

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

6 22 November 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Energy Operat- CASE  
10 ing Partners, L. P. for compulsory 9528  
11 pooling, Eddy County, New Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

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17 Legal Counsel to the Division  
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19 Santa Fe, New Mexico

20 For Santa Fe Energy James Bruce  
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23 For Bass Enterprises W. Thomas Kellahin  
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## I N D E X

## GARY GREEN

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1 MR. STOGNER: Call next Case  
2 9528, which is the application of Santa Fe Energy Operating  
3 Partners, Limited Partners, for compulsory pooling, Eddy  
4 County, New Mexico.

5 At this time we'll call for  
6 appearances.

7 MR. BRUCE: Mr. Examiner, my  
8 name is Jim Bruce from the Hinkle Law Firm, representing  
9 Santa Fe Energy Operating Partners.

10 I have two witnesses or pos-  
11 sibly three.

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

14 MR. KELLAHIN: MR. EXAMINER,  
15 I'm Tom Kellahin of the Santa Fe law firm of Kellahin,  
16 Kellahin & Aubrey. I'm appearing today on behalf of Bass  
17 Enterprises Production Company.

18 I have three witnesses.

19 MR. STOGNER: Are there any  
20 other appearances?

21 Will all the witnesses please  
22 stand and be sworn at this time?

23

24 (Witnesses sworn.)

25

1 MR. STOGNER: Before we get  
2 started, gentlemen, there was a misadvertisement in the  
3 Artesia paper.

4 This case, regardless of the  
5 outcome today, will have to be continued and readvertised  
6 for December 7th, 1988.

7 MR. BRUCE: That's fine.

8 MR. STOGNER: Mr. Bruce, any  
9 time.

10  
11 GARY GREEN,  
12 being called as a witness and being duly sworn upon his  
13 oath, testified as follows, to-wit:

14  
15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q Mr. Green, would you please state your  
18 full name and city of residence?

19 A My name is Gary Green. I live in Mid-  
20 land, Texas.

21 Q And what is your occupation and who are  
22 you employed by?

23 A I'm employed as a landman for Santa Fe  
24 Energy Company.

25 Q Have you previously testified before the

1       OCD as a petroleum landman and had your credentials as an  
2       expert accepted as a matter of record?

3               A               Yes, I have.

4               Q               And are you familiar with the land mat-  
5       ters involved in Case 9528?

6               A               Yes, I am.

7                               MR. BRUCE:    Mr. Examiner, I  
8       tender the witness as an expert.

9                               MR. STOGNER:   Are there any  
10      objections?

11                              MR. KELLAHIN:   No objections.

12                              MR. STOGNER:   Mr. Green is so  
13      qualified.

14               Q               Mr. Green, would you please state brief-  
15      ly what Santa Fe seeks in this application?

16               A               Santa Fe Energy Operating Partners,  
17      L.P., seeks an order pooling all mineral interests from the  
18      surface to the base of the Morrow formation underlying the  
19      north half of Section 17, Township 23 South, Range 31 East,  
20      in Eddy County, New Mexico.

21                              Santa Fe proposes to drill its Pure Gold  
22      Federal C-17 Well No. 2 at a standard location and to dedi-  
23      cate the following acreage to the well: The southwest  
24      quarter of the northeast quarter of Section 17 for all  
25      pools or formations spaced on 40 acres; the northeast quar-

1 ter of Section 17 for all pools or formations spaced on 160  
2 acres; and the north half of Section 17 for all pools or  
3 formations spaced on 320 acres.

4 Santa Fe also requests consid-  
5 eration for the cost of the drilling and completing the  
6 well and the allocation of the costs thereof, as well as  
7 the actual operating cost and charges for supervision.

8 Santa Fe asks that it be de-  
9 signated as operator of the well and a charge for the risk  
10 involved in the drilling of the well be assessed.

11 Q Would you please move on to Exhibit Num-  
12 ber One and describe its contents for the Examiner?

13 A Exhibit Number One is a land plat show-  
14 ing the proposed spacing unit, being the north half of  
15 Section 17, 22, 31 East. It shows the well location. It  
16 shows the stippled acreage as being the acreage which Santa  
17 Fe has an interest in.

18 Q Okay, and who are the interest owners  
19 which Santa Fe seeks to force pool?

20 A Bass Enterprises, Incorporated, Pogo  
21 Producing Company, Primary Fuels, Inc., Heathery Resources,  
22 Inc., Terra Resources, Inc., Terra Resources, Inc., Total  
23 Menatome Corporation, P. W. Production Company, CNG Pro-  
24 ducing Company.

25 Q Thank you. Would you please refer to

1 Exhibit Number Two and describe your efforts to get these  
2 interest owners to join in the well?

3 A Exhibit Number Two is a well proposal  
4 addressed to all the referenced lease owners, working in-  
5 terest owners in the north half of 17, asking that they  
6 join in the drilling of this well with the working inter-  
7 est, or farm out under specific terms and if they join that  
8 all operations would be done to a mutually acceptable NMLP  
9 Form 610, 1982 Model Form Operating Agreement.

10 Q And did you follow this letter up with  
11 telephone calls?

12 A Yes. I've had a number of different --  
13 a number of telephone calls with the various owners.

14 Q And how much of the working interest in  
15 the north half of Section 17 does Santa Fe own?

16 A Santa Fe owns a 37-1/2 percent leasehold  
17 interest in the northeast quarter. We, in talking to the  
18 other parties involved, we have CNG, Pogo, (unclear) have  
19 indicated or recommended to management to farm out to Santa  
20 Fe, which would give Santa Fe about 83-1/3 percent of the  
21 northeast quarter or about 41 percent (unclear).

22 Q Is this well near the potash areas  
23 defined by OCD Order R-111-P?

24 A Yes, it is, and I made inquiries to the  
25 BLM and was advised that IMC Fertilizer Company was the

1 potash lessee and the only potash lessee within a mile of  
2 the lease. Pursuant to Order No. R-111-P, I notified IMC  
3 of the location of the well shown on Exhibit Three-A, and  
4 by letter shown as Exhibit Three-B IMC waived any objection  
5 to this location.

6 Q And referring to Exhibit Number Four,  
7 would you please discuss the cost of the proposed well?

8 A Exhibit Four is a well cost, generalized  
9 well cost estimate prepared by Santa Fe engineers that pur-  
10 ports to drill a 15,000 foot Morrow test with the dry hole  
11 cost being \$1,192,868, completion -- cost for completing  
12 the well to \$1,494,058.

13 Q And is the proposed well cost in line  
14 with those normally encountered in drilling wells to this  
15 depth in this area of Lea County?

16 A Yes, they are.

17 Q And do you have a recommendation as to  
18 the amount Santa Fe should be paid for supervision charges?

19 A Yes. It's my recommendation that \$6000  
20 per month be allowed for a drilling well and \$600 per month  
21 be allowed for a producing well.

22 Q And are these amounts in line with those  
23 normally charged by Santa Fe and other operators in this  
24 area for wells of this type?

25 A Yes, they are.



1           Q           And briefly, what type of operating  
2 agreement are you using or proposing to use?

3           A           Santa Fe would propose to use the AAPL  
4 Model 610 1982 model form.

5           Q           And what penalty do you recommend  
6 against nonconsenting interest owners?

7           A           Cost plus 200 percent.

8           Q           And will the geologist also testify on  
9 this?

10          A           Yes, he will.

11          Q           And the cost plus 200 percent, is that  
12 normally used in operating agreements in this area of New  
13 Mexico?

14          A           Yes, it is.

15          Q           Were all interested parties notified of  
16 this hearing?

17          A           Yes, they were, by (unclear) which would  
18 be Exhibit -- Exhibit Five.

19          Q           And were Exhibits One through Five pre-  
20 pared by you or compiled from company records?

21          A           Yes, they were.

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

1                   A               Yes.

2                                   MR. BRUCE:    Mr. Examiner, at  
3 this time I'd move the admission of Exhibits One through  
4 Five.

5                                   MR. STOGNER:   Are there any  
6 objections?

7                                   MR. KELLAHIN:  No objections,  
8 Mr. Stogner.

9                                   MR. STOGNER:   Exhibits One  
10 through Five will be admitted into evidence.

11                                   Mr. Kellahin, your witness.

12                                   MR. KELLAHIN:  Thank you, Mr.  
13 Examiner.

14

15                                   CROSS EXAMINATION

16 BY MR. KELLAHIN:

17                   Q               Mr. Green, is the only basis upon which  
18 you have recommended a 200 percent risk factor against the  
19 nonconsenting owners the fact that you find that number  
20 utilized by your company in operating agreements?

21                   A               No, it is not. Probably our engineer,  
22 geologist should testify to that. They plan to drill a  
23 15,000 foot well and prepared a lot of this.

24                   Q               That's a geologic and engineering risk  
25 you're discussing now.

1           A           Yes.

2           Q           The operating agreements that you pre-  
3       pared and prepared by other companies for your approval,  
4       have a risk factor penalty in them but only for subsequent  
5       wells, is that not true?

6           A           Subsequent wells, subsequent operations.

7           Q           It has nothing to do with the risk fac-  
8       tor penalty on the initial well to be drilled.

9           A           That's because all the parties are  
10      sharing the risk.

11          Q           Let's talk about Santa Fe Energy Operat-  
12      ing Partners, Limited. For whom do you work?

13          A           I work for Santa Fe Energy Company.

14          Q           And Santa Fe Energy Company, then, is  
15      the general partner for this limited partnership?

16          A           Yes, sir.

17          Q           How does one become a limited partner in  
18      the Santa Fe Energy Operating partnership?

19          A           They can purchase limited partnerships  
20      through the stock market.

21          Q           Do you currently know what the limited  
22      stock purchase price is for a share, a limited partner's  
23      share in this transaction?

24                      MR. BRUCE: I would ask at  
25      this time, and object as to the relevancy of this line of

1 questioning.

2 MR. KELLAHIN: Bear with me  
3 for a few minutes and let me ask him about his company. I  
4 intend to show relevance, Mr. Examiner.

5 MR. STOGNER: He may continue.

6 A My last look at the paper I believe it  
7 was around \$16.00 per share.

8 Q \$16.00 a share for a partnership. Do  
9 you know how many limited partners there are in the Santa  
10 Fe Energy Operating Partnership?

11 A No, I do not. I know that they own ap-  
12 proximately 20 percent and Santa Fe Energy Company, or not  
13 the energy company, but the parent owns about 80 percent.

14 Q Are there thousands of limited partners  
15 in this operating company?

16 A I would assume so.

17 Q When we look at the spacing unit for the  
18 well, you're proposing to include the north half of Section  
19 17?

20 A Yes, sir.

21 Q Those are both portions of separate  
22 Federal leases, are they not?

23 A Yes, sir.

24 Q The portion in the northwest quarter of  
25 17 is part of the Bass-operated James Ranch Unit, isn't it?

1           A           Yes, sir.

2           Q           The Federal lease that includes the  
3 northeast quarter of 17 also includes the producing well in  
4 the south half of 17.

5           A           Yes, sir.

6           Q           So that entire Federal lease, including  
7 this 160-acre tract, is held by production, is it not?

8           A           Yes, sir.

9           Q           With regards to the northeast quarter,  
10 then, what portion of that interest is owned by Santa Fe  
11 Energy Operating Partners?

12          A           37-1/2 percent.

13          Q           Does Santa Fe Energy Company have any  
14 interest in that acreage?

15          A           No, sir.

16          Q           So the company you work for is simply  
17 the managing partner for the operating partnership. Santa  
18 Fe Energy Operating Partners.

19          A           That is correct.

20          Q           And Santa Fe Energy Company, who you  
21 work for, then, does not realize any share of the produc-  
22 tion from the well, does it?

23          A           That's correct.

24          Q           Santa Fe Energy Company, as a general  
25 managing partner, receives a fee out of the partnership

1 funds for the management of the properties, does it not?

2 A I cannot answer that.

3 Q There is no money being contributed by  
4 Santa Fe Energy Company into the drilling of this well, is  
5 there?

6 A I would assume not.

7 Q So it doesn't matter to your company  
8 whether or not you drill a dry hole or a commercial pro-  
9 ducing well, you're still going to get a fee for being the  
10 managing partner.

11 A I don't believe we get a fee, just get a  
12 fee for being the managing partner.

13 Q What is the economic incentive for Santa  
14 Fe Energy Company as a general partner to want to have a  
15 commercial well?

16 A Would you ask your question again?

17 Q Sure. What is the economic incentive  
18 for someone like Santa Fe Energy Company, who is simply the  
19 general partner for a partnership, and providing none of  
20 the funds for the drilling of this well, what is the econ-  
21 omic incentive for your company to drill a commercial well?

22 A I'm not sure I know how to answer that.  
23 Let me say that the partnership was assigned the majority  
24 of Energy Company properties before it was put on the mar-  
25 ket for sale to the public.

1                   Santa Fe Energy Company or Santa Fe  
2 Energy Operating Partners, L.P., certainly has incentive to  
3 make economical wells. We're not in the business to drill  
4 dry holes for a fee. The majority of our properties Santa  
5 Fe Energy once owned were put into this partnership.

6                   So there's a great deal of incentive to  
7 drill commercial wells.

8                   Q           Santa Fe Energy Company took properties  
9 that they no longer desired to keep within the company and  
10 transferred it over to this limited partnership?

11                  A           No, sir, they transferred everything  
12 with the exception of two properties, basically two, two  
13 big -- two large properties and properties, heavy oil pro-  
14 perties in California and some properties in Wasson Field  
15 in Texas; everything else in southeast New Mexico, Gulf  
16 Coast, were transferred into the (unclear).

17                  Q           Your projection for drilling this well,  
18 Mr. Green, is based upon what anticipated price for the  
19 sale of the gas?

20                  A           I can't answer that question.

21                  Q           You do not know or you cannot tell me?

22                  A           I do know. I'm not going to tell you.

23                  Q           You're not going to tell me what the  
24 price is?

25                  A           You can just -- no, I don't know what

1 the price is. You'll have to address that to the person  
2 who did the economics on it.

3 Q Have you seen those economics?

4 A No.

5 Q Is the person here that ran those econo-  
6 mics?

7 A Yes, he is.

8 Q Is he going to be a witness?

9 A He's here and been sworn in, I assume he  
10 will.

11 Q Let me look at some of your correspon-  
12 dence with you, Mr. Green.

13 Correspondence issuing out of your of-  
14 fice, I think, is all signed by you, is it? There's no one  
15 else that was working on this.

16 A That's correct.

17 Q This was your -- your prospect, was it  
18 not, sir?

19 A Yes, sir.

20 Q Am I correct in understanding that the  
21 footage location shown on the October 25th letter, Exhibit  
22 Number Two, is to be 1980 from the north line and 2310 from  
23 the east line of 17?

24 A That is correct.

25 Q That is an unorthodox location, is it



1 not, Mr. Green?

2 A I don't believe that to be an unorthodox  
3 location for 320-acre spacing.

4 Q Well, but you've asked for more than  
5 320-acre spacing, haven't you? Have you seen the docket  
6 for today's hearing, Mr. Green?

7 A Yes, I have.

8 Q You have advertised and requested that a  
9 spacing unit of 160 acres be formed for the northeast quar-  
10 ter provided you obtain production from gas formations that  
11 are spaced upon 160 acres. Is that still your request?

12 A Yes, it is.

13 Q A well located on 160 acres, then, would  
14 be too close to the Bass properties in the James Ranch  
15 Unit, wouldn't it?

16 A That's correct.

17 Q It would only be 330 from the line.

18 A That's correct.

19 Q This case is not advertised that way, is  
20 it, sir?

21 A Apparently not.

22 Q When we talk about the location for this  
23 well you have shown me that you have corresponded with IMC?

24 A Yes, sir.

25 Q They're the potash lessee.

1           A           Lessee. That's right.

2           Q           Okay. In exchange for getting IMC's  
3 concurrence in your location, have you agreed to give IMC  
4 anything?

5           A           No, sir.

6           Q           Are you going to provide them with core  
7 information through the potash interval when you drill the  
8 well?

9           A           Not to my knowledge.

10          Q           Is that an item indicated in your AFE as  
11 part of your costs of drilling and completing this well?

12          A           I do not believe so.

13          Q           You have an item here, Number 36, says  
14 "Coring and core analysis". Do you find that on your  
15 Exhibit Number Four?

16          A           Yes.

17                       MR. STOGNER: What item is  
18 that, Mr. Kellahin?

19                       MR. KELLAHIN: Yes, sir, it's  
20 under intangibles, down at 36.

21                       MR. STOGNER: Thank you, sir.

22          Q           It says \$10,000 for coring and core ana-  
23 lysis? Do you know what the coring program is for the  
24 well?

25          A           No, sir, I don't but our geologist will.

1           Q           All right, you said you were familiar,  
2 in response to Mr. Bruce's question, with the potash Order  
3 R-111-P? That's the new order that was issued by the Com-  
4 mission --

5           A           Yes, sir.

6           Q           -- back on April of '88?

7           A           I'm sorry, I did not say I was familiar  
8 with it. I said I gave them notice pursuant to the --

9           Q           You gave IMC notice pursuant to Order  
10 R-111-P.

11          A           Yes, sir, that's right.

12          Q           Have you been informed or are you aware  
13 where IMC determines their life of the mine reserves to be  
14 within Section 17?

15          A           No, I'm not.

16          Q           Have they plotted that for you and given  
17 that to you?

18          A           No, they have not.

19          Q           Do you know that the northwest quarter  
20 is precluded from drilling as a result of being within the  
21 confines of the potash life of the mine reserves for IMC?

22          A           Yes, I do.

23          Q           You're aware of that.

24          A           Yes, I am.

25          Q           You're aware that no portion of the

1 northwest quarter in the James Ranch Unit can be drilled  
2 from a surface location and comply with the R-111-P order,  
3 is that not true?

4 A Yes, I am.

5 Q So if the reserves in the northwest  
6 quarter are going to participate, whether they're from the  
7 surface to the basement, they're going to have to partici-  
8 pate by a well drilled outside of that 160-acre tract.

9 A That's correct.

10 Q Mr. Green, let me show you on page eight  
11 of Exhibit B to the Commission Order R-111-P, on page eight  
12 I'm looking at Roman Numeral IV and its subparagraph A.  
13 I'll let you read this for yourself but it says, the BLM  
14 upon request will advise oil and gas lessees of the surface  
15 locations where wells will be allowed to develop the  
16 leases. Oil or gas leases covering areas designated a LMR  
17 by a potash lessee will be unitized to the extent possible  
18 with other areas where drilling is allowed.

19 Are you familiar with that provision?

20 A No, I am not.

21 Q Have you made an effort on behalf of  
22 your company to work out with Bass an arrangement whereby  
23 shallower production above the top of the Wolfcamp can be  
24 unitized with your acreage so that it can contribute?

25 A No, I have not, other than proposing to

1 join in an operating agreement to develop the south half of  
2 Section 17.

3 Q When did you first make your proposal to  
4 Bass Enterprises, Mr. Green?

5 A We made the proposal by letter dated  
6 October 25th, I believe.

7 Q And that is the first contact you've had  
8 with Bass Enterprises about participating in the well, is  
9 that not true?

10 A No, sir, this well has been proposed, I  
11 believe this is the third time this well has been proposed.  
12 Bass proposed the well; Santa Fe proposed the well. It is  
13 a prospect that Bass and Santa Fe have had over the years,  
14 so it's not -- it's not a new idea.

15 Q The first proposal you've given me, Mr.  
16 Green, the only one I have is your letter of October 25th.

17 A That's correct. This is the latest pro-  
18 posal.

19 Q When we look at that latest proposal,  
20 you sent it certified mail, did you not, sir?

21 A Yes, I did.

22 Q When you turn to the third page of that  
23 exhibit and you see the return receipt card to Bass Enter-  
24 prises, do you see that?

25 A Yes, sir.

1                   Q           What is the date of delivery that Bass  
2 got your letter?

3                   A           I believe it's November 1st.

4                   Q           Let's turn to exhibit Number Five now,  
5 Mr. Green. Exhibit Five is a copy of the application  
6 you're sending Bass for compulsory pooling for this pro-  
7 ject?

8                   A           Yes.

9                   Q           And it's under a letter dated October  
10 31st, the day before Bass gets your offer to participate in  
11 the very well you're seeking to pool them?

12                  A           That's correct.

13                  Q           What period of time does your company  
14 have for turning around on proposed offers by others to  
15 participate in wells that they might drill? How long does  
16 it take you to make that decision?

17                  A           I think it takes us a very short time to  
18 make a decision.

19                  Q           Can you do it in one day?

20                  A           Well, I can't answer that question.

21                  Q           Have you provided Bass with an operating  
22 agreement?

23                  A           No, I have not.

24                  Q           Have you provided Bass with a proposed  
25 gas balancing agreement?

1           A           No, I have not.

2           Q           Have you provided them with a drilling  
3 and completion program?

4           A           No, I have not.

5           Q           Mr. Green, let me show you what I'm  
6 going to mark as Bass Exhibit Number One and ask you, sir,  
7 did you receive this letter that Mr. Hanson wrote to you on  
8 November 9th?

9           A           Yes, I have.

10          Q           Mr. Hanson acknowledges, Mr. Green, in  
11 his letter that he received your application to pool their  
12 interest, and he says in the last sentence of that para-  
13 graph, the first paragraph, he says, we want you to be  
14 aware that Santa Fe failed to either contact or consult  
15 Bass regarding the proposed well prior to filing the pool-  
16 ing application.

17          A           I believe that would probably be incor-  
18 rect because he noted receipt of my well proposal on Novem-  
19 ber 1st. He wrote his letter on November 9th.

20          Q           Well, that's consistent with receiving  
21 the certified letter notice on November 1st, is it not?

22          A           Yes, it is.

23          Q           Okay. In his letter he also asks you to  
24 give him some information so he can make a decision,  
25 doesn't he?

1           A           Yes, he does.

2           Q           He says, in this regard an operating  
3 agreement -- you've talked to Jens on the phone about this,  
4 haven't you, Mr. Green?

5           A           Yes. I have.

6           Q           Hasn't -- hasn't Mr. Hanson asked you  
7 for information about the well?

8           A           About the well?

9           Q           Yes, sir.

10          A           Yes, he has.

11          Q           Sure, he has, and you haven't provided  
12 it, have you?

13          A           Yes, he's been provided with everything  
14 except the operating agreement. Santa Fe and Bass have  
15 just drilled a well under an operating agreement and I  
16 would think he'd have to make an assumption that we would  
17 work out a mutually acceptable agreement under the same  
18 terms that we just drilled a well under, and it's not going  
19 to be a foreign item to Mr. Hanson when he sees our operat-  
20 ing agreement.

21          Q           Well, if the assumption is that you and  
22 Bass have worked out voluntary agreements before, can't we  
23 expect that you'll do so in this case rather than leverag-  
24 ing them with a forced pooling application?

25          A           No, sir. Our voluntary agreement was



1 done after a forced pooling was issued; not before.

2 Q Do you have a market for your gas, Mr.  
3 Green?

4 A Yes, sir.

5 Q Who's going to take the gas?

6 A I believe it's TransAmerica of Califor-  
7 nia? I could be --

8 Q Are they a transporter or a purchaser?

9 A A purchaser.

10 Q All right.

11 A I've been -- that's (not clearly under-  
12 stood) but I know we have a purchaser for our gas. I'm not  
13 sure of the company.

14 Q With regards to these other working in-  
15 terest owners within your own Federal lease in the north-  
16 east quarter --

17 A Uh-huh.

18 Q -- at the time you filed the pooling ap-  
19 plication on October 31st, what percentage interest did  
20 Santa Fe Energy Operating Partnership have in that 160-acre  
21 tract?

22 A 37-1/2 percent.

23 Q Has your Drilling Department or your  
24 technical people provided you with a way by which you could  
25 allocate the cost among the various potential formations

1 for this well?

2 A I can't answer that question.

3 Q You don't know?

4 A They haven't provided me. I don't know.

5 Q You haven't attempted to allocate or  
6 split the risk among the various formations and the working  
7 interest owners for your request?

8 A I have not.

9 Q When do you propose to commence the  
10 well, Mr. Green?

11 A This well is scheduled for a first  
12 quarter well next year; hopefully, sometime in January.

13 Q There are no expiring leases for the  
14 northeast quarter, are there?

15 A No, sir.

16 Q That Federal lease is being held by  
17 Coquina Production or --

18 A (Unclear) production.

19 Q (Unclear).

20 A Santa Fe Energy Operating Partners, L.  
21 P. production.

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

24 MR. STOGNER: Mr. Bruce, do  
25 you have any follow-up?

1 MR. BRUCE: Yes.

2  
3 REDIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q Looking at Exhibit Number One, Mr.  
6 Green, the northeast quarter of Section 17 is not within  
7 the James Rance Unit, is it?

8 A No, it is not.

9 Q And I believe you have, pursuant to Mr.  
10 Kellahin's questioning, you've acknowledged that Bass ac-  
11 reage in the northwest quarter of Section 17 is in a potash  
12 area or an LMR area.

13 A Yes, sir.

14 Q Because of that Bass really is under no  
15 obligation to drill, are they?

16 A No, they are not.

17 Q However, Santa Fe's leasehold in Section  
18 17, you are under an obligation to develop that lease under  
19 the terms of your lease with the Federal government, are  
20 you not?

21 A And as a prudent operator you would nor-  
22 mally develop that lease, and Santa Fe, to develop Santa  
23 Fe's leasehold to the north, with a well offsetting the  
24 well down in the south half. We, Santa Fe, has to drill  
25 its leasehold. It does not hold large acreage based Feder-

1 al units. Our acreage will disappear if we do not develop  
2 it.

3 Q And isn't it correct that the only unit  
4 available in the -- for a Morrow or Atoka well in Section  
5 17 is the north half because of the Morrow Atoka Well in  
6 the south half?

7 A That's correct.

8 Q Now regarding Santa Fe Energy Operating  
9 Partners, are you aware that Santa Fe Energy Company as a  
10 general partner would have certain obligations to the lim-  
11 ited partnership to use its best efforts to drill wells?

12 A Yes, I am.

13 Q And not drill dry holes, hopefully.

14 A That's correct.

15 Q And regarding economic incentive, Santa  
16 Fe Energy Company is owned by Santa Fe Southern Pacific  
17 Corporation, is it not?

18 A That's correct.

19 Q And Santa Fe Southern Pacific Corpora-  
20 tion owns part of Santa Fe Energy Operating Partners.

21 A That's correct.

22 Q So you do -- the company does have an  
23 economic incentive, doesn't it?

24 A Most certainly.

25 Q Regarding the potential unorthodox loca-

1 tion on a 160-acre spacing (unclear), Santa Fe may, either  
2 through the hearing process or administratively, obtain  
3 approval for administrative -- for an unorthodox well loca-  
4 tion if -- if there is a potential of 160-acre spacing  
5 unit?

6 A Yes, it will.

7 Q And are you aware, Mr. Green, that Rule  
8 R-111-P, which Mr. Kellahin relies on so much has not been  
9 adopted by the BLM?

10 A Yes, I am.

11 Q And therefore all this talk about unit-  
12 ization and the unitization provision of that order is in-  
13 applicable?

14 A Yes.

15 Q And looking at Exhibit Number Two in the  
16 first or second paragraph, does that letter to Bass set  
17 forth what type of operating agreement you would working  
18 under?

19 A Yes, it does.

20 Q And what does it say?

21 A It says that we would propose they join  
22 in the drilling of the well; we propose a mutually accept-  
23 able AAPL Form 610 1982 Model Form Operating Agreement.

24 Q And finally, Mr. Green, you referenced a  
25 previous case with Bass that involved the Big Eddy Unit, I

1 believe, did you not?

2 A Yes, I did.

3 Q And what was your history of dealing  
4 with Bass in that case?

5 A After a number of months of negotiating  
6 and during the negotiations Bass staked a location and  
7 applied for a permit and then filed for a pooling order  
8 during the negotiations and Santa Fe was not aware of it  
9 until the forced pooling order showed up on our doorstep.

10 Q Thank you, Mr. Green.

11 MR. STOGNER: Mr. Kellahin --

12 MR. BRUCE: That's all the  
13 questions.

14 MR. STOGNER: -- any redirect?

15 MR. KELLAHIN: Yes, sir.

16

17 RECROSS EXAMINATION

18 BY MR. KELLAHIN:

19 Q Exhibit Number Two simply says a mutu-  
20 ally acceptable model form operating agreement, doesn't it,  
21 Mr. Green?

22 A Yes, it does.

23 Q And is there a mutually acceptable model  
24 form operating agreement that you've tendered to Bass for  
25 this well?

1                   A           No, I have not but we have just entered  
2 into a mutually acceptable operating agreement within the  
3 past two months.

4                   Q           And those agreements vary from well to  
5 well.

6                   A           That's correct. This would be a similar  
7 test.

8                   Q           A follow-up question to one that Mr.  
9 Bruce was discussing with you and that is the relationship  
10 between the James Ranch Unit and the Santa Fe properties in  
11 the northeast of 17.

12                               Am I correct in understanding that what  
13 you're seeking to accomplish is the pooling of the interest  
14 in the northwest quarter only for that spacing unit and  
15 that particular well?

16                   A           Yes, sir.

17                   Q           You would not use the forced pooling  
18 mechanism by which then you would acquire an interest in  
19 the unit in subsequent wells to be drilled in the unit.

20                   A           No, sir.

21                               MR. KELLAHIN: Nothing fur-  
22 ther.

23

24

CROSS EXAMINATION

25

BY MR. STOGNER:

1                   Q           Do you have a copy of the application  
2 that you sent us, the OCD?

3                   A           Yes, sir.

4                   Q           Am I missing something? Does it say  
5 anything about the well location?

6                   A           No, sir, I believe that it just says at  
7 a legal location.

8                   Q           And in fact this is not a legal location  
9 for all proration units, so the advertisement is wrong.

10                  A           No, sir, it is not. It's a legal loca-  
11 tion for a 320-acre spacing unit, which is our prime ob-  
12 jective, and hopefully, we'll be successful with a 320-acre  
13 spacing unit well.

14                  Q           Do you wish at this time to just limit  
15 your application to 320-acre proration units or do you want  
16 to go ahead and seek --

17                  A           We'd like to seek from the surface to  
18 the base of the Morrow.

19                  Q           Okay. This case will have to be read-  
20 vertised for the December 21st hearing on that issue alone.

21                               MR. STOGNER: Mr. Kellahin,  
22 Mr. Bruce, can I see you in my office (unclear)?

23

24                               (Thereupon a recess was taken.)

25



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

4 Mr. Kellahin?

5 MR. KELLAHIN; Mr. Stogner, on  
6 behalf of Bass Enterprises Production Company, we would  
7 request that you direct this case continued to the December  
8 21st hearing before the same examiner a month from now so  
9 that we can proceed on with the case, if necessary, and by  
10 that time it will be readvertised and we will come again  
11 and complete the case.

12 MR. STOGNER: Mr. Bruce?

13 MR. BRUCE: That's acceptable,  
14 Mr. Examiner.

15 MR. STOGNER: In that case,  
16 Case Number 9528 will be continued to the Examiner's Hear-  
17 ing scheduled for December 21st, 1988.

18  
19 (Hearing concluded.)  
20  
21  
22  
23  
24  
25

## C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 9528  
heard by me on 22 Nov. 19 88.

Walter E. Hagan Examiner  
Oil Conservation Division

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

6 7 December 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Energy Operat- CASE  
10 ing Partners, L.P. for compulsory pool- 9528  
11 ing Eddy County, New Mexico.

12 BEFORE: David R. Catanach, Examiner  
13  
14  
15

16 TRANSCRIPT OF HEARING

17 A P P E A R A N C E S  
18

19 For the Division: Robert G. Stovall  
20 Attorney at Law  
21 Legal Counsel to the Division  
22 State Land Office Bldg.  
23 Santa Fe, New Mexico

24 For the Applicant:  
25

1 MR. CATANACH: Call next Case  
2 9528.

3 MR. STOVALL: Application of  
4 Santa Fe Energy Operating Partners, L.P. for compulsory  
5 pooling, Eddy County, New Mexico.

6 This case needs to be readver-  
7 tised and continued to December 21st, 1988.

8 MR. CATANACH: Case 9528 will  
9 be continued and readvertised for December 21st.

10

11

(Hearing concluded.)

12

13

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25

## C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 950P  
heard by me on December 7 1988.

David R. Catanach, Examiner  
Oil Conservation Division

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

6 21 December 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Energy Operat- CASE  
10 ing Partners, L. P. for compulsory 9528  
11 pooling and an unorthodox gas well  
12 location, Eddy County, New Mexico.

13 BEFORE: Michael E. Stogner, Examiner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S

16 For the Division: Robert G. Stovall  
17 Attorney at Law  
18 Legal Counsel to the Division  
19 State Land Office Bldg.  
20 Santa Fe, New Mexico

21 For Santa Fe Energy Owen M. Lopez  
22 Operating Partners, L.P.: Attorney at Law  
23 HINKLE LAW FIRM  
24 P. O. Box 2068  
25 Santa Fe, New Mexico 87501

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1 MR. STOGNER: Call next Case  
2 Number 9528, which is the application of Santa Fe Energy  
3 Operating Partners, Limited Partnership, for compulsory  
4 pooling and an unorthodox gas well location, Eddy County,  
5 New Mexico.

6 This case was heard on the  
7 Novembr 21st, 1988, hearing. At that time it was continued  
8 and readvertised for today.

9 We'll call for appearances.

10 MR. LOPEZ: If it please the  
11 Examiner, my name is Owen Lopez with the Hinkle Law Firm of  
12 Santa Fe, and I am taking the place of Jim Bruce, who was  
13 present at the hearing that was continued and he's unavail-  
14 able today, and I think at the time the case was continued  
15 Mr. Gary Green was on the stand and I trust he will con-  
16 tinue under oath and I believe Curt Anderson was also sworn  
17 at the time and he will continue under oath, and we have a  
18 third witness who was not present at the time the hearing  
19 was originally called and I would ask that he be sworn, Mr.  
20 Michael Burton.

21 MR. STOGNER: Let the record  
22 show that Mr. Green and Mr. Anderson have previously been  
23 sworn. If I might remind you, sirs, you all are both still  
24 under oath.

25 Mr. Burton, if you'd please

1 stand and raise your right hand.

2

3

(Mr. Burton sworn.)

4

5

MR. STOGNER: You may be

6

seated. Thank you. Mr. Lopez?

7

MR. LOPEZ: Mr. Green.

8

Mr. Examiner, as you will re-

9

call, when the case was originally heard, it was a con-

10

tested case and Bass and Mr. Kellahin were opposing the

11

application. I'm happy to report that today we were able

12

to reach agreement with Bass and therefore they have with-

13

drawn their opposition to our case and yet it's necessary

14

for us to continue with our evidence because of other in-

15

terest owners who have not yet signed up, and then we do

16

not have a formal agreement with Bass, but we do have a

17

letter of intent to enter into a formal agreement.

18

MR. STOGNER: Okay. Mr.

19

Lopez, Bass Enterprises has withdrawn their objection.

20

MR. LOPEZ: Correct.

21

MR. STOGNER: Today, is that

22

correct?

23

MR. LOPEZ: That is a correct

24

assessment based on its letter of intent that was reached

25

this morning.

1 MR. STOGNER: Mr. Lopez,  
2 wasn't there another change made in this application today  
3 concerning a --

4 MR. LOPEZ: Oh, yes, pardon  
5 me.

6 We would also drop from our  
7 application the request to force pool the northeast quarter  
8 to form a standard 160-acre spacing unit. We are continu-  
9 ing with our request for the north half to form a standard  
10 320-acre spacing and proration unit and with our request to  
11 form a standard 40-acre oil spacing and proration unit com-  
12 prised of the southwest quarter of the northeast quarter.

13 Thank you, Mr. Examiner.

14 MR. STOGNER: Thank you, Mr.  
15 Lopez. I'll make note of that changes and at this time you  
16 may continue.

17  
18 GARY GREEN,  
19 being recalled to the witness stand and remaining under  
20 oath, testified as follows, to-wit:

21  
22 REDIRECT EXAMINATION

23 BY MR. LOPEZ:

24 Q Mr. Green, I think I would now ask you  
25 to refer to what's been marked for identification as Exhi-

1 bit Five-A and ask you explain who the record title owners  
2 of the leases are and the ownership of the area in ques-  
3 tion.

4 A Exhibit Five-A is a second page of the  
5 title opinion that sets out the record title owner to the  
6 leases that we're (unclear) force pool, shown in two  
7 tracts, Tract 1 being the northwest quarter of Section 17,  
8 23 South, 31 East, Eddy County, New Mexico, the owners  
9 being Perry R. Barr, Incorporated, 1/4; Sam R. Bass, Incor-  
10 porated, 3/16th; Thru Line, Inc., 3/16ths; Robert M. Bass  
11 Group, Inc., 3/16ths; Lee M. Bass, Inc., 3/16ths.

12 Tract 2 being the northeast quarter of  
13 Section 17, 23 South, 31 East, Eddy County, New Mexico,  
14 with Pogo Producing Company, 37 -- my title opinion is --  
15 does not show a change of ownership but I'm aware of Pogo  
16 Producing Company has assigned 50 percent of their interest  
17 to CNG Producing Company, who we also seek today.

18 Terra Resources, Inc., Primary Fuels,  
19 Inc., PW Production Company, Inc., Chessie Exploration Com-  
20 pany, whose correct name or current name, change of owner-  
21 ship there also, is (not clearly understood), 25 percent.

22 Q Why does Santa Fe wish to drill this  
23 well at this time?

24 A Santa Fe feels that as a prudent opera-  
25 tor this is the next logical step in developing and evalu-

1     ating Santa Fe's leasehold in the area. It is one offset  
2     from a producing well, which we feel will help us evaluate  
3     acreage Santa Fe owns to the north in the east half of  
4     Section 8 and Section 9 and in Section 10.

5             Q             In your opinion will the granting of  
6     this application be in the interest of prevention of waste  
7     and protection of correlative rights?

8             A             Yes.

9             Q             Were Exhibits One through Five-A  
10    prepared by you or under your supervision?

11            A             Yes, they were.

12                         MR. LOPEZ: I would offer  
13    Applicant's Exhibits One through Five-A.

14                         MR. STOGNER: If we haven't  
15    done so, Exhibit One through Five-A will be admitted into  
16    evidence at this time.

17                         MR. LOPEZ: And that concludes  
18    our testimony from this witness.

19  
20             (Thereupon a discussion was had off the record.)  
21

22                             CURTIS ANDERSON,  
23    being called as a witness and being duly sworn upon his  
24    oath, testified as follows, to-wit:  
25

## DIRECT EXAMINATION

BY MR. LOPEZ:

Q Will you state your name and occupation, please?

A My name is Curtis Anderson, employed by Santa Fe Energy Limited Partners, and I'm District Geologist.

Q Have you previously testified before the Commission had your qualifications accepted as a matter of record?

A Yes.

Q Are you familiar with the application of Santa Fe in Case Number 0528?

A Yes, I am.

MR. LOPEZ: Mr. Examiner, do you consider the witness qualified?

MR. STOGNER: His qualifications are so qualified.

Q Mr. Anderson, I would now ask you to refer to what's been marked Exhibit Six and ask you to identify and explain it, please.

A Exhibit Number Six is a production map of the area of this -- this prospect. On it we have the various gas wells that produce in the area, the producing formations from those gas wells are indicated in color on

1 the legend at the bottom of the map. Santa Fe acreage is  
2 in stippled, and the cumulative production to a date of  
3 7-1-88 is written alongside each well.

4 Over the last three or four years Santa  
5 Fe has been in a continuous drilling program within this  
6 area and developing our leasehold primarily to the south  
7 off of this mapped area.

8 With that phase of this operation at a  
9 stage where it -- it would make more sense now to develop  
10 our leasehold to the north, the wells basically in the  
11 south, southeast two-thirds of this map are producing wells  
12 that you can see that some of them are Morrow, some of  
13 them are Atoka, some of them produce from both intervals.  
14 Those are primary and secondary objectives that we have  
15 within this area and in developing our leasehold now to the  
16 north, you can see our proposed location of this case in  
17 the southwest quarter of the northeast quarter of Section  
18 17.

19 So the purpose of this map is to show  
20 the producing wells, the formations they're producing from  
21 and the cumulative production for the area.

22 Q All right. I now refer you to what's  
23 been marked Exhibit Number Seven and ask you to explain  
24 what it shows.

25 A Exhibit Number Seven is a structure map

1     contoured on the top of the Lower Morrow formation and as  
2     it concerns the proposed location for this case, you'll  
3     note that the proposed location is on structural strike  
4     with the Atoka and Morrow producer in the south half of  
5     Section 17, and on the east flank of a structural nose  
6     which trends northwest/southeast across the prospect area.

7             Q             All right. Now please refer to what's  
8     been marked Exhibit Eight and explain what this shows.

9             A             In looking at Exhibit Number Eight,  
10    you'll have to refer to Exhibit Number Seven.

11                   Exhibit Number Eight is a stratigraphic  
12    cross section A-A', which expands across the proposed loca-  
13    tion from northwest to the southeast. It begins up at A in  
14    the south half of Section 7, goes through the proposed lo-  
15    cation in the north half of Section 17, through the pro-  
16    ducing gas well in the south half of Section 17, down to  
17    the south half of Section 20, and finally to the south half  
18    of Section 21.

19                   And the purpose of this is to delineate  
20    the primary objectives that we're drilling for at the pro-  
21    posed location, and also to highlight some secondary objec-  
22    tives that could possibly be present there.

23                   Going through the cross section in this  
24    case, now, from the bottom up, you'll see the first objec-  
25    tive, what I have labeled Paducah Sand Interval, and in



1 looking at the third well from the right on the cross  
2 section, you can see that's the well located in the south  
3 half of Section 17, the well that we're going to offset.

4 This well did produce from the Paducah  
5 Sand interval. It produced approximately half a BCF, or  
6 500-million cubic feet of gas. It depleted, was -- the  
7 well was plugged back and perforated in -- in the Atoka in  
8 what I have labeled the Pure Gold Sand, and that well is  
9 currently producing from that zone. It has produced  
10 304-million and is currently producing at a rate between  
11 200 and 400 MCF per day.

12 This sand will be the subject of an  
13 isopach map that will be introduced later.

14 Moving up the hole or up the cross  
15 section, we see a blue interval which is labeled Atoka  
16 Limestone Bank, and we're way up above the Lower Atoka on  
17 the top one-third of the cross section.

18 The Atoka Limestone Bank is a secondary  
19 objective in the area, as is the overlying James Ranch  
20 Sand.

21 Both of these units are within the Atoka  
22 Clastics interval, as labeled in the cross section.

23 Other sands, for instance, on the far  
24 right log on the cross section, you can see other sands  
25 that are colored yellow, are also secondary objectives that

1 are not named on this cross section. We feel these are  
2 pretty remote as far as productive objectives at our  
3 proposed location but they are also objectives that pro-  
4 duced within the area.

5 Q Now I'd like you to refer to what's been  
6 marked Exhibit Number Nine and ask you to explain what this  
7 shows.

8 A Exhibit Number Nine is an isopach map of  
9 net clean sand from which I had labeled the Pure Gold Sand  
10 on the -- on the cross section. You can see that the  
11 orientation of this sand body is northeast/southwest across  
12 the proposed location. It is interpreted to be a marine  
13 bar sand, which would typically be oriented as it is in  
14 this interpretation on strike, structural strike.

15 You can see that the two purple colored  
16 gas wells are wells that produced from this particular hor-  
17 izon, and you can see that our proposed location in the  
18 north half of Section 17 should encounter this particular  
19 sand.

20 Q Okay. Do you have an opinion as to what  
21 the recommended penalty should be for any interest owners  
22 that elect to go nonconsent?

23 A Well, I realize that what I presented is  
24 a good case for drilling this particular location. It has  
25 our objectives and carries reserves that we intend to deve-

1     lop.     Of course, when you deal with the sinuous and -- and  
2     narrow nature of both Morrow and Atoka objectives in this  
3     region, they do carry considerable risk as far as develop-  
4     ment from existing wells. I think that with this inherent  
5     geological risk and the depth of the well, which is anti-  
6     cipated being drilled to 15,250 feet, and some later testi-  
7     mony which will explain the mechanical risks in drilling in  
8     this particular area, that I think the risk we should ask  
9     for here is the cost plus 200 percent.

10           Q           Is it your opinion that the granting of  
11     this application is in the interest of prevention of waste  
12     and protection of correlative rights?

13           A           Yes.

14           Q           Were Exhibits Six through Nine prepared  
15     by you or under your supervision?

16           A           Yes, they were.

17                       MR. LOPEZ:     Mr. Examiner, at  
18     this time I would offer Applicant's Exhibits Six through  
19     Nine.

20                       MR. STOGNER:   Exhibits Six  
21     through Nine will be admitted into evidence.

22                       MR. STOVALL:   Excuse me, Mr.  
23     Lopez, I'm jumping in here late, I realize, and I want to  
24     make sure if there's anything we need to address.

25                       If I understand this applica-

1     tion correctly, we're looking at forming a 320-acre stand-  
2     ard unit for the --

3                     MR. LOPEZ: For the gas wells  
4     --

5                     MR. STOVALL: -- designated  
6     for the gas wells or the deeper gas formations, but you're  
7     also looking at forming a 40-acre for your James Ranch Bone  
8     Spring Pool, is that correct?

9                     MR. LOPEZ: Correct.

10                    MR. STOVALL: And are you  
11     asking for the 200 percent penalty with respect to both  
12     formations and depths?

13                    MR. LOPEZ: Correct.

14                    MR. STOVALL: Do you have --  
15     do you have additional witnesses or testimony with respect  
16     to particularly the oil (unclear) and a risk factor asso-  
17     ciated with oil production?

18                    A             I can comment on that.

19                    MR. LOPEZ: I think we should  
20     comment with this witness. This is our geologist.

21                    MR. STOVALL: Well, let me  
22     redirect the question, then, to the witness.

23                    MR. LOPEZ: Right.

24                    MR. STOVALL: If this is the  
25     appropriate witness.

## CROSS EXAMINATION

BY MR. STOVALL:

Q I'm going from what the Examiner has told me and what I've heard of your testimony, so if I, again, if I overlap with stuff you testified to when I wasn't here, please excuse me.

On what basis do you request the 200 percent risk factor penalty for the oil -- oil portion of the well, if you know?

A On this mapped area there are two wells that produce and have a 40-acre designation. The well in Section 16 of 23 South, 31 East, produced 157 barrels of oil from the Bone Spring formation.

The other well that I referred to is up in the northeast quarter of Section 6. It's also Bone Springs and it has produced 53,000 barrels of oil.

Other than that, there isn't any other oil production within this mapped area. We know of oil production in this township within approximately 4 miles and it's located to the east of our proposed location.

We also are aware of the potential of both the Bone Springs and Delaware formation in this area for producing oil. We have seen some shows in a number of the wells that we've drilled but we have not as yet tested

1 the -- whether these zones would be commercial or not.

2 So we anticipate in this case evaluating  
3 these zones as we drill to the total depth and we would  
4 anticipate if we had -- had reasonable shows that would  
5 justify the additional expense after we deplete our deep  
6 zones we would perforate the oil zones on the way out of  
7 the hole.

8 And otherwise, the particular risk in  
9 finding -- finding an oil zone under 40-acre spacing in  
10 this area is very high.

11 MR. LOPEZ: Would you charac-  
12 terize this as a rank wildcat oil well?

13 A This would -- at this location or essen-  
14 tially anywhere on this -- this mapped area, outside of  
15 maybe a direct offset to a producing well up in Section 6,  
16 it would be considered a rank wildcat, yes.

17 Q When you're saying -- when you're saying  
18 this is a wildcat, what -- when you say it's a rank  
19 wildcat, what does that mean? Do you have a definition  
20 term or is that a judgment call, or do you --

21 A Well, in my case it's a judgment call.

22 Q You're not using, for example, the de-  
23 finition, the OCD definition of a wildcat well when you say  
24 that?

25 A No, sir, and I'm not even familiar with

1 that definition.

2 Q So with respect to the Bone Spring well,  
3 if you will, would you attribute substantial or virtually  
4 all or what percentage of the penalty you're requesting  
5 would you attribute to geological risk?

6 A Geological, all of it.

7 Q That would be the risk of finding the --

8 A Risk of finding that zone.

9 Q As opposed to the mechanical risk, the  
10 difficulties to be encountered in the drilling, is that --

11 A I wouldn't experience much mechanical  
12 risk at all in drilling to a depth to where these zones  
13 would produce from. The --

14 Q Okay, go ahead.

15 A The mechanical risk involved in this  
16 area are the deeper, high pressured gas zones.

17 We did, in fact, drill in Section 33,  
18 Township 23 South, 31 East, a twin to a deep well. The  
19 deep well was productive in the Morrow formation, we had a  
20 good show, drill stem test in the Bone Springs. We twinned  
21 the well and I'm now in the process of plugging this well.  
22 It was a -- what appeared to us to be a good producing zone  
23 actually turned out to be a noncommercial reservoir.

24 Q With respect to the Morrow or deep gas  
25 wells, what percentage or portion of the risk would you at-

1     tribute to the geological?

2                   A             A smaller portion of the portion of the  
3     risk   that   you would attach to the deeper formations here.  
4     As   you   can   see   by   the   exhibits   that   I've   shown,   we're  
5     fairly   confident   we're   going   to   find   a   producing   zone.   Of  
6     course   the   risk   there   is   finding   a   zone   that's   commercial,  
7     and   do   you   want   a   percentage?

8                   Q             If   you   could   put   a   number   on   it,   that  
9     would   be   helpful,   yes.

10                  A             40 percent.

11                  Q             Okay,   40   --   40 percent of the 200 or a  
12     40 percent risk factor attributable to the --

13                  A             40 percent of the risk involved in -- in  
14     making   a   commercial   producer   out   of   either   the   Atoka   or  
15     Morrow   formations   in   this   area.   We   feel   that   we   have   sub-  
16     stantial   geological   experience   and   are   fairly   certain   that  
17     we'll   find   our   objective;   however,   as   I   mentioned   before,  
18     there   is   considerable   risk   when   drilling   for   these   parti-  
19     cular   objectives.   We've   experienced   in   this   area   and   other  
20     areas   that   --   that   they   can   disappear,   essentially.

21                                 MR.   STOVALL:    I   have   --   we  
22     have   nothing   further   of   this   witness   at   this   time.

23                                 MR.   LOPEZ:    Okay.   I'd   call   my  
24     next   witness,   Mr.   Burton.

25



1                                   MICHAEL R. BURTON,  
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. LOPEZ:

7                   Q           Would you please state your name and  
8 where you reside?

9                   A           My name is Mike Burton and I live in  
10 Midland, Texas.

11                  Q           By whom are you employed and in what  
12 capacity?

13                  A           I'm employed by Santa Fe Energy Company  
14 as their District Drilling Engineer.

15                  Q           Have you previously testified before  
16 this Commission and had your qualifications accepted as a  
17 matter of record?

18                  A           No, sir.

19                  Q           Would you therefore briefly describe  
20 your educational experience and employment background?

21                  A           Yes, sir. I graduated from the Univer-  
22 sity of Texas at Austin in August of 1978 with a Bachelor  
23 of Science in petroleum engineering.

24                               Also in August of 1978 I was employed by  
25 El Paso Natural Gas Company as an associate engineer and

1 assigned to the Farmington office of that company.

2 For the next approximately 2-1/2 years I  
3 was in the Drilling Department with El Paso Natural Gas,  
4 supervising the drilling and completion of gas wells in the  
5 San Juan Basin.

6 In January of 1981 I was employed by  
7 Santa Fe Energy Company as a Drilling Engineer and assigned  
8 to the Amarillo, Texas, office, where I was involved in  
9 planning and drilling gas well in the Anadarko Basin of  
10 Oklahoma and the Gulf Coast of Texas.

11 In October of 1982 I was assigned to the  
12 Permian Basin District as a Senior Drilling Engineer and  
13 became involved in the drilling of gas wells in the Permian  
14 Basin District, which involves southeastern New Mexico.

15 And in January of 1987 I was promoted to  
16 District Drilling Engineer for Santa Fe Energy Company, a  
17 job which I presently hold, and I'm involved with the plan-  
18 ning and supervision of all of our drilling activities in  
19 the Permian Basin District.

20 Q Are you familiar with the application of  
21 Santa Fe in Case Number 9528?

22 A Yes, sir, I am.

23 MR. LOPEZ: Mr. Examiner, I  
24 tender the witness as a qualified drilling engineer.

25 MR. STOGNER: Mr. Burton is so

1 qualified.

2 Q Mr. Burton, before we begin to discuss  
3 your experience in the are in question, I would ask you to  
4 refer to what's been identified as Exhibit Ten and ask you  
5 to explain what this exhibit shows.

6 A Yes, sir. Exhibit Ten is a copy of our  
7 approved application to drill the No. 2 Pure Gold "C" 17  
8 Federal Well in Section 17 of 23 South and 31 East. The  
9 reason that we are submitting it at this hearing is to show  
10 to the Commission the extensive preparation that goes into  
11 the planning of the drilling of these deep, high pressure  
12 gas wells in Eddy County, New Mexico, on Federal acreage.

13 There are numerous exhibits attached to  
14 this application which indicate the top of blowout preven-  
15 ter equipment that we need to employ in these wells in  
16 order to contain the high pressures that we may encounter.

17 There's numerous references to the  
18 casing strings that we need to set to protect the fresh  
19 water sands that may be encountered and to case off the  
20 lost circulation zones which we may drill through and also  
21 to allow a well to be produced from the high pressure  
22 reservoirs should be encounter them at the bottom of the  
23 well.

24 Q Would you now describe the kinds of  
25 problems that you've encountered in the drilling of wells

1 such as the proposed well in the area in question?

2           A           Yes, sir. We've drilled five wells in  
3 this township, the first one being drilled in July of 1986.  
4 That well took 58 days to drill to a depth of 15,050 feet.

5                   We encountered a high pressure zone at  
6 13,800 feet, where we were required to raise the mud rate  
7 to 12.7 pounds per gallon.

8                   In December of '86 we drilled an offset  
9 to that well, taking 75 days to drill it; encountered high  
10 pressure zones at 14,285, which required mud weights of 13  
11 pounds per gallon.

12                   Our next well was drilled in August of  
13 1987 and took 56 days to drill, again high pressure zones.

14                   The fourth well took 74 days, again an-  
15 other high pressure gas well.

16                   The fifth well took 50 days to drill,  
17 and I might take time to point out that this well was a dry  
18 hole. It was an immediate west offset to our first well,  
19 which was a commercial gas well. We had offset it to the  
20 east and to the south and made good producing gas wells,  
21 and offset it immediately to the west and had a dry hole.

22                   Also in this area I'm familiar with  
23 wells drilled by Skelly Oil Company in 1974, which blew out  
24 at a depth of 14,595 feet. That's also in this township.  
25 It appeared to be, from the records, that this was a case

1 of high pressure, low volume, because after the blowout was  
2 contained, the well was plugged.

3 The south offset to the well in question  
4 the Pure Gold "C" Fed No. 1 was drilled in 1982. It re-  
5 quired 172 days to drill and complete. They encountered  
6 high pressure zones in the Wolfcamp and Atoka formations  
7 and had to have mud weights of 13 pounds per gallon to  
8 drill them.

9 The area is extremely difficult to drill  
10 in because we go from drilling through zones that -- that  
11 are so weak that we may lose circulation, and then proceed  
12 on to zones that are abnormally high pressures, which may  
13 cause the well to blow out if proper drilling techniques  
14 aren't employed.

15 Q I'd now ask you to refer to what's been  
16 marked as Exhibit Eleven and ask you to explain what this  
17 is intended to show.

18 A Yes, sir, Exhibit Eleven is the drilling  
19 schedule that I prepared that shows the formation tops for  
20 the Pure Gold "C" Federal No. 2, and general instructions  
21 that relate to the reporting to our office about the  
22 drilling progress of this well.

23 On page two is the drilling procedure  
24 that we would employ that itemizes the size of hole that we  
25 will drill, where we will be setting casing, the pressure

1 testing of the various BOP equipment involved, and the type  
2 of cement to be used in cementing the casing; type logs to  
3 be run, and the various depths that these logs would be  
4 run.

5 On page three is the casing program and  
6 it indicates the size of the casing that we would run in  
7 the wells, as well as the extremely high strength casing  
8 that is necessary to be employed in order to contain the  
9 high pressures that we expect to encounter.

10 The fourth and final -- the fourth page  
11 indicates the wellhead equipment, the cement program, the  
12 drilling fluid program, and the logging program, in a lit-  
13 tle more detail than previously reported.

14 And we offer this into evidence as fur-  
15 ther indications of the extremely difficult task that we  
16 face in drilling wells of this type.

17 Q Are these expensive wells?

18 A Yes, sir, they are. I believe the cost  
19 estimate that we've previously submitted into evidence in-  
20 dicates that in order to complete this well we will have  
21 invested almost \$1-1/2 million.

22 Q What is your opinion as to the risk fac-  
23 tor that should be applied against nonconsenting interest  
24 owners in the well?

25 A Based on my experience having drilled

1 wells from the northwest portion of this state to the  
2 southeast portion of the state, there are no more diffi-  
3 cult wells to be drilled and I believe that the maximum  
4 penalty should be assessed.

5 Q Is it your opinion that the granting of  
6 this application is in the interest of prevention of waste  
7 and protection of correlative rights?

8 A Yes, sir.

9 Q Were Exhibits Ten and Eleven prepared by  
10 you or obtained by you from company records?

11 A Yes, sir.

12 MR. LOPEZ: Mr. Examiner, at  
13 this time I would offer Exhibits Ten and Eleven.

14 MR. STOGNER: Exhibits Ten and  
15 Eleven will be admitted into evidence at this time.

16 MR. LOPEZ: I have no further  
17 questions of this witness.

18 MR. STOVALL: Mr. Lopez, have  
19 you discussed or presented evidence with respect to drill-  
20 ing and operating (inaudible)?

21 MR. LOPEZ: Yes, Mr. Green did  
22 at the first hearing, as I understand it.

23  
24  
25

## CROSS EXAMINATION

BY MR. STOVALL:

Q Have you lost a well out here that was going to these depths?

A I prefer to use the term that we've to start over drilling after we've initially drilled the -- initially started drilling the well, yes, sir.

Q When -- when you say "start over", what do you -- what do you mean?

A We encountered drilling problems and in a particular case that I'm -- I'm -- that I recall, further to the northwest here, we lost circulation in the Capitan Reef formation and our drill string became stuck, and we were in the process of becoming unstuck, the drill string parted, and we were unable to recover the -- the portion that we had left in the well, and because of that it was more economic for us to plug that well and move the rig 100 feet over and commence drilling operations once again.

Q Now the difficulties, drilling difficulties you have described in either 10 or 11, I believe, --

A Yes, sir.

Q -- those -- all those costs would be part of the costs that you would recover, is that correct?

A Yes, sir.

Q From -- from the nonconsenting -- or



1 consenting parties, for that matter, they would be -- all  
2 of those costs of heavy mud or additional preventive  
3 measures for pressure control, would be part of the cost to  
4 be paid.

5 A Yes, sir, and those were anticipated in  
6 the cost estimate.

7 Q And you heard, I believe, the testimony  
8 of I believe your geologist with respect to the geological  
9 risk regarding the Morrow and Atoka prospects as being --  
10 well, roughly 40 percent of the risk factor involved in  
11 drilling of the well?

12 A Yes, sir I heard those, yes, sir.

13 Q And you also heard his testimony that  
14 there's a great likelihood of hitting productive zones.

15 A Yes, sir.

16 Q And it sounded to me as if his question  
17 was a question of whether or not it would be a commercial  
18 well. It probably would discover some gas but the question  
19 would be whether it would be commercial, is that -- is that  
20 your understanding of what he said?

21 A Yes, sir.

22 Q Do you have any concerns in that area?

23 A Yes, sir.

24 Q Now you're saying "commercial", what do  
25 you mean by a commercial well?

1           A           That would -- that it would pay out the  
2 cost involved in drilling the well.

3           Q           So to I understand, then, that you feel  
4 that -- let me ask you first, do you concur in his analysis  
5 or assessment that approximately 40 percent of the risk, if  
6 you will, is geological and presumably the balance of what-  
7 ever risk there is would be mechanical?

8           A           Well, sir, Curt is the geological expert  
9 and I would -- and I've worked with him for five years and  
10 so I would go with his judgment on the geological risk.

11                    I don't feel qualified to -- to answer  
12 the geological questions.

13           Q           I understand that. I guess what I'm  
14 asking you is if the -- assume that the total risk of  
15 drilling a well is 100 percent, to get to the maximum risk  
16 factor, do you agree that there's roughly 60 percent  
17 mechanical risk in drilling a well, based on your perspec-  
18 tive?

19           A           I'm a little --

20           Q           I have some more questions that will  
21 follow that will perhaps help you, but --

22           A           Okay.

23           Q           Why don't you give me an assessment of  
24 what the mechanical risk is in justifying a maximum risk  
25 factor. We've got the two elements, the geological and the

1 mechanical.

2 A Well, sir, I believe that -- that these  
3 risks in my mind, the most difficult wells should be award-  
4 ed the highest risk and therefore the highest penalty in-  
5 volved in (unclear) the working interest owners that choose  
6 to join the well.

7 Q Let me use some hypotheticals here for a  
8 moment. If you've got a difficult and expensive well to  
9 drill, but it is drilling to a formation that is virtually  
10 guaranteed to produce a commercial well, that is, a well by  
11 your definition that will pay out, would that in your  
12 opinion be entitled to a maximum risk factor?

13 A Yes, sir.

14 Q Why is that?

15 A Because with any difficult drilling  
16 operation, even though the engineer may have used the --  
17 the -- his best efforts in preparing the cost estimate, the  
18 actual cost of drilling the well might be considerably more  
19 than -- than was anticipated.

20 Q But if that were, in fact, going to --  
21 going to pay out, assuming that we're not completely astro-  
22 nomical in the cost, there's actually not a great deal of  
23 risk involved in that, is there? There may be a great deal  
24 of expense but there may not be a great deal of risk.

25 A I think there's a great deal of risk in-

1       involved in the drilling of these wells in southeastern New  
2       Mexico.

3                   Q           I'm not sure we're communicating exactly  
4       clearly. Is the risk that you won't achieve pay out or is  
5       it the risk that you will spend a lot of money?

6                   A           Both.

7                   Q           Both?

8                   A           Yes, sir.

9                   Q           So you feel that in this area, then,  
10       that there is a -- because of the potential cost as com-  
11       pared with the probability of making a commercial recovery,  
12       that there is substantial risk that your well will not in  
13       fact be commercial as you've described it because it won't  
14       pay out those substantial costs, is that what you're  
15       saying?

16                  A           Mr. Examiner, I believe that it is im-  
17       possible to predict with certainty the amount of gas that  
18       is in these formations three miles below the ground. My  
19       previous testimony indicated producing gas wells that were  
20       immediately offset, that a prudent geologist recommended  
21       drilling a well immediately offsetting a commercial gas  
22       well, which was eventually plugged and abandoned because  
23       the producing formations were not there.

24                               So, that -- this is a very high risk  
25       venture.

1                   Q           I think that answered my question.

2                               MR. STOVALL: Mr. Lopez, and I  
3 don't believe you were here for the original portion of  
4 (unclear) I quite -- I'm sorry, I'm going to mess the  
5 record up and I hate to do that, I don't have any further  
6 questions of this witness.

7                               I do have some questions for  
8 you, Mr. Lopez, -- some discussion with Mr. Lopez I guess I  
9 should say, it's not examination concerning some other  
10 matters with -- that are at issue in this matter.

11                              MR. STOGNER: Are there any  
12 other questions for Mr. Burton from anybody?

13                              If not, he may be excused.

14                              MR. STOVALL: Let's go off the  
15 record.

16  
17                   (Thereupon a discussion was had off the record.)  
18

19                              MR. LOPEZ: Mr. Examiner, it's  
20 -- of the record we felt it would be helpful to refresh the  
21 parties' memories with respect to the request of Santa Fe  
22 Energy regarding its recommendation as to the amount that  
23 should be paid for the supervision and administrative ex-  
24 penses associated with the proposed well and the justifica-  
25 tion therefore, and so in this respect, I would ask we

1 recall Mr. Green to the stand and for the purpose of in-  
2 quiring into these matters, and I would ask that he re-  
3 peat for the record what he recommended when the case was  
4 first heard in November and the basis for his recommenda-  
5 tion at the time.

6 MR. STOVALL: For the record,  
7 let's just clarify that Mr. Green -- you were not sworn  
8 today, were you?

9 MR. GREEN: No, I was not  
10 sworn.

11 MR. STOVALL: But you were  
12 sworn in the original proceeding and this is a continua-  
13 tion, Mr. Examiner, of that hearing, so you are still under  
14 oath.

15 MR. LOPEZ: Yes, and that's no  
16 (unclear) because he has testified today, also, and intro-  
17 duced a couple of new exhibits while you were not present.

18 MR. STOVALL: Okay, I'm sorry.

19 MR. LOPEZ: We're clear on  
20 that.

21  
22 GARY GREEN,  
23 being recalled as a witness and remaining under oath,  
24 testified as follows, to-wit:  
25

## REDIRECT EXAMINATION

BY MR. LOPEZ:

A Santa Fe recommends that the drilling overhead rates be \$6000 per month for a producing well. We would recommend \$600 per month be allowed.

As my company, as a rule, to these deep gas wells and deeper, we use 40 cents per foot. This is a 15,000 foot well, computes to \$6000. We've also drilled several wells in the area that we talked about earlier. These rates have been agreeable to the parties that joined and participated in those wells, on four or five other wells in the same township and range. We feel that they are acceptable to our industry partners who participate.

MR. STOVALL: Do you have any further questions of the witness on that?

I do, if you do not.

MR. LOPEZ: No, I don't.

## CROSS EXAMINATION

BY MR. STOVALL:

Q Mr. Green, are you familiar with the Ernst and Whinney surveys of the average overhead drilling and operating costs?

A Yes, I am.

Q What would those costs be in this area

1 for wells of this depth?

2 A I believe 15,000 to 20,000 feet wells in  
3 Ernst and Whinney the 1988 median is somewhere around 5600  
4 for a drilling well and 560, 530, something like that, for  
5 a producing well.

6 Q Now, you've indicated that your sort of  
7 rule of thumb, if you will is 40 cents a foot?

8 A Yes, sir.

9 Q That's for any well?

10 A No, sir, that's -- that's limited -- we  
11 don't drill very many shallow wells, so if it were a  
12 shallow well that would not be our rule of thumb. We'd  
13 back up to see what would be reasonable in the area, and we  
14 feel these are reasonable and have been -- and are accept-  
15 able.

16 Q It appears that those, those numbers  
17 maybe a little bit high, somewhat higher than the Ernst and  
18 Whinney averages you testified and somewhat higher than  
19 other costs that we've seen.

20 What is there in the nature of the oper-  
21 ating of the overhead charges, charges that would be recov-  
22 ered by these costs that increases with respect to depth or  
23 difficulty of drilling?

24 A I don't think I'm qualified to answer  
25 that. I'm not that familiar with these -- these costs



1 other than they are -- you might could get Mr. Burton to  
2 address those -- that item.

3 Q Do you know what these costs cover?  
4 Could you just briefly describe that?

5 A I need to look at an operating agree-  
6 ment; not off the top of my head, no, I don't.

7 MR. LOPEZ: I would suggest we  
8 have Mr. Burton address that. I think our position, Mr.  
9 Stovall, is that there are no higher risk, more difficult  
10 wells to drill in the State of New Mexico, than the sub-  
11 ject wells.

12 MR. STOVALL: I don't think I  
13 -- I don't think I disagree with that, Mr. Lopez. I guess  
14 my question is to what extent -- what basis is there in  
15 that fact that creates additional overhead and supervision  
16 costs that are covered by this, and I'm -- would just like  
17 you to put that on the record, if you can, and I can do it  
18 in the form of cross or would you like to --

19 MR. LOPEZ: No, I think that  
20 would be excellent and I think Mr. Burton, could you re-  
21 spond to that, and would you at this point?

22 MR. STOVALL: I have no  
23 further questions of Mr. Green, then, at this time.

24 MR. LOPEZ: Okay.

25 MR. STOVALL: I guess he can

1 be excused.

2  
3 MICHAEL R. BURTON,  
4 being recalled as a witness and remaining under oath, tes-  
5 tified as follows, to-wit:

6  
7 RECROSS EXAMINATION

8  
9 BY MR. STOVALL:

10 A Mr. Stovall, I'm --

11 Q I'm sorry, Mr. Burton, let's do this  
12 again for the record. Let me ask you the question rather  
13 than have you answer a question that I've asked Mr. Green.

14 A Okay.

15 Q You heard Mr. Green testify as to the  
16 reasons for requesting the 6000 and 600 overhead costs and  
17 you've heard my comment to him with respect to why those  
18 costs -- having some concern that those costs would be  
19 increased with difficulty.

20 Are you prepared to explain why a deep-  
21 er, more difficult well would incur greater overhead super-  
22 vision cost than, say, a shallower of less difficult well?

23 A Yes, sir, I am.

24 Q And what are those reasons?

25 A Well, the -- the deeper, more difficult

1 wells require more close supervision by more people from  
2 the operator than the shallower, more simple wells.

3 Also, if -- if I could, I would like to  
4 emphasis the word "average" in those Ernst and Whinney  
5 numbers, that even though that \$5600 is an average, it is  
6 arrived at by -- by some wells requiring higher operating  
7 rates and some wells requiring lower operating rates, and  
8 that this -- this very deep, difficult well is within 10  
9 percent of that average.

10 Q So if you'd say your 40 cents per foot  
11 rate, would you need to adjust that rate, say, if you were  
12 to drill a shallower well or would the fact that you were  
13 at a lower depth, would you automatically reduce the pro-  
14 duct of 40 cents times the depth to take care of reducing  
15 that rate for a shallower, less difficult well?

16 A I'm not familiar with the exact history  
17 of how that 40 cent figure was arrived at; however, I do  
18 believe Mr. Green testified that it's -- that it has been  
19 previously accepted and is common to the area.

20 Q Do you know specifically other wells in  
21 which that's been accepted as an operating rate?

22 A If -- if my memory serves me correctly,  
23 it's been accepted in all five of the deep, high pressure,  
24 Morrow-Atoka wells that we've drilled in this -- in this  
25 section -- in this township and range.

1           Q           Were any of those, did any of those  
2 involved a forced pooling? Has it been approved in any  
3 other forced pooling cases?

4           A           I'm no -- I'm not familiar with the --  
5 with that.

6           Q           Do you know of any other operators in  
7 the area that are drilling comparable wells and what their  
8 rates might be, getting very specific in there, of your own  
9 personal knowledge other than (not clearly audible)?

10          A           No, sir, I don't.

11          Q           You haven't participated as a working  
12 interest owner under other operators in these depths?

13          A           Yes, sir, Santa Fe Energy Company has.  
14 My responsibility as the District Drilling Engineer  
15 requires that virtually all of my time be spent on the  
16 wells that we ourselves operate.

17                   MR. STOVALL: I have no  
18 further questions of this witness.

19                   MR. LOPEZ: Mr. Stovall, I  
20 think Mr. Green does have the answer to the question you  
21 have.

22                   MR. STOVALL: I just love  
23 bouncing back and forth between witnesses. I would leave  
24 it to your discretion if you wish to recall him to do that,  
25 Mr. Lopez.

1 MR. LOPEZ: Well, I think in  
2 order to -- if there is a question about justifying this  
3 charge that we're recommending, I think it is helpful to  
4 show for the record that not only the five previous wells  
5 that were drilled in this area, that where voluntary oper-  
6 ating agreements were entered into, contained the numbers  
7 recommended, but that, I believe Mr. Green can testify that  
8 in cases of forced pooling this was a charge that was also  
9 applied.

10 MR. STOVALL: So you would  
11 like to recall Mr. Green?

12 MR. LOPEZ: So I would like to  
13 recall Mr. Green just for the purpose to ask him, if you  
14 don't mind, if he is aware of any forced pooling cases in  
15 the area in question as to what the charges were applied.

16 MR. STOVALL: Let's get the  
17 Examiner's permission to recall him.

18 MR. LOPEZ: I guess it was  
19 yes.

20  
21 GARY GREEN,  
22 being recalled as a witness and remaining under oath,  
23 testified as follows, to-wit:

24  
25 REDIRECT EXAMINATION

1 BY MR. LOPEZ:

2 Q Go ahead.

3 A The Sterling Silver Federal 34 No. 1 was  
4 under forced pooling, was force pooled, and these rates  
5 were acceptable at that time.

6 MR. STOVALL: By this Divi-  
7 sion?

8 A Yes, sir. As a matter of fact, there  
9 was some question involved that and I delivered an oper-  
10 ating agreement that we had previously used out there  
11 showing that the operators had -- that the other operators  
12 had agreed to these rates.

13 MR. STOVALL: I think that --  
14 I think perhaps if you could, after we conclude this, find  
15 that order and identify that, unless you know the number  
16 off the top of your head. Do you know the number, the  
17 order number off the top of your head?

18 A No, sir, I do not.

19 MR. STOVALL: If you could do  
20 that after the conclusion of the hearing, identify the  
21 order and -- is that the only one that you're aware of?

22 A That's the only one in this area that  
23 I'm aware of that we force pooled.

24 MR. STOVALL: Are you aware of  
25 any other operators that have similar overhead costs for

1 similar wells?

2 A We just recently drilled a well with  
3 Bass and Bass the operator, Big Eddy 102, I believe their  
4 rates for an 11,000 foot well, I believe theirs was 40  
5 cents a foot and it was 450 and \$400 and it computed back  
6 to about 40 cents a foot.

7 MR. STOVALL: I have no  
8 further questions, Mr. Examiner.

9 MR. STOGNER: Anything further  
10 of any of these witnesses?

11 You may be excused.

12 Mr. Lopez, do you have any-  
13 thing further in this case?

14 MR. LOPEZ: No, Mr. Examiner.

15 MR. STOGNER: Does anybody  
16 else have anything further in Case Number 9528?

17 This case will be taken under  
18 advisement. Hearing adjourned.

19

20 (Hearing concluded.)

21

22

23

24

25

## C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 9528,  
heard by me on 21 December 1988.

Michael E. Lutz → Examiner  
Oil Conservation Division