

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 October, 1987

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of J. (James) A. Davidson for a determination of  
10 reasonable well costs, Lea County,  
11 New Mexico. CASE 9168

12 BEFORE: Michael E. Stogner, Examiner

13 TRANSCRIPT OF HEARING

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

15 For the Division: Jeff Taylor  
16 Attorney at Law  
17 Legal Counsel to the Division  
18 State Land Office Bldg.  
19 Santa Fe, New Mexico 87501

20 For the Applicant:  
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MR. STOGNER: Now I'll call next Case Number 9168.

MR. TAYLOR: The application of J. (James) A. Davidson for a determination of reasonable well costs, Lea County, New Mexico.

The applicant has requested that this case be continued.

MR. STOGNER: Case Number 9168 will be continued to the Examiner Hearing scheduled for October 21st, 1987.

(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9168, heard by me on 7 October 1987.  
Mahmud E. Sogut Examiner  
Oil Conservation Division

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

9 September 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of J. (James) A. Davidson CASE  
for a determination of reasonable well 9168  
costs, Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant: Chad Dickerson  
Attorney at Law  
DICKERSON, FISK & VANDIVER  
Seventh and Mahone/Suite E  
Artesia, New Mexico 88210

For Marathon Oil Co.: W. Thomas Kellahin  
Attorney at Law  
KELLAHIN, KELLAHIN & AUBREY  
P. O. Box 2265  
Santa Fe, New Mexico 87504

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MR. STOGNER: We'll call next Case Number 9168, which is the application of J. (James) A. Davidson for determination of reasonable well costs, Lea County, New Mexico.

At the applicant's request this case will be continued to the Examiner's hearing scheduled for October 7th, 1987.

(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. 9168.  
heard by me on 9 September 1987.

Michael E. Sloger Examiner  
Oil Conservation Division

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 1 July 1987

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of J.(James) A. Davidson CASE  
10 for a determination of reasonable well 9168  
11 costs, Lea County, New Mexico.

12 BEFORE: David R. Catanach, Examiner

13  
14 TRANSCRIPT OF HEARING

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

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19 For the Division:

20 Jeff Taylor  
21 Legal Counsel for the Division  
22 Oil Conservation Division  
23 State Land Office Bldg.  
24 Santa Fe, New Mexico 87501

25 For the Applicant:

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MR. CATANACH: Call next Case  
No. 9168

MR. TAYLOR: The application of  
J.(James) A. Davidson for a determination of reasonable well  
costs, Lea County, New Mexico.

MR. CATANACH: At the request  
of the applicant Case No. 9168 will be continued to the  
Examiner Hearing 12 August 1987.

(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 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. 9168, heard by me on July 1 1987.  
David R. Catarach, Examiner  
Oil Conservation Division

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

12 August 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of J. (James) A. Davidson CASE  
for a determination of reasonable well 9168  
costs, Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant: Chad Dickerson  
Attorney at Law  
DICKERSON, FISK & VANIDER  
Seventh and Mahone/Suite E  
Artesia, New Mexico 88210

For Marathon Oil Co.: W. Thomas Kellahin  
Attorney at Law  
KELLAHIN, KELLAHIN & AUBREY  
P. O. Box 2265  
Santa Fe, New Mexico 87504

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## I N D E X

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5 STATEMENT BY MR. KELLAHIN 4

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8 TERRY L. RIVERS

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19 Marathon Exhibit Two, Cost Comparison 12

20 Marathon Exhibit Two-A, Computer Printout 21

21 Marathon Exhibit Three, Computer Printout 22

22 Marathon Exhibit Four, Well History 29

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24 Davidson Exhibit One, Status Report 31

25 Davidson Exhibit Two, Letter &amp; AFE 32

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MR. STOGNER: The hearing will  
come to order.

We will call next Case Number  
9168.

MR. TAYLOR: The application of  
James A. Davidson for determination of reasonable well  
costs, Lea County, New Mexico.

MR. DICKERSON: Mr. Examiner,  
I'm Chad Dickerson of Artesia, New Mexico, appearing on be-  
half of Mr. Davidson.

I have with me Mr. William  
McCoy.

MR. STOGNER: Any other appear-  
ances?

MR. KELLAHIN: Mr. Examiner,  
I'm Tom Kellahin of Santa Fe, New Mexico, appearing on be-  
half of Marathon Oil Company and I have one witness.

MR. STOGNER: And are there any  
other appearances?

Mr. Dickerson, do you have any  
witnesses?

MR. DICKERSON: No, Mr. Exam-  
iner.

MR. STOGNER: Mr. Kellahin, do

1 you have any witnesses?

2 MR. KELLAHIN: Yes, sir, I have  
3 one witness.

4 MR. STOGNER: Will the witness  
5 please stand and be sworn.

6  
7 (Witness sworn.)

8  
9 MR. KELLAHIN: Mr. Examiner,  
10 I'd like to make a preliminary statement and I will tender  
11 to you certain exhibits and see if Mr. Dickerson has any  
12 objection to them and see if we can't expedite the process  
13 this morning.

14 For your information, back on  
15 August 6th of '86 in a hearing before you, Mr. Stogner,  
16 Marathon obtained a compulsory pooling order and I will give  
17 you a copy of that order, it's R-8282.

18 Mr. Rivers testified at that  
19 hearing with regards to the AFE which we've attached as one  
20 of the exhibits.

21 Subsequent to the hearing, Mr.  
22 Davidson was served. He elected not to participate in the  
23 well. The well has been drilled and completed and Mr.  
24 Dickerson has asked for a cost hearing on the actual costs  
25 involved in the well.

1 We propose to submit to you an  
2 Exhibit One, which is simply a surface identification plat  
3 of the area. It includes the forced pooling orders, the  
4 AFE and the forced pooling order, so that you'll have that  
5 for comparison.

6 The second exhibits are Mr. Ex-  
7 hibit's Exhibit Number -- Mr. Rivers' Exhibit Number Two in  
8 which he's made a cost comparison. He has taken the AFE ap-  
9 proved by the Examiner at the earlier hearing, compared that  
10 to the actual costs and then in the center column he has  
11 displayed the itemization of the HEYCO AFE. There was a  
12 working interest owner, HEYCO, that was involved in the well  
13 and they have submitted an AFE that was discussed in the  
14 hearing. So to refresh your recollection, we have simply  
15 put the HEYCO AFE on the tabulation so you can see how the  
16 various numbers compare.

17 Attached to that as an Exhibit  
18 Two-A, is the computer printout of the actual cost for the  
19 well. It will be Mr. Rivers' testimony that the actual  
20 costs for the well were less than the AFE that the Division  
21 approved for the well.

22 Finally, Mr. Rivers has pre-  
23 pared or caused to be prepared by the -- by his company a  
24 tabulation, a computer printout, if you will, of the actual  
25 costs itemized by who was paid for what particular item on

1 the well and he is prepared today to discuss with you each  
2 of those items.

3 That is the extent of the in-  
4 formation we propose to present today. I have agreed with  
5 Mr. Dickerson that after the hearing this morning if he de-  
6 sires to see copies of contracts or actual invoices, if  
7 he'll identify those for me, we will furnish them to him af-  
8 ter the hearing today.

9 If the Examiner wants, we'd be  
10 happy to continue the case and give Mr. Dickerson and his  
11 engineer an additional period of time in which to reexamine  
12 our calculations.

13 So the purpose of our hearing  
14 today will be tender the actual cost and to submit to you  
15 Mr. Rivers as an expert who can talk about those costs.

16 MR. STOGNER: Mr. Dickerson?

17 MR. DICKERSON: I concur, Mr.  
18 Examiner, I have no problem with the way he proposes to pro-  
19 ceed.

20 I would like to point out one  
21 other possible complication bearing on this problem. There  
22 is another cause pending before your office between these  
23 parties relating to this same well.

24 Tom, do you have a case number  
25 on that?

1                   Mr. Examiner, I'm sorry, I  
2 don't have the case number but it is an application filed by  
3 Marathon which was heard in June and for which no -- I think  
4 it is Case 9145/9146, consolidated, in which Marathon seeks  
5 to have special pool rules promulgated for this Devonian  
6 Pool discovery of the Benson No. 1 Well, the subject of this  
7 hearing, among other things increasing the spacing to 80 ac-  
8 res from the original 40 acres dedicated to this well, and  
9 also seeking to amend the compulsory pooling order to which  
10 Mr. Kellahin referred to additionally cover Mr. Davidson's  
11 interest in the 40 acres offsetting the actual location of  
12 the Benson No. 1 Well directly to the west.

13                   And that, as I said, opposed by  
14 Mr. Davidson and it was taken under advisement by your of-  
15 fice in early June and no order has been issued on it. De-  
16 pending upon the outcome of that case, it's possible that --  
17 that it will have some bearing on the cost to be established  
18 in drilling the Benson No. 1 Well.

19                   With -- we have obviously, Mr.  
20 McCoy and I have not had an opportunity to go over the  
21 figures presented by Marathon in any detail and we appreciate  
22 Mr. Kellahin's offer and we will take him up on that to al-  
23 low us to obtain additional information following his pre-  
24 sentation here today and reserve the right, with your per-  
25 mission, Mr. Stogner, to appear at a later date and offer

1 any rebuttal or contrary evidence that we may have at that  
2 time.

3 MR. STOGNER: Thank you, Mr.  
4 Dickerson.

5 Mr. Kellahin, are you ready to  
6 proceed at this time?

7 MR. KELLAHIN: Yes, sir.

8 MR. STOGNER: Before we get  
9 started, I will take administrative notice of the previous  
10 case that was heard and the result was Order Number R-8282,  
11 and to whatever deems necessary in the previous case for the  
12 special pool rules. I believe that was 9125?

13 MR. KELLAHIN: Yes, sir. The  
14 forced pooling case is 8960.

15 MR. STOGNER: I think I do have  
16 a copy of that in my files.

17

18 TERRY L. RIVERS,  
19 being called as a witness and being duly sworn upon his  
20 oath, testified as follows, to-wit:

21

22 DIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q Mr. Rivers, would you please state your  
25 name and occupation?

1           A           My name is Terry Rivers from Marathon Oil  
2 Company. I'm Drilling Superintendent for the MidContinent  
3 Region.

4           Q           Mr. Rivers, as Drilling Superintendent  
5 for the MidContinent Region of your company, have you pre-  
6 viously testified before the Oil Conservation Division?

7           A           Yes, I have.

8           Q           And did you appear on behalf of your com-  
9 pany and testify in Case 8960 that resulted in the compul-  
10 sory pooling order against Mr. Davidson that is the subject  
11 of the AFE for the Benson No. 1 Well in Section 14, Township  
12 16 South, Range 38 East, Lea County, New Mexico?

13          A           Yes, I did.

14          Q           Subsequent to testifying were you one of  
15 the responsible individuals for your company that caused  
16 this well to be drilled?

17          A           Yes, I was.

18          Q           And describe for the Examiner what has  
19 been your involvement with regards to supervising the  
20 drilling and accounting for the costs that were accrued for  
21 the drilling of the well.

22          A           Well, back in, oh, the middle of last  
23 year I prepared the well costs and we spudded the well and I  
24 supervised the drilling of the well as Drilling  
25 Superintendent, and we came in under our official forecast

1 and the final numbers I have right now.

2 MR. KELLAHIN: We tender Mr.  
3 Rivers as an expert drilling supervisor, Mr. Examiner.

4 MR. STOGNER: Are there any  
5 objections?

6 MR. DICKERSON: No.

7 MR. STOGNER: Mr. Rivers is so  
8 qualified.

9 Q Let me take a moment, Mr. Rivers, and go  
10 through some of the documents that are attached as Exhibit  
11 Number One that are in this package of exhibits, and ask you  
12 to skip by the land plat for a moment.

13 MR. STOGNER: Excuse me, Mr.  
14 Kellahin.

15 MR. KELLAHIN: Yes, sir.

16 MR. STOGNER: How many copies  
17 of that do you have?

18 MR. KELLAHIN: I have plenty, I  
19 believe.

20 MR. STOGNER: Can I have  
21 another one of those? That way me and Mr. Taylor can both  
22 have a copy.

23 Q Let's turn past the plat. Let's turn  
24 past the letter to Davidson about his participation, and go  
25 to the attachment to the compulsory pooling order, which is

1 an AFE dated September 10th, 1986.

2 Do you have that document?

3 A Yes, I do.

4 Q All right. Is this a document that you  
5 prepared?

6 A Yes, these are my well costs.

7 Q And these are the well costs that you  
8 testified to at the time of the hearing back in October of  
9 '86?

10 A That's correct.

11 Q Would you give us a quick summary of the  
12 estimates of the well costs as indicated on this document  
13 in terms of the total numbers that you anticipated to be  
14 spent for this well?

15 A We submitted these numbers to the  
16 Commission. They were tangible drilling costs of \$108,000;  
17 intangible drilling costs of \$618,000, for a total dry hole  
18 cost of \$726,000.

19 The tangible completion costs of  
20 \$214,000; intangible completion costs of \$133,000; total  
21 completion costs of \$347,000.

22 Tangible surface equipment costs of  
23 \$40,000, for a grand total cost of \$1,113,000.

24 Q Approximately when was the well  
25 commenced, do you recall, Mr. Rivers?

1 A It was spudded November 15th, 1986.

2 Q And what is your completion date?

3 A The rig was released 2300 hours on Janu-  
4 ary 26, 1987.

5 The operation commenced, the completion  
6 operation commenced on January 31st. The well was placed on  
7 test on February 14th, 1987. Our final report was issued  
8 March 20th, 1987.

9 Q All right, sir, let's turn now to Exhibit  
10 Number Two. Would you identify for me what Exhibit Number  
11 Two is?

12 A This is a cost comparison using our AFE  
13 numbers submitted at the forced pooling hearing. I used as  
14 a reference HEYCO's AFE which they had submitted to us, and  
15 the actual costs for the Benson No. 1, which is the third  
16 column.

17 Q All right, let's talk, first of all,  
18 about the actual well costs, the total cost for the well.  
19 How do those total costs compare to the approved AFE that  
20 the Division authorized in the compulsory pooling order?

21 A On page one we have the total drilling  
22 costs itemized. At the very bottom the total drilling costs  
23 showed AFE number, \$726,000; our number was \$654,294, so we  
24 were under by approximately \$74,000.

25 Q Okay, let's turn to page two of that sum-

1 mary.

2           A           Page two shows the completion costs item-  
3 ized. At the bottom it shows the total intangibles,  
4 \$133,000 for the AFE. Total for the actual well was  
5 \$164,052, and on page three in the middle of the page is the  
6 summary of the entire well cost. Completion intangibles,  
7 \$214,000 for the AFE; \$156,493 for actual well cost.

8                       Total completion costs, AFE, \$347,000;  
9 actual, \$316,945.

10                      Surface equipment, \$40,000 for the AFE;  
11 actual was \$98,116.

12                      For the total completed cost, AFE was  
13 \$1,113,000; actual was \$1,069,355.

14                      Below that is the cost associated with  
15 placing the well on pump, which was not included in our  
16 original AFE submitted under the forced pooling Commission.  
17 This was anticipate to be a flowing Devonian oil well. It  
18 was not able to sustain production flowing; was placed on  
19 pump and these numbers are written as \$43,549 for the pump-  
20 ing unit, \$34,585 for rods, \$7890 for electric motor, total  
21 \$86,024 associated with placing the well on pump.

22                      That total, with completed well costs,  
23 plus \$86,024, gives a number, total number of \$1,154,779  
24 spent on the Benson Well to date, and that compares to the  
25 original AFE of \$1,113,000, which is approximately \$41,000

1 overspent without counting, taking into account placing the  
2 well on pump.

3 Q The actual costs tabulated are current  
4 through what particular date?

5 A The costs are through May 31st, 1987.

6 Q Do you anticipate receiving any more in-  
7 voices or requests for payments that would increase the ac-  
8 tual cost of the well, or do we have all those invoices  
9 paid?

10 A I would anticipate some minor invoices.  
11 I wouldn't expect it to be over \$10,000.

12 Q In reviewing the information to make the  
13 tabulation, Mr. Rivers, I'd like to direct your attention to  
14 the HEYCO tabulation of their AFE. In reviewing their AFE,  
15 where there any items that you would like to direct the Exa-  
16 miner's attention to with regards to estimates HEYCO had  
17 made concerning the cost of the well?

18 A Yes. Their estimate of production casing  
19 on their number was \$14,000.

20 Q That's the top entry on the second page  
21 of the exhibit? I'm on page two of your exhibit at the top  
22 of the second page.

23 A Oh --

24 Q Under the column that says HEYCO, the  
25 first entry under production casing --

1 A That's correct.

2 Q -- is \$14,000?

3 A \$14,000.

4 Q What's your explanation for the differ-  
5 ence?

6 A I had looked at that. That is a typo er-  
7 ror in my opinion, as they can't provide 14,000 foot of 5-  
8 1/2 inch casing for \$14,000.

9 Q In your opinion that number is more like-  
10 ly to be what, sir?

11 A I'd say it's more likely to be \$114,000.

12 MR. STOGNER: Okay, before we  
13 go any further, how much production casing are we talking  
14 about?

15 A Actual -- in our AFE we had anticipated  
16 13,500 feet.

17 MR. STOGNER: And what was run?

18 A We actually ran 13,344 feet.

19 MR. STOGNER: So that would be  
20 about \$1.00 a foot for HEYCO.

21 A Yes. I think there's no doubt that  
22 that's an error and that also accounts in their total being  
23 under.

24 MR. STOGNER: Okay. Okay,  
25 please continue, Mr. Kellahin.

1           Q           Let's talk about the actual costs in  
2 various categories, Mr. Rivers. If you'll start with page  
3 one of this Exhibit Number Two, and let's talk about the ex-  
4 pense of the various casing strings.

5                       How was the casing acquired? Was it out  
6 of inventory? Was it bid? What's your opinion of the  
7 prices paid for those materials?

8           A           The surface casing was transferred from  
9 Marathon Oil Company's stock. It was transferred at current  
10 market price. We ran 290 feet of 13-3/8ths casing.

11                      MR. STOGNER: What was that  
12 again?

13           A           290 feet, 13-3/8ths casing.

14                      Our intermediate casing was also  
15 transferred from stock; also at current market price. The  
16 cost of 13-3/8ths was 19.47 per foot. The 9-5/8ths casing,  
17 which was the intermediate, was 4989 feet. It was  
18 transferred out of stock.

19                      MR. STOGNER: That's 4989?

20           A           Yes, sir.

21                      MR. STOGNER: Okay.

22           A           That number was transferred at about  
23 \$9.00 a foot. I don't have the exact number.

24                      MR. STOGNER: And that 19.47  
25 was for your 13-3/8ths, right?

1           A           Yes, sir.

2                           MR. STOGNER: Okay.

3           A           And the 5-1/2 inch casing, which shows up  
4 on the other page, was purchased and we have -- we purchased  
5 that by bid and that cost was \$6.85 a foot.

6           Q           Do you have an opinion, Mr. Rivers, as to  
7 whether those casing and tubular goods costs were fair and  
8 reasonable?

9           A           Yes. Pipe transfers is transferred  
10 accordng to COPAS agreement by our accounting group.

11                       We take bids on casing through our  
12 Purchasing Department and use that for our transfers.

13           Q           Let's talk about the drilling rates,  
14 either the footage rate or the day work. I see you have  
15 both involved in this well, and discuss for us generally  
16 what was the arrangement with regards to the drilling of the  
17 well?

18           A           We submitted bids, or went out for bids  
19 for our footage drilling rate on this well. We solicited  
20 bids from approximately five drilling contractors.

21                       We accepted the low bid from McVey  
22 Drilling. It was a footage bid of \$18.60 a foot.

23                       The day work shown here is actual. It  
24 covers the part of the well that was not footage. That  
25 included work for four drill stem tests. They were for

1 running casing and they were for logging.

2 Q How many total days were involved and  
3 charges against the day work? Do you recall?

4 A I don't have that number right now.

5 Q What was the total number of days invol-  
6 ved in the drilling and completion of the well? Do you re-  
7 member that?

8 A We had 73 days from spud to the rig re-  
9 lease.

10 Q What is your opinion of the period of  
11 time it took to drill and complete this well for this depth?

12 A Well, I feel like we did a very excellent  
13 job of drilling this well. Our AFE numbers shown were 64,  
14 which included one drill stem test. In the drilling of this  
15 well we encountered zones which we felt made it necessary to  
16 drill stem four times, which accounted for anywhere from 4  
17 to 6 days total.

18 Also we had some deviation problems be-  
19 tween the depths of 9000 and 10,000 feet, which slowed the  
20 drilling somewhat.

21 Q Are there any of the itemized items on  
22 the actual well costs that are significantly different from  
23 the estimated well costs for which you would like to provide  
24 an explanation?

25 A Okay, I'll just go through the total tan-

1 gibles. Our AFE was \$108,000; our actual was \$101,000, so I  
2 feel like that was right in line with what we had antici-  
3 pated.

4 The day work, actual of 71,973 was con-  
5 siderably over our \$14,000 AFE. That was because of the  
6 four drill stem tests. And also our logging took a little  
7 longer than we anticipated.

8 Going down the itemized chart, the other  
9 item that is overspent is well logging. We have anticipate  
10 \$24,000. The actual cost was \$35,140. Now that was due to  
11 running intermediate log, intermediate hole, and also more  
12 logs on the production hole. We ran a sonic log trying to  
13 pick up fractures. That was the reason that that was over-  
14 spent.

15 All the other costs fell well in line and  
16 the total came in at \$654, which was significantly under the  
17 \$726,000.

18 Q Okay.

19 A On the second page, on the completion  
20 costs, I have under the direct supervision category, \$19,054  
21 actual, which is higher than the \$6,000 actual -- the AFE  
22 amount. That was because of the longer time associated with  
23 completing the well.

24 Under the formation treating category we  
25 spent \$36,423 as opposed to the \$25,000 included in the AFE.

1 This was because our first acid job, a small 4000-gallon  
2 treatment, did not produce the expected results.

3 We performed a second gelled acid treat-  
4 ment. I believe it was 30,000 gallons, and that accounts  
5 for the higher well costs.

6 I might say that the production increased  
7 on the second acid job from 20 barrels of oil a day to 300  
8 barrels of oil a day, so we felt like that was worthwhile.

9 Total intangibles show \$160,452 against  
10 \$133,000, and we were overspent there by some \$27,000 be-  
11 cause of the direct supervision in the formation treating  
12 category.

13 The third page shows the facilities.  
14 They were much higher than anticipated on the tanks. Actual  
15 cost \$42,496 compared to \$10,000 on the AFE. We had used I  
16 believe it was three 500-barrel tanks there plus a fiber-  
17 glass water tank, and a LACT unit that caused the price  
18 to be higher than anticipated.

19 Going on down it shows the total facility  
20 costs to be \$98,116 compared to \$40,000 anticipated. This  
21 is mainly due to the wildcat well, not knowing what to ex-  
22 pect for a producing well.

23 Everything else is pretty well in line.

24 Q Based upon your experience as a drilling  
25 supervisor, Mr. Rivers, are there any of the itemized actual

1 costs that you would recommend to your management not be  
2 paid?

3 A No.

4 Q Let's turn to what I've marked as Exhibit  
5 Two-A, which is an attachment under the same paperclip with  
6 Exhibit Number Two, and it's dated June, 1987. Do you have  
7 that?

8 A Yes, I do.

9 Q All right, sir, would you identify and  
10 describe that for us?

11 A This is a computer printout put out by  
12 our Accounting Department, which shows the invoices paid to  
13 date under each of the categories. It is how I was able to  
14 put together this itemized account.

15 Q I'm not going to ask you to go through  
16 the details of this Exhibit Two-A, but take a moment and  
17 simply explain to us how to read the exhibit.

18 A Okay. Starting from the left these cate-  
19 gories reflect the categories on our submitted AFE. The  
20 corresponding categories by number are the same as on our  
21 AFE form.

22 They start under the drilling tangible  
23 costs, surface casing, intermediate casing, casinghead, and  
24 completion costs by category, surface costs by category, and  
25 then into the intangible drilling costs, intangible comple-

1 tion costs, and then the total well costs.

2 And from left to right the numbers show  
3 the date Marathon interest paid, gross for the well, the ap-  
4 propriation numbers estimated on the AFE, and the variance,  
5 whether plus or minus, and the last categories are the in-  
6 voices paid that month or any corrections made that month.

7 Say these numbers on the far right re-  
8 flect corrections made, these are numbers that were taken  
9 from one category and put into another category, and not in-  
10 voices submitted during the month (unclear).

11 Q Let me direct your attention to Exhibit  
12 Number Three, Mr. Rivers. I have previously furnished to  
13 Mr. Dickerson this exhibit and I will give you some copies,  
14 Mr. Examiner.

15 Exhibit Number Three is the detailed com-  
16 puter printout. Do you have that before you, Mr. Rivers?

17 A Yes, I do.

18 Q All right, sir, would you identify that  
19 exhibit for us?

20 A This is a computer printout also submit-  
21 ted by our accounting personnel. It shows the categories as  
22 before, it's casinghead, the number 6, and it shows the in-  
23 voices paid under that category.

24 These categories and numbers correspond  
25 to our AFE categories and numbers and shows what invoices

1 were paid to get to the total amount as submitted on the  
2 other computer printout.

3 Q Again I'm not going to ask you to go  
4 through all these items, but I will ask you to selectively  
5 take certain entries and explain to us then how that's han-  
6 dled so that we can see how to understand and read the exhi-  
7 bit.

8 For example, under page one, one of the  
9 first entries is casinghead. You purchased a casinghead for  
10 a particular price? Is that how to read that entry?

11 A Yes, these are actual invoices paid. The  
12 vendor is listed far right as National Supply and Cameron  
13 Ironworks, and the invoice total is under the paid to date  
14 category.

15 These other numbers to the far left are  
16 accounting codes showing the voucher that the invoice was  
17 paid. All the invoices are paid by voucher.

18 Q Is this a system that Marathon uses for  
19 paying and keeping track of the accounting on all its wells,  
20 apart from Mr. Davidson -- the well Mr. Davidson is involved  
21 in?

22 A Yes. We do this on all wells drilled.

23 Q Can you take us to the page that involves  
24 the purchase of any of the equipment for the well and we  
25 could see how that is invoiced and paid?

1           A           On page five, feature 42, production cas-  
2 ing, we show two invoices paid from Benson Supply, AD 7369  
3 for totals of \$16,051.20, and \$79,067.61.

4                           MR. STOGNER: You're saying  
5 feature 42?

6           A           Yes, sir.

7                           MR. STOGNER: Okay, I thought  
8 you said 45.

9           A           Feature 42 shows producing casing that  
10 we purchased from Benson Supply by bid.

11           Q           In reviewing Exhibit Number Three, Mr.  
12 Rivers, do you see any items that, based upon your investi-  
13 gation now, which you would like to correct or explain? I  
14 realize there may be some items in here that you haven't  
15 checked or for which there may be some error, but based upon  
16 what you know as of now, are there any errors or corrections  
17 or comments that ought to be made about any of these en-  
18 tries?

19           A           There are some invoices on here that are  
20 in the wrong category, which oftens happens. We put down  
21 the wrong code. Those can be corrected but they won't  
22 change the cumulative cost of the well.

23           Q           In summary, then, Mr. Rivers, what is  
24 your opinion with regards to the reasonableness of the ac-  
25 tual costs for the drilling and completion and production of

1 the Marathon Oil Company Benson No. 1 Well, the subject of  
2 this hearing?

3 A I testified in August of '86 actual well  
4 costs of \$1,113,000 and 64 days. We drilled the well in a  
5 total of 73 days for a cost of \$1,069,355, some \$44,000 un-  
6 der cost. So I feel like we did a very excellent job and  
7 the costs associated with being overspent were because of  
8 placing the well on pump, which we had not anticipated.

9 Q Do you have an opinion as to whether  
10 those individual costs that exceed the AFE's, whether those  
11 actual costs were fair and reasonable?

12 A Yes, they were fair and reasonable things  
13 that we didn't -- didn't expect but we took care of during  
14 the drilling of the well.

15 MR. KELLAHIN: That concludes  
16 my examination of Mr. Rivers, Mr. Stogner.

17 We would move the introduction  
18 of Marathon Exhibits One through Three.

19 MR. STOGNER: Are there any ob-  
20 jections?

21 MR. DICKERSON: No.

22 MR. STOGNER: Exhibits one  
23 through Three will be admitted into evidence.

24 Are you through Mr. Kellahin?

25 MR. KELLAHIN: Yes, sir.

1 MR. STOGNER: Let's take about  
2 a fifteen minute recess.

3  
4 (Thereupon a recess was taken.)

5  
6 MR. STOGNER: This hearing will  
7 continue.

8 Mr. Dickerson?

9  
10 CROSS EXAMINATION

11 BY MR. DICKERSON:

12 Q Mr. Rivers, I didn't understand the date  
13 that you testified be believed the Benson Well was com-  
14 pleted.

15 A Well, what do you refer to as completed?

16 Q You were asked what day was the well com-  
17 pleted and you gave several dates that I did not understand  
18 and I'm simply asking what do you consider the date that the  
19 well was completed?

20 A The well was finaled on 3-20-87. That  
21 was our final test with no money -- should have been no  
22 monies expended after that point except for the tank bat-  
23 tery.

24 Q As a layman, Mr. Rivers, I'm not attemp-  
25 ting to get technical here, I'm simply after -- generally

1 speaking, would you as an engineer consider a well completed  
2 on the day it was, say, perforated in the producing inter-  
3 val?

4 A Not necessarily; depends on if you have  
5 to treat the well or not.

6 Q Do you consider it completed when the  
7 completion unit is removed from it?

8 A That's one designation.

9 Q And there's not anybody physically work-  
10 ing on it any longer.

11 A That's correct.

12 Q In Case Number 9145 and 9146, consoli-  
13 dated, Mr. Rivers, Marathon entered as its Exhibit Number  
14 Five, asked the Division to take administrative notice of  
15 this, a C-105 filed with the New Mexico Oil Conservation Di-  
16 vision on this well, which for what it's worth, showed a  
17 completion date of February the 11th of 1987, and I'm -- do  
18 you know -- do you have a copy of that?

19 I have one here for you to review, if  
20 you'd like to see it, and I'm not saying there's any signi-  
21 ficance to it, I'm just asking how is it determined, the  
22 date on which a well was completed?

23 A Well, it states, says date of first  
24 production, not date completed.

25 Q There's another block, is there not, that

1 says date completed?

2 A Ready to produce.

3 MR. McCOY: Item 17.

4 A That is the date it was --

5 MR. STOGNER: Mr. Dickerson,  
6 may I see that (unclear), please?

7 Q February the 11th was the date the well  
8 was acidized?

9 A For the second time.

10 Q Are you looking at a daily drilling re-  
11 port?

12 A I'm looking at a well history.

13 Q Would there be any objection to furnish-  
14 ing that well history to Mr. Davidson?

15 MR. KELLAHIN: I have no objec-  
16 tion.

17 A I object to it. I don't know if we have  
18 or not but I will --

19 MR. DICKERSON: We're attemp-  
20 ting to expedite this and I'm simply asking if -- I have no  
21 idea what the well history shows, but I think it would expe-  
22 dite our examination of the material presented by Marathon  
23 and I was informed that in the interest of brevity today  
24 that we would attempt to cooperate with each other following  
25 the close of the hearing and it's my opinion that the daily

1 drilling report or well history that Mr. Rivers is -- has  
2 access to would be helpful to us in resolving the issues be-  
3 fore us, and I simply asked if Marathon will voluntrily pro-  
4 duce it for us.

5 A I'm not at liberty to say that but I will  
6 --

7 MR. KELLAHIN: Let me see.

8 A I will say that we came for the pooling  
9 hearing and he asked for information at that time and we re-  
10 fused it and the court upheld that.

11 MR. KELLAHIN: Mr. Examiner, we  
12 have no objection to Mr. Dickerson having the drilling  
13 report. In fact it might help us all if I'll simply mark  
14 these as Marathon's Exhibit Four, I believe, are we up to  
15 Four?

16 MR. STOGNER: Yes.

17 MR. KELLAHIN: And so we can  
18 all have the same document to look at.

19 MR. STOGNER: Will we need to  
20 make copies of that or do you --

21 MR. KELLAHIN: No, sir, I have  
22 copies.

23 Q Mr. Rivers, I understand you're an en-  
24 gineer and probably do not have the responsibility nor any  
25 interest in keeping up with what your Accounting Department

1 does in the pursuit of its duties, but do you know when Mar-  
2 athon furnished to Mr. Davidson, if at all, the itemized  
3 schedule of well costs as required by the order in this  
4 case?

5 MR. KELLAHIN: Excuse me. For  
6 clarification the AFE or the actual costs?

7 MR. DICKERSON: The actual cost  
8 as set forth in Paragraph 5 on page four of Order -- of the  
9 pooling order in effect in this proceeding.

10 A I don't know when they sent him the first  
11 costs or cost statement. I do have a copy of one that was  
12 sent to him on June 19th.

13 I do not know if there was one sent be-  
14 fore that time.

15 Q May I see that, please? And that's real-  
16 ly the only point of my inquiry, is to Mr. Davidson, Mr.  
17 Rivers, as a background, received two transmittals with no  
18 cover letter, no anything, as far as I know, and I cannot  
19 tell when they were received or actually for what purpose  
20 they were, and in some respects the figures in those submit-  
21 tals by Marathon differ from those that you've presented  
22 here today, and I assume that that's only because another  
23 month has passed, or so. But --

24 A Those were furnished to him on June 19th.  
25 We had another month of invoices since that time and it in-

1 creased the total. I don't know exactly how much.

2 Q Yes, contained within what you have  
3 handed me, Mr. Rivers, is -- and you have a transmittal  
4 letter with your copy from Marathon to, among others, Mr.  
5 Davidson, a letter dated May 8th, 1987, which had attached  
6 to it an itemized schedule of actual well costs, and it  
7 shows that it includes invoices paid by Marathon through May  
8 1st, 1987. And I understood your testimony on the exhibits  
9 presented through your testimony today that those include  
10 payments made by Marathon through May 31st.

11 A That's correct.

12 Q So evidently the transmittal of May 8th  
13 was -- was Marathon's notification to Mr. Davidson?

14 A I couldn't be sure about it. That's han-  
15 dled by the Land Department.

16 MR. DICKERSON: Be any problem  
17 with marking that as an additional exhibit?

18  
19 (Thereupon a discussion was had off the record.)  
20

21 Q In addition to the instrument which we  
22 were discussing, and I'll get back to in a moment, Mr.  
23 Rivers, let me hand you a copy of a Marathon Oil Company  
24 payout status report consisting of three pages, which I've  
25 submitted as Davidson Exhibit Number One, and simply ask you

1 if you know what that is, who prepared it, and what the pur-  
2 pose of it was?

3 A This was prepared by the Financial Ac-  
4 counting Supervisor in Marathon Office in Midland, Texas,  
5 showing expenditures to date, and sent to Mr. Davidson,  
6 showing a total of \$1,051,700.

7 Matter of fact, this is by month expendi-  
8 tures. There's January, February, March, and April. The  
9 last -- the last month of April showing total expenditures  
10 of \$1,197,666.

11 That's -- their costs are not broken down  
12 between the original AFE and the additional expenses of  
13 pumping unit.

14 Q I have, Mr. Rivers, marked what you pre-  
15 viously produced for me as Davidson Exhibit Number Two, con-  
16 sisting of the Marathon letter of May 8th with the AFE of  
17 actual well costs attached to it, and I realize that you  
18 probably have not done this, but it should be possible,  
19 should it not, to compare the figures shown on the earlier  
20 two Marathon submittals to Mr. Davidson to the data that  
21 you've presented here today and the figures should all cor-  
22 relate?

23 A The totals will correlate. The indivi-  
24 dual categories will not because I took some -- I changed  
25 some of the categories, took out the pumping unit equipment

1 as rods, pumping unit, electric motor, that part will not  
2 correspond.

3 Q In Exhibit Number One, which I handed to  
4 you, this document put out by Marathon's Accounting  
5 Department, also purports to show, does it not, current  
6 revenue to Mr. Davidson's interest?

7 A I'm not familiar with that part of this  
8 form.

9 Q There is a blank, current revenue for  
10 February '87, zero.

11 My point is this -- the Benson Well is  
12 producing, is it not?

13 A Yes.

14 Q And Mr. Davidson had an interest of in  
15 excess of 38 percent gross working interest in this well,  
16 which the income attributable to that interest is being paid  
17 to Marathon, is it not?

18 A I don't know. My opinion is he has no  
19 interest in this well.

20 Q Well, regardless --

21 A He has a 200 percent penalty on this  
22 well. I'm not a land person. I'm not qualified to answer  
23 that.

24 Q Mr. Rivers, you're attempting to be  
25 combative with me and I'm not attempting to be combative

1 with you. I'm simply, again in the interest of time here,  
2 trying to -- all I want to know is the well has been  
3 producing and continues to produce at the current date and  
4 Marathon is being paid for that production, is it not?

5 A All I can tell you is the well is  
6 producing. That's all I can testify to.

7 Q You understand that under the pooling  
8 order the penalty which has to be assessed against Mr.  
9 Davison's interest is assessed solely out of his net revenue  
10 interest in the well, do you not?

11 A I'm not familiar with the pooling order.

12 Q Well, for the sake of our discussion,  
13 let's assume that that's what the pooling order says and my  
14 only point of this is to ask you whether or not Marathon is  
15 -- this must be a mistake, they're not -- Marathon is  
16 attributing no revenue to Mr. Davidson and the well is  
17 producing and is therefor accruing revenue to his interest,  
18 and my own calculations show that through May production he  
19 should have in excess of \$50,000 in revenue credited against  
20 the costs and penalty borne by Marathon under the pooling  
21 order in this case, and all I'm simply getting at is, is it  
22 merely a paperwork error that Marathon is not crediting that  
23 revenue interest toward it.

24 A All I can tell you is I'm not qualified  
25 to answer that. I had no part in preparing the statement.

1           Q           Did you have any part, Mr. Rivers, in  
2 preparing the AFE of actual well cost which was attached to  
3 the letter part of the Exhibit Number Two?

4                   MR. KELLAHIN: We've taken off  
5 of there, Mr. Dickerson, you have the only copy, I think, of  
6 what you're looking at. What Mr. Rivers has is something  
7 else.

8                   MR. STOGNER: How many -- are  
9 you referring to your Exhibit Number Two, Mr. Dickerson?

10                  MR. DICKERSON: Yes, Mr. Exam-  
11 iner.

12                  MR. STOGNER: Is there an extra  
13 copy of that or is that the only copy of that?

14                  MR. DICKERSON: I have another  
15 copy of it for myself, so we'll leave this one for you.

16                  MR. KELLAHIN: What the ques-  
17 tion now again, please?

18                  MR. DICKERSON: The question  
19 was did you prepare or were you involved in preparing the  
20 AFE that you're looking at there?

21           A           This summation of costs was prepared by  
22 the land people taken from the Accounting Department print-  
23 out. I did not take part in that, no.

24           Q           Prepared from the Land Department print-  
25 out?

1           A           The Accounting printout from the, I would  
2 guess, the previous month.

3           Q           Is that the same accounting printout that  
4 you've testified and was introduced in evidence earlier at  
5 this hearing?

6           A           That was from a different month, same  
7 type, yes.

8           Q           The figures on that AFE came from the  
9 same source as the figures that you presented at the hear-  
10 ing today?

11          A           Yes.

12          Q           I notice from Marathon's AFE, which was  
13 part of your Exhibit Number One, Mr. Rivers, you anticipated  
14 64 drilling days and I believe you testified it was actually  
15 73 --

16          A           That's correct.

17          Q           -- drilling days, and the increased drill-  
18 ling time was attributable for the most part to hole devia-  
19 tion problems, as I understood it?

20          A           No, I testified it was due to four drill  
21 stem tests instead of one, as indicated on that AFE.

22          Q           Okay, and the -- on your original AFE  
23 prior to drilling the well you estimated completion days at  
24 25, and o the AFE that you are looking at, which was fur-  
25 nished after the fact, the actual completion days were 55, I

1 believe, were they not?

2 A If you're going by your February 11th, it  
3 was 13.

4 Q I didn't realize you no longer had a  
5 copy. This is the actual well cost AFE and all I'm refer-  
6 ring to is the fact that on that AFE it shows 55 days com-  
7 pletion time.

8 A I didn't take part in that. I don't know  
9 what they have there.

10 Q So you don't know whether it in fact took  
11 55 days to complete the well or more or less?

12 A Well, I can tell you the completion unit  
13 wasn't on there 55 days.

14 That was from start of the completion to  
15 final report and we get back to what's the completion date.

16 Q Since the original estimate was 20 days  
17 and Marathon's own information shows 55 days, do you have an  
18 explanation for the additional 35 days involved in comple-  
19 ting the well?

20 A Well, that shows 35 days of testing,  
21 which is customary in the oil business. The actual comple-  
22 tion days, like I said, were not that many.

23 22, 22 days to running rods and pump.  
24 The extra days on that would be due to one more stimulation,  
25 gelled acid treatment that was necessary and also the time

1 taken to run rods and pumping equipment, which was not fore-  
2 cast in the original AFE.

3 Q Mr. Rivers, under the order in effect, R-  
4 8282, for the drilling of this Benson Well, Marathon was en-  
5 titled to charge \$4598 per month as a supervision charge  
6 drilling rate and \$459 per month as a producing rate.

7 How do those figures authorized by the  
8 order compare to the supervision figures that you have re-  
9 ported in your, say, Exhibit Number One, that you testified  
10 to today?

11 A Well, if you take out 14 and 16542.97,  
12 divide by 73, you get 227.97.

13 On the completion side, depending on what  
14 you use as completion date, you show a much larger number,  
15 divide that by 55 you get 346.43. Depends on what number  
16 you want to divide by.

17 Q Well, you're the engineer. All I'm ask-  
18 ing is whether or not your direct supervision charge, for  
19 instance, on your Exhibit Number One, \$16,643.00, is that  
20 the supervision charge --

21 A Yes.

22 Q -- authorized by the order?

23 A Well, it works out to be under that al-  
24 lowed by the order.

25 This, this number here is a direct charge

1 from the well cost, our foreman assigned to that job.

2 Q That is a portion of his compensation?

3 A That is the payroll, the days he was out  
4 there allotted back to the well.

5 Q Mr. Rivers, is the direct supervision  
6 charge of \$16,643.00 reported on your Exhibit Number One, is  
7 that the same supervision charge which is spoken of in the  
8 order, is my question? Am I looking at the correct cate-  
9 gory?

10 A I don't know about that. All I can tell  
11 you is that these costs are direct charges for the well, our  
12 intra-company direct charges from well foreman to the well.  
13 That sheet that you have is what we charge partners. I'm  
14 not familiar with how they take those -- how those costs are  
15 paid or how they come up with those costs.

16 Q You're saying that you charge Marathon  
17 internally differently than you charge partners?

18 A I'm not saying anything. I'm telling you  
19 how this form was come about, direct charges from the well.

20 Q And by direct charges, you mean it is  
21 salary compensation attributable to one individual who's em-  
22 ployed by Marathon?

23 A His salary goes into that category plus  
24 his car and other payroll, like mileage, meals, that goes  
25 into that number 14, under direct supervision.

1                   That's the most I know about this form.  
2 I can't tell you about that form. I'm not familiar with  
3 that.

4                   MR. KELLAHIN: Mr. Examiner, if  
5 I might suggest something. I think Mr. Dickerson's question  
6 is a good one. It's obvious that Mr. Rivers doesn't know  
7 the answer. We will ask the appropriate people and supply  
8 both of you with the answer as to whether or not this  
9 category of direct supervision is included or exclusive of  
10 the overhead charge in the order, and provide that to you.

11                   I don't know how they've done  
12 it. We'll just find out.

13                   MR. DICKERSON: We may just,  
14 Mr. Examiner, at such time as Mr. McCoy and myself have had  
15 an opportunity to review this, we may simply make a written  
16 request of Marathon through you, Mr. Kellahin, to explain  
17 certain things to us and perhaps we can expedite it in that  
18 fashion.

19                   Q           Mr. Rivers, on your Exhibit Number Three  
20 in particular, which is the computer printout of all  
21 invoices, as I understand, paid to date catagorized by  
22 category and scattered throughout, really, there are several  
23 material transfers. In your direct testimony you testified  
24 to transfers from inventory of the surface and intermediate  
25 casing, did you not?

1           A           Yes, I did.

2           Q           Are you familiar with the other material  
3 transfers from inventory that Marathon made in this -- in  
4 the drilling of this Benson Well? I specifically direct your  
5 attention to the last page of Exhibit Number Three under  
6 feature 094, line pipe, and immediately above that and con-  
7 tinuing in earlier portions of it, there are numerous  
8 material transfers. Are you familiar with the manner in  
9 which Marathon makes material transfers?

10          A           Yes, I am.

11          Q           What sort of documentation accompanies a  
12 transfer from inventory?

13          A           We write a material transfer. The matter  
14 of the line pipe was used for the tank battery.

15          Q           When a material transfer is made, do you  
16 know whether the cost set forth on that material transfer  
17 and charged to the well was based on Marathon's actual cost  
18 of that inventory or whether it is based on then current  
19 market price?

20          A           It is based on current market price as  
21 determined by the COPAS agreement.

22          Q           And that is done in your Accounting  
23 Department?

24          A           Yes, it's done by the accountants there  
25 in Midland, Texas.

1 Q Do the material transfers show, for in-  
2 stance, on line pipe a price per foot?

3 A Yes, they would.

4 Q Do they show regardless of what they de-  
5 termine current market price to be, do they show Marathon's  
6 actual cost of that inventory on that material transfer?

7 A I don't know.

8 Q So if -- I mean is it your testimony that  
9 if Marathon bought pipe when it was \$8.00 a foot and the  
10 current market price is -- or market value is \$4.00 a foot,  
11 it's charged out at \$4.00 a foot?

12 A That's correct. We see that a lot in  
13 both directions, up and down.

14 Q What would Marathon's practice be as far  
15 as material transfer is concerned if the -- if the market  
16 price for the inventory is actually in excess of what was  
17 paid for that pipe?

18 A All I can say is it's determined by the  
19 current market price of that date of the transfer as deter-  
20 mined by the COPAS agreement.

21 Q And not determined by what actually Mar-  
22 athon paid for those material transfers?

23 A As I understand it has no bearing on the  
24 price that we paid.

25 Q Do the material transfer documents show,

1 as an example, the price per foot billed to the joint ac-  
2 count?

3 A Yes, they do, and they show how that was  
4 arrived at.

5 Q In order for Marathon to employ  
6 subcontractors of numerous types and descriptions that is  
7 involved in drilling a well, what qualifications does  
8 Marathon require as far as employment by your company?

9 A In regards to what kind of subcontract  
10 work?

11 Q Well, I'm assuming -- is there a pre-  
12 approval procedure or something in effect in Marathon's  
13 policies that -- that limit the contractors employed to a  
14 pre-approved list of contractors?

15 A We use a updated approved insurance list.  
16 That is all.

17 Q And in what cases does Marathon solicit  
18 bids from the subcontractors and in what cases do you not  
19 ordinarily solicit bids?

20 A We submit bids on all materials purchased  
21 and on all services used, where feasible.

22 Q And not regardless of amount, surely?

23 A No.

24 Q Is there some dollar amount?

25 A Well, I think the accounting people have

1 a thousand dollar limit.

2 Q Marathon's practice to solicit bids in  
3 excess of \$1000 for services.

4 A Yes.

5 Q What is Marathon's practice, Mr. Rivers,  
6 on trade discounts from subcontractors for early payment or  
7 something of that nature?

8 A The only discounts that I am involved  
9 with are discounts on services and those are taken across  
10 the total invoice, applied to the total invoice.

11 The discounts involved with paying in  
12 like net 10 days are handled by the Accounting --

13 Q Does Marathon take advantage of those  
14 discounts by paying in net 10 days?

15 A I don't know. I'm not familiar with  
16 their payroll procedures, or payables procedure.

17 Q Do you know whether or not if one were to  
18 compare your list of payments from your Exhibit Number Three  
19 to the actual invoices received by Marathon, would one be  
20 able to tell whether or not a discount was in fact offered  
21 and taken by Marathon?

22 A I don't know.

23 Q On your Exhibit Number One, Mr. Rivers,  
24 one of the things that you mentioned that I didn't catch ex-  
25 actly what you said about it, page three, your estimated

1 cost prior to drilling a well was \$10,000 for tanks. You  
2 talk about them on that page, and the actual was \$42,496.  
3 You may have explained that, but if so, I did not under-  
4 stand your answer. Can you tell me what the \$32,000 rough-  
5 ly, there, is accounted for?

6 A The only items that I can be sure of that  
7 went into that are more tanks than were anticipated as I'm  
8 sure there was a water tank bought that was not anticipated,  
9 and I don't know if the LACT unit was included in that also.  
10 I do not have an explanation for that as I personally did  
11 not build the tank battery.

12 Q What is the purpose for that LACT unit?

13 A A lease automatic custom transfer unit.  
14 It meters the oil before it goes into the pipeline.

15 Q Oh, this oil is delivered to a pipeline?

16 A Yes.

17 Q Whose pipeline is it, do you know?

18 A I don't know that.

19 MR. DICKERSON: Mr. Examiner, I  
20 have no further questions of Mr. Rivers. We will make a  
21 written request through Mr. Kellahin to supplement the  
22 materials furnished here today but we need some time to go  
23 through and organize our thoughts on it and we would suggest  
24 that maybe it would be appropriate to continue this hearing  
25 for say, thirty days, and perhaps in that time we can re-

1 solve any issues that do divide us and agree on those that  
2 do not.

3 MR. KELLAHIN: I would concur,  
4 Mr. Examiner. I think it would be helpful for both of us to  
5 go through the paperwork to see where we may have a dispute  
6 and then let you resolve only those areas where we do in  
7 fact have some difference of opinion.

8 MR. STOGNER: Thank you, Mr.  
9 Kellahin, of course, you will submit for the case file a  
10 copy of any correspondence you may have.

11 Is there any cross examination  
12 on your behalf, Mr. Kellahin?

13 MR. KELLAHIN: I need to ask  
14 Mr. Rivers to explain an earlier answer. I think he's  
15 misspoken about his recollection of how the surface casing  
16 and intermediate casing amounts were derived at. Let me ask  
17 him to again explain to us, using Exhibit Number Two, which  
18 is the tabulation that he prepared and looking at the first  
19 few entries.

20

21 REDIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q In your direct examination, Mr. Rivers,  
24 we were talking about taking items out of inventory,  
25 applying a current market price to them and charging them to

1 this account and you were itemizing for us the size of the  
2 various casing strings, the quantities used, and the prices.  
3 Do you have any changes or modifications to your first  
4 statements about those items?

5 A Yes. These numbers are -- are our esti-  
6 mates, our actual cost for the casing that was transferred  
7 from our inventory to the well on the surface casing and in-  
8 termediate casng.

9 I got -- the numbers that I gave earlier  
10 were actual transfer numbers from the transfers associated  
11 with these casings. There was more than one transfer invol-  
12 ved, however, and I gave an erroneous number on both cas-  
13 ings. I will study the actual reason for that but the cost  
14 comes out to 32.63 on the surface casing and I gave a number  
15 of 19.47. There's either another transfer involved or an-  
16 other piece of equipment in that category, which sometimes  
17 happens, and I will check on that.

18 And the intermediate casing I gave a num-  
19 ber of 8.72, which is a number given from one transfer.  
20 That was from the 9-5/8ths 36 pound K-55.

21 There was another transfer involved from  
22 40 pound N-80, which was a higher number, which would show  
23 that the actual number is 15.60 per foot for the intermed-  
24 iate casing.

25 There were some transfers involved there

1 that I didn't catch. I just gave one number from one trans-  
2 fer. So that will account for it and if there -- we will  
3 check that number also at 77806 to see if that is an accu-  
4 rate number.

5 MR. KELLAHIN: That's my only  
6 question is, that we'll have an opportunity to recheck some  
7 of those casing numbers because there's obviously doubt in  
8 Mr. Rivers' mind about exactly how those transfer quantities  
9 and amounts were put together. So we will supply that in-  
10 formation to both the Division and to Mr. Dickerson.

11 MR. STOGNER: Mr. Dickerson,  
12 Mr. Kellahin is there anything further you care to offer to-  
13 day?

14 MR. DICKERSON: No, Mr.  
15 Examiner.

16 MR. KELLAHIN: No, sir.

17 MR. STOGNER: Okay, in that  
18 case we'll continue this case until the Examiner's Hearing  
19 scheduled for September 9th. I'm also the Hearing Officer  
20 for that day and we will rest this case until that time.

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22 (Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case no. 9168 heard by me on 12 August 1987.

Michael E. Stogner, Examiner  
Oil Conservation Division

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

21 October, 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of J. (James) A. Davidson for a determination of reasonable well costs, Lea County, New Mexico. CASE  
9168

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

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MR. CATANACH: Call next Case  
9168.

MR. TAYLOR: Application of  
James A. Davidson for determination of reasonable well  
costs, Lea County, New Mexico.

Applicant has requested that  
this case be continued.

MR. CATANACH: Case 9168 is  
hereby continued to the November 4th hearing.

(Hearing concluded.)

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C E R T I F I C A T E

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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. 9168, heard by me on October 21, 1987.  
David R. Catanach, Examiner  
Oil Conservation Division

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

4 November, 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of J. (James) A. Davidson for a determination of reasonable well costs, Lea County, New Mexico. CASE 9168

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

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

For the Applicant:

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MR. STOGNER: Call next Case Number 9168, which is the application of J. A. (James A.) Davidson for determination of reasonable well costs, Lea County, New Mexico.

This case was heard and testimony was received on it on August 12th, 1987.

The applicant at this time has requested that this case be dismissed.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing 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 and true transcript of the proceedings in the Examiner hearing of Case No. 9168 heard by me on 4 November 1987.  
Michael J. Laguerre, Examiner  
Oil Conservation Division