consid-  
8 eration of the truth or accuracy of the statement.

9 MR. MOTE: It's not submitted  
10 for the purpose of truth; the matter is stated for the mere  
11 purpose that it is in evidence; that the letter was written  
12 and those things were stated in the letter; not for the  
13 truth stated therein.

14 MR. CATANACH: I will admit it  
15 on those grounds.

16 MR. MOTE: Thank you.

17 Q All right, attached to this October 9th  
18 -- have you finished with what your records reflected before  
19 --

20 A Actually, I hadn't. I was going to men-  
21 tion one other document --

22 Q Okay.

23 A -- which was stamped in this.

24 Q What was -- what else did you records re-  
25 flect before the October 9th, 1985, letter was sent?

1           A           We had a similar title curative status  
2 report dated September 10th, 1984, prepared by a broker un-  
3 der my supervision by the name of Ronnie Miles, again regard-  
4 ing contacts on the unleased mineral interest, specifically  
5 Robert Williams, which said:

6                       "Mr. Williams informed me he didn't want  
7 to lease this interest and didn't want to be bothered with  
8 it at this time. He has our address and telephone number."

9           Q           All right, attached to the Exhibit --

10                      MR. BATEMAN: Are you going to  
11 make that part of the record?

12                      MR. MOTE: No, I didn't intend  
13 to.

14                      MR. BATEMAN: Well, I'll renew  
15 my objection, to the consideration of that statement as  
16 hearsay.

17                      MR. MOTE: It hasn't been of-  
18 fered in evidence.

19                      MR. BATEMAN: Well, he just  
20 testified from it.

21                      MR. MOTE: Sure he did.

22                      MR. BATEMAN: If that isn't  
23 evidence, I'm a purple cow.

24                      MR. CATANACH: Mr. Mote, do you  
25 plan to admit that into evidence?

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MR. MOTE: No, sir.

MR. BATEMAN: Well, then I move that the whole testimony with respect to that document be stricken.

MR. MOTE: It was introduced without -- without objection, Your Honor, and testified to here in the open hearing room. There was no objection made before it was read into evidence. It was stated --

MR. BATEMAN: We had no idea what was in it until -- until he testified.

MR. MOTE: It was stated what it was from, another title report, and no objection was made. I think the objection was waived.

MR. BATEMAN: That's not the way (not clearly understood).

MR. CATANACH: Mr. Mote, if you don't plan to enter that piece of paper I don't think it would be right to testify from it.

MR. MOTE: Even though he's already testified from it?

MR. BATEMAN: You can strike that from the record, that's easy.

MR. MOTE: We'll offer it, then, for the limited purpose of showing that the report was made and those words were said but not for the truth of the

1 matter stated therein.

2 MR. BATEMAN: Very well.

3 MR. MOTE: Do you want it mar-  
4 ked as part of the record?

5 MR. BATEMAN: Yes, please.

6 MR. MOTE: So Exhibit Three-B  
7 will be a letter dated September 10th, 1984, from Ronnie  
8 Miles of Wilderspin (sic), Inc.

9 MR. BATEMAN: Okay, with the  
10 stipulation stated in the record, then I withdraw my objec-  
11 tion.

12 Q Was there anything else that you recol-  
13 lect in your files concerning this interest prior to the  
14 time the October 9th letter was sent?

15 A No, sir.

16 Q All right. Was an Authority for Expendi-  
17 ture attached to the October 9th, 1985, letter as to both  
18 Section 9 and Section 10?

19 A Yes, sir.

20 Q And those are shown in your packet.

21 A Yes, sir.

22 Q All right, go ahead and continue with  
23 our packet and show what's contained in that exhibit.

24 A All right. The next letter is a letter  
25 dated November 13th, 1985, received from Robert Williams in

1 response to Amoco's October 9th, 1985, letter of option.

2 Mr. Williams advised he would be willing  
3 to grant Amoco a lease on the following conditions:

4 A leasing bonus of \$2000, which is equal  
5 to \$91.70 per net acre; 1/5th royalty payment; that the  
6 lease cover CO2 and helium gas only; and that Amoco agree to  
7 amend and renegotiate our lease with the other family mem-  
8 bers along the same lines.

9 Q All right, did you answer that letter?

10 A Yes, I did. The next page is a letter  
11 dated December 3rd, 1985, addressed to Mr. Robert Williams,  
12 wherein we advised that Amoco was willing to pay \$20.00 per  
13 acre; that \$91.00 was unacceptable; we were willing to give  
14 a 3/16ths royalty, which is equal to 18.75 percent, but not  
15 a 20 percent royalty; that we were agreeable that the lease  
16 cover only CO2 and helium; and that we're not agreeable to  
17 renegotiating our lease on the same terms with the other  
18 family members.

19 Q All right, what's next contained in this  
20 packet?

21 A A letter dated May 14th, 1986, sent to  
22 Mr. Robert Williams advising him of this hearing today on  
23 Section 9.

24 The next page is a letter dated May 8th,  
25 1986, that was attached to the previous letter to Mr.

1 Williams.

2 The next page are copies of certified  
3 mail receipts sent with the aforementioned letter.

4 The next page is another letter dated May  
5 14th, 1986, which advised Mr. Williams of the hearing regard-  
6 ing Section 10.

7 And again the next page is the attached  
8 application to the Commission and again the last page is the  
9 certified mail receipts showing he received the information  
10 May 27th, 1986.

11 Q And when does it show it to have been  
12 mailed?

13 A May 16th, 1986.

14 Q Both letters with certified mail, return  
15 receipt requested returns, were mailed on that date --

16 A Yes.

17 Q -- May 16th, '86?

18 A Yes, sir.

19 Q Is that all that's contained in that pac-  
20 ket?

21 A Yes, sir.

22 Q All right. Let's go on to the next pac-  
23 ket, which I believe we've marked as Amoco Exhibit Number  
24 Four. This is a packet consisting of several sheets of pa-  
25 pers, letters, receipts, and so forth, dealing with the Joy

1 Beemer correspondence and interest, is it not?

2 A Yes, it is.

3 Q If you would, please just start at the  
4 beginning and tell us what's contained within this packet.

5 A Pages one and two are copies of certified  
6 receipts showing that Amoco sent a letter to Joy Beemer and  
7 was received October 15th, 1985.

8 The third page is the letter sent. It's  
9 dated October 9th, 1985, and is exactly the same in content  
10 as the letter sent to Robert Williams.

11 Q The same four options were offered to Joy  
12 Beemer as were offered to Mr. Williams, is that correct?

13 A Yes, sir.

14 Q And attached to that are the same two  
15 AFE's for signature with regard to each well?

16 A That's correct.

17 Q Prior to this time what did your files  
18 reflect concerning this unleased interest?

19 A Again we had the same March 26th, 1982,  
20 title opinion which confirmed that Ms. Beemer's interest was  
21 indeed unleased.

22 The Exhibit Three A previously offered  
23 into evidence advised us again that the unleased mineral in-  
24 terest owners had been contacted and asked us not to recon-  
25 tact them unless we had \$1000 per net acre to offer.

1                   The previously mentioned Exhibit Three-B  
2 also had the -- the report from Ronnie Miles had some state-  
3 ments made by Mrs. Beemer and might refer those now, if ap-  
4 propriate.

5                   Q            Okay.

6                   A            Mr. Miles reports:

7                   Mrs. Beemer had the following comments:  
8 She didn't like the way she was talked to and treated when  
9 she was contacted before about leasing. She feels as though  
10 the family was cheated before and her attorney will be in on  
11 any negotiations that do take place.

12                   The unit isn't acceptable; she won't  
13 share her royalty with others; won't lease her interest un-  
14 less the price paid is about \$20,000 for her 21.81 net ac-  
15 res.

16                   MR. BATEMAN: This is offered,  
17 as I understand it, with the same stipulation?

18                   MR. MOTE: Yes. Yes, sir.

19                   Q            All right, what was the first response  
20 you got from your option letter?

21                   A            Subsequent to Ms. Beemer receiving it, we  
22 had approximately, and I did not document them, five tele-  
23 phone conversations to discuss the matter at hand.

24                   Q            And what was the substance of these con-  
25 versations?

1           A           To help her understand the options which  
2 Amoco wanted to make available regarding these mineral in-  
3 terests.

4           Q           And what was the response that you got  
5 form Ms. Beemer?

6           A           I received a telephone call from an  
7 attorney in Albuquerque by the name of Keith McClurge, which  
8 advised that Ms. Beemer was in his office and asked if we'd  
9 be willing to enter into a conference call to discuss the  
10 October 9th, 1985 letter.

11          Q           And did you agree to that conference  
12 call?

13          A           Yes, I did.

14          Q           And did you discuss with her attorney,  
15 Ms. Beemer's attorney, the terms of the option letter of Oc-  
16 tober 9th, 1985?

17          A           Yes, sir, I did.

18          Q           Do you feel like you answered all the  
19 questions that were asked?

20          A           Yes, sir.

21          Q           And you tried your best to answer all  
22 those questions?

23          A           Yes, sir.

24          Q           Did you ever hear from that attorney  
25 again?

1           A           No, I didn't.

2           Q           What was your next contact with Ms.  
3 Beemer?

4           A           We received a letter dated November 19th,  
5 1985, from the Montgomery and Andrews Law Firm by attorney  
6 Perry Pearce, W. Perry Pearce.

7                       This letter advised that Mrs. Beemer had  
8 retained him and chose to clarify several points.

9                       One, to confirm that Amoco was willing to  
10 offer \$20.00 an acre bonus and a 3/16th royalty, and that  
11 the lease would cover only CO2.

12                      Two, the letter asked if Amoco would de-  
13 tail our plans for the land; for example, specific drillsite  
14 locations; and three, asked if we could give him a capitula  
15 tion of Mrs. Beemer's net mineral acres owned.

16                      And fourthly, asked when we would expect  
17 that such a CO2 well would be put on production.

18           Q           This letter is dated November 19th, 1985,  
19 and is contained in the packet.

20           A           Yes, sir.

21           Q           All right. Did you answer that letter?

22           A           Yes, I did, and the next page is a latter  
23 dated November 27th, 1985, wherein I advised Mr. Pearce that  
24 number one, I confirmed that Amoco is willing to offer  
25 \$20.00 an acres, a 3/16ths royalty, and that the lease would

1 cover only carbon dioxide and helium gas.

2                   Number two, advised him of our specific  
3 drillsite locations planned for Section 9 and 10.

4                   And number three, gave him the specific  
5 breakdown of the net mineral interest acres owned and ad-  
6 vised that we'd reasonably expect a well to be put on pro-  
7 duction by April of 1986.

8                   Q            Do you feel like you answered all the  
9 questions that were contained in the letter from Mr. Perry  
10 Pearce?

11                   A            Yes, sir.

12                   Q            Did you ever hear from Mr. Pearce again?

13                   A            No, I didn't.

14                   Q            What was your next correspondence with  
15 Ms. Beemer?

16                   A            The next page shows we received a certi-  
17 fied mail letter from Ms. Beemer dated December 22nd, 1985.  
18 The letter is a long letter and basically advises us that  
19 Mr. Pearce is no longer representing her. She'll be repre-  
20 senting herself and she'd like to be notified of any hearing  
21 before the NMOCD, that she may protect herself, and asked --  
22 set out many questions regarding the unleased interest.

23                   Q            All right, did you answer that letter?

24                   A            Yes, sir, I did.

25                   Q            Did you answer it by certified mail?

- 1           A           Yes, sir, I did.
- 2           Q           Are those certified receipts next shown in  
3 this packet?
- 4           A           Yes, they are.
- 5           Q           And when did Mrs. Beemer show to have re-  
6 ceived your answer?
- 7           A           January 16th, 1986.
- 8           Q           And what in substance was the content of  
9 your answer?
- 10          A           I substance I believe I addressed all of  
11 the questions asked. I believe my letter was nine typewrit-  
12 ten pages long; that's what it took to answer the questions,  
13 and I did the best job I could to answer them.
- 14          Q           And that's that letter dated January  
15 14th, 1986.
- 16          A           Yes, sir.
- 17          Q           All right, what was your next correspon-  
18 dence with Ms. Beemer?
- 19          A           By letter dated May 14th, 1986, we ad-  
20 vised Ms. Beemer that we were -- of the hearing regarding  
21 Section 9, Notice of Compulsory Pooling Application.
- 22          Q           That was by a letter of May 14th, 1986?
- 23          A           Yes, sir.
- 24          Q           To which was attached a May 8th, 1986,  
25 request for this hearing --

1 A Yes, sir.

2 Q -- as to Section 9, and following that a  
3 certified mail receipt showing -- well, I can't read it when  
4 it was mailed. Do you know when it was mailed?

5 A It was mailed May 16th; received May  
6 19th.

7 Q All right, and then the next letter is  
8 another letter addressed to Ms. Beemer dated the same date,  
9 which is in connection with Section 10.

10 A Yes, sir.

11 Q Is that correct?

12 A Yes, sir.

13 Q And that's followed by the same May 8th,  
14 1986, letter and the certified receipts.

15 A Yes, sir.

16 Q Showing that it was mailed on the same  
17 day and she received it on May 20th of '86.

18 A That's correct.

19 Q All right, let's go to your Exhibit Num-  
20 ber Five.

21 A All right.

22 Q Exhibit Number Five, I believe, is a pac-  
23 ket concerning what has been identified as E. W. Jones in-  
24 terest, is that correct?

25 A Yes, sir.

1           Q           It only consists of a title report and a  
2 warranty deed. If you would, please explain what's shown by  
3 this Exhibit Five.

4           A           All right. To preface the exhibit, we  
5 recognize that E. W. Jones, et ux, owns an unleased 1/6th  
6 mineral interest in the northwest quarter of Section 9.

7                       The story behind this is that E. W. Jones  
8 retained a 1/6th undivided mineral interest by a 1929 war-  
9 ranty deed. The deed did not contain an address for Mr.  
10 Jones. We can only tell that it was executed by the notary  
11 stamp in San Bernadino County, California.

12                      We retained a licensed New Mexico attor-  
13 ney, Stephen R. Jordan, to research this and see if he could  
14 find Mr. Jones or his heirs.

15                      The efforts Mr. Jordan undertook to find  
16 Mr. Jones included contacting several of the older citizens  
17 of the Clayton, Union County, area, including Christina  
18 Brams, Dale Ellis, and Lee Van Pelt, a long time abstractor  
19 who knows about the history of the area. None of them were  
20 able to help.

21                      He went to the tax rolls for Union Coun-  
22 ty, got a couple of leads, one being the address for Mr.  
23 Jones said in care of F. P. Hardin, Nara Vasa, New Mexico.  
24 He checked directory assistance for Nara Vasa, could not  
25 find a Mr. Hardin, and also checked with several of the

1   aforementioned individuals and could not find Mr. Hardin  
2   either for a lead to find Mr. Jones.

3                   Also pencilled in on the tax rolls in  
4   1931 next to Mr. Jones' name was the name Frank Packard. He  
5   set out to find Frank Packard and found a daughter-in-law of  
6   Frank Packard in Union, Iowa, named Geneva Packard, and she  
7   was not able to offer any assistance.

8                   He checked -- he called the Register of  
9   Deeds in San Bernadino County, California and checked  
10   directory assistance for the same, and was unable to come up  
11   with any leads.

12                  Q           Mr. Webb, do you believe that a good  
13   faith, diligent effort has been made to find the correct  
14   address for Mr. E. W. Jones or his heirs?

15                  A           Yes, I do.

16                               MR. MOTE:    We offer into  
17   evidence Exhibits, Amoco's Exhibits One through Five and  
18   submit the witness for cross examination.

19                               MR. CATANACH:  If there is no  
20   objection Exhibits One through Five will be admitted into  
21   evidence.

22                               MR. BATEMAN:  I believe I'd  
23   like to clear up something that really is reflected from the  
24   advertisement for this case.  Perhaps Mr. Mote will want to  
25   respond to it, but I think it's an important point and one

1 that apparently has been misunderstood.

2           The application for this -- these two  
3 cases indicate that you're requesting an order seeking to --  
4 or seeks an order to pool all mineral interests in the  
5 formations Tubb formation from the base of the Cimarron  
6 Anhydrite marker to the top of the PreCambrian Basement  
7 underlying all of Section 10 and all of Section 9.

8           I noticed in Mr. Mote's opening remarks  
9 he stated that the application was to seek an order pooling  
10 mineral interest in CO2 only.

11           Is that the case?

12           MR. MOTE: Yes, sir, that all  
13 mineral interest business is wording that the NMOCD uses  
14 when they grant the compulsory pooling orders and it's my  
15 understanding, they can speak for themselves, but it's my  
16 understanding that when they use that verbiage it means the  
17 8/8ths mineral interest of a particular item. If it's gas,  
18 it's 8/8ths, and when you're talking about the oil and min-  
19 eral interest you're talking about 8/8ths of the carbon di-  
20 oxide, and if you'll notice, it does, going on further down  
21 in the notice, it does refer to the carbon dioxide unit and  
22 it only is intended to be operative as against carbon di-  
23 oxide, and we never intend to unitize anything else.

24           Of course, this is prepared by  
25 the NMOCD --

1 MR. BATEMAN: I see.

2 MR. MOTE: -- according to  
3 their own words, and we have never changed our mind, never  
4 intended anything other than just to pool the CO2 in the in-  
5 terval noted.

6 MR. BATEMAN: All right, I want  
7 to be absolutely clear about that because orders coming from  
8 the Commission in my experience have customarily included  
9 all mineral interests in a certain area regardless of type  
10 of application.

11 But in your case, you're asking  
12 that the order specify that the only thing that's being  
13 pooled is the mineral interest with respect to the produc-  
14 tion of carbon dioxide gas in these two areas, is that cor-  
15 rect?

16 MR. MOTE: Yes, sir.

17 MR. BATEMAN: It doesn't in-  
18 clude helium.

19 MR. MOTE: No, sir.

20 MR. BATEMAN: It doesn't in-  
21 clude natural gas or any other hydrocarbons.

22 MR. MOTE: No, sir.

23 MR. BATEMAN: Excuse me.  
24  
25

## 1 CROSS EXAMINATION

2 BY MR. BATEMAN:

3 Q All right, that's clear on the record.  
4 Mr. Webb, I take it that's your understanding, as well.

5 A Yes, sir.

6 Q All right, now, with respect to something  
7 rather specific concerning the unleased interest, is it your  
8 testimony that there's nothing in Amoco's files or within  
9 your knowledge prior to March, 1982, indicating that -- that  
10 there were some unleased interests in Section 10.11 A No. If that's what I indicated, that was  
12 erroneous.13 I referred to a March 26, 1982 title  
14 opinion that confirmed that. We've been aware since 1971  
15 that the interests were unleased when we originally took the  
16 lease from the Miller family.17 Q All right, what -- what has been your  
18 contact with the Miller family personally, and over what  
19 period of time?20 A Personally, well, I worked on the Bravo  
21 Dome Unit for three years almost exclusively.22 My contact with the Miller family in-  
23 cludes all the letters that have been sent out as put into  
24 evidence under my signature. The telephone conversations  
25 with Joy Beemer and her attorney referred to therein in the

1 testimony.

2 I have also spoken with Robert Williams  
3 and I believe a third sister, Clarissa Edgerton, regarding  
4 many of the same questions.

5 Q It's your testimony that you feel you've  
6 answered all their questions adequately?

7 A Yes, sir.

8 Q Has there ever been a time where the per-  
9 centage interest in a portion of this property has been  
10 raised in question; in other words, the question of the mag-  
11 nitude of their interest? Has that ever been raised?

12 A Yes, in Mrs. Beemer's letter which has  
13 been introduced into testimony -- into evidence. That was  
14 one of her questions regarding an American National Insur-  
15 ance Company deed covering the subject property and a reser-  
16 vation contained therein.

17 Q And what is -- do you have any indepen-  
18 dent information concerning the extent of that interest, in-  
19 terest of American National?

20 MR. MOTE: I'm going to object  
21 to going into ownership information. I don't believe it's a  
22 subject for proper consideration of this Commission.

23 The proper consideration of  
24 this Commission is to whether or not this forms a proper  
25 subject for compulsory pooling, and any attempt to get into

1 contractual matters and title matters, other than to show  
2 who it was was contacted and what the necessity was of them  
3 being contacted, I think is irrelevant, immaterial, and out  
4 of place.

5 I don't believe it's a proper  
6 subject for consideration at this hearing.

7 MR. BATEMAN: Mr. Examiner, if  
8 I may.

9 First of all, he's testified  
10 for the record with respect to what he believes the percen-  
11 tage interest of the various people involved in this matter  
12 is. It is shown in various places and, if you like, I can  
13 go through the record and show you what it is, but particu-  
14 larly with respect to the maps of Section 9 and Section 10,  
15 and associated exhibits, which are Two-B and Two-C, purport  
16 to set forth the percentage interest of each fo the various  
17 individuals claiming any interest in the minerals in these  
18 areas.

19 So I think it is a proper ques-  
20 tion of cross examination. Obviously he submits this for  
21 the Commission to rely upon in preparing its order.

22 Secondly, we're here under a  
23 statutory proceeding to pool the interest, whatever it may  
24 be, of the individuals whom I represent, and I think the  
25 question of what their interest is is certainly subject for

1 inquiry.

2 MR. MOTE: I disagree entirely,  
3 Mr. Chairman. The parties who own interest are here. It's  
4 up to them to have their own title examined, to, if neces-  
5 sary, go to court to prove their title, but that cannot be  
6 done in this forum. The forum is purely from a standpoint  
7 of deteriming whether or not these interests should be  
8 pooled, not how much each party should obtain from produc-  
9 tion within those units. That's something outside the jur-  
10 isdiction of this Commission.

11 MR. CATANACH: I'm going to  
12 disallow the question.

13 MR. BATEMAN: Very well.

14 Q Now, let's go on to the next question.  
15 You -- well, let's talk about your authority, Mr. Webb.  
16 You've offered various options. Is it within your authority  
17 to accept and to provide a lease based on any of the options  
18 that were set forth in the initial letter here if you could  
19 come to an understanding?

20 A Yes.

21 Q Is that something you do in your office?

22 A Yes.

23 Q Did you have any other authority beyond  
24 the options that you've set forth in here?

25 A No, I did not.

1 Q Did you ever offer anything other than  
2 what is reflected in these letters?

3 A Did I personally ever offer, or was any-  
4 thing ever offered?

5 Q Well, let's -- let's ask it both ways.

6 Did you personally ever offer anything  
7 other than what's reflected in this letter --

8 A No.

9 Q -- to the two individuals whom I repre-  
10 sent?

11 A No.

12 Q Do you have personal knowledge if there  
13 was any other offer made by anybody with authority on behalf  
14 of Amoco Production Company to the two individuals?

15 A Only to the extent reflected in, again,  
16 Exhibit Three-B. In 1984 Ronnie Miles, a broker under my  
17 supervision, sets out the terms he tried to get them to  
18 lease on in 1984, and that was \$10.00 an acre, and I'm not  
19 sure what royalty.

20 And only in that regard I'm aware of any-  
21 thing different.

22 Q And that was in what document?

23 A Exhibit Three-B, as I recall.

24 Q All right. All right, no other offer,  
25 then, to your knowledge, was either made by you or anybody

1 with any authority --

2 A No.

3 Q -- in that particular (not clearly under-  
4 stood.)

5 A That's correct.

6 Q Let me refer you to a telephone call Mr.  
7 McClure, is it?

8 A McClurge, C-L-U-R-G-E.

9 Q Is it your testimony you discussed no  
10 other option than the four options that were in your letter  
11 --

12 A That's correct.

13 Q -- with Mr. McClurge?

14 All right. Now, you -- let's look at the  
15 12-22-85 letter from Joy Beemer, if I can find it.

16 Paragraph three. Mr. Webb has hinted at  
17 a poor title. Is that an accurate statement?

18 A That statement was made in regard to our  
19 discussion about the American National Insurance Company  
20 deed mentioned before. Those were not my words.

21 Q Well, what were your words?

22 A Mrs. Beemer questioned me regarding the  
23 full effect of that instrument.

24 MR. MOTE: I'm going to object  
25 to any further testimony regarding something that's already

1 been excluded from evidence. It deals strictly with title.

2 MR. BATEMAN: Mr. Examiner,  
3 again this is an issue raised by documents submitted by Amo-  
4 co and I should be permitted to cross examine concerning the  
5 content.

6 MR. CATANACH: What is the sig-  
7 nificance of your question?

8 MR. BATEMAN: It has to do with  
9 Mr. Webb's understanding of the interest that is being  
10 pooled here. I still think that's a significant question,  
11 Mr. Examiner.

12 MR. MOTE: Mr. Examiner --

13 MR. BATEMAN: It has to do with  
14 everything we're here for.

15 MR. MOTE: Mr. Examiner, we're  
16 asking --

17 MR. BATEMAN: If you'll excuse  
18 me, the application --

19 MR. MOTE: Excuse me, I'm  
20 sorry.

21 MR. BATEMAN: The application  
22 of this order, if applied, will require these individuals to  
23 participate on a percentage basis in the cost of drilling  
24 this well. If they do not do so, I would expect that at  
25 least some penalty might be issued or required. The ques-

1 tion is what is the magnitude of that penalty. That is a  
2 question that is clearly related to the percentage interest  
3 that these individuals have in the area that is being  
4 pooled.

5 It seems to me that the Commis-  
6 sion cannot proceed without some kind of consensus on that  
7 question.

8 MR. CATANACH: Mr. Bateman, are  
9 you disagreeing with Amoco's interpretation of who owns  
10 what? Is that what you mean?

11 MR. BATEMAN: I intend to, if  
12 I'm given a chance.

13 MR. CATANACH: Okay.

14 MR. MOTE: I'd like to make a  
15 point in connection with his -- his statement.

16 We're asking that 100 percent  
17 of all the mineral interest being pooled, regardless of  
18 whether Ms. Beemer owns 1/92nd or 1/10th, so it doesn't make  
19 any difference what she owns at this stage of the game.

20 At this stage of the game it is  
21 whether or not this is a proper subject for compulsory pool-  
22 ing. It's up to the individuals themselves to show interest  
23 they're entitled to.

24 If there is some question about  
25 Mrs. Beemer's title, she cannot prove up that title in this

1 forum. She must go to the courthouse, prove up the title,  
2 then present those documents to Amoco, at which time we'll  
3 honor them.

4 This cannot be done through the  
5 New Mexico Oil Conservation Division. It's strictly outside  
6 your jurisdiction.

7 MR. BATEMAN: Mr. Examiner, I'm  
8 not offering this information or attempting to get into it  
9 with respect to proving the title.

10 I'm offering it to show that  
11 there is a dispute, and the question, the real question con-  
12 cerning the extent of the interest is recognized both by  
13 Amoco and by the parties whom I represent.

14 MR. CATANACH: Mr. Mote, if  
15 Amoco does have misinformation about the interest owners,  
16 that will affect the percentage they're required to pay to  
17 the well, won't it?

18 MR. MOTE: It would be up to  
19 each individual interest owner to prove the interest that  
20 they have and show that they're entitled to a certain per-  
21 centage in the pooled area, yes, sir.

22 But that's something outside  
23 the scope of this hearing; something that cannot be control-  
24 led, decided, or even considered by this Commission, because  
25 it's outside their jurisdiction.

1 MR. CATANACH: I'm going to  
2 take a five minute break.

3  
4 (Thereupon a recess was taken.)

5  
6 MR. TAYLOR: And I think, for  
7 purposes of entering a forced pooling order, we do not need  
8 to determine prior to the entry the specific ownership  
9 interests in a given lease or piece of property, although I  
10 -- it says in the statutes that we have authority to deter-  
11 mine that, and I think we could, or it could be determined  
12 by a court, however the parties want to do it, but I don't  
13 think it's necessary to go through all that at this hearing  
14 unless there is some particular reason it has to be deter-  
15 mined. As far as I know, there isn't.

16 What's the difference in the --  
17 if we could go off the record just a second.

18  
19 (Thereupon a discussion was had off the record.)

20  
21 MR. TAYLOR: We're going to  
22 rule that for purposes of the entry of a forced pooling or-  
23 der we're not going to hear evidence and determin the pre-  
24 cise ownership interests but we will hear evidence -- we  
25 will accept the opponents evidence that there is a dispute

1 as to ownership.

2 They will at some later date  
3 either have to bring another case or ask for an accounting  
4 in this one or bring a court action to determine precise  
5 ownership in this.

6 MR. CATANACH: You may proceed.

7 MR. MOTE: I believe -- I be-  
8 lieve that we had a Three-A and Three-B entered.

9 MR. BATEMAN: Yes.

10 MR. MOTE: I believe that this  
11 title opinion of Atwood, Malone, Mann and Turner should be  
12 denominated Amoco Exhibit Three-C. It's dated January 20th,  
13 1986 and there is a supplement opinion attached to it as a  
14 part of the same exhibit dated March 26, 1982.

15 A Yeah, that's the original and then the  
16 one on top is a supplemental.

17 MR. MOTE: Okay, the one on the  
18 bottom is the original and this is the supplemental, but  
19 both of them are offered as Amoco's Exhibit Three-C.

20 MR. BATEMAN: All right, and I  
21 have a copy of a deed dated 8 March 1985 between American  
22 National Insurance Company and W. I. Miller, which consists  
23 of three pages, and I'm offering that as Opponents Exhibit  
24 Number A.

25 MR. CATANACH: Amoco's Exhibit

1 Three-C and Opponents Exhibit Number A will be admitted into  
2 evidence at this time.

3 MR. MOTE: No objection.

4 Q Mr. Webb, have you ever seen what's been  
5 marked Exhibit A, Opponents Exhibit A?

6 A Yes.

7 Q And are you familiar with the contents?

8 A To some degree, yes.

9 Q Would you look at it and refresh your re-  
10 collection of it?

11 A Okay.

12 Q You've seen that document before. Do you  
13 know whether you've seen the original of that document or  
14 just a copy?

15 A No, just a copy.

16 Q All right. You referred also to Amoco  
17 Exhibit Number Three-C and would you just state your recol-  
18 lection of what the title opinion states or requires with  
19 respect to Opponents Exhibit Number A?

20 MR. MOTE: Objection. The tit-  
21 le opinion speaks for itself.

22 Q Does the title opinion include any  
23 requirement with respect to -- excuse me, Opponents Exhibit  
24 Number A?

25 A Yes.

1           Q           Would you read into the record what that  
2 is, please?

3           A           Reserved interest. Title to property in  
4 which American -- well, let me stop.

5                       Do you want the specific requirement re-  
6 garding resolution of the matter or do you want me to read  
7 the whole matter discussed in the title opinion?

8           Q           The whole matter having to do with this  
9 particular deed.

10          A           Okay. Reserved interest. Title to pro-  
11 perty in which American National Insurance Company is cre-  
12 dited with a mineral interest was acquired by it through  
13 mortgage foreclosure proceedings in Cause Number 6162 in the  
14 District Court of Union County, New Mexico, by Special Mas-  
15 ters Deed dated October 18th, 1924, and recorded in Book Y,  
16 Page 145, on October 24th, 1924.

17                       By Warranty Deed dated March 8th, 1945,  
18 and recorded in Book 33, Page 28, on April 12th, 1945, Amer-  
19 ican National Insurance Company conveyed the east half of  
20 Section 9 and west half of Section 1, and I believe that's a  
21 typographical error and should be Section 10, to W. I. Mil-  
22 ler.

23                       As transcribed by the recorder or  
24 abstractor, the deed states that the grantor reserves, in  
25 quotes, an undivided half of the 1/8th of oil, gas, and

1 other minerals . . . (said 1/2 of said 1/8th royalty being a  
2 1/16th of all the oil, gas, and minerals . . . end of quota-  
3 tion, and that the grantor shall be entitled to receive 1/2  
4 of all bonus or rental monies paid and 1/2 of the 1/8th roy-  
5 alty due. End of quotations.

6 It appears that the grantor intended to  
7 reserve a 1/2 mineral interest; however, the instrument  
8 could be construed to reserve a 1/16th mineral interest,  
9 1/16 royalty, and a disproportionate 1/2 of bonus and delay  
10 rental.

11 By rules of Division Order dated December  
12 22nd, 1978, recorded Book 42, Miscellaneous, at Page 378,  
13 American National Insurance Company states or claims that it  
14 owns an undivided 1/2 mineral interest in all of the proper-  
15 ty in which it is credited with any mineral interest in this  
16 title opinion.

17 Note. No rental division order executed  
18 by other mineral owners would confirm the statement or claim  
19 of American National Insurance Company appears in materials  
20 examined.

21 Comment. The ambiguous language used by  
22 American National Insurance Company in its reservation of a  
23 mineral interest and related rights may be considered a pro-  
24 duction division order problem; however, we believe that de-  
25 lay in dealing with the problem may create unnecessary ex-

1   pense or litigation in the future.

2                   Requirement B. Obtain in recordable form  
3 and furnish to us for examination and approval a ratifica-  
4 tion of oil and gas lease, rental division order, and dis-  
5 claimer of additonal interest from owners named in Tract 1  
6 (owners of unleased interest may be omitted) reflecting the  
7 exact interest credited to them in Tract 2.

8           Q           And what is the date of that opinion?

9           A           March 26th, 1982.

10          Q           All right, and you were aware of that,  
11 then, throughout your dealings with the -- with my clients?

12          A           Yes.

13          Q           And do you have of your own knowledge in-  
14 formation if whether they were aware of the ambiguity?

15                           MR. MOTE: I'm going to object  
16 to this. I think that's way outside the scope of this hear-  
17 ing.

18                           We agreed to put these into  
19 evidence for the -- just so he could relate his problem with  
20 title, but to go into a completely foreign matter as to  
21 whether or not this property should be pooled I think is  
22 getting too far afield.

23                           I don't think that was anywhere  
24 in our agreement to put this title opinion into evidence.  
25 We did it for the purpose of putting out further waste of

1 time, to go on about with our business to get this interest  
2 pooled, this entire section pooled, and I think it's com-  
3 pletely irrelevant, immaterial, and out of the question in  
4 connection with the jurisdiction of this agency.

5 MR. BATEMAN: If I may say so,  
6 I think we're still on the matter of the agreement. The  
7 agreement was to illustrate that there was some concern and  
8 awareness of the ambiguity on behalf of both parties in this  
9 -- this proceeding, and that's all I'm trying to get into  
10 the record.

11 MR. TAYLOR: Well, why don't we  
12 -- we'll let you ask this question and then cut it short and  
13 we agree there is a difference of opinion.

14 MR. BATEMAN: Well, I just want  
15 it in the record, that's all.

16 Q Would you like to answer the question or  
17 do you need it restated?

18 A Could you restate it, please?

19 Q All right. In your dealings with my  
20 clients did you have information that they were aware of the  
21 ambiguity and had some concern?

22 A That they were aware of the ambiguity?

23 Q Yes.

24 A Yes, in the first conversations with Mrs.  
25 Beemer we discussed the American National Insurance Company

1 deed.

2 Q When did that occur?

3 A In the subsequent weeks following the  
4 October 9th, 1985, letter, and, as further documented in her  
5 letter dated December 22nd to us.

6 Q December 22nd of 1985, right?

7 A Yes. And as further documented in my re-  
8 ply to that letter in which I make a long, verbose explana-  
9 tion of the matter in hand.

10 Q To your knowledge has there been any ef-  
11 fort to satisfy the requirement in that title opinion made  
12 by Amoco?

13 A I'm not on the top of my head familiar  
14 with the -- exactly familiar with the status of the cura-  
15 tive efforts on here. I know we have a supplemental opinion  
16 and a general statement, I believe everything is satisfied  
17 regarding these lands with the exception of that question.

18 Q All right, so that question is still open  
19 to the best of your knowledge?

20 A Yes.

21 Q Okay.

22 MR. TAYLOR: May I ask you a  
23 question? Just so I can understand this, is the agreement  
24 essentially -- is the disagreement essentially over the  
25 question of whether the reservation was 1/2 of the mineral

1 interest versus 1/2 of the royalty interest?

2 MR. BATEMAN: No.

3 MR. TAYLOR: No? What is it?

4 MR. BATEMAN: Whether the  
5 reservation was 1/2 of the mineral interest or 1/16th of the  
6 mineral interest.

7 MR. TAYLOR: Would 1/6th of the  
8 mineral interest be the same as 1/2 of the royalty interest?

9 MR. BATEMAN: No, whether it's  
10 1/2 of the mineral interest or 1/16th --

11 MR. TAYLOR: 1/16th.

12 MR. BATEMAN: -- of the mineral  
13 interest.

14 MR. TAYLOR: Okay.

15 MR. BATEMAN: A significant  
16 difference.

17 Q I have a couple more questions. After  
18 your response to the December letter did you have any other  
19 contact with either of my clients?

20 A To the best of my recollection a  
21 telephone conversation on January 17th, the day after Joy  
22 Beemer acknowledged receipt of my letter, and I was advised  
23 that she had received the letter. I don't remember the  
24 specific things discussed therein but, yes, that was a  
25 contact.

1 Q All right, were you made aware that she  
2 still had a question concerning the percentage interest that  
3 she owned or had available?

4 A Frankly, that -- that really wasn't ever  
5 a very big issue in our dealings. That really isn't part of  
6 that --

7 Q Were you?

8 A Yes, I was aware because we had discussed  
9 the insurance company problem all along, but that wasn't  
10 really, you know, a very substantive portion, you know, of  
11 the disagreement, mainly -- well.

12 Q Well, you will concede that it's been re-  
13 flected throughout your dealings with Joy Beemer, is that  
14 correct?

15 A Uh-huh.

16 Q And it's still unresolved.

17 A Yes.

18 MR. BATEMAN: That's all I  
19 have.

20 MR. MOTE: All right, we'll  
21 call as our next witness Mr. Scheffler.

22  
23 STEPHEN P. SCHEFFLER,  
24 being called as a witness and being duly sworn upon his  
25 oath, testified as follows, to-wit:

## 1 DIRECT EXAMINATION

2 BY MR. MOTE:

3 Q Would you state your -- please state your  
4 name, by whom employed, in what capacity and location?5 A My name is Stephen Paul Scheffler. I'm  
6 employed by Amoco Production Company in our Houston Regional  
7 Office and I work as a proration engineer and I am a Staff  
8 Petroleum Engineer.9 Q Have you previously testified before the  
10 Division and have your credentials as a petroleum engineer  
11 been accepted and made a matter of record?

12 A Yes.

13 Q Are you familiar with the subject matter  
14 of this application?

15 A Yes, sir.

16 MR. MOTE: Is there any ques-  
17 tion concerning Mr. Scheffler's qualifications as a petro-  
18 leum engineer?19 MR. BATEMAN: I have no objec-  
20 tion.21 MR. CATANACH: Mr. Scheffler is  
22 considered qualified.23 Q Mr. Scheffler, you'll be asked to testify  
24 concerning three exhibits. Were these exhibits either pre-  
25 pared by you or under your supervision and direction?

1           A           Yes, sir, they were.

2           Q           All right, if you will, I'll ask you to  
3 go to what's been designated as Amoco's Exhibit Number Six  
4 and ask that you please tell us what's on this exhibit.

5           A           This is an actual well cost data sheet  
6 for Well 1935-091-K in the Bravo Dome Carbon Dioxide Gas  
7 Unit. On this exhibit I've detailed actual well costs at-  
8 tributable to this well and I've noted at the bottom of this  
9 exhibit the total well cost for that well, that total cost  
10 being \$222,000 -- \$222,419.

11          Q           Do you consider this a reasonable cost in  
12 connection with drilling of this nature in this area?

13          A           Yes, sir, I do.

14          Q           All right, what's your number -- excuse  
15 me, do you have anything else on Exhibit Number Six?

16          A           No, sir.

17          Q           All right, go to your Exhibit Number  
18 Seven.

19          A           Exhibit Number Seven is a similar analy-  
20 sis of the actual well costs attributable to Bravo Dome Car-  
21 bon Dioxide Gas Unit Well 1935-101-F.

22                        Again I've detailed those actual well  
23 costs attributable to the drilling and completion of this  
24 well. I've shown at the bottom of this exhibit the total of  
25 those well costs. That number is \$273,292.

1           Q           And do you -- does this compare favorably  
2 with other completion, drilling and completion costs in  
3 Bravo Dome?

4           A           Yes, sir, it's certainly within the range  
5 of other drilling costs within the Dome.

6           Q           When were these wells completed?

7           A           With regard to the first well, 1935-091-  
8 K, that was completed in January of 1986.

9           Q           And the other one?

10          A           The 1935-101-F was completed in -- also  
11 in January of 1986.

12          Q           All right, do you have any recommenda-  
13 tions you'd like to make to the Commission what should be  
14 contained in a pooling order for each of these two sections?

15          A           Yes, sir, I would recommend for both sec-  
16 tions that for the noncommitted interest, nonconsenting in-  
17 terest, that the pro rata share of actual well costs that  
18 are attributable to the nonconsenting working interest owner  
19 be withheld from production; that a risk charge that is in-  
20 volved with the unit wells be 200 percent of the pro rata  
21 share of the actual well costs that is attributable to the  
22 nonconsenting working interest owner; that the fixed rate  
23 for supervision charges be \$4700 per month while drilling  
24 and \$470 per month per well while producing; that the pro  
25 rata share of expenditures for operating the well attribut-

1 able to the nonconsenting working interest owner be withheld  
2 from production; that any unsevered mineral interest shall  
3 be considered a 7/8ths working interest and a 1/8th royalty  
4 interest for the purpose of allocating costs and charges and  
5 that any well costs or charges which should be paid out of  
6 the production shall be withheld only from the working in-  
7 terest share of production and no costs or charges shall be  
8 withheld from production attributable to the royalty inter-  
9 ests.

10 Q This is all contained within your Exhibit  
11 Number Eight.

12 A Yes, sir.

13 Q All right, Mr. Scheffler, will the funds  
14 which are attributable to the interest that will be pooled  
15 by this proceeding, are they to be paid since first runs  
16 from each one of these wells?

17 A Yes, sir, that's correct.

18 Q They will be paid to the appropriate par-  
19 ties on a 640-acre basis as opposed to a unit basis?

20 A Yes, sir, that's correct, for the noncon-  
21 senting interest.

22 Q And it will be according to the produc-  
23 tion from the well on each section, is that correct?

24 A That is correct.

25 Q And as to royalty interest, it will be

1 paid without cost but as to working interest it will be paid  
2 after deduction of authorized drilling and risk charges.

3 A Yes.

4 Q And expenses and costs.

5 A Yes, sir.

6 Q In your opinion, Mr. Scheffler, will the  
7 granting of this application avoid the drilling of unneces-  
8 sary wells, protect correlative rights, and prevent waste?

9 A Yes, sir, it will.

10 Q In your opinion are the terms and condi-  
11 tions which Amoco has proposed for the drilling of the ac-  
12 reage in each section just and reasonable?

13 A Yes, sir.

14 Q Are you asking the Division to pool only  
15 the CO2 rights in the Tubb formation in each of the sec-  
16 tions?

17 A Yes, sir.

18 Q In your opinion will the terms and condi-  
19 tions, if implemented by a Commission compulsory pooling or-  
20 der, afford owners of each section the opportunity to re-  
21 cover or receive without unnecessary expense their just and  
22 fair share of the CO2 in the Tubb formation under each sec-  
23 tion?

24 A Yes, sir.

25 Q Are you familiar with the notice provi-

1 sions of NMOCD Rule 1207?

2 A Yes, sir.

3 Q In your opinion have the notice provi-  
4 sions of Rule 1207 been complied with?

5 A Yes.

6 Q In your opinion has a good faith, dili-  
7 gent effort been conducted to find the correct addresses of  
8 all persons entitled to receive notice and notice given at  
9 that correct address as provided by Rule 1207?

10 A Yes, sir.

11 MR. MOTE: We offer Exhibit  
12 Numbers Six, Seven, Eight into evidence and tender the wit-  
13 ness for cross examination.

14 MR. CATANACH: Any objections?

15 MR. BATEMAN: No.

16 MR. TAYLOR: Can I get a point  
17 of clarification first.

18 David said you did this  
19 already, but you just said you wanted only carbon dioxide.  
20 Do you want the order then to read pool carbon dioxide only;  
21 you don't want it to read pool all minerals?

22 MR. MOTE: No, I want it to  
23 pool all mineral interest in the carbon dioxide in that in-  
24 terval. In other words I want 8/8ths of all mineral inter-  
25 ests.

1 MR. TAYLOR In carbon dioxide.  
2 MR. MOTE: In carbon dioxide  
3 pooled only in that interval.  
4 MR. TAYLOR: But not oil and  
5 gas.  
6 MR. MOTE: That's correct.  
7 MR. BATEMAN: That's right.  
8 MR. TAYLOR: Okay, well I --  
9 MR. BATEMAN: Or any other sub-  
10 stance.  
11 MR. TAYLOR: Right. Well, I  
12 remember we did an order for you guys not too long ago and  
13 it said all mineral interests and I wondered why because you  
14 were asking for carbon dioxide in the application itself,  
15 and so it should say all mineral interests in carbon  
16 dioxide.  
17 MR. MOTE: I agree and I think  
18 that the other order that you're talking about, reading it  
19 as a whole had the same conclusion, in my opinion it does.  
20 MR. TAYLOR: Thank you.  
21 MR. CATANACH: Amoco's Exhibit  
22 Six through Eight will be admitted into evidence.  
23 Mr. Bateman?  
24  
25

## CROSS EXAMINATION

1  
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BY MR. BATEMAN:

Q You're Mr. Scheffler, is that correct?

A Yes, sir.

Q You testified you prepared Exhibits Six and Seven.

A Yes, sir.

Q Or it was done under your direction. Which was it? Was it by you?

A This exhibit was prepared by me, yes, sir; under my direction to some degree, too.

Q All right. What information did you use to prepare this exhibit?

A This information was obtained from invoices that were derived from the drilling and completion of these wells, from those individuals involved with the work on the wells.

Q Did in every case the invoices to which you referred specifically identify the well in question?

A Yes, sir.

Q And these invoices remain in your file, do they?

A They are available in our system.

Q And it's your testimony then that you referred specifically to the invoices in preparing Exhibits

1 Six and Seven.

2 A Yes, sir, we -- we referred to a compiled  
3 detailed listing of costs for each of these wells to compile  
4 these exhibits.

5 Q Do you have any knowledge why it cost  
6 more to drill the 101-F than it did the 091-K?

7 A Yes, sir.

8 Q Would you tell me what that was?

9 A We encountered some problems with lost  
10 circulation in Well 1935-101-F and typically, when you do  
11 encounter problems with lost circulation, costs are somewhat  
12 higher than you might otherwise realize if you had not en-  
13 countered those sorts of problems.

14 Q My clients, as well as I, are not all  
15 that familiar with what the term lost circulation means.  
16 Would you explain it?

17 A Yes, sir. In the process of drilling a  
18 well in some cases when you go through certain intervals as  
19 you increase your depth you may run across an interval  
20 that's not -- not able to bear up, if I may use that term,  
21 under the hydrostatic head of the fluid that's in the hole,  
22 and for one reason or another you may have, because of the  
23 nature of the interval you're in, the loss of the drilling  
24 fluid to the hole.

25 Q It goes into the formation, then?

1           A           In particular formations, yes; not neces-  
2 sarily in the Tubb in this instance; maybe in shallower for-  
3 mations (not clearly understood). As a result of that you  
4 have to perform certain types of work to stop that lost cir-  
5 culation and it requires additional water costs, mud costs,  
6 and those mud costs usually are related to additives that  
7 are necessary to stop the lost circulation.

8           Q           That's the only difference between the  
9 two wells except for the depth, I would assume.

10          A           Yes.

11          Q           You testified as to the cost of supervi-  
12 sion, \$4700 for drilling.

13          A           Yes, sir.

14          Q           And \$470 for production. Is that identi-  
15 cal to costs you've been awarded in other cases, to your  
16 knowledge?

17          A           It's very close to the costs that we have  
18 been allowed to charge in a previous case.

19          Q           It might vary?

20          A           It varies; varies annually, as a matter  
21 of fact.

22          Q           What is it based on?

23          A           It's basically the results of what is  
24 considered to be a reasonable cost as agreed upon by the  
25 operators in the area.

1 Q How many operators are there in the area?

2 A Amoco is the operator of the unit and  
3 there are other interests in the unit that are operators but  
4 they are working interests in the unit.

5 Q How large are those interests?

6 A I can't tell you. They vary.

7 Q Do they vary more than five percent (not  
8 clearly understood).

9 A I'm sure it ranges. I don't know what  
10 the range is; from very small to very large.

11 Q It's your testimony, though, that this  
12 amount is based on an agreement among all those interest  
13 owners, is that correct?

14 A Yes.

15 Q Not based on any calculation of what it  
16 actually costs you.

17 A This number is tied to an index, as well,  
18 that's a source that is published by the U. S. Department of  
19 Labor, Bureau of Labor Statistics.

20 Q What index?

21 A Offhand I believe it's Weekly Earnings  
22 Index of Petroleum Field Workers.

23 I'm not an accountant so I can't give you  
24 the details on it. That's the only information I have  
25 available to me.

1 Q Okay, what is the extent of your contact  
2 with the Bravo Dome Unit?

3 A I've worked off and on with the unit for  
4 the last two years, two or three years.

5 Q What is, do you know, what might be the  
6 deepest well in the area?

7 A Oh, I think these -- you mean within the  
8 unit?

9 Q In the unit, yeah.

10 A I couldn't tell you what the deepest well  
11 is. I think the depths we've represented here on these two  
12 wells are representative of typical depth that you see in  
13 the unit area.

14 Q 2347 feet, that's the Tubb, is it?

15 A That encountered the Tubb, yes, sir,  
16 that's deep enough to encounter the Tubb zone.

17 MR. BATEMAN: May I have just a  
18 moment?

19 Q The application requests pooling of all  
20 interests to the top of the PreCambrian Basement. Is that  
21 necessary in order to produce, in your opinion, carbon  
22 dioxide in this area?

23 A Would you please state that question  
24 again?

25 Q The application, if you'll refer to it,

1 requests pooling of all mineral interests in the Tubb forma-  
2 tion from the base of the Cimarron Anhydrite marker --

3 A Yes, sir.

4 Q -- to the top of the PreCambrian Base-  
5 ment.

6 A Yes.

7 Q Is that necessary in order to, in your  
8 opinion, to produce carbon dioxide --

9 A That's the --

10 Q -- in the two sections in question?

11 A I certainly believe that that being the  
12 interval that we've described as the source of our carbon  
13 dioxide, that we certainly need to encounter that interval  
14 with our drilling rigs.

15 Q How deep is it, do you know, the PreCam-  
16 brian Basement in this --

17 A I can't give a depth. I don't have it  
18 available right now. It varies, I think. I don't have the  
19 information right here with me, but I could probably find  
20 out.

21 Q Well, is it deeper than 6000 feet?

22 A Is it deeper than 6000 feet?

23 Q Uh-huh.

24 A I can't tell you. I don't think it is.  
25 Again I would have to fall back on the geology in the area.

1 Q And you have no personal knowledge of the  
2 answer?

3 A Not with regard to this particular area,  
4 no.

5 Q All right, let me ask you about the pen-  
6 alty. You're asking for a 200 percent penalty. What is  
7 that based on other than the statute?

8 A That's based upon the inherent risk that  
9 an operator undertakes in drilling a well anywhere. We feel  
10 like that risk that an operator undertakes in drilling a  
11 well should be recognized and whenever you drill a well you  
12 have the potential for drilling dry holes; you have poten-  
13 tial for problems, mechanical problems in the process of  
14 drilling a well; and there should be some recognition of  
15 that risk. We feel like the 200 percent penalty we're ask-  
16 ing for is certainly adequate and necessary.

17 Q Are you aware that wells have been  
18 drilled in both these sections prior to today's application?

19 A Certainly.

20 Q Prior to the filing of it?

21 A Sure.

22 Q Are both of these wells productive, in  
23 your opinion, commercially productive?

24 A Yes, sir.

25 Q Did you encounter any problems other than

1 the lost circulation that you testified to?

2 A To my knowledge the loss of circulation  
3 is the only problem that we encountered; however, we didn't  
4 know that that was not going to be the only problem that we  
5 would encounter prior to drilling the well.

6 Q Have you -- excuse me, I'm missing an ex-  
7 hibit here.

8 Have you, or has Amoco drilled success-  
9 fully offset wells in this area to Section 10 and Section 9?

10 A We've had successes and we've had wells  
11 that have not been successful.

12 Q I'm talking about the immediate offsets.

13 A How far offset?

14 Q Well, the next section over here. Let's  
15 look at Exhibit One. If I'm not mistaken it shows produc-  
16 tive wells offsetting to the north, west, south, and east in  
17 the sections immediately offsetting these two sections.

18 A That's true, there are productive wells  
19 there.

20 Can you clarify your question?

21 Q I just want to establish for the record  
22 that all the offsets are productive.

23 A Whether an offset is productive or not  
24 has nothing -- if you're referring to a risk situation real-  
25 ly has nothing to do with whether the well was a problem

1 well.

2 I can cite instances, I can think of five  
3 particular instances where we had to drill -- redrill the  
4 well as a result of mechanical problems and in three of  
5 those cases we had to skid the rig and drill a well to off-  
6 set that well. It was productive but there was a mechanical  
7 problem involved that required us, as a result of the risk  
8 involved, to redrill the well.

9 Q You concede it has at least something to  
10 do with the estimation of whether the acreage would be pro-  
11 ductive or not.

12 A Are we speaking again in the context of  
13 risk here?

14 Q Yes.

15 A I can drill in the most productive area  
16 in the world knowing I'm going to hit something and if I  
17 have a problem mechanically or a problem that's going to re-  
18 sult as a surprise due to the fact that I do hit a dry hole,  
19 then the risk factor is always going to be there.

20 I don't think it's connected, neces-  
21 sarily, to -- all the time to whether you've got a produc-  
22 tive well or nonproductive well.

23 There are instances in the Dome where we  
24 have, as I said, drilled wells, have encountered geological  
25 anomalies that we had anticipated that actually showed that

1 there was no Tubb there. We had to offset that well in one  
2 case and were able to get a productive well in another case  
3 when we weren't interested in drilling a well in that same  
4 section.

5 Q So your point is there are always risks  
6 of mechanical problems.

7 A Mechanical problems as well as the poten-  
8 tial for not encountering your productive interval.

9 Q Why did you pick 200 percent as an appro-  
10 priate penalty?

11 A We think it adequately reflects the  
12 amount of risk that we feel is encountered by Amoco in this  
13 area, and it is the maximum penalty allowed by the statute.

14 Q To your knowledge have you been awarded a  
15 -- excuse me, to your knowledge has Amoco been awarded a  
16 risk penalty less than 200 percent in any case in this area?

17 A Not to my knowledge.

18 MR. BATEMAN: That's all I  
19 have.

20 MR. MOTE: No questions.

21

22 CROSS EXAMINATION

23 BY MR. CATANACH:

24 Q Mr. Scheffler, I have a question.  
25 Approximately how many wells has Amoco drilled in the Bravo

1 Dome?

2 A I would -- I'm going to venture to say  
3 there's over 300 wells in the Dome at this time.

4 Q To your knowledge, approximately how many  
5 wells have encountered substantial mechanical difficulties  
6 while drilling?

7 A I have looked at the area within the most  
8 developed portion of the Dome, that being the southeast  
9 area, and determined that we have encountered -- I haven't  
10 looked at all the wells, but looked at those that I was able  
11 to obtain information on -- we've encountered problems, like  
12 I said, that I know of in this immediate area, mechanical  
13 problems in about three wells. There may be more.

14 We did a review and these were the ones  
15 that became available to us most apparently.

16 As I mentioned before, we do know of, as  
17 well, problem areas where we encountered no Tubbs within this  
18 portion of the reservoir, and due to some geological anomalies  
19 those were essentially considered dry holes.

20 There are other dry holes that you can  
21 see throughout this area besides the two that I'm referring  
22 to.

23 To answer your question, I refer you to  
24 the five that I've talked about but I wouldn't want to say  
25 that that is definitely all the problems we've encountered.

1 Those are the ones that I looked at, had some opportunity to  
2 take a look at with some of the other people in Amoco.

3 Q Could you say in this area how many wells  
4 you looked at to find these five wells?

5 We looked at just probably the sections  
6 or the township and range that immediately offset the Town-  
7 ship 19 North, Range 35 East, area.

8 And when we -- when we found something,  
9 and we did find some problems in the adjacent township and  
10 range, that is Township 19 North, Range 34, Township 18  
11 North, Range 35, we went beyond that over to the -- to the  
12 west and we found that we did have some more problems that  
13 were encountered while drilling in this southeast portion of  
14 the unit.

15 Q Thank you, Mr. Scheffler. I have no  
16 further questions.

17 MR. CATANACH: If there are no  
18 further questions --

19 MR. MOTE: Just a minute,  
20 excuse me.

21

22 REDIRECT EXAMINATION

23 BY MR. MOTE:

24 Q I might ask you this, Mr. Scheffler, look  
25 at your Exhibit Number One. Isn't it true that these sec-

1 tions that are the subject of this hearing are rather close  
2 to the east boundary line of the Tubb Unit?

3 A Yes, sir. They are.

4 Q Is it -- how is drilling being done now  
5 in Bravo Dome from the standpoint of -- of -- in other  
6 words, is it being done on a step-out basis to an expansion  
7 program from wells that are drilled and step-out to other  
8 sections? Is that the way it's being done or how is the  
9 program being conducted now, if anything is being conducted?

10 A Right now what we've done is just  
11 finished up what we could consider an expansion program of  
12 our, what we would call, Phase I area; that's what these  
13 would fall into. That consists of about seventeen wells of  
14 which these were two in this portion of the unit.

15 There was -- there is no massive, at this  
16 point in time, drilling activity going on beyond this center  
17 of activity that has taken place in the southeastern portion  
18 of the unit.

19 Q But wasn't this developed on the basis of  
20 stepping out to see if CO2 was in the next section? That's  
21 the way the thing was developed, was it not?

22 A Certainly we are continuing to do that.

23 Q And just because you had CO2 in the Tubb  
24 in one section didn't mean it's not -- it's present in the  
25 next section, did it?

1           A           That's very true, yes.

2           Q           What about the price of oil? Does that  
3 have anything to do with whether or not there's -- these CO2  
4 wells can be economically drilled and put on production?

5           A           It most certainly does, I think.

6           Q           And would you explain to the examiner  
7 what relationship there is between the price of oil and the  
8 drilling of a CO2 well?

9           A           Well, the source for this recovery of oil  
10 that we're seeing in the Permian Basin as an example, the  
11 source for increasing that recovery is the use of the gas  
12 from the Bravo Dome and when one is able to economically  
13 justify the transporting of the CO2 to, let's say for exam-  
14 ple, the Permian Basin, you have favorable economics. You  
15 have relatively high -- or you have prices of oil that are  
16 consistent with allowing you to go through a project of this  
17 size that is using the CO2 and transporting it down to that  
18 particular reservoir or area that you're trying to flood  
19 from the standpoint of tertiary activity.

20                        When the price of oil falls, your pro-  
21 jects become uneconomical and therefore you're essentially  
22 not able to -- would not be able to perhaps make use of a  
23 resource for increasing reserve recovery and as a result  
24 would not be able to utilize CO2.

25           Q           Is what you're saying is this CO2 is

1 taken to old, aging reservoirs over in West Texas --

2 A That's correct.

3 Q -- and inserted to push oil out of the  
4 ground, is that correct?

5 A That's correct.

6 Q So the price of oil has a lot to do with  
7 the risk that you take, does it not?

8 A Oh, that is correct.

9 Q And so if you start drilling your well  
10 when oil is \$30.00 a barrel and it goes to \$10.00 a barrel  
11 you've taken a greater risk than you intended to.

12 A You certainly have.

13 Q That's one of the risks that you take.

14 A That your oil price will change.

15 MR. MOTE: I have no further  
16 questions.

17

18 CROSS EXAMINATION

19 BY MR. TAYLOR:

20 Q You said that you drilled 300 wells, ap-  
21 proximately, in the Bravo Unit. How many of those, approxi-  
22 mately, have been dry holes?

23 A Well, I can't count them here. I could  
24 but as you can see on our Exhibit Number One, those wells  
25 that have a slash through the well location probably would

1 indicate to you the magnitude of the number of holes --  
2 wells that we've drilled that have -- could be considered to  
3 be nonproductive.

4 Q Well, could you estimate so I won't --

5 A Okay.

6 Q -- have to count these?

7 A You really want me to?

8 Q Uh-huh.

9 MR. MOTE: I -- I'd probably --  
10 this is a matter of public record. When we had our --

11 A I'd say about 25 or 26, probably.

12 MR. MOTE: This is a matter of  
13 public hearing. When we had our hearing previously to in-  
14 form the Commission on the current status of the Bravo Dome,  
15 I don't remember the docket number now, but we gave exten-  
16 sive examination and testimony regarding the dry holes and  
17 what was encountered in each of those dry holes and why they  
18 were dry, and I think 25 was in the neighborhood but I would  
19 like to suggest that maybe that record would be better evi-  
20 dence than somebody's memory.

21 Q And you said that you had in this town-  
22 ship you had three with mechanical problems? Is that out of  
23 36 wells, 30 wells?

24 A Oh, no. What I was referring to was in  
25 the immediate townships. I think I referred to Township 19

1 North, 34 East, there was a problem in that particular town-  
2 ship; Township 18 North, Range 35 East, there was a problem  
3 there; and as we move further to the west we see that there  
4 were some problems that we encountered as a result of not  
5 encountering the Tubb. There was just no Tubb there.

6 Township 19 North, Range 33 East, and  
7 Township 18 North, Range 33 East.

8 Q Were those mechanical problems you en-  
9 countered?

10 A Those were -- the last two I gave to you  
11 were problems that resulted because we did not actually en-  
12 counter the Tubb reservoir, so those were localized geologi-  
13 cal features.

14 Q Is that a dry hole or is that a mechani-  
15 cal problem?

16 A That's a dry hole in my mind.

17 Q So out of -- you have three mechanical  
18 problem wells out of approximately how many? That's all I  
19 want.

20 A Okay, well, I've addressed, I think I've  
21 addressed three here today. There's one in Township 20  
22 North, Range 31 East.

23 Q Out of how many wells are you talking  
24 about? Are there three problem wells out of four wells,  
25 three problems out of thirty wells, three problems out of

1 300 wells, that's what I'm interested in.

2 A Well, I can't tell you exactly how many  
3 wells that would be out of because I've only looked at that  
4 number of mechanical problems, three. I haven't looked at  
5 all the wells in that area.

6 I would say, I guess, to answer your  
7 question, of the wells I looked at in the developed area, I  
8 can account for three wells with mechanical problems and two  
9 were dry holes.

10 Q Out of then 300, is that what you're say-  
11 ing?

12 A All 300 are not right there but out of  
13 that group that you see down in the southeast portion of the  
14 unit.

15 Q Okay.

16 A And as I pointed out to you before, there  
17 are other dry holes around here.

18 Q That's all right.

19 A You can see them all over the unit there.  
20 But I've only addressed those five.

21 Q Thank you.

22 A Including mechanical problems and dry  
23 holes.

24 MR. TAYLOR: That's all.

25 MR. CATANACH: Are there any

1 other questions of the witness?

2 If not, he may be excused.

3 MR. BATEMAN: May I request a  
4 ten minute recess?

5 MR. CATANACH: We'll take a ten  
6 minute recess.

7

8 (Thereupon a recess was taken.)

9

10 MR. CATANACH: Mr. Mote.

11 MR. MOTE: We've concluded our  
12 direct testimony.

13 MR. BATEMAN: Mr. Examiner, we  
14 don't have any witnesses. I would like to make a statement.

15 MR. CATANACH: You may proceed.

16 MR. BATEMAN: Mr. Examiner, I  
17 appreciate the opportunity to review with you briefly the  
18 record in this case.

19 We come to you with consider-  
20 able concern about the efforts of Amoco to force pool the  
21 interests of Mr. Williams and Ms. Beemer.

22 You've seen, I'm sure, dozens  
23 of these cases and the circumstances are not always the  
24 same. We submit in this case there's a circumstance that  
25 bears some considerable review by the Commission before de-

1 terminating whether to proceed with the entry of an order in  
2 this case.

3 Amoco comes with the, I guess  
4 you would say the substantial benefit of the statute permit-  
5 ting them to force pool unleased mineral interests in cir-  
6 cumstances similar to these. But the judicial interpreta-  
7 tion which has already been referred to requires that the  
8 operator exercise good faith in an effort to come to some  
9 conclusion with the unleased mineral interests prior to fil-  
10 ing the forced pooling application.

11 My understanding of the situa-  
12 tion is that the statute is a last resort and it obviously  
13 has as its point the production of minerals that would  
14 otherwise be lost or left in the ground.

15 The point I want to review with  
16 you is the question of the ambiguity in the deed which is  
17 Exhibit A, which you haven't seen, I don't believe, but has  
18 been admitted into evidence.

19 I ask you to review that care-  
20 fully. The testimony of Mr. Webb is significant. You'll  
21 see throughout the documentation that there was a dispute --  
22 well, maybe not a dispute but at least some uncertainty on  
23 behalf of both my clients and Amoco concerning the nature  
24 and extent of the interest which they had in the lease.

25 I'm sure you're aware that

1 leases contain warranties with respect to the amount of min-  
2 erals that are being permitted to the lease. It is a matter  
3 of ordinary prudence, therefore, for an individual who is  
4 about to lease his minerals, that he knows what they are.

5                   Secondly, inasmuch as this un-  
6 certainty, this ambiguity, has been known for literally  
7 years, they have also testified there has been no effort on  
8 Amoco's behalf to come to any kind of conclusion concerning  
9 the nature and extent of the interest owned by Mr. Williams  
10 and Ms. Beemer.

11                   As I pointed out, the differen-  
12 tial is considerable. We've talking about an interest be-  
13 tween half of the minerals or 15/16ths, or an interest in  
14 15/16ths, and that is considerable.

15                   And, of course, that has to do  
16 with a lot of things, with respect to how much they would be  
17 burdened with if they were to participate as a working in-  
18 terest owner in these two wells.

19                   It has to do with the amount of  
20 penalty with which they're to be assessed, the magnitude of  
21 it.

22                   And it has to do with, as I  
23 say, a matter of ordinary prudence. There's considerable  
24 uncertainty as to the nature and extent of their interest.  
25 I don't believe that's been conceded by both of the parties

1 here. I do not believe that in good faith Amoco can come to  
2 you today and tell you that they've exhausted all opportuni-  
3 ties to obtain a lease from these individuals. The docu-  
4 ments which have been put into evidence indicate that on  
5 more than one occasion offers have been made and statements  
6 have been made with respect to their willingness to consider  
7 leasing. There's never been a wholesale refusal to consider  
8 leasing; nevertheless, there have been questions among which  
9 the most prominent, of course, is the percentage of  
10 interest, which have been left unanswered.

11 I submit therefore, Mr.  
12 Examiner, that before an order should be entered in this  
13 case Amoco should be required to make some effort to satisfy  
14 the parties with respect to the nature and extent of their  
15 interest and to see whether or not, in fact, based on that  
16 determination, a lease can be agreed to before the  
17 extraordinary remedy of a forced pooling order should be  
18 entered.

19 If an order is entered, I  
20 submit also that -- well, it's already been conceded that it  
21 should be limited to CO2 only. That's not in dispute,  
22 although we frankly anticipated it would be in dispute based  
23 on the language in the advertisement.

24 But beyond that I would submit  
25 that any penalty to be assessed against these parties should

1 be minimal. The record shows that Amoco's had phenomenal  
2 success in drilling productive wells throughout this area,  
3 that their difficulties have been minimal, both mechanical  
4 and otherwise.

5 Exhibit Number One, which is  
6 difficult to read, but as I read it, indicates that there  
7 are no dry holes anywhere near the wells in question but  
8 that there are productive wells literally everywhere in  
9 every section in the offsetting townships to the north,  
10 south, and west.

11 Accordingly, again we're not  
12 talking about anything speculative. It's also a matter of  
13 record that both of these wells have been drilled and both  
14 of these wells are productive. So I would submit that any  
15 risk assigned in this case should be minimal based on facts  
16 that are in the record.

17 Thank you, Mr. Examiner.

18 MR. CATANACH: Mr. Mote.

19 MR. MOTE: Mr. Examiner, I will  
20 just refer briefly to the question of title. I think the  
21 Examiner recognizes that whatever mineral interest these  
22 people own, it's up to them to clear their own title. Amoco  
23 has no obligation to clear their title at all.

24 We are in here asking for all  
25 of the mineral interests to be pooled and it will be up to

1 the mineral interest owners to prove what it is they're en-  
2 titled to. It's certainly open to them to have their own  
3 attorneys examine their title to make sure that their title  
4 is good and I think that's all I need to say about that.

5                   Next, he mentions the fact of  
6 whether or not that we used good faith in attempting to pool  
7 voluntarily these people. I wish he would have mentioned  
8 one thing that we could have done that we haven't already  
9 done. It's been going on for years.

10                   We sent them a letter of op-  
11 tion. We've asked them to lease. We've asked them to join  
12 with us. We've asked them to join with us on the basis of  
13 partner. We've asked them to join with us on the basis of a  
14 partner in the entire unit. We've given them four options.  
15 We've been dealing with these people for years and trying  
16 our best to get them to lease.

17                   As far as a lease having war-  
18 ranty in it, I don't know that that's ever been a subject of  
19 contention. It's certainly not in the record. His state-  
20 ment with regard to that is completely outside the record.  
21 If Ms. Beemer wants to offer us, and Mr. Williams, a lease  
22 with a warranty in it, we'll certainly look at it and might  
23 possibly accept it, if that's the thing that's standing in  
24 the way.

25                   But in any event, we need this

1 thing pooled and pooled now. With regard to -- with regard  
2 to the good faith, again, I could go through and show you  
3 the correspondence that we've gotten from these people say-  
4 ing what they would take to pool and I think that you will  
5 agree with me, if you'll read it, we didn't discuss it to a  
6 large extent because we thought the record would stand on  
7 its own and in the hope that we could save some time we  
8 didn't go through and read these to you. I hope that you  
9 will read them.

10 With regard to the penalty  
11 problem, as far as I know there has never been a compulsory  
12 pooling order entered in Bravo Dome that was for less than  
13 200 percent penalty and I know of very few granted elsewhere  
14 in the state for less than 200 percent penalty and I think  
15 that Amoco is certainly entitled to it in this particular  
16 case.

17 The penalty is for the purpose  
18 of trying to somewhat make up for all of the dangers that  
19 are involved, the risks involved, not only in drilling a  
20 well but in completing a well and then operating a well.

21 Take for example, suppose we  
22 have a driller out there, all these wells are drilled  
23 through some contractor. We have many cases in which people  
24 are hurt on rigs, even if it's a shallow well. They sue  
25 Amoco. That's a risk involved. Somebody might their arm

1 torn off, that's a risk. One of these wells could cost  
2 Amoco \$10,000,000. They didn't in these particular wells  
3 but it's possible, and that's a risk that a production com-  
4 pany takes when it goes out and tries to drill a well.

5 They could go off production  
6 tomorrow from something completely unknown to us right now  
7 and it might cost a million dollars apiece to go back and  
8 fix the wells back on production.

9 Is the royalty owner going to  
10 pay any part of that? No. It's a part of the risk involved  
11 in drilling, completing, and operating a well, and I can as-  
12 sure you that there have been many, many more than three or  
13 four wells that have had mechanical problems. I can also  
14 assure you that there have been many, many wells that found  
15 absolutely no Tubb when they drilled. I can't give you the  
16 number but I think it's already in your records. If you're  
17 interested, we'll be glad to give that number, but the risk  
18 involved, you can't look at it after the fact and say, well,  
19 nothing happened, and you did find production, therefore  
20 there's no risk involved. That's not the question. The  
21 question is what was the risk facing Amoco at the time they  
22 drilled these wells and the risk was there and it warrants a  
23 200 percent penalty.

24 Thank you.

25 MR. CATANACH: Thank you, Mr.

1 Mote.

2 MR. BATEMAN: Mr. Examiner, may  
3 I make a statement for clarification?

4 MR. CATANACH: Yes, sir.

5 MR. BATEMAN: Well, really an  
6 objection to the characterization of the counter-offers  
7 being unreasonable. I have not said or tried to character-  
8 ize the offers in any way that have been made by Amoco.  
9 There have been offers going back both one way or the other.

10 The point I'm making is, I  
11 think, a fundamental point. Neither of these parties knows  
12 the extent of the interest in which they're trying to reach  
13 a conclusion on. It seems to me to be fundamental if you're  
14 dealing in good faith, that Amoco make some effort to satis-  
15 fy these people with respect to what they want and the ex-  
16 tent of the interest that they're trying to lease. It has  
17 to do with the amount of bonus (not clearly understood.)

18 And so I just want to make sure  
19 that that point's clear.

20 MR. CATANACH: Okay.

21 MR. MOTE: I want to make an-  
22 other point clear, since he's made one point clear.

23 I believe that the title  
24 opinion which is in evidence only deals with one of these  
25 sections of land, does it not? It doesn't deal with both of

1 them.

2 MR. WEBB: Both of them. It  
3 deals with Section 9 and 10.

4 MR. MOTE: Excuse me, I was in  
5 error.

6 Anyway, I don't believe that's  
7 a subject for controversy; a subject for determination by  
8 this Commission. I don't believe -- first of all, it wasn't  
9 within the call of the hearing and secondly, I, even with  
10 all due deference to your general counsel, I'm not too sure  
11 the Commission has a right to determine title. I think  
12 that's something that has to be done at the courthouse, and  
13 that's it.

14 MR. CATANACH: All right. Is  
15 there anything further in Cases 8917 or 8919?

16 If not, both cases will be  
17 taken under advisement.

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(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 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 No. 8917, 8919  
heard by me on June 12, 1986.

David R. Cotnam, Examiner  
Oil Conservation Division