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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 7, 1976

EXAMINER HEARING

IN THE MATTER OF:)	
)	
Application of Burk Royalty Company)	CASE
for statutory unitization, Chaves)	5596
County, New Mexico.)	
)	

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission:	William F. Carr, Esq. Legal Counsel for the Commission State Land Office Building Santa Fe, New Mexico
For Burk Royalty Company:	Paul Cooter, Esq. ATWOOD, MALONE, MANN & COOTER Attorneys at Law P. O. Drawer 700 Security National Bank Bldg. Roswell, New Mexico
For McClellan Corp., et al:	George Hunker, Esq. HUNKER-FEDERIC, P.A. Attorneys at Law P. O. Box 1837 Suite 210, Hinkle Building Roswell, New Mexico

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JOE L. JOHNSON, JR.

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1 MR. STAMETS: The Hearing will please come to order.
2 We will call at this time Case Number 5596.

3 MR. CARR: Case 5596, application of Burk Royalty
4 Company for statutory unitization, Chaves County, New Mexico.

5 MR. STAMETS: Call for appearances.

6 MR. COOTER: Paul Cooter with Atwood and Malone
7 in Roswell appearing on behalf of the applicant, Burk Royalty.

8 MR. HUNKER: George Hunker of Hunker-Federic,
9 Roswell, New Mexico appearing on behalf of McClellan Oil
10 Corporation, Albert J. Black, Robert L. Graham, L. C. Harris,
11 Addy Corporation, Robert M. Patterson and J. Penrod Toles.

12 We will have one witness.

13 MR. STAMETS: Are the witnesses in today's hearing
14 the same witnesses which were sworn in the earlier hearing?

15 MR. COOTER: Yes, sir.

16 MR. STAMETS: The record should reflect that they
17 have previously been sworn in this case.

18 MR. Cooter, do you have some additional testimony?

19 MR. COOTER: Yes, sir.

20 JON BEAR

21 called as a witness, having been previously sworn, was
22 examined and testified as follows:

23

24 DIRECT EXAMINATION

25 BY MR. COOTER:

1 Q Would you state your name for the record, please,
2 sir?

3 A Jon Bear.

4 Q You are employed by Burk Royalty Company?

5 A That is correct.

6 Q You are the same Jon Bear who was a witness in
7 this case at the prior hearing on December 3, 1975?

8 A Yes, sir.

9 Q Marked and filed at the prior hearing as Exhibit
10 Number Six were certain ratifications of the unit agreement
11 and unit operating agreement by working interest owners.
12 I will now hand you what I have marked as Exhibit Number
13 Six-A, would you relate what they are, please, sir?

14 A These are two additional working interest owner
15 ratifications from Cleary Petroleum Corporation and Amerada-
16 Hess Corporation.

17 Q These were received by you subsequent to the last
18 hearing prior to today?

19 A That is correct.

20 Q Mr. Bear, under the phase-two participation formula
21 as set forth in the unit operating agreement, including these
22 ratifications which have now been marked as Exhibit Six-A,
23 what percentage of the working interest owners have ratified
24 the plan for unit operations?

25 A Seventy-eight point eight, oh, four, four percent.

1 Q Marked as Exhibit Number Seven at the prior hearing
2 were certain consents and ratifications by royalty and over-
3 riding royalty owners. I will now hand you what I have marked
4 as Exhibit Number Seven-A, that is an additional ratification,
5 is it not?

6 A Yes, sir.

7 Q This application on which this hearing is held, as
8 well as the prior hearing on December 3 of last year, seeks
9 statutory unitization which is a relief different from the
10 voluntary unitization which was approved by this Commission's
11 Order R-5004 of May 6, 1975, is it not?

12 A Yes, that is correct.

13 Q And in your opinion does this necessitate certain
14 fundamental changes in the unit agreement itself?

15 A Yes, it does, due to the percentages and times as
16 set out in the original agreement.

17 Q Let's turn back to the unit agreement which is
18 marked as Exhibit Number One. The first such change necessita-
19 ted by statutory unitization, rather than voluntary unitiza-
20 tion is, I believe, Section 14 of the unit agreement which
21 commences on page ten, does it not?

22 A That is correct.

23 Q As originally drafted under the voluntary unit some
24 tracts included within the unit area might have been omitted
25 from the plan of unit operations?

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1 A. That is also correct, yes, sir.

2 Q. Under the revised Section 14, on and after the
3 effective date all tracts in the unit area would be entitled
4 to participation, would they not?

5 A. Yes, sir.

6 Q. That is one of the changes which you are suggesting
7 the Commission make if the unit be approved?

8 A. If the Commission approves the unit, yes, sir.

9 Q. Then next let me turn your attention to Section 23
10 which is the effective date and term if this be a statutory
11 unit rather than a voluntary unit. You ask that that provision
12 be changed?

13 A. Yes, that is correct and the main reason for changing
14 this is that the original agreement had an ipso facto date
15 which is now past and this provision, if included and if
16 passed by this board, this governmental agency, would delete
17 that provision.

18 Q. Under your direction and supervision the two proposed
19 changes in the unit agreement, Section 14 and Section 23,
20 have been made?

21 A. Yes.

22 Q. And they together are marked as Exhibit Number
23 Twelve, are they not?

24 A. Correct.

25 MR. COOTER: I have furnished Mr. Hunker with a

1 copy of these.

2 Q (Mr. Cooter continuing.) Not changed by any
3 provisions herein sought, though, are the other provisions
4 of the unit agreement and unit operating agreement which
5 would be the land which would be included in the unit itself?

6 A No, it is not changed.

7 Q That remains unchanged?

8 A That is correct.

9 Q The plan of unit operation remains unchanged?

10 A Yes, sir.

11 Q As well as the participation of all interest
12 owners, which includes both working interest and royalty
13 interest and overriding royalty interest owners?

14 A That is correct. The percentages are all the same
15 as set out in the original agreement.

16 MR. COOTER: Mr. Examiner, we offer Exhibits Six-A,
17 Seven-A and Twelve.

18 MR. STAMETS: Are there any objections to the
19 admission of these exhibits?

20 MR. HUNKER: No objection.

21 MR. STAMETS: They will be entered.

22 (THEREUPON, Applicant's Exhibits Six-A,
23 Seven-A and Twelve were admitted into
24 evidence.)

25 MR. COOTER: That concludes our direct testimony.

1 MR. STAMETS: Are there any questions of this
2 witness?

3 MR. HUNKER: Yes, Mr. Examiner.
4

5 CROSS EXAMINATION

6 BY MR. HUNKER:

7 Q Have you made a calculation, Mr. Bear, as to the
8 percentage of royalty interest owners that have committed
9 their interests to the unit agreement?

10 A The USGS has tentatively given their approval, as
11 has the State. They have all tracts, except two fee tracts.
12 The two fee tracts are assigned seventy-nine point one percent,
13 as I recall.

14 Q Have the fee tracts committed their interest, the
15 royalty interest owners have committed their interest under
16 those tracts?

17 A Yes, sir.

18 Q What about the overriding royalty interest owners
19 under the State and Federal leases, have they committed their
20 interests and if so, to what extent?

21 A I cannot give you a percentage right now on the
22 overrides.

23 Q Can you say categorically that seventy-five percent
24 of the royalty and overriding royalty interest owners have
25 committed their interests to the unit agreement?

1 A. You are asking me -- are you including the overrides
2 with the royalty as one?

3 Q. Let me ask the question from the statutory provision,
4 Section 65-14-8 of the New Mexico Statutes provides that no
5 order of the Commission providing for unit operations shall
6 become effective until a certain number of working interest
7 owners have signed?

8 A. Yes, sir.

9 Q. And also by the owners of at least seventy-five
10 percent of the production or the proceeds thereof that will
11 be credited to interests which are free of cost, such as
12 royalties, overriding royalties and production payments. Have
13 you got ratifications from seventy-five percent of the royalty
14 and overriding royalty interest owners?

15 A. Well, as I said awhile ago, I cannot definitely
16 give you a percentage of the overrides. You asked me
17 categorically. I would categorically say that we do have
18 seventy-five percent of the royalty and overriding royalty.

19 Q. At least tentatively committed on behalf of the
20 State of New Mexico and the United States, is that correct?

21 A. Yes, sir.

22 Q. Has the United States, acting through the United
23 States Geological Survey, approved your changes incorporated
24 in Exhibits Seven and Twelve?

25 A. No, just Twelve.

1 Q They have not approved those? Have the other
2 working interest owners who have ratified your unit approved
3 those changes that you have made?

4 A No, sir, they have not.

5 Q In answer to Mr. Cooter's question, he framed it
6 so that the percentages depended on your phase-two schedule
7 of participation and you answered the questions affirmatively
8 when phase-two was put into the question. Now, if I should
9 ask you what percentage of the phase-one people have
10 committed to the unit agreement can you give me an answer?

11 A I would have to say that I don't know right now
12 because I haven't added it up.

13 Q Would you be good enough to tell the Commission
14 what people have actually committed -- I'll refer to an
15 exhibit that is attached to the unit agreement and just
16 ask you several questions.

17 Has Addy Corporation committed its interest?

18 A No, sir.

19 Q Has Amerada-Hess committed its interest?

20 A Yes, sir.

21 Q Has Amoco?

22 A Yes, sir.

23 Q Warren G. Baron?

24 A Yes, sir.

25 Q Albert J. Black?

1 A. Yes, sir.

2 Q. Do you have a communication from Mr. Black where
3 he says that his ratification was delivered to you conditionally
4 and that he was revoking that ratification?

5 A. No, sir, I do not. I have never received one.

6 Q. At the time of the last hearing I handed your
7 counsel a letter addressed to Burk Royaly, dated December the
8 second and this is another copy of it. Take a look at this
9 letter and tell me whether or not you have ever seen that
10 before?

11 A. I so state that I remember this letter -- well,
12 I don't know whether it was this letter or a letter of
13 this nature -- being introduced at the last hearing but I
14 don't recall ever having seen it.

15 Q. You do recall that I did pass a letter to Mr.
16 Cooter?

17 A. Yes, now, maybe I'm getting myself in a trap here.
18 I don't remember one coming to our office as it is addressed
19 there, let me put it that way.

20 Q. But you have seen a letter?

21 A. Yes, I have seen a letter.

22 Q. Do you know what the contents are?

23 A. Well, I have read it but it has been a month.

24 Q. You have read it?

25 A. I believe I have read it. It was passed around

1 at the last hearing. Okay, he says that he wants to revoke
2 it.

3 MR. HUNKER: Without objection, Mr. Cooter, may
4 I offer this as McClellan's Exhibit G?

5 MR. COOTER: Certainly.

6 (THEREUPON, McClellan's Exhibit G
7 was marked for identification.)

8 Q. (Mr. Hunker continuing.) Burk Royalty Company has
9 committed its interest, is that correct?

10 A. That's correct.

11 Q. Cleary Petroleum Corporation?

12 A. Yes, sir.

13 Q. Wallace G. Comer?

14 A. Yes, sir.

15 Q. Crown Central Petroleum Corporation?

16 A. Yes, sir.

17 Q. Dalport Oil Corporation?

18 A. Yes, sir.

19 Q. George Eng?

20 A. Yes, sir.

21 Q. Exxon?

22 A. Yes, sir.

23 Q. Corrine Grace?

24 A. No, sir.

25 Q. Robert L. Graham?

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- 1 A. No, sir.
- 2 Q. G. W. Green?
- 3 A. Yes, sir.
- 4 Q. L. C. Harris?
- 5 A. No, sir.
- 6 Q. Charles H. Juna?
- 7 A. Yes, sir.
- 8 Q. W. W. LaForce?
- 9 A. No, sir, we haven't received it.
- 10 Q. McClellan Oil Corporation?
- 11 A. No, sir.
- 12 Q. Ann Norwood?
- 13 A. Yes, sir.
- 14 Q. Allen Q. Norwood?
- 15 A. Yes, sir.
- 16 Q. Robert M. Patterson?
- 17 A. No, sir.
- 18 Q. W. B. Perry, Junior?
- 19 A. Yes, sir.
- 20 Q. Roark and Hooker?
- 21 A. Yes, sir.
- 22 Q. Tom Schneider?
- 23 A. No, sir.
- 24 Q. J. Penrod Toles?
- 25 A. No, sir.

1 Q Wall Street Oil Corporation?
2 A No, sir. Wait, wait, wait, excuse me. Yes, sir.
3 Q Walters Amusement, Inc.?
4 A No.
5 Q In summary then, you have not received ratifications
6 from Addy Corporation, Albert J. Black, Robert L. Graham,
7 L. C. Harris, W. W. LaForce, Junior, McClellan Oil Corporation,
8 Robert M. Patterson, Tom Schneider and Walters Amusement, Inc.?
9 (THEREUPON, a discussion was held off
10 the record.)
11 Q (Mr. Hunker continuing.) Let me rephrase my
12 question, it might trap you and I'm not intending to do that.
13 To rephrase my question and to summarize, you have not received
14 ratifications from Addy Corporation, Robert L. Graham,
15 L. C. Harris, W. W. LaForce, Junior, McClellan Oil Corporation,
16 Robert M. Patterson, Tom Sxhneider and Walters Amusement, I-n-c.,
17 is that correct?
18 A You left out Albert J. Black that time.
19 Q I left out Albert J. Black. You have received a
20 ratification from Mr. Black, is that correct?
21 A Yes, sir, that is correct, but not the others.
22 Q Now, you are aware of Mr. Black's desire not to
23 ratify?
24 A Yes, sir.
25 Q Are you aware of the provision in the unit agreement

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1 the contract itself, which requires that the agreement
2 may be extended if eighty percent of those who have phase-one
3 ownership agree to extend the unit and --

4 A. I believe it is seventy-five percent of eighty
5 percent of phase-one.

6 Q. The unit agreement provides in Section 23: If
7 this agreement does not become effective on or before
8 January 1st, 1976 it shall ipso facto expire on said date,
9 here and after called "expiration date" and thereafter be
10 of no further force or effect unless prior thereto this
11 agreement has been executed or ratified by working interest
12 owning a combined phase-one participation of at least eighty
13 percent and at least seventy-five percent of such working
14 interest committed to this agreement have decided to extend
15 said "expiration date" for a period of not to exceed six
16 months.

17 Now, you have told me that with regard to your
18 new Section 23 that you have no agreement on behalf of the
19 other working interest owners, other than Burk, and I suppose
20 that Burk has agreed to this, yet you have changed this
21 provision materially, haven't you, in your recommendation
22 to the Commission?

23 A. Yes, sir, we have.

24 Q. Submitted in this exhibit?

25 A. Yes, sir.

1 MR. HUNKER: Mr. Examiner, I would like for you to
2 take notice of the fact that, including Mr. Black, there is
3 uncommitted under phase-one as shown on the exhibit attached
4 to the unit agreement, twenty-nine point nine, seven, three,
5 six percent.

6 MR. COOTER: Twenty-nine point what?

7 MR. HUNKER: Nine, seven, three, six percent and these
8 parties are represented by me here today.

9 W. W. LaForce has a third of one percent; Tom
10 Schneider has a half of that, the total phase-one not committed
11 by those nine parties is thirty point four, seven, two, zero,
12 percent.

13 I would like the Commission to take notice of
14 that fact.

15 Q (Mr. Hunker continuing.) Mr. Bear, during the
16 period of time when negotiations took place concerning the
17 unitization of the Double L, these negotiations included the
18 matter of a sub-operating agreement between Burk Royalty
19 Company and McClellan Oil Corporation, are you aware of those
20 negotiations and of the agreement that Burk Royalty Company
21 entered into with McClellan Oil Corporation?

22 A I'm aware of the agreements rather than the
23 negotiations. We did not ever enter into an executed
24 agreement with McClellan.

25 Q Did you circulate a letter to your other working

1 interest owners asking them if they would have any objection
2 to McClellan being designated as the sub-operator of part of
3 the lands in the Double L unit?

4 A. Yes, sir, I circulated the letter. The actual
5 intent of the letter as I recall was to approve a form sub-
6 operating agreement.

7 Q. But it was contemplated at one time that McClellan
8 Oil Corporation would be a sub-operator of part of this
9 unit, is that correct?

10 A. Yes, sir.

11 Q. What is your company's position at the present time
12 with McClellan having rights to sub-operate?

13 A. Let me answer that in this way, Mr. Hunker, since
14 we have called this statutory unitization hearing our company
15 has not discussed this matter and, therefore, I don't believe
16 I am qualified to give a company position.

17 Q. What would your recommendation be in this regard
18 to your company?

19 MR. COOTER: We have given counsel quite a bit of
20 leeway but I think that is pretty far afield. If we are going
21 to sit down at this time and negotiate in front of the
22 Commission that's one thing I would be happy to partake in
23 but I think this is completely irrelevant, the negotiations
24 being considered here.

25 MR. STAMETS: Your objection is sustained.

1 Q (Mr. Hunker continuing.) Under the new energy act,
2 Mr. Bear, can Burk Royalty Corporation qualify as an independent
3 oil operator?

4 A I don't even know what the limit on an independent
5 level is.

6 Q Do you think that this act should be taken into
7 consideration in determining who should be the operator of
8 these properties in the event that Burk Royalty cannot
9 qualify as an independent operator?

10 MR. COOTER: I don't think the proper foundation
11 has been laid as yet for that question. This witness hasn't
12 been qualified, whether or not he is acquainted with it or
13 familiar with it or knows what the energy bill provides.

14 Q (Mr. Hunker continuing.) Mr. Bear, in making your
15 recommendations to the Commission as to what was fair,
16 reasonable and equitable by way of a formula for unitization,
17 did you take into account the price that was being paid for
18 oil?

19 A Now, Mr. Hunker, when you say, "when I made
20 the recommendation", I didn't make the recommendation, the
21 Operators' Committee made the recommendation for percentages.
22 In other words, that is what is in the unit agreement if I'm
23 understanding your question. I didn't say this is going to
24 be the formula. Am I not understanding your question?

25 Q Well, let me ask you this question in a different

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1 way. Did you serve as a member of the Engineering Committee?

2 A. Yes, sir, I did.

3 Q. For the unit?

4 A. Yes, sir.

5 Q. As a member of that Engineering Committee did you
6 take into consideration the price that was being paid for
7 oil?

8 A. Yes, sir.

9 Q. What does it cost you on the average to operate the
10 wells in the Double L field?

11 A. We are not the operator and I don't know.

12 Q. Do you know whether or not your wells have reached
13 their economic limit or not?

14 A. I would have to say, no.

15 Q. They have not reached their economic limit?

16 A. On some leases and I believe we have one or two
17 leases that have.

18 Q. Can you identify the leases that have reached their
19 economic limit?

20 A. No.

21 Q. Have you made any further studies of this matter
22 since the last hearing?

23 A. As far as economics go, no, I have not.

24 Q. Have you called a meeting of the Engineering
25 Subcommittee?

1 A. No, I have not.

2 MR. HUNKER: I have no other questions at this
3 time.

4 MR. STAMETS: Are there any other questions of
5 this witness.

6 MR. COOTER: Just very brief, if I may.

7

8 REDIRECT EXAMINATION

9 BY MR. COOTER:

10 Q The proposed changes, or Exhibit Twelve, are merely
11 your suggestions to the Commission on how the unit agreement
12 might possibly be revised to reflect statutory unitization
13 rather than voluntary unitization as originally contemplated?

14 A. That is correct.

15 Q Have you been advised by Mr. LaForce that he
16 executed a ratification of the unit plan of operation?

17 A. Yes, I have.

18 Q And what happened to that ratification?

19 A. It was sent to Mr. McClellan and I never received
20 it.

21 MR. COOTER: Thank you, that's all.

22 MR. STAMETS: Any other questions of the witness?

23 MR. HUNKER: No more.

24 MR. STAMETS: He may be excused.

25 (THEREUPON, the witness was excused.)

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MR. COOTER: That concludes our case.

JOE L. JOHNSON, JR.

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HUNKER:

Q Will you identify yourself, please, sir?

A My name is Joe L. Johnson, Jr. with Stevens Engineering, Wichita Falls, Texas.

Q Are you the same Joe Johnson who testified in this matter earlier?

A Yes, sir.

Q On December 3rd, 1975?

A Yes, sir.

Q At the time of the hearing in December of 1975, Mr. Johnson, what recommendations did you make to the Examiner?

A I recommended that we call an Engineering Subcommittee meeting for the purpose of updating the engineering report and by so doing to establish new participation factors.

Q Why did you do this, why did you make this recommendation?

A Well, it was very obvious at that point and still is today that we are producing oil that can be classified in no other manner than primary. We are not injecting any water,

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1 the majority, if not all of the property in the Double L
2 are operating above the economic limit of production, yet
3 the phase-two position which we would obviously be in under
4 agreement is designed primarily for secondary recovery
5 percentages.

6 Q Was a meeting of the Engineering Subcommittee
7 called?

8 A No, sir.

9 Q Did you attend any such meeting?

10 A No, sir.

11 Q Did you make some studies after the time that you
12 realized that no meeting would be called?

13 A Yes, sir, we requested a meeting when it was
14 obvious that the continuance was going to take place, however,
15 there was no meeting called. Therefore, I did make a study
16 that is the similar type study that I had requested that the
17 Engineering Subcommittee make.

18 Q And have you completed that study?

19 A Yes, sir.

20 Q Have you prepared some exhibits that demonstrate
21 this study or the conclusions that you have reached in
22 connection with this study?

23 A Yes, sir.

24 Q Referring to McClellan, et al Exhibit Number A, I
25 would like for you to tell the Examiner what this exhibit shows?

1 A. This is a correction on a previous exhibit given in
2 the previous hearing. What this is is an economic limit
3 determination. As you recall, the last time we were here
4 the oil price was, as I recall, eleven, twenty-six on this
5 same exhibit number. Now, what I have done in this instance
6 is, after reviewing the recently signed energy bill, I have
7 assumed, and it is going to take a little while to be
8 positive of where this is but I have assumed that the price
9 of oil that would be paid for oil in the Double L will be
10 eleven, thirty-three. I reduced it by taxes and increased it
11 by gas in order to again determine an economic limit of a well
12 on a month's basis. The average price of operation has
13 remained the same, all I have done is change the price of
14 the oil, the price being received for the sale of oil and what
15 this amounts to is, I believe previously my other exhibit
16 showed roughly a thirty barrel per month per well economic
17 limit. Now, with the lower price of oil this has to be
18 moved upward and it calculates to approximately thirty-five
19 barrels per month per well.

20 So, the exhibit is presented as a correction to
21 the previous due to the energy bill signed by the president.

22 Q. When is that energy bill to be effective?

23 A. Febuary first as I understand it. Does anyone know?

24 Q. In connection with the exhibit marked B, will you
25 explain to the Examiner again what your study reflects?

1 A. Here again the review, what the Engineering
2 Subcommittee did several years back was to meet and prepare
3 decline curves on each individual lease within the bounds of
4 the Double L unit. We then projected these decline curves
5 forward to an economic limit of production. At that time
6 the economic limit was established at being ninety barrels
7 of oil per month per well instead of the thirty-five or so
8 but at that time we were looking at roughly a four dollar
9 price of oil.

10 So as I mentioned earlier we are obviously not in
11 secondary yet, yet we are in phase-two according to what the
12 Engineering Subcommittee had done. That is why I again
13 requested that the Committee meet and get this thing straight.
14 We had plenty of time to do it, just get it off the ground
15 and get it done.

16 When this became apparent that we weren't going to
17 do this then I did it on my own. I was a member, well, I was
18 one of four, as I recall, that worked in the Engineering
19 Subcommittee before so basically what I did was update the
20 curves that we prepared at that time and projected those
21 curves to an economic limit as determined from the previous
22 exhibit, then I determined the amount of oil underneath that
23 curve for each individual lease and I also updated the
24 cumulative production to one, one, seventy-five and the
25 production from one, one, seventy-five to eleven, one, seventy-

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1 five and then arrived at a future primary, as I mentioned
2 earlier, as of eleven, one, seventy-five and arrived then
3 at a total primary recovery on a lease-by-lease basis.

4 So this is the summation of the work that I had
5 hoped the Engineering Subcommittee could perform.

6 Q And in connection with the total shown on that
7 exhibit, the total primary recovery in barrels shown at one
8 million, six hundred and thirty-four thousand, a hundred and
9 two barrels represents what, Mr. Bear?

10 A It represents the ultimate primary production and
11 what that figure is saying is that there will be one million,
12 six hundred and thirty-four thousand, one hundred and two
13 barrels produced from the Double L field from its beginning
14 to its end on primary production. That's an economic limit
15 on primary production and that is what would be classified
16 as ultimate primary production from all of the leases.

17 You will also note that on projecting as of eleven,
18 one, seventy-five that there is an additional primary, as I
19 mentioned in the previous hearing, of one hundred and sixty-
20 six thousand, five hundred and twenty-eight. Keep in mind
21 that figure is contained within this one million, six hundred
22 and thirty-four, one, oh, two.

23 Q Turning to Exhibit C, what is this exhibit?

24 A Exhibit C is not to take the place of page ten
25 within the unit agreement. It is necessary for the Commission

1 to, if they rule in behalf of our feelings here, to have a
2 correction because this data is out-dated.

3 If you will notice, what we have in Item A is
4 the ratio of the volume of oil, I'm reading now from the
5 unit agreement as presented, I believe, by Burk's testimony.
6 (Reading.) We have the ratio of the volume of oil determined
7 to be producible after twelve, one, seventy-two. (End of
8 reading.) Referring back to Exhibit C, with the updated
9 data, I'm changing that date to eleven, one, seventy-five,
10 which is the last date I could get a true production figures
11 from the operators.

12 Again we have the gross income and the gross income
13 for that period on the old one is six, one, seventy-two to
14 twelve, one, seventy-two. In this instance it is five,
15 one, seventy-five to eleven, one, seventy-five because I
16 couldn't get any closer data.

17 We also must change the ratio of the ultimate
18 primary that each lease has, which is Item C, because there
19 is more primary available than what we had credited to the
20 property back several years back.

21 B does not change whatsoever, it is the same.

22 Also if you will note, we are not recommending on
23 page ten any change in the formula of tract participation.
24 We are still saying fifty percent A, fifty percent of B,
25 fifty-five percent of C, forty-five of D.

1 The other changes on that page basically amount
2 to changes in that figure of one million, four hundred and
3 seventy thousand, seven hundred and fifty-eight, changing
4 that to one million, six, thirty-four, one, oh, two.

5 Q. Do you have any other comments to make in regard
6 to this exhibit?

7 A. No, sir.

8 Q. In connection with your Exhibit D, would you tell
9 the Examiner this exhibit is?

10 A. Exhibit D is again taking the formula that we
11 have in the original agreement and as shown on our Exhibit
12 Number C page, applying that formula to the data that we
13 have developed concerning primary, future primary, acre-feet,
14 income, it derives a tract participation for each individual
15 tract within the bounds of the proposed Double L unit on a
16 tract number basis. It gives the phase-one and the phase-two
17 position and this is meant to take the place of Exhibit C
18 which is the next to the last page of the proposed unit.
19 As we change the tract participation we must -- or update the
20 formula we must also change these positions so that this is
21 what this is meant to take the place of.

22 Q. I notice that in your Exhibit B you list twenty
23 leases and on Exhibit C you list twenty-four leases, why is
24 this?

25 A. You have some leases that are not producing, some

1 that are not producing any oil at the present time but have. For
2 example, Grace's State lease is not producing anything at
3 the present time but has produced twelve thousand five
4 hundred and fifty-nine barrels.

5 Q. But it will participate in the unit?

6 A. Oh, yes, and also you have some properties, I
7 believe Wolfson has two tracts that never produced any oil,
8 McClellan has one that never produced any oil and these
9 properties do have reservoir area available to a well to be
10 drilled but it is in a very minor nature so when the Engineering
11 Subcommittee met and determined acre-feet on each individual
12 tract they gave credit to those particular tracts and we
13 have requested at this point and strongly recommend that
14 the tracts be included and this is primarily to, as I like to
15 refer to it, to prevent a parasite position from another
16 operator coming in and messing up the unit.

17 Q. Does this Exhibit D reflect the relative value between
18 the tracts that are in the unit agreement within the unit
19 area?

20 A. Yes, sir.

21 Q. Do you have any other comments with regard to that
22 exhibit?

23 A. No, sir.

24 Q. Turning to Exhibit E, I will ask you to explain
25 that exhibit to the Examiner?

1 A. Again this is building one thing upon another and
2 once you have done the work necessary and that had been
3 previously requested of the Engineering Subcommittee and you
4 establish reserves, income, all of this data and determine
5 your factors, then all of these are changes to the present
6 exhibits that are outdated, in my opinion, and what Exhibit E
7 is meant to do is to take the place of the next to the last
8 page of the unit operating agreement.

9 It does not have a number by it but it is next to
10 the last page as long as you don't consider the accounting
11 procedure as being a page, it's very similar. Incidentally,
12 there is a mistake on the original one. It's not of any major
13 consequence but in the original one tract number ten is
14 actually owned by McClellan but the participation factor and
15 the map reflects that to be tract nine. They just got
16 reversed.

17 MR. STAMETS: Excuse me then, I've got the Exhibit
18 Two from the original hearing, unit operating agreement.

19 A. Yes, sir.

20 MR. STAMETS: Exhibit E under Exxon Corporation there
21 is a tract number ten.

22 A. That should be changed to nine.

23 MR. STAMETS: Along with the participation factor --

24 A. No, sir, just change the numeral ten to nine. Now,
25 drop down on McClellan and change the nine to ten and that

1 corrects it.

2 And what we have then in Exhibit E is the unit
3 participation factor, phase-one and phase-two, and this is
4 another way of breaking it down and what it is, it shows
5 each individual operator, the tracts that they own and the
6 total percentages that they are to receive of future primary
7 and/or secondary.

8 It is fairly obvious if you are referring to it
9 that the changes are not drastic in any instance. Dalport,
10 if you would refer to Exhibit E on the old one as compared to
11 this one, Dalport's percentage increases from thirty-three to
12 thirty-seven. I'm really not mad at Jon after all. Exxon's
13 decreases and McClellan is virtually the same.

14 What we are really trying to do is update and be
15 sure that the data is accurate.

16 Q. Turning to Exhibit F, explain to the Commission
17 what that is?

18 A. Exhibit F is meant to take the place of the page in
19 front of the one we were just looking at in the old agreement.
20 And what that is is a breakdown of the phase-one and phase-
21 two unit participation by individual working interest owners.
22 Again this would be identified in the original unit agreement,
23 unit operating agreement, as being the third page from the
24 back and there is one slight change here and that, as I can
25 determine on the original, Roark and Hooker carry not only

1 their interest but J. C. Monk. Now, on the other things Monk
2 is actually a working interest owner so we have added Monk
3 here, representing that Monk was included with Hooker on
4 the old one, it is a very small error, they are partners in
5 a lot of things.

6 Q In connection with the study that you have made,
7 Mr. Johnson, and the relative values that you have assigned
8 to the several leases and tracts in the unit area, is it your
9 opinion that this presents a fair, reasonable and equitable
10 formula for unitization of this pool?

11 A Yes, sir, we are using the same formula that was
12 used before, all we are doing is, we have updated the data
13 to a point where it becomes a more realistic position than
14 it was before. Actually the way it is now if you go by the
15 terms of the old agreement and as admitted previously in
16 testimony there is no phase-one, we are already past it, we
17 are in phase-two yet a lot of the things are designated on
18 the basis of phase-one. So in order to be fair and equitable
19 the only way to do it is to update the old data. You don't
20 put a unit together today that you worked on three years
21 ago when the oil prices have changed, or even five years
22 ago.

23 Q Are you saying that to your knowledge that you
24 know that the McClellan, et al leases have not reached their
25 economic limit?

1 A. I'm positive of it and we are not getting secondary
2 oil either. In fact, in past testimony I indicated this on
3 another exhibit as to the change that would occur in
4 McClellan's income in the event that this was required
5 instead of if he just operated it as it was. There is no way
6 that he can reach an economic limit on those properties for
7 quite some time.

8 Q. Did you make any further studies with regard to
9 the effect of these present revisions on the royalty interest
10 owners?

11 A. Only in the light of -- yes, in the light of
12 Federal and State and I'm not sure that I got through the
13 fee. Under the old plan --

14 Q. By the old plan, do you mean the plan that was
15 submitted by Burk?

16 A. And here, I had to have something in order to
17 compare with, some guideline, so the way I assumed the guide-
18 line was this, I had previously on Exhibit B estimated that
19 the primary was a hundred and sixty-six thousand, five hundred
20 and twenty-eight barrels and as I testified previously, I
21 felt like that the secondary reserves as set out in the
22 original report by the Engineering Subcommittee are actually
23 very, very conservative. So I used a figure of one point
24 seven times primary to arrive at the secondary estimate.
25 Now, the reason for this is to try to determine the effect

1 on royalty as well as other things, in barrels. How many
2 barrels are we talking about?

3 Well, under the plan that Burk has presented then
4 we don't have any primary, so we don't have any phase-one,
5 we are working immediately into phase-two.

6 I still gave the future reserve estimate, though,
7 on the basis of the hundred and sixty-six, five, twenty-eight
8 plus one times seven of ultimate primary. Under that plan
9 the Federal leases, utilizing the factors as shown in the Burk
10 report, we would recover a hundred and forty-nine thousand,
11 three hundred and eighty-three gross barrels. Under this
12 plan, updating and having a phase-one and a phase-two position
13 it comes out to a hundred and fifty-two thousand, seven
14 hundred and twenty or a difference of plus thirty-three,
15 thirty-seven.

16 I worked the State the same identical way. Theirs
17 is a minus eleven, twenty-seven, eleven hundred barrels over
18 the entire life of the thing.

19 So I would have to say that in all probability the
20 fee leases which would be which would be the difference in
21 these things, would be also in a minus category of about
22 twenty-two hundred barrels.

23 Q. Do you have any other comments you would like to
24 make by virtue of the studies that you have made, Mr.
25 Johnson, for the illumination of the Examiner?

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1 A. The only thing and it showed, I guess, one other
2 thing or the one thing that should be pointed out is in the
3 previous testimony and as shown on my exhibits at that time,
4 these properties reach a high -- I show it this way -- they
5 reach a high peak in production, start rolling down. At the
6 time the Committee made its projection we were in this
7 vicinity of the curve.

8 Q. On the down side of the curve?

9 A. On the down side of the curve and projected these
10 straight down to an economic limit. Well, as we can see
11 now and as is very obvious in the study of the various leases,
12 these curves don't come straight down. I think they are
13 coming straight down initially because they are draining
14 in the immediate vicinity of the wellbore. As they start
15 drawing oil away from the wellbore, further and further away
16 and generally we are talking about forty-acre drainage
17 patterns, then the slope smooths out and the line becomes
18 more of a slope of that sort.

19 Q. On a more level line, is that correct?

20 A. Yes, and this is not the way we projected, therefore
21 there's where the real difference is but at the point that
22 the Committee did its work it was difficult to determine where
23 it would start moving out and if it would start moving out, so
24 the Committee just set it on a straight-line projection. This
25 is on semi-log paper. This becomes very obvious as you go

1 through the curves that it is not following this curve in
2 almost every instance, so, there's where the real mistake is
3 and, therefore, the necessity was to update and have the
4 data.

5 If you look at it, really the future primary that
6 I'm projecting is no more than ten percent of ultimate, so
7 we have produced ninety percent to date of the ultimate
8 primary. We are pretty doggone close.

9 Well, these probably could be projected by fifteen
10 different people and come up with fifteen different answers
11 but I rather doubt that they would fall too far away from
12 our ten percent position. One might be eight and another
13 twelve but this to me is much more accurate than two-and-a-
14 half-year old, two-year old data.

15 MR. HUNKER: I have no further questions for the
16 witness at this time.

17 MR. STAMETS: Are there questions of the witness?
18 Mr. Cooter?

19

20 CROSS EXAMINATION

21 BY MR. COOTER:

22 Q. Mr. Johnson, on October 23 of last year, you wrote
23 a letter addressed to McClellan Oil Corporation setting
24 forth your then recommendations for the remaining primary
25 production remaining and the effective date for the change-

1 over from phase-one to phase-two, did you not?

2 A. Yes, sir.

3 Q. This was mailed out by Mr. McClellan to all working
4 interest owners by his letter of November 18. Do you have
5 a copy of that before you?

6 A. No, but I think I'm familiar with it.

7 Q. I have marked mine as Exhibit Number Thirteen. In
8 that letter, which I assume was written after rather thorough
9 study and you set forth your recommendations after your study
10 and analysis that the effective date of the phase-two formula
11 be changed from one point four, seven, oh, seven, five, eight
12 barrels to one point five, six, one, three, oh, one barrels,
13 did you not?

14 A. Yes, sir.

15 Q. So that in effect you added to remaining primary
16 production ninety thousand, five hundred and forty-three
17 barrels?

18 A. That's correct.

19 Q. Now, prior to that letter to Mr. McClellan and Mr.
20 McClellan's letter to the working interest owners of November
21 18, had you or Mr. McClellan at any time expressed in writing
22 any disagreement with the Engineering report which was the
23 Applicant's Exhibit Eight, I believe, at the prior hearing.
24 I think it was your Exhibit Number One. Two copies were
25 offered, but the Emgineering report?

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1 A. No, we didn't express any objection. You can
2 update this without having an objection expressed.

3 Q. But that was the first time that you ever set
4 forth anything in writing which indicated or would show any
5 disagreement by you or Mr. McClellan's group with the
6 Engineering report?

7 A. Actually I had no objection basically to the
8 Engineering Committee report. I was part of it. The thing
9 I was hoping to accomplish through this letter was to
10 establish the fact that, "look things have changed since
11 that report was made and since the agreement was prepared."
12 So probably I didn't express this in writing, but again
13 I wouldn't be shooting at the report because the report
14 changes -- I mean, I can change the report myself in a few
15 minutes to update the thing to get some idea of where we
16 stand. The report was meant as a guideline to this data,
17 really.

18 Q. Well, that's where this changeover date was first
19 arrived at, the one point four plus million barrels?

20 A. Yes.

21 Q. And that letter of October 23 which is now
22 marked as Exhibit Thirteen, which is the first written
23 suggestion that you or Mr. McClellan made to the other
24 working interest owners, that this should now be revised?

25 A. Correct.

1 Q Now then, at the December 3 hearing and particularly
2 exhibits which I believe are Number Two and Number Seven,
3 indicated that on December 3, the date of that hearing, you
4 believe that there was additional primary remaining of a
5 hundred and eighty-one thousand, eight hundred barrels?

6 A Yes.

7 Q That's a little over twice what was set forth in
8 your October 23 letter?

9 A Uh-huh.

10 Q And now offered today as Exhibit Number B is a
11 third revision of that figure where it appears to be a
12 hundred and sixty-six thousand, five hundred and twenty-eight
13 barrels?

14 A Correct.

15 Q The suggestions you have made for proposed changes
16 to the Examiner are based on your last estimate of remaining
17 primary, that which you have resolved subsequent to your
18 letter of October 23 and subsequent to the last hearing of
19 December 3?

20 A Yes, sir.

21 MR. COOTER: That's all. Thank you.

22 MR. STAMETS: Are there any other questions of
23 the witness?

24 MR. HUNKER: Just one question.

25

REDIRECT EXAMINATION

1
2 BY MR. HUNKER:

3 Q Mr. Johnson, in connection with the studies you made
4 prior to writing the letter of October 23, 1975, to what extent
5 were those studies made, were they as extensive as the studies
6 you have made within the last ten days?

7 A No, sir. Let me explain that and here again was one
8 reason that we were strongly recommending and did strongly
9 recommend the Engineering Subcommittee meeting. If you can
10 get four people, maybe you can get everybody together to point,
11 okay, this is the way the reserves are, if you take four
12 people separated from this thing then obviously they are all
13 going to go off in different directions. To explain the point
14 on the October 23rd letter, the question that was asked me as
15 a consultant, quick, is it fair or not fair? Okay, quick, I
16 look at it and I have to work with total field. I can't look
17 at individual leases, I haven't got time, frankly, to go into
18 individual positions. Okay, so I look at it and I say, all
19 right, here's the picture, it doesn't look fair.

20 Now, when we come to the meeting, again we are
21 working on a short-time fuse and if you will notice I
22 presented this in two curves. One is McClellan only and one
23 is the total field, again hoping that we would have the
24 Engineering Subcommittee meeting, which then would break it
25 down to increments, little bitty increments. Well, we were

1 unable to do that so that's what I did. I broke it down to
2 each individual lease. That figure, in my estimation, is by
3 far the most accurate figure that I have worked with because
4 I'm approaching the economic limit, I'm working with each
5 individual one. What happens to you when you start working
6 with the grouping of leases, like the whole field, McClellan
7 only is that you may have a well that comes down and hits the
8 economic limit. Let's take for example, a lease that has
9 four wells and it comes down into an economic limit position
10 of a hundred and thirty barrels a day and that happens in
11 June of this year, well, if the operator shuts that thing
12 down and he says, forget it, it's costing me money, let's
13 just leave it down, now, I have lost that hundred and thirty
14 barrels a day, so that if really you took the total field,
15 total field curve in the latter stages of any field, it is
16 going to be a sawtooth type affair, rather than a smooth type
17 curve because you are going to have wells fall out but what
18 you really when you project something of this sort, you are
19 assuming that they are all going to stay and they don't because
20 somebody is going to lose and somebody is going to shut in
21 their wells and there is no way of telling when they are
22 going to do it.

23 But as you work with an individual lease you can
24 arrive at a more true prediction of future primary.

25 Q. Do you have any further explanations to make with

1 regard to that letter?

2 A. No, sir.

3 MR. HUNKER: If the Examiner please, I would like
4 to offer at this time McClellan, et al's Exhibits A through
5 F, as well as the G in case it hasn't been offered.

6 MR. STAMETS: Is there objection to the admission
7 of these exhibits?

8 MR. COOTER: No objection, Mr. Examiner.

9 MR. STAMETS: They will be admitted into evidence.

10 (THEREUPON, McClellan, et al Exhibits
11 A through G were admitted into evidence.)

12

13 CROSS EXAMINATION

14 BY MR. STAMETS:

15 Q. Mr. Johnson, you discussed the amount of production
16 that would accrue to royalty interest owners changing, like
17 the USGS and the State and also looking at the exhibits that
18 have tract participation, Exhibit D, Exhibit E and Exhibit F,
19 all of these show changes?

20 A. Yes, sir.

21 Q. From the original unit agreement. Is the reason
22 for these changes the fact that all of these wells or leases
23 would not decline at the same rate to your new economic
24 limit?

25 A. At the same rate?

1 Q Right.

2 A No, they are all going to be different, each one is
3 a different decline trend.

4 Q I'm just assuming here that we've got two different
5 levels, cutting off phase-one, one at one point four million
6 and one at one point six million, roughly?

7 A Okay.

8 Q If you had all of the leases declining at the exact
9 same rate then there would be no changes in these participa-
10 tion formulas, is that right?

11 A No, sir, under normal conditions this would probably
12 hold true but, see, we've got the formula confused with two
13 additional facts and one is, gas. In the phase-one we are
14 giving fifty percent weight to future primary oil production
15 as compared to the ratio of total and we are giving fifty
16 percent to income, gross income. Well, gross income has gas
17 and oil and if a well is, for example, over on the west side
18 it may start off making oil and then start turning to gas as
19 the cap expands, or what have you and this has happened, so,
20 we've got that factor that confuses the picture somewhat.

21 Then the phase-two part of it, acre-feet and ultimate
22 primary, so it, probably under the condition you're using
23 for an example, it probably would parallel, but the other one
24 won't.

25 MR. STAMETS: Any other questions of the witness?

1 He may be excused.

2 (THEREUPON, the witness was excused.)

3 MR. STAMETS: Anything further in this case?

4 MR. COOTER: We would offer, I don't believe I
5 did, Exhibit Thirteen which was Mr. Johnson's October letter.

6 MR. HUNKER: We have no objection to it being
7 admitted.

8 MR. STAMETS: Exhibit Thirteen will be admitted.

9 (THEREUPON, Applicant's Exhibit Thirteen
10 was admitted into evidence.)

11 MR. COOTER: I would like to recall Mr. Bear for
12 short questioning. Before I do that I would ask for about a
13 five or ten minute recess.

14 MR. STAMETS: We will take about a fifteen minute
15 recess.

16 (THEREUPON, the hearing was in recess.)

17 MR. STAMETS: The hearing will please come to order.

18 Mr. Cooter, you had some redirect.

19 JON BEAR

20 recalled as a witness, having been previously sworn, was
21 examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. COOTER:

25 Q Mr. Bear, you've heard the testimony of Mr. Johnson

1 that at the prior hearing, as well as today, that the amount
2 of secondary recovery projected for this pool was primary
3 production times one point four, I think was the figure that
4 he mentioned at the prior hearing as being used by the
5 Engineering Committee and one point seven what he thought
6 should be the proper figure. Being a member of the Engineering
7 Committee, was that the way the secondary recovery was
8 projected?

9 A. No, sir, the secondary recovery was not projected
10 by taking the primary recovery times a figure. The Engineer-
11 ing Committee determined the total recoverable amount of oil
12 by a volumetric calculation and deducted the projected primary
13 oil from that and came up with the secondary reserves.

14 Q. And what were those secondary reserves calculated
15 to be?

16 A. A million, six hundred and seventy-two thousand
17 barrels.

18 Q. So that added to the projected primary made a total
19 amount of recoverable oil from the Queen formation underlying
20 this pool to be what?

21 A. Three million, a hundred and forty-two thousand,
22 seven hundred and fifty-eight barrels.

23 Q. Now, that is shown on pages four through six of
24 the engineering report which has been marked previously as
25 Exhibit Eight?

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1 A. That is correct.

2 Q. In your opinion is there just so much recoverable
3 oil underlying this proposed pool?

4 A. Yes, sir, there is.

5 Q. And if more is added to primary will more be added
6 to secondary?

7 A. We don't believe that if more is added to primary
8 that more will be added to secondary.

9 Q. If the Commission were to change the effective date
10 of the phase-two participation, in your opinion is it necessary
11 to re-examine the phase-two formula?

12 A. Yes, sir, we believe so.

13 Q. Why should that be done, in your opinion?

14 A. Because if primary production is going to be
15 increased, we believe that less secondary oil will be
16 produced and, therefore, phase-two of the participation
17 formula should be changed to more adequately reflect the
18 volume of oil recoverable by only secondary means.

19 Q. Do you have a suggestion to make as to what that
20 alternative formula should be for phase-two?

21 A. We would suggest a hundred percent acre-feet.

22 Q. That would then become effective, under Mr. Johnson's
23 testimony, at what he calls the true economic level based on
24 oil at eleven dollars and thirty-three cents a barrel?

25 A. That's correct.

1 Q If at that time all of the wells within the proposed
2 pool would have then reached their economic limit?

3 A According to his testimony, yes, sir.

4 Q Right, referring to his testimony. Some of them
5 might have reached it before that date and that might be the
6 final date?

7 A Correct.

8 Q Under his proposal. But then all tracts would then
9 be reduced to the common factor of just having so much possible
10 or potential productive acre-feet that would be recoverable
11 through secondary recovery operations?

12 A Yes, there would be so much oil recoverable as
13 represented by acre-feet.

14 Q Are you familiar with other units that use this
15 type of formula?

16 A Yes, sir, I am.

17 Q Would it allocate the recovery to the separate
18 tracts within the unit on a fair, reasonable and equitable
19 basis?

20 A I believe it would.

21 Q And protect the correlative rights of one and all
22 interest owners within the pool?

23 A Yes, sir.

24 Q The application of that type of formula would allocate
25 to each tract within the unit, all of the producing formation

1 which underlay each tract?

2 A. On its percentage basis, yes, sir.

3 Q. You heard Mr. Johnson's testimony about the price
4 of oil at eleven dollars and thirty-three cents under the new
5 energy bill, do you concur with that?

6 A. I do not necessarily concur or not concur. I don't
7 know what the price of oil is going to be after February the
8 first and I don't think anybody else does. I think the only
9 thing in the bill and I've already indicated that I'm not totally
10 familiar with the bill, but I do believe the bill says the
11 average price of oil in the United States will be seven dollars
12 and sixty-six cents per barrel and it has been left to our
13 President to determine what oil will have what price to arrive
14 at this average. If he decides that the oil from this flood
15 next month will be eight dollars then the whole primary
16 economic limit has changed again.

17 MR. COOTER: All right, that's all.

18

19 FURTHER CROSS EXAMINATION

20 BY MR. HUNKER:

21 Q. The economic limit of the pool should be considered
22 in determining the relative value of the tracts that
23 are in the pool, is that correct?

24 A. Under the formula that we have, yes, sir, it's a
25 two-phase formula and the first phase is primary and the

1 economic limit is included in that and should be included
2 in that, yes.

3 MR. HUNKER: I have no further questions.

4 MR. COOTER: I have nothing else to add.

5 MR. HUNKER: I would like to recall Mr. Johnson,
6 I have a question or two.

7

8 FURTHER CROSS EXAMINATION

9 BY MR. STAMETS:

10 Q Mr. Bear, if I understood your testimony correctly
11 what you said was that if the Commission should adopt the
12 ultimate primary recovery of one point six, three, four
13 million barrels that McClellan's group has recommended here
14 today, that you would wish to change the tract participation
15 formula under phase-two of one hundred percent under D?

16 A Acre-feet. Oh, excuse me, that is correct.

17 Q Now, just briefly what is the reason for going to
18 that formula as opposed to what has been proposed here?

19 A Well, as I said, it is our opinion that there is only
20 so much oil in the ground. At some point in time primary
21 production is going to produce some secondary oil. If we
22 are going to produce more primary oil, we are going to produce
23 less secondary oil. As the formula now stands there is a
24 primary -- there is a percentage included in the second
25 phase for primary production. If we are going to get clear

1 down to where there is absolutely no oil production, or
2 practically none, we have, as previously projected, produced
3 some secondary oil already. Therefore, the only thing that
4 should be considered in phase-two is strictly secondary
5 percentages or that oil which is secondary oil. As it stands
6 now phase-two is a combination of primary and secondary.

7 Q. And as to the price of oil, you indicated that to
8 your knowledge the price could be less than eleven dollars a
9 barrel, it might be seven, sixty-six or it could be less than
10 seven, sixty-six?

11 A. I don't think it could be less than seven, sixty-six
12 because as I understand the bill, the average price of oil in
13 the United States is supposed to be seven, sixty-six, so all
14 of the oil would be seven, sixty-six. As I understand it
15 there would be no way to get it -- well, there would be a way
16 to get it below if the President said waterfloods are going
17 to have five-dollar oil and old oil will be ten-dollar oil it
18 could be but I don't really think -- I don't foresee that
19 at all. At the worst it would be seven, sixty-six in my
20 books.

21 MR. STAMETS: Any other questions of the witness?

22 MR. RAMEY: What is this oil now considered, new
23 oil or stripper oil?

24 THE WITNESS: It's stripper oil.
25

1 MR. RAMEY: If they threw off the restrictions on
2 stripper oil and said stripper oil would receive no favor then
3 it might fall back to the old oil classification of five
4 dollars and twenty-five cents?

5 THE WITNESS: It could.

6 MR. RAMEY: Thank you.

7 MR. STAMETS: Any other questions of the witness?

8 He may be excused.

9 (THEREUPON, the witness was excused.)

10 JOE L. JOHNSON, JR.

11 recalled as a witness, having been previously sworn, was
12 examined and testified as follows:

13
14 DIRECT EXAMINATION

15 BY MR. HUNKER:

16 Q Mr. Johnson, you heard Mr. Bear testify as to the
17 Engineering Committee report and Mr. Bear testified that the
18 Committee used the one point four figure and you had used the
19 one point seven figure, do you have some comment to make with
20 regard to that testimony?

21 A Well, obviously the price of oil makes a difference
22 as to how far you are going to carry a waterflood.

23 Q By that what do you mean, how long you are going to
24 continue to produce the oil that is in the pool?

25 A Exactly. If you are getting two dollars for your

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1 oil you are going to reach an economic limit much earlier
2 than you would if you had ten dollars for your oil. Therefore,
3 the recovery is going to be greater underneath a ten-dollar
4 oil position than it would be under a two. But the point I
5 was making in utilizing the one point seven figure is that
6 this is a figure that is readily utilized and easily explained
7 in that I am the engineer on the McClellan Sulimar project.
8 This project has now been in being for approximately three
9 years, we have done very well, we are presently producing in
10 excess of five hundred barrels of oil per day from approximately
11 twenty-three total wells, half or more of which are injection
12 wells. The profit has been very good and we are now at one
13 point seven of primary now and we've got a long way to go.

14 As I said in the previous hearing, I would not be at
15 all surprised to see this go to two times primary, possibly
16 over. Again, question on the price of oil.

17 I would like to comment on this price of oil bit
18 too. The price of oil is established within the energy bill.
19 It is very definite that oil will see five dollars and a
20 quarter and it very definitely said that new oil will receive
21 a certain set figure which appears at this time to be eleven,
22 twenty-three or thirty-three. I used an eleven, thirty-three
23 or twenty-three figure, I forget which of the two in my
24 projection but later there is another part in that bill that
25 eliminates that and puts it at eleven, fifty with a guaranteed

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1 increase of five cents per month during the life of the bill
2 or over a forty-month period, a two dollar increase. So
3 really, we want to play economic limits and guarantees, we
4 are not looking at any seven dollar oil, we are starting at
5 eleven, fifty and we are going to thirteen, fifty, that's
6 wrong, it has nothing to do with what the President has to
7 say or anything, that's established by the Congress.

8 Q Do you agree with Mr. Bear's statement that there is
9 just so much oil in the pool?

10 A If that were the case then we would have to discount
11 price, we've got to forget price entirely because price has
12 nothing to do with the amount of oil according to this and we
13 are seeing improvements, by the way. A lot of this was
14 gauged in the Engineering Committee and the calculations were
15 gauged as a cross check back against Caprock Queen that was
16 flooded some years ago and is now virtually flooded.

17 Caprock Queen had certain difficulties, one was
18 handling of the water, two, a varying sulphate scale action
19 on both the injection wells as well as the producing wells.
20 And they had a lower price for their oil but yet Caprock
21 Queen had a range, it was some less than one to one on
22 primary to secondary or secondary to primary. There were some
23 that were in excess of two to one but the general average
24 across the board was about one point four.

25 However, the Caprock Queen indicated and hopefully

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1 we have gained from the knowledge that they gained during
2 their flooding and this is one reason I attribute to the
3 success of Sulimar. We have had no scaling difficulty. This
4 was one of their major troubles, early economic limit because
5 of scale action on the pumps, they were pulling the wells
6 four times or more a month. We pull ours generally one time a
7 year as a general average. We don't have any scale. Why?
8 Because we treated for scale to start with, we put it in the
9 injection water, it carries through, it is of high enough
10 concentration to prevent a scale action so we don't have a scale
11 injection point, therefore, we have reduced the injection
12 rate. We don't have scale at the producing wells, therefore,
13 a higher operation cost.

14 Q Therefore, you are extending the economic limit of
15 the pool?

16 A We are also getting more oil out of the pool. I
17 hope we have gained something in twenty some years of experience
18 from what happened to them and what we are going to do in the
19 future.

20 MR. HUNKER: I have no further questions of this
21 witness.

22 MR. STAMETS: Mr. Cooter?

23

24 FURTHER CROSS EXAMINATION

25 BY MR. COOTER:

1 Q There might have been some misunderstanding from
2 Mr. Hunker's first question and I would like to correct
3 that. It was not Mr. Bear's testimony that the amount of
4 secondary recovery was determined by multiplying the projected
5 primary of one point four million by a one point four factor.
6 Mr. Bear stated that the Engineering Committee determined the
7 best it could the total amount of recoverable oil in this
8 pool. Do you agree that there is just so much oil there to
9 be recovered?

10 A Yes, but now, how much are we going to recover at
11 X price as compared to Y price?

12 Q The economic amount of recovery but they first tried
13 to determine how much oil was underlying or within the Queen
14 formation underlying the various tracts that could be
15 recovered?

16 A I presume that is the case.

17 Q That is as set forth on pages -- that all of the
18 calculations are on pages four to six, I believe, of the
19 Engineering report and that figure was that they estimated
20 that that was three point one, four, two, seven, five, eight
21 if my mathematics are correct which is the total, so much
22 primary and so much secondary?

23 A Uh-huh.

24 Q You would agree that that is a definite figure?

25 A No.

1 Q I'm not asking you to agree with the figure but there
2 is a definite figure that, or as best as can be calculated,
3 as to what is the recoverable oil?

4 A Yes.

5 Q You now disagree with that figure as set forth in
6 the Engineering report?

7 A Yes.

8 Q By adding more to the primary and then multiplying
9 it by one point seven factor which is a minimum factor, it
10 might go up to as much as two point?

11 A Right.

12 MR. COOTER: That's all.

13
14 FURTHER REDIRECT EXAMINATION

15 BY MR. HUNKER:

16 Q Mr. Johnson, Mr. Bear made a suggestion to the
17 Examiner with regard to the formula that would be more
18 acceptable to them and asked that a hundred percent of the
19 number of acre-feet in the pool be attributed to the second
20 phase. Do you have some comment that you would like to make
21 with regard to the fairness of this recommendation?

22 A Yes, sir, I do. To begin with, when we started into
23 this we were trying to play on a fair and equal level. We
24 had not changed the formula as set out in the Engineering
25 report, not the Engineering report but the unit operating

1 agreement and in our exhibits this time we had that
2 prerogative and did not accept it because we felt like that
3 in good faith we had negotiated previously and had agreed
4 previously to that formula, now we are seeing recommended
5 changes. Why? All right, let's look at that change and why
6 it occurs. Under the present unit agreement, let's look at
7 the unit operating agreement as presented in testimony. We
8 have a position where, quote, if we accept Burk's position.

9 MR. STAMETS: What page are you looking at?

10 A. I'm looking at the next to the last page. These
11 pages are not numbered. Forget the accounting section.

12 MR. COOTER: It's the second page of Exhibit E?

13 A. Yes, it is the one entitled, "Continued Exhibit E".

14 Okay, it becomes very apparent when you compare
15 that figure that says, okay, that we are in phase-two, Dalport
16 should have then under their recommendation forty-two point
17 seven, three, two, five percent. Now, if we take the acre-
18 feet position, Dalport's position is increased to forty-six
19 or four percent higher. What happens to the others? McClellan,
20 according to this recommendation, twenty-two point two, one
21 percent. McClellan under only acre-feet, nineteen point five,
22 five. So what McClellan is reduced, Dalport is gaining. I
23 don't think the changes are that drastic and, well, Amoco
24 moves from eleven to ten, Exxon moves from twenty-one, well,
25 they're virtually flat, twenty-one point two, five, twenty-one

1 point two, two, five.

2 I strongly object to the use of only acre-feet. We
3 could have played the same game, I could have come in and
4 said, okay, let's play ninety percent ultimate primary because
5 we've got twenty-five percent ultimate primary and we will
6 use, we'll use ten percent on acre-feet and we'd have ended up
7 with a twenty-four percent participation factor. I don't
8 think it is fair that way, though. We had agreed previously
9 and we stick with our agreements in that regard. The only
10 thing we ask is that these things be updated to a more
11 realistic view point and acre-feet doesn't do it.

12 MR. STAMETS: Any other questions?

13 Just one thing. Mr. Johnson, you were quoting
14 some percentages based on acre-feet alone, is that in the
15 Engineering report?

16 A. No, sir, it is in a letter that was put out by the
17 Engineering Subcommittee, dated June 27, 1973 and actually the
18 history of this thing was that it was prepared and it was
19 assumed that everything was forty acres and then we found that
20 well, everything is not forty acres. There are some that
21 are forty point one, there are some that are thirty-eight
22 point six and such as that so it was corrected and the
23 percentages then were set out in that. Would you like a copy
24 of this?

25 MR. STAMETS: I certainly would like to have that.

1 (THEREUPON, a discussion was held
2 off the record.)

3 MR. STAMETS: Mr. Johnson, you were referring
4 to some acre-feet figures in a letter there. I wonder if
5 you would like to put that in evidence?

6 A. Yes, sir. This is actually identified on our
7 Exhibit Number One as back in the parameter Double L-Queen
8 field and would be apparently on pages fifteen and sixteen
9 according to the index. It would be on page sixteen. This
10 does comply with the letter of June 27, 1973 as best as I
11 can determine.

12 Q (Mr. Hunker continuing.) Comply or conform?

13 A. Conform.

14 MR. HUNKER: We will offer it as Exhibit H.

15 MR. STAMETS: That has been marked now as
16 McClellan's Exhibit H. Any objection?

17 MR. COOTER: No objection, sir.

18 MR. STAMETS: The exhibit will be admitted.

19 (THEREUPON, McClellan's Exhibit H was
20 admitted into evidence.)

21 MR. STAMETS: Are there any other questions of
22 Mr. Johnson? He may be excused.

23 (THEREUPON, the witness was excused.)

24 MR. STAMETS: Anything further in this case?

25 Mr. Hunker, do you have a statement?

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1 MR. HUNKER: Yes, sir, I do have a short statement.

2 The basic premise of the proponents is that we are
3 now in phase-two of this proposed waterflood program. We are
4 not in phase-two unless the Commission agrees that the relative
5 values that have been assigned by Burk are fair, reasonable
6 and just. It is incumbent upon the Commission to make a
7 determination that an appropriate number of working interest
8 owners and royalty interest owners have, in fact, executed
9 the agreement or ratifications of the agreement and in order
10 to make a determination that a sufficient number of people
11 have actually signed, the Commission must first decide which
12 formula submitted is fair, reasonable and just and if we are
13 in phase-two already, then the determination can be made
14 as to whether or not an appropriate number of people have
15 signed.

16 However, if the recommendations of Mr. Johnson are
17 accepted, then we are not in phase two and the Commission
18 must determine whether or not the required number of people
19 have signed or ratified the agreement.

20 There is a serious legal problem here that I'm sure
21 counsel for the Commission is aware of and members of the
22 staff undoubtedly are aware of it. We had an agreement which
23 said that as of January 1st, 1976 it terminated ipso facto
24 unless it had been approved. Recommendations have been made
25 that would change the effective date of the unit and I want

1 you to bear in mind that those changes admittedly have not
2 been approved by those parties who have previously ratified
3 the agreement.

4 We appreciate the Commission, Mr. Stamets, your
5 having given us an opportunity to make a further study, for
6 at the time of the initial hearing we did not have time to
7 make this study. We hoped that an Engineering Subcommittee
8 meeting would be called so that a study could be made of the
9 problem in view of the increased price and we had attempted
10 today to establish under 65-14-6 what we believe to be the
11 more correct relative value of each tract in the unit area.

12 We believe that the recommendations that we have
13 made more clearly represent a fair, equitable and reasonable
14 basis for unitization. We feel that the formula upon which
15 the working interest parties have had an understanding, not
16 legally, but certainly an understanding, should form the basis
17 for unitization.

18 And with those remarks I want to thank you and
19 I will close. Thank you.

20 MR. STAMETS: Mr. Cooter?

21 MR. COOTER: Mr. Examiner, first, the figures as
22 set forth in the plan for unit operations, as evidenced by
23 the exhibits of the operating agreement, the unit operating
24 agreement, are not figures supplied by Burk. Burk is only the
25 designated operator.

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1 The phase-one formula, as well as the phase-two
2 formula are equally arbitrary. There is nothing sacro-
3 sanct about phase-one, about the fifty-fifty. Nothing is
4 sacred about when the changeover occurs into phase-two. The
5 same could be said about what is phase-two formula. These
6 were matters of delicate negotiation between all of the parties
7 and considering together, all of it together, they decided that
8 as written, that that provided for a fair, just and equitable
9 allocation of the production.

10 Now, what the McClellan group is suggesting, that
11 taking the benefits of all of the negotiations, there is only
12 one factor that can be changed to enlarge their interest and
13 that is the one that they suggest that now there is a new
14 economic level.

15 Well, the primary or the phase-one formula wasn't
16 strictly determined on what would be recovered under primary
17 production. There were other factors that went into that.
18 Likewise, phase-two takes into consideration to some extent
19 what the recovery of primary has been and will be. So these
20 are formulas that are just settled by negotiations between
21 the parties and represent to the satisfaction of over seventy-
22 five percent of the working interest owners and of the owners
23 of royalty and overriding royalty and production payments.
24 The best formula that they can arrive at for the allocation
25 of the production yet to be had.

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1 We submit that there has been a change in the
2 unit plan from the voluntary unit as contemplated to the
3 statutory unit now sought and the changes we have proposed
4 to the unit agreement merely reflect that. They do not in
5 any way change the plan for unit operation. All of the
6 percentages remain as set forth, except that the effective
7 date of the unit will be as determined by this Commission
8 under its statutory power.

9 Over seventy-five percent of both classes have to
10 approve that plan. If it is the same plan that they have now
11 approved, we believe no further ratifications are necessary.
12 That is the tract participation, the interest participation
13 and the like. It is only if any of those participation
14 formulas are changed and it is a new ball game, then it all
15 has to go back and seventy-five percent of both classes again
16 have to ratify the Commission order or it is not effective.

17 If the plan that has been adopted considering the
18 phase-one fifty-fifty formula, it could have been anything
19 else or we could have used a one-phase formula throughout this
20 whole operation and what was that one phase, still over
21 seventy-five percent of all of the owners chargeable with the
22 payment of all of these expenses, that is not just the
23 monthly expenses but the equipment and everything else that
24 will be involved have ratified this plan and we submit that,
25 therefore, the request is made and it is a fair, just and

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1 protects correlative rights and complies with all of the
2 safeguards that the statutes require for that and we urge
3 that it be adopted. Thank you.

4 MR. STAMETS: Anything further in this case?

5 The case will be taken under advisement and the
6 hearing will be adjourned.

7

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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.



Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5596 heard by me on 12-7-76
Richard L. Ham, Examiner
New Mexico Oil Conservation Commission

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
December 3, 1975

EXAMINER HEARING

IN THE MATTER OF:)	
)	
Application of Burk Royalty Company)	CASE
for statutory unitization, Chaves County))	5596
New Mexico.)	
)	

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission:	William F. Carr, Esq. Legal Counsel for the Commission State Land Office Building Santa Fe, New Mexico
For Burk Royalty:	Paul Cooter, Esq. ATWOOD, MALONE, MANN & COOTER Attorneys at Law P. O. Drawer 700 Security National Bank Bldg. Roswell, New Mexico
For McClellan Corp, et al	George Hunker, Esq. HUNKER-FEDERIC, P.A. Attorneys at Law P. O. Box 1837 Suite 210, Hinkle Building Roswell, New Mexico

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 Phone (505) 982-9212

APPEARANCES CONTINUED

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For Corine Grace:

Larry L. Lamb Esq.
LAMB, METZGAR, FRANKLIN & LINES, P.A.
Attorneys at Law
P. O. Box 987
Bank of New Mexico Bldg.
Albuquerque, New Mexico

For Exxon Corp:

Harley Reavis, Esq.
Attorney at Law
Exxon Corporation
Midland, Texas

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1 MR. STAMETS: The Hearing will please come to
2 order.

3 At this time we will call Case 5596.

4 MR. CARR: Case 5596, application of Burk Royalty
5 Company for statutory unitization, Chaves County, New Mexico.

6 MR. STAMETS: Call for appearances in this Case.

7 MR. COOTER: Paul Cooter with the firm of Atwood
8 and Malone in Roswell appearing on behalf of the applicant,
9 Burk Royalty.

10 MR. STAMETS: Ask for other appearances, please.

11 MR. HUNKER: George Hunker of the firm of Hunker-
12 Federic, P.A., Roswell, New Mexico, appearing on behalf of
13 McClellan Oil Corporation, L. C. Harris, Addy Corporation,
14 R. M. Patterson, Bob Graham and Penrod Toles.

15 MR. STAMETS: Other appearances?

16 MR. REAVIS: Harley Reavis for Exxon.

17 MR. LAMB: Lamb, Metzgar, Franklin and Lines, P.A.,
18 Larry Lamb on behalf of Corine Grace.

19 MR. STAMETS: Any other appearances?

20 MR. CRONQUIST: I'm Ralph O. Cronquist appearing
21 on behalf of the applicant, Amoco Production Company.

22 MR. TODD: W. L. Todd, Junior for Dalport Oil
23 Corporation.

24 MR. STAMETS: Mr. Cronquist, are you with Amoco?

25 MR. CRONQUIST: yes.

1 MR. STAMETS: I would like to have everyone who will
2 be a witness or is a prospective witness in this Case to
3 stand and be sworn at this time, please.

4 (THEREUPON, the witnesses were duly sworn.)

5 MR. STAMETS: You may proceed, Mr. Cooter.

6 JON BEAR

7 called as a witness, having been first duly sworn, was
8 examined and testified as follows:

9
10 DIRECT EXAMINATION

11 BY MR. COOTER:

12 Q Would you state your name for the record, please,
13 sir?

14 A Jon Bear.

15 Q By whom are you employed, Mr. Bear?

16 A Burk Royalty Company.

17 Q In what capacity?

18 A Petroleum engineer and vice president of the
19 company.

20 Q Would you please relate briefly your education
21 and your professional experience?

22 A I graduated from Texas Tech in 1957 with a Bachelor
23 of Science in petroleum engineering. Since that time I have
24 been employed by Burk Royalty Company in various capacities
25 in an engineering aspect, well completions, field supervision,

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1 and primarily in secondary recovery.

2 Q Have you previously testified before the New Mexico
3 Oil Conservation Commission?

4 A Yes, I have.

5 Q And your qualifications then are a matter of record?

6 A Yes.

7 Q Please relate briefly what Burk Royalty Company
8 seeks by the application in this Case?

9 A Statutory unitization of the Double L-Queen field in
10 order that the secondary reserves we believe to be thereunder
11 can be recovered.

12 Q After a prior hearing held pursuant to the statute
13 and the regulations of this Commission, the Commission entered
14 its Order R-5004 approving the unit agreement for the Double L-
15 Queen Unit, did it not?

16 A That is correct.

17 Q And by its Order R-5007, granted Burk Royalty Company
18 as the unit operator permission for institution of a waterflood
19 project in that Unit?

20 A That is correct also.

21 Q And you were a witness at that hearing?

22 A Yes, sir, I was.

23 MR. COOTER: Mr. Examiner, we ask that the transcript
24 of the prior hearing, together with the exhibits which were
25 offered and received at that hearing, be incorporated in this

1 hearing at this time.

2 MR. STAMETS: You are speaking of that hearing
3 which consolidated Cases 5413 and 5454?

4 MR. COOTER: Yes, sir.

5 MR. STAMETS: Is there any objection to the
6 incorporation of that record?

7 MR. HUNKER: We have no objection to the Commission
8 taking judicial notice of the findings that were made in
9 connection with those particular hearings, but we think that
10 our client, for example, asked for continuance of this matter
11 so that we could familiarize ourselves with this proceeding
12 and all that had transpired to that, but time did not permit
13 us to examine everything that is in that transcript. Now, I
14 don't want my clients to be bound by a record that they have
15 never seen, they have never had an opportunity to examine any
16 of the witnesses and we would object to the incorporation of
17 the entire record of those cases in this matter.

18 MR. LAMB: Mr. Examiner, on behalf of our client,
19 Corine Grace, we would also object at this time because of the
20 lack of familiarity with the record and question what the
21 relevance is at this time, because I find that the pleadings
22 that I have seen at this point appear to be somewhat un-
23 specific, so we would likewise object for the safety of our
24 client's protection.

25 MR. STAMETS: It would appear to the Examiner that

1 since this unit has been under consideration for some period
2 of time that no one should be taken by surprise at this point
3 in time by the current application. Nevertheless, Mr. Cooter,
4 your request for the inclusion of the record in the two
5 previous cases into this case is denied.

6 MR. COOTER: Following Mr. Hunker's suggestion, I
7 would ask the Examiner to take notice of that prior hearing
8 and exhibits. I would like to make one correction to the
9 transcript of the prior hearing which appears on Page Ten.

10 MR. STAMETS: Just a second, Mr. Cooter, Page Ten
11 on what date?

12 MR. COOTER: April 16.

13 MR. STAMETS: You say Page Ten?

14 MR. COOTER: Yes, sir. Down towards the bottom of
15 the page Mr. Christy asked the question: Did you design the
16 unit so as to maximize recovery of the hydrocarbons under-
17 lying the unit area and to burn that place? I would like to
18 suggest that Mr. Christy did not really intend to imply arson
19 and certainly this witness didn't. I don't know what was
20 intended, but certainly that wasn't the word.

21 Q (Mr. Cooter continuing.) Back to where we were,
22 please, Mr. Bear. Attached to the application file in this
23 case and marked as Exhibit One, was the unit agreement for the
24 Double L-Queen Unit, was it not?

25 A Yes.

1 Q That was the same unit agreement that was filed
2 with and presented in the prior case which resulted in the
3 Commission's Order R-5004 approving the unit?

4 A Yes, it is.

5 Q Exhibit A attached to that unit agreement is a map,
6 is it not?

7 A Yes, sir.

8 Q That shows the area of the proposed unit?

9 A Correct.

10 Q And by that exhibit there is reflected a total of
11 one thousand, two hundred and thirty-one point four, four acres
12 or forty-six point one two percent of the unit being Federal
13 lands?

14 A Correct.

15 Q One thousand, one hundred twenty point oh two acres,
16 or forty-one point nine five percent of the proposed unit being
17 State lands?

18 A Correct.

19 Q And three hundred and eighteen point six four acres,
20 or eleven point nine three percent of the proposed unit being
21 fee-owned lands, private leases?

22 A That is also correct.

23 Q Is there a common source of supply underlying the
24 proposed unit area?

25 A Yes, there is.

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1 Q What is that?

2 A It's a Queen sand and it is called the Double L-Queen
3 field.

4 Q Has that been reasonably defined by development?

5 A Yes, sir, there are approximately fifty-five
6 producible wells and I believe eleven dry holes that define
7 the field.

8 Q Relate briefly, if you would, the type of pool this
9 is, its drive mechanism, the underlying geology and describing
10 the porosity and permeability of the producing formation?

11 A It is a stratigraphic trap trending generally south-
12 easterly-northwesterly. It has a porosity of about twenty-one
13 percent, the permeability is about one hundred and twenty
14 millidarcies, the primary producing mechanism was basically
15 gas cap and solution gas drive.

16 Q Now let me direct your attention to an instrument
17 entitled proposed Double L-Queen Field Unit, second edition
18 of the Engineering Committee report dated October 1, 1973.
19 I believe this was offered and received by this Commission
20 in the prior hearing and marked as Exhibit Number Seven?

21 A Yes, it was.

22 Q Attached to that report were a series of maps,
23 were they not?

24 A Yes, sir.

25 Q Let me direct your attention to -- were there

1 isopach and structure maps attached?

2 A Yes, an isopach structure map and also a map
3 indicating the proposed water injection wells.

4 Q Was Mr. McClellan or his engineer included on this
5 engineering committee?

6 A Yes, they were.

7 Q That prepared this report?

8 A That prepared this report.

9 Q Also attached to that report were some projected
10 decline curves, were they not?

11 A Yes, sir.

12 Q Since that report was prepared back in 1973, some
13 two years ago, do you know whether or not those projected
14 decline curves have proven to be accurate?

15 A To my knowledge they are still relatively accurate,
16 yes, sir.

17 Q Anticipating what may be an important issue in
18 this Hearing, what was the ultimate primary recovery estimated
19 to be by that committee as reported in that report?

20 A A million, four hundred and seventy thousand, seven
21 hundred and fifty-eight barrels, the ultimate primary.

22 Q That was the projected economic recovery level?

23 A The ultimate primary reserves economically
24 recoverable, yes, sir.

25 Q At the time that this report was prepared was that

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1 figure agreed to by all the working interest owners on
2 the engineering committee?

3 A Yes, it was.

4 Q And did that include Mr. McClellan?

5 A Yes, it did.

6 Q In your opinion Mr. Bear, is the Double L-Queen
7 Pool susceptible to a waterflood?

8 A Yes, sir, there are other Queen floods in the
9 general area that seem to be successful.

10 Q So far as you know, your opinion in that respect is
11 shared by all other working interest owners in the proposed
12 unit?

13 A Yes, it is.

14 Q Attached as one of the exhibits to that engineering
15 report and also marked, I think, as Exhibit Six in that prior
16 Hearing was a map which you testified showed the proposed
17 injection wells for this unit?

18 A That is correct.

19 Q Those were the ones circled in red?

20 A That's right.

21 Q Also offered at that Hearing and received by the
22 Commission were a series of schematic diagrams of all of the
23 proposed injection wells?

24 A Yes, that is correct.

25 Q Those schematic diagrams, I believe, were marked as

1 Exhibit Four at that time. Also filed with and received by
2 the Commission were the logs of those same wells?

3 A That is correct.

4 Q A series of logs, and those were marked as Exhibit
5 Two?

6 A Okay, correct.

7 Q Is there water available in the area for this water-
8 flood, proposed waterflood project?

9 A Not beneath the flood area, but in the general
10 vicinity there is water available, yes, sir.

11 Q Should a waterflood project be commenced do you
12 anticipate any problem in procuring the water?

13 A No, no problem.

14 Q None other than what might normally be encountered?

15 A Correct.

16 Q Do you know whether or not there is water available
17 for purchase?

18 A Yes, there is.

19 Q Do you know what the amount of primary recovery has
20 been from this proposed unit area to this date?

21 A Well, let me answer that in this manner, we have
22 the total production figures up to October the first. At that
23 time there was eight thousand, nine hundred barrels remaining
24 to be recovered to reach the projected primary ultimate
25 figure of a million, four hundred and seventy thousand, seven

1 hundred and fifty-eight barrels. We do not have all of the
2 production figures for October and November, but without the
3 McClellan production there has been seven thousand, six hundred
4 and fifty-seven barrels for October and November, so sometime
5 during the month the figure of a million, four seventy-seven,
6 fifty-eight was reached.

7 Q And you refer to the "month", are you talking about
8 the month of November?

9 A What did I say, October and November?

10 Q Right.

11 A So sometime during the month of November.

12 Q So that to the best of your knowledge, the production
13 from -- well, first production through the month of November
14 exceeds the proposed figure of one point four seven plus?

15 A Right.

16 Q I would like to now go back and review with you,
17 Mr. Bear, the history and what has transpired in the efforts
18 to create the unit now under consideration today. When was
19 the proposed unit first considered by the various working
20 interest owners?

21 A I believe the exact date of the first meeting to
22 consider unitization was June 6th, 1970.

23 Q What transpired briefly at that time?

24 A Briefly, this was an operator's committee meeting,
25 and briefly the operators agreed that a study should be made,

1 and charged that a technical subcommittee should be formed
2 and further charged that committee with certain items to put
3 together.

4 Q Basically information about the pool was to be
5 prepared?

6 A Yes, sir.

7 Q Was Mr. McClellan present at that meeting and did
8 he take part in it?

9 A Yes, he was.

10 Q After that meeting in June of 1970, what occurred
11 next?

12 A On the fifth and twenty-seventh, seventy-one, another
13 meeting was had and we considered the problem of securing
14 water. At this time another flood was going in to the south
15 of us and it was somewhat ahead of us and they were also
16 securing water and we were trying to determine if it would be
17 feasible for us to join them at that time in securing water,
18 which it turned out it wasn't. We discussed that and also
19 discussed an isopach and structure map which had previously
20 been prepared. And basically that was what we had at that
21 meeting.

22 Q Was a study made of the cores and the logs that
23 were then available?

24 A That's right.

25 Q You mentioned five, twenty-seven, you are talking

1 about May 27th, 1971?

2 A. Correct.

3 Q. And was Mr. McClellan represented at that meeting?

4 A. He or some of his personnel.

5 Q. Specifically was Joe Johnson present?

6 A. Yes.

7 Q. All right, following the May 1971, when was the
8 next meeting that the operators had?

9 A. The next meeting was June 29th, 1972, at which we
10 had a discussion of the acre-feet which had been derived from
11 the isopach map as a parameter, a two-phased participation
12 formula, and we again discussed the isopach map and the net
13 pay, and as I recall, we went through the logs again to see
14 if the isopach map had been prepared properly.

15 Q. Certain changes were made and approved by those
16 attending?

17 A. That is correct.

18 Q. Was Mr. McClellan present?

19 A. Yes, he was.

20 Q. That was June of 1972. Then what was the next
21 occurrence?

22 A. On November 17th, '72 we again, we had another
23 meeting and again discussed the net isopach map which had
24 been approved by all except Mr. McClellan and basically
25 determined that we should prepare a technical report, including

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1 a revised isopach map, and that was basically what transpired
2 at that meeting.

3 Q Were you a member of the engineering committee
4 that prepared that first technical report?

5 A Yes.

6 Q What were the estimated primary recovery to the
7 economic limit as set forth in that first technical report?

8 A In the first one it was a million, three hundred and
9 twenty-nine thousand, seven hundred and eighteen barrels.

10 Q What was the date of the first report?

11 A December the sixth '72.

12 Q And when was the next meeting?

13 A March 21st, 1973.

14 Q What was considered by the operators at that
15 time?

16 A At that time we again discussed the ultimate
17 primary and the secondary parameters were discussed. At
18 some point along here we had prepared a table of parameters
19 and we talked about this table and tried to determine which
20 one would be most suitable for a flood, and we also decided
21 to bring the production history and the decline curves
22 up-to-date.

23 Q Was Mr. McClellan present at that meeting?

24 A yes, sir, he was.

25 Q As well as his engineer, Mr. Johnson?

1 A Yes, sir.

2 Q Following that meeting in March, when was your
3 next committee meeting?

4 A We had a meeting then April the 4th, '73 which was
5 strictly a technical committee at which we went through all
6 of the decline curves to determine what we thought would
7 be the ultimate primary production.

8 Q Was Mr. Johnson present at that meeting representing
9 Mr. McClellan?

10 A Yes, sir.

11 Q All right, then after the meeting on April 4, 1973,
12 did there follow some additional meetings and if so, when?

13 A We had another meeting then May 1st, 1973 to
14 discuss basically the participation formula and we discussed
15 primarily a two-phased formula, and the unitization and
16 operating agreement.

17 Q Was Mr. McClellan present?

18 A Yes, he was.

19 Q At that meeting I believe a technical committee was
20 directed to go back and redetermine the acre-feet?

21 A Yes, it was determined at that meeting that the
22 previous map was not now acceptable, although it had been
23 and the engineering committee was charged with redoing the
24 isopach map, or rather the acre-feet from the isopach map
25 by a different method.

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1 Q Did the technical subcommittee meet and make a
2 redetermination of the acre-feet within the unit boundary?

3 A Yes, we did on May 9th and May 18th.

4 Q Were you a member of that committee?

5 A Yes, I was.

6 Q Was Mr. Johnson also a member of that committee?

7 A Yes, he was.

8 Q Did the subcommittee perform its delegated task?

9 A Yes, we did.

10 Q How were the acre-feet within the unit boundary
11 then determined?

12 A We had an enlarged version of the isopach map, we
13 marked it off in two-and-a-half acre grids, we took a point on
14 each corner of the two-and-a-half acre grid and determined,
15 with everybody there looking at each point, as I recall, what
16 the thickness of the sand was on each corner and also we picked
17 a point in the middle of the two-and-a-half acre grid, and to
18 make our longer story a little bit shorter we averaged it
19 up and that was figure that we came up with for the acre-feet.

20 Q After the unit subcommittee performed this, was a
21 letter ballot mailed to the various working interest owners?

22 A I think at that time we mailed out a ballot, yeah,
23 to the working interest owners, or just for the map, I believe
24 we mailed a ballot to the technical committee to ask them to
25 approve of the grid method and the map.

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1 Q Then when was your next meeting of the operators?

2 A September 12th, 1973.

3 Q What transpired at that meeting?

4 A We talked about the participation formula and at
5 this time the technical subcommittee had approved the map and
6 the operators again approved the map, and we talked about the
7 two-phase formula again, and also other aspects of a unit
8 agreement and unit operating agreement.

9 Q Let me direct your attention to the participation
10 formula determined for the second phase of the proposed unit
11 operations. What was that formula?

12 A It is fifty-five percent ultimate primary recovery
13 and forty-five percent acre-feet.

14 Q Who made the motion that that be the formula
15 established for the second phase of the unit operations?

16 A Jack McClellan.

17 Q And was that motion then adopted?

18 A Yes, it was.

19 Q It was adopted unanimously, wasn't it, by all of
20 the working interest owners?

21 A Yes, it was.

22 Q Also at that meeting what was the voting procedure
23 determined to be for phase-two operations?

24 A Well, the voting, oh, as to who approves what, was
25 seventy-five percent.

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1 Q And was that also adopted by unanimous vote?

2 A Yes, sir.

3 Q That was seventy-five percent of the phase-two
4 working interest owners?

5 A That is correct.

6 Q As their interests were shown?

7 A Correct.

8 Q There was yet another meeting of the committee,
9 the operators' committee, was there not? When was that?

10 A January 8th, 1974.

11 Q And what transpired?

12 A We discussed the unit agreement and unit operating
13 agreement. In between here someplace we had also revised
14 the ultimate primary, we changed it from a million three figure
15 whatever it was exactly, to the million, four seventy, seven
16 fifty-eight. We finalized the participation formula, basically
17 finalized the unit agreement and the unit operating agreement.

18 Q The participation formula, that is during the
19 phase-one and phase-two remained unchanged?

20 A They did.

21 Q And that had been agreed to?

22 A That had been agreed to earlier.

23 Q All right. Was Burk Royalty directed to prepare
24 the final drafts of the unit agreement and unit operating
25 agreement at that time?

1 A Yes, we were at that time, and also to mail out
2 a letter ballot securing everyone's approval that this was
3 the final draft.

4 Q Did you prepare and mail such letter ballots?

5 A Yes, we did.

6 Q I hand you what I have marked as Exhibit Five for
7 this Hearing this afternoon, is that one of those letter
8 ballots?

9 A Yes.

10 Q All right. Page one is a letter from Burk Royalty
11 signed by you, to the working interest owners and then follow
12 a series of pages showing acceptance by various people?

13 A Right.

14 Q Would you please go through those subsequent pages
15 and who indicated their desire to unitize at that time?

16 A Well, as I recall, we had at that time ninety-seven
17 and a half percent approval of all of the working interest
18 owners to unitize. We had also some that are objecting
19 today approved and some of those are Addy Corporation, Robert
20 L. Graham, L. C. Harris, W. W. LaForce, and McClellan Oil
21 Corporation.

22 Q Attached as Exhibit Number Two to the applicatio
23 filed here, is the unit operating agreement. Just as t'
24 unit agreement was, this agreement was also subject
25 revision and compromise during this extended per;

1 negotiations?

2 A Yes, it was.

3 Q Are the operating costs allocated under the two
4 separate phases?

5 A Yes. As long as the phase-one is in effect strictly
6 the operating costs were to be paid for under the phase-one
7 percentages. Even if it was under phase-one construction
8 costs or any expense pertaining to the waterflood would be
9 paid for under phase-two. Also the equipment would be adjusted
10 under phase-one, as long as it were in effect and when phase-
11 one went out, it would be readjusted to the phase-two
12 percentages.

13 Q Now that is all as provided for in paragraph ten
14 point three in the sub-paragraphs which commence on page
15 eight of the unit operating agreement?

16 A Yes, that is correct.

17 Q With the production that has been had through the
18 month of November, if this unit were formed pursuant to the
19 application, phase-two operations would now be in effect?

20 A Yes, sir, they would.

21 Q Have the unit agreement and the unit operating
22 agreement been ratified by the owners of working interests
23 required to pay more than seventy-five percent of the cost of
24 unit operations and unit investments under phase-two?

25 A Yes, sir, they have.

1 Q What is the percentage, if you know, of the
2 owners of working interest under phase-two who have not
3 ratified?

4 A Well, it's twenty-seven and a half, roughly

5 Q I'm asking under phase-two.

6 A Oh, excuse me, twenty-two and a half, roughly.

7 Q As shown on the revised Exhibit E, ratifications
8 have not yet been obtained from the ones listed in the applica-
9 tion, together with Corine Grace, Amerada-Hess Corporation,
10 Cleary Petroleum Corporation, I believe, are there any others?

11 A Yeah, there is one other, Walters Amusements,
12 Incorporated.

13 Q I'm not sure we didn't list them.

14 A Well, we may have, I don't recall.

15 Q No, we did not. Walters Amusement. Have you had
16 any discussions with those people?

17 A I have had discussions with all of them except
18 Grace. Cleary and Amerada-Hess say they have been approved
19 but they don't seem to find them now to get them in the mail,
20 they are pigeonholed somewhere apparently. I have also had
21 a considerable amount of discussion with Walters Amusement
22 and that company's representatives and they assure me that
23 they will either join the unit or make some other arrangements
24 whereby the property will come into the unit.

25 Q I have what I have marked as Exhibit Number Six

1 in this Case, copies of the ratifications from all of the
2 working interest owners other than those that you have
3 testified about and the ones that are set forth in the applica-
4 tion.

5 A Yes, sir.

6 Q These are the ratifications from all of the people
7 who have ratified?

8 A Copies thereof.

9 Q I think there might be some question, referring to
10 the revised Exhibit E, for a couple of these people, and I
11 would like to clarify that. Roark and Hooker are listed
12 together and ratifications appear from the individuals, R. T.
13 Roark, L. F. Hooker and J. C. Monk.

14 A J. C. Monk is a member of their firm although he
15 doesn't show in the company title.

16 Q Also clipped together and marked as a joint
17 exhibit, there as one exhibit, Exhibit Number Seven, are the
18 ratifications from the owner of royalty or overriding royalty
19 interests?

20 A Correct.

21 Q Have more than seventy-five percent of the owners
22 of royalty interests or overriding royalty interests ratified
23 the unit agreement and unit operating agreement?

24 A The royalty interest is, except two tracts, a
25 hundred percent signed. The overriding royalty interest now

1 I'll have to check.

2 Q Okay, would the State of New Mexico acting through
3 its Commissioner of Public Lands have consented to the unit?

4 A Yes.

5 Q And that letter is attached as Exhibit Three to
6 the application?

7 A Right.

8 Q Likewise the preliminary approval by the USGS was
9 attached as Exhibit Four?

10 A Correct.

11 Q Mr. Bear, in your opinion, is the unitized manage-
12 ment operation and further development of the Double L-Queen
13 Pool reasonably necessary in order to effectively carry on
14 secondary recovery operations?

15 A In my opinion it is, yes, sir.

16 Q And is it necessary to substantially or will it
17 substantially increase the ultimate recovery of hydrocarbons
18 from the pool?

19 A Substantially, yes, sir.

20 Q What is the estimated amount of secondary recovery?

21 A One million, eight hundred and sixty-five barrels.

22 Q Mr. Bear, in your opinion is the proposed waterflood
23 and method of operation as applied to the Double L-Queen
24 Pool feasible?

25 A Yes, sir, it is.

1 Q Will the same prevent waste and result with
2 reasonable probability in the increased recovery of substan-
3 tially more production from the pool?

4 A Yes, it will.

5 Q Will the estimated costs of such secondary operations
6 exceed the estimated value of the additional recovery?

7 A In our opinion it certainly will.

8 Q The costs will exceed the --

9 A No, I'm sorry, I'm answering backwards. The revenue
10 will substantially exceed the cost.

11 Q Will the creation of the unit and the adoption of
12 the proposed plans of operation benefit the working interest
13 owners and royalty owners of the production within the pool?

14 A Yes.

15 Q Burk Royalty is the designated operator in the unit
16 agreement and unit operating agreement?

17 A That is correct.

18 Q As operator has Burk Royalty made a good faith effort
19 to secure voluntary unitization within the pool?

20 A We believe we have.

21 Q Will the participation formulas as set forth in
22 the agreements allocate the produced and saved production
23 hydrocarbons to separately owned tracts in the unit area on
24 a fair, reasonable and equitable basis?

25 A We believe they will.

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1 Q And in your opinion does the same protect correlative
2 rights of all participants in the area?

3 A Yes, sir.

4 Q In your opinion would the, absent the proposed
5 waterflood and secondary recovery operations, would the
6 additional production of one point eight billion barrels be
7 lost?

8 A Yes, it would.

9 Q So that the adoption of the plan proposed by these
10 agreements would prevent both physical and economic waste?

11 A Yes, sir.

12 MR. COOTER: Mr. Examiner, we believe that the
13 agreements as filed with the application contain all of the
14 provisions called for in Section 65-14-7. I do not propose
15 to question the witness at this time about those, other than
16 to ask that if there be a question or if you would like me to
17 ask the witness if they do include those provisions I will
18 do so.

19 MR. STAMETS: I think that would be a good idea.

20 MR. COOTER: All right.

21 Q (Mr. Cooter continuing.) Mr. Bear, do the proposed
22 unit and unit operating agreements as filed with the applica-
23 tion contain a legal description in terms of surface area of
24 the pool to be operated as a unit?

25 A Yes.

1 Q And the vertical limits to be included therein?

2 A Yes.

3 Q That is the, quote, unit area, close quote, as
4 proposed by the Double L-Queen pool?

5 A Yes, that's right.

6 Q Do those agreements contain a statement of the
7 nature of the operations contemplated?

8 A Yes, they do.

9 Q That is the waterflood operations?

10 A Yes.

11 Q Do they allocate to the separately owned tracts in
12 the unit area, the oil and gas that is produced from the unit
13 area and is saved?

14 A Yes.

15 Q Do those agreements contain a provision for the
16 credits and charges to be made in the adjustment among the
17 owners in the unit area for their respective investments and
18 wells, tanks, pumps, machinery, materials and equipment
19 contributed to the unit operation?

20 A Yes, in the operating agreement.

21 Q Those are the charges about which you previously
22 testified?

23 A Yes, sir.

24 Q Do those agreements contain a provision governing
25 how the costs of unit operations, including capital investments

1 shall be determined and charged to the separately owned
2 tracts?

3 A Yes, sir, they do.

4 Q And how such costs shall be paid?

5 A Yes, sir.

6 Q Does that provision include a provision when, how,
7 and by whom the unit production allocated to an owner who does
8 not pay his share of the cost of the unit operation be charged
9 to that owner?

10 A Yes, it does.

11 Q Do those agreements contain a provision for carrying
12 any working interest owner on a limited basis payable out of
13 production?

14 A Yes, it does.

15 Q Upon such terms and conditions which you believe to
16 be just and reasonable?

17 A Yes, sir.

18 Q As do the more than seventy-five percent of the
19 working interest owners who have ratified under the phase-
20 two formula?

21 A That is correct.

22 Q Do those agreements contain a provision designating
23 Burk Royalty Company as the unit operator?

24 A Yes, they do.

25 Q And provide for the supervision and conduct of the

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1 unit operation?

2 A That is correct.

3 Q Including the selection, removal or substitution
4 of an operator from among the working interest owners?

5 A That is included also.

6 Q Do those agreements contain a provision for the
7 voting procedure for the decision of matters to be decided
8 upon by the working interest owners in respect to which
9 each working interest owner has a voting interest equal to
10 his unit participation?

11 A That is correct.

12 Q By this application when do you seek commencement
13 of the unit operations?

14 A We would like to have it effective on or before
15 January 1, 1976.

16 Q Under the terms of the agreement, absent an effective
17 date of the unit, prior thereto the agreements terminate by
18 their own terms?

19 A That is correct.

20 Q And if that should occur then the remaining or
21 the proposed secondary recovery of one point eight million
22 barrels will be lost?

23 A It will be lost.

24 MR. COOTER: Mr. Examiner, we offer at this time
25 as exhibits for this hearing, Exhibits One through Four which

1 were attached to the application, Exhibit Number One being
2 the proposed unit agreement; Exhibit Number Two being the
3 proposed unit operating agreement; Exhibit Number Three
4 being the letter of approval by the Commissioner of Public
5 Lands for the State of New Mexico.

6 MR. STAMETS: Would you hold it there a minute?

7 MR. COOTER: Exhibit Four being the preliminary
8 approval by the USGS in Denver. Exhibits Five through Seven
9 which have been referred to here, Exhibit Five being the
10 letter ballot which had been mailed by Mr. Bear and signed
11 by some of those who are now objecting to the formation of this
12 unit; Six being the ratifications. I believe Six was by
13 the working interest owners and Seven by the royalty interest
14 and overriding royalty interest owners. And I might state that
15 while they are bundled together the royalty interest and
16 overriding royalty interest owners are just alphabetized. We
17 have the originals if there is any question about the copies.

18 MR. STAMETS: Okay, I think you should mark Exhibits
19 One through Four, they should be stamped, if they are not.

20 MR. COOTER: And in addition to that we offer
21 the Exhibits Two, Four, Six and Seven which were offered and
22 received by this Commission at the prior hearing on April 16th,
23 Exhibit Two being the logs; Exhibit Four being schematic
24 diagrams of the proposed water injection wells; and Exhibit
25 Six being a map with the proposed injection wells marked; and

1 Exhibit Number Seven being the geological engineering
2 report of October 1, 1973.

3 MR. STAMETS: Is there an objection to the admission
4 of any of these exhibits?

5 MR. HUNKER: Yes, Mr. Examiner, we have no objection
6 to the admission of Exhibits One through Four. We hadn't seen
7 until today Exhibit Five, the ballot. The ratifications
8 that are submitted under Exhibit Six we object to because
9 Mr. Albert J. Black by a letter dated December 2nd has
10 withdrawn his joinder. He and his wife have joined in that
11 document withdrawing their joinder.

12 We have had no opportunity to examine the witness
13 who presented Exhibits Two, Four, Six and Seven in the earlier
14 hearing and as a consequence having not been represented at
15 that time at that particular hearing, nor having been present,
16 we would object to those on the ground that we did not have
17 the proper opportunity to examine the witnesses and adduce
18 testimony at that particular time.

19 MR. COOTER: Then let me, if I may, withdraw my
20 tender of Exhibits Two, Four and Five offered in the prior
21 hearing.

22 MR. STAMETS: Two, Four and Six?

23 MR. COOTER: Two, Four and Six. I believe I have
24 layed proper foundation for the introduction of the
25 engineering report at this hearing.

1 MR. HUNKER: We have no objection to Number Seven,
2 really.

3 MR. COOTER: Let me withdraw temporarily, Exhibits
4 Two, Four and Six and I will question this witness about
5 those.

6 For ease of convenience, if I may, I'm marking an
7 additional one. I have marked a copy of that engineering
8 report as Exhibit Number Eight in this Case. As I understand
9 it, that concludes the list of exhibits which Mr. Hunker has
10 not taken objection to.

11 MR. HUNKER: That is correct.

12 Q (Mr. Cooter continuing.) Now, Mr. Bear, I will
13 place in front of you --

14 MR. STAMETS: Hold it now. I'm getting a little
15 confused here. We have had a tender of your exhibits One
16 through Eight in this Hearing?

17 MR. COOTER: Yes, sir.

18 MR. STAMETS: And Mr. Hunker has objected to Five,
19 Six and Seven -- how about Exhibit Number Eight, Mr. Hunker?

20 MR. HUNKER: We don't object to Number Eight, being
21 the engineering report dated October 1, 1973.

22 MR. STAMETS: Mr. Hunker, what is the relationship
23 of this letter from Albert J. Black to Exhibit Number Six?

24 MR. HUNKER: His name appears as one of those
25 working interest owners who have reportedly joined and

1 committed the interest to the --

2 MR. STAMETS: His percentage interest and everything
3 would be reflected in the unit agreement that we have on file
4 here?

5 MR. HUNKER: That is correct.

6 MR. STAMETS: Mr. Hunker, we're noting this letter
7 that you have submitted here and expecting additional testimony
8 on it, I'm going to admit all of these exhibits which have
9 been presented at today's hearing by the applicant.

10 MR. HUNKER: For whatever they are worth.

11 (THEREUPON, Exhibits One through Eight were
12 admitted into evidence.)

13 MR. STAMETS: I'm going to return this letter to
14 you at this time, Mr. Hunker. You may enter that at a later
15 time in the Hearing.

16 MR. LAMB: Mr. Examiner, they appear, at least to
17 myself, somewhat confused, you said that Exhibits One through
18 Eight which were tendered and you were admitting. It was
19 my understanding that counsel for the applicant had withdrawn
20 a portion of those exhibits.

21 MR. COOTER: No, I withdrew temporarily my tender of
22 Exhibits marked Two, Four and Six tendered at the April 16
23 Hearing.

24 MR. LAMB: Fine, thank you.

25 MR. COOTER: I have now marked as exhibits in this

1 case, Exhibits One, Two, Three and Four which were filed with
2 the application.

3 MR. STAMETS: You may proceed.

4 Q (Mr. Cooter continuing.) Mr. Bear, let me go back
5 and hand to you an exhibit which I have marked Exhibit Number
6 Nine in this Case. What is that?

7 A A map indicating the unit outline of the Double L
8 proposed Queen unit. It has a certain number of wells with
9 a red circle around them which are the proposed water injection
10 wells or the waterflood.

11 Q This exhibit might be somewhat duplicative of Exhibit
12 Number Eight, that is the same map that is included in the
13 engineering committee's report?

14 A That is correct.

15 Q And the wells that are shown on here are the proposed
16 water injection wells, the outline is the outline of the
17 proposed unit boundary?

18 A That is correct.

19 Q Okay. Let me hand you a series of single pages
20 with a paper clip and I ask you to identify what I have marked
21 as Exhibit Number Ten at this Hearing.

22 MR. STAMETS: Let's hold it a second, do you have
23 another copy of that map so the Examiner could have one?

24 MR. COOTER: it's the last page.

25 MR. STAMETS: I just wanted to confirm that it was.

1 MR. COOTER: Okay, yes, sir.

2 MR. STAMETS: Go ahead.

3 Q (Mr. Cooter continuing.) I place before you what
4 I have marked as a single Exhibit Ten even though it comprises
5 several different pages, what is that, please, sir?

6 A It is a schematic diagram of each one of the proposed
7 water injection wells, showing where the casing is set, where
8 the perforations are in the casing, sacks of cement used on
9 the casing, where the tubing is set and where the packer is
10 proposed to be set on the water injection wells.

11 Q At the same time let me hand you what I have
12 included within one rubber band and marked as a single exhibit,
13 Exhibit Eleven, what is that?

14 A These are -- let me say this: I think in the prior
15 hearing we had logs on only the water injection wells which
16 correspond to the schematics. This is a copy of all of the
17 logs that we have in our possession, which would include the
18 logs of the water injection wells, but they are a copy of
19 whatever type of a log we have.

20 Q But they do include the logs of all of the proposed
21 injection wells?

22 A Yes, if they were logged.

23 MR. COOTER: Now, Mr. Examiner, we offer exhibits
24 Nine, Ten and Eleven.

25 MR. STAMETS: Is there an objection to the admission

1 of these Exhibits?

2 MR. HUNKER: Can we look at them?

3 MR. STAMETS: Sure.

4 MR. HUNKER: No objection.

5 MR. STAMETS: These exhibits will be admitted.

6 (THEREUPON, Exhibits Nine, Ten and Eleven
7 were admitted into evidence.)

8 MR. COOTER: That concludes my direct examination
9 of the witness.

10 MR. STAMETS: Are there questions of the witness?

11 MR. HUNKER: Yes, Mr. Examiner, I have a few
12 questions I would like to ask Mr. Bear.

13 CROSS EXAMINATION

14 BY MR. HUNKER:

15 Q Mr. Bear, at the time that the engineering
16 study was completed and the second edition of the committee
17 report was prepared, dated October 1st, 1973, who was
18 purchasing the production from the Double L-Queen field?

19 A As I recall, Navajo Refining Company.

20 Q What were they paying for the oil at that time?

21 A I believe the figure in the report is three
22 forty-two. Three seventy-seven, that's the figure in the
23 report.

24 Q Is that a net figure or is that a gross figure?

25 A That is a net after taxes. It would be gross

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1 to the entire interest.

2 Q And what is the price being paid by Navajo out there
3 at the present time?

4 A Slightly in excess of twelve dollars, I can't give
5 you a dollar-cents figure.

6 Q Does the increase in price have anything to do with
7 the economic limits of this particular pool?

8 A Yes, the increase and price does, so does the
9 operating expenses.

10 Q There is a difference now from four-dollar oil to
11 twelve-dollar oil?

12 A Okay.

13 Q What increase percentage-wise is there in the
14 operating costs?

15 A I have not sat down and composed a figure. Just
16 generally throughout the oil industry I would say about three
17 to one.

18 Q So you don't know what your AFE is going to be
19 in connection with the equipment that you have to buy in
20 connection with this project, is that correct?

21 A We have not put out bids as of yet because the
22 unit is not in effect.

23 MR. STAMETS: I would like to clarify the answer
24 to your previous question, Mr. Hunker. You said three to one,
25 oil is up three dollars for every dollar of increased

1 operating costs or vice versa?

2 A No, a string of casing that used to cost a dollar
3 a foot now costs three dollars a foot.

4 MR. STAMETS: Now, I'm not sure that you answered
5 Mr. Hunker's question.

6 A Well, maybe I misunderstood the question.

7 Q (Mr. Hunker continuing.) Are you going to say that
8 it costs you three times as much today to institute that flood
9 as it would have if you had started it in 1973?

10 A I understood you to ask me about the operating
11 expenses and I said generally prices are up approximately that
12 much.

13 Q Referring to the unit agreement and the unit operating
14 agreement, is there anything in there that actually compels
15 Burk or any of the other working interest owners to undertake
16 this waterflood program?

17 A That compels us to?

18 Q Yes. Are you committing yourself legally to the
19 waterflood program?

20 A I would have to say, yes. Once we sign ratification
21 to the unit agreement we are committing ourselves legally.

22 Q At what time are you compelled to institute the
23 flood?

24 A At the time that it has been approved by all of
25 the regulatory bodies and at the time that the unit agreement

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1 says will be the effective date, which I can't quote word
2 for word right now, but there is an effective date set out
3 in the unit agreement, so many days after all of the approvals
4 of regulatory agencies have been secured.

5 Q Should the Commission approve your form of unit
6 agreement, how long would it take you to get out the AFE for
7 this project?

8 A I would say thirty days.

9 Q How long would it take you to get the equipment once
10 the AFE has been approved by the working interest owners?

11 A I can't answer that and I don't believe anybody in
12 the oil industry could.

13 Q How long will it be before the flood is actually
14 instituted?

15 A I can't answer the first one and I can't specifically
16 answer the second one because equipment is -- the suppliers
17 will not now give a delivery date, nor price. They will not
18 now give a firm price.

19 Q Do you know of any secondary recovery programs
20 or operations such as this that move before they are even
21 approved into the secondary phase-two portion of the program?

22 A I do not know of any just like this one in
23 particular. I know of several that did not have but a single
24 phase that went ahead.

25 Q Isn't it customary in the industry, Mr. Bear, for the

1 two-phased programs to go into effect before the end of
2 phase-one?

3 A I would say that would be customary.

4 Q Is it possible that this proposed unit agreement and
5 proposed unit operating agreement is not fair and equitable
6 to the working interest owners?

7 A I don't think that is possible, no, sir.

8 Q Do you think the unit is fair to the United States
9 Government?

10 A I do, and they apparently also do.

11 Q How did you feel about it in 1973?

12 A Well, as I recall we agreed with the parameters,
13 not the parameters, but the formulas as set forth in the
14 agreement.

15 Q What did you think the position of the USGS would
16 be in 1972?

17 A Well, I don't know that I had any thoughts about
18 what their position would be other than we would approach
19 them with what we thought would be an equitable formula.

20 Q Let me refer to a letter which you wrote dated
21 September 28th, 1972 to McClellan Oil Corporation, reference,
22 proposed Double L-Queen unit in which you say: (Reading.)
23 Dear Mr. McClellan: It is the opinion of Burk Royalty Company
24 that the USGS is not an uninterested party concerning the
25 proposed waterflood. They are, in fact, a very interested

1 party in view of the fact that they own minerals under
2 only a portion of the flood they could be just as biased as
3 any other participant, we therefore believe it is not to
4 the operators best interest to have the USGS set the formula.
5 We believe that the operators should present a united front
6 when the USGS is approached. (End of reading.) Is that a
7 letter that you sent out over your signature, Mr. Bear?

8 A Yes, sir, it is, and I believe that the operators
9 should present a united front to any royalty owner and to
10 all of the working interest owners.

11 Q To the extent that those other interest owners are
12 going to be treated inequitably?

13 A No, sir, and we did not propose to treat them
14 inequitably. Mr. McClellan -- the reason that I wrote that
15 letter, if I might say, is because Mr. McClellan suggested
16 that we turn geological work over to the USGS to have them
17 do the work, as I recall the gist of Mr. McClellan's letter.

18 MR. COOTER: Mr. Examiner, I apologize for interrupt-
19 ing counsel's presentation of this cross examination, but
20 since reference was made to the letter I wonder if I might
21 take a look at it and if the witness might look at it?

22 (THEREUPON, a discussion was held
23 off the record.)

24 MR. COOTER: Are you offering the letter as an
25 exhibit?

1 MR. HUNKER: No.

2 MR. STAMETS: Go ahead, Mr. Hunker.

3 MR. HUNKER: Thank you.

4 Q (Mr. Hunker continuing.) Mr. Bear, I would like
5 to call your attention to Section twenty-three of the unit
6 agreement dated January 1st, 1975 and ask you whether or not
7 this section of the agreement was prepared before or after
8 chapter sixty-five, fourteen, dash, one of the Laws of the
9 State of New Mexico became effective?

10 A. Which section now?

11 Q Section twenty-three, effective date and term.

12 MR. COOTER: Again I apologize for objecting but
13 I'm not sure that I know the effective date of the statute
14 referred to and I doubt if the witness does.

15 Q (Mr. Hunker continuing.) The statute that I
16 referred to is Chapter two ninety-three of the laws of 1975.

17 Let me ask this question, Mr. Bear, when was this
18 unit agreement formalized; when was it prepared in its final
19 form?

20 A. It was prepared in its final form?

21 Q. Yes, sir.

22 A. In, I believe, March of '74. Before that time it
23 had about eighteen or twenty revisions, but I think the
24 final form was along about then.

25 Q Did all of the working interest owners concur in

1 the revisions that were made in that section with respect to
2 the effective date?

3 A I tried to keep everybody advised, but I can't answer
4 yes or no to that.

5 Q Are you aware of the requirements of the New Mexico
6 statute with regard to the number of working interest owners
7 who must consent to unitization?

8 A The number or the percentage?

9 Q The percentage.

10 A As I understand it, and you understand I'm not an
11 attorney, but I believe it is seventy-five percent.

12 Q And is the language of the law as follows: No order
13 of the Commission providing for unit operations shall become
14 effective unless and until the plan for unit operations
15 prescribed by the Commission has been approved in writing by
16 those persons who under the Commission's order will be required
17 initially to pay at least seventy-five percent of the costs
18 of unit operations?

19 A Okay.

20 Q Now, assuming that that is the law which I have just
21 quoted, who has to pay at this time, on December 3rd, 1975,
22 initially seventy-five percent of the costs of the unit
23 operations?

24 A The working interest owners under phase-two.

25 Q Assuming that the plan is adopted, is that correct?

1 A Yes, sir.

2 Q Referring again to section twenty-three of the
3 unit agreement and to the second paragraph, I call your
4 attention to this language: If this agreement does not become
5 effective on or before January 1, 1976, it shall ipso facto
6 expire on said date, hereinafter referred to as expiration
7 date, and thereafter be of no further force or effect, unless
8 prior thereto this agreement has been executed or ratified by
9 working interest owners owning a combined phase-one participa-
10 tion of at least eighty percent, and continuing at least
11 seventy-five percent of such working interest committed to this
12 agreement have decided to extend said expiration date for a
13 period not to exceed six months, hereinafter called extended
14 expiration date. Now, do you have eighty percent of the phase-
15 one working interest participating owners committed to the
16 unit agreement at this time?

17 A No, sir, we don't.

18 Q Can your unit agreement become effective?

19 A If this regulatory body says it can, we believe it
20 can.

21 Q In your opinion can the regulatory body change the
22 participation factor that is shown in the unit agreement as
23 well as the ratios appearing therein?

24 A As I said, I'm not an attorney and I don't feel
25 qualified to answer that.

1 Q If it should develop because of the change in
2 price in the oil that the Commission should determine that
3 the formula should be different, do you think that the Commis-
4 sion should go ahead and change that formula so as to do
5 equity in this matter?

6 A If that is the way the State charged the Commission,
7 yes, sir. That was an opinion question, I believe.

8 MR. HUNKER: I have no further questions of this
9 witness at this time, Mr. Examiner.

10 MR. STAMETS: Are there other questions of the
11 witness? Mr. Lamb?

12 MR. LAMB: Mr. Examiner, at this time I would ask
13 leave of the Examiner for a recess. I find myself in an
14 unusual position in that my engineer who has just appeared, the
15 first time we've met, for the first time was called on this
16 morning, because I think Mr. Hunker's office has an engineer
17 we were planning to use in a case in Albuquerque with Mr.
18 Fedric and this is fairly new to us, some of the documents,
19 and we would like to have the opportunity to review these
20 briefly before we decide whether we want to waive or conduct
21 an examination.

22 MR. COOTER: May I state in that regard, if you
23 are talking about just a few moments, Mrs. Grace, I believe,
24 was represented by Mr. Lamb's partner at the prior hearing
25 in April where all of these documents except for the

1 ratifications or copies of the letter ballots were offered
2 and received as exhibits and I assume that Mr. Lines had an
3 opportunity to examine them or object to them at that time.

4 MR. LAMB: Mr. Examiner, we are asking for a very
5 short recess.

6 MR. STAMETS: About fifteen minutes?

7 MR. LAMB: Yes.

8 MR. STAMETS: At this time we will take about a
9 fifteen or twenty minute recess.

10 (THEREUPON, the Hearing was in recess.)

11 MR. STAMETS: The Hearing will please come to
12 order. Mr. Lamb, do you have some questions of the witness?

13 MR. LAMB: Yes, Mr. Examiner, I have a few brief
14 questions. Could I examine him from this side?

15 MR. STAMETS: Yes, as long as the reporter can hear
16 you.

17

18 CROSS EXAMINATION

19 BY MR. LAMB:

20 Q Mr. Bear, to clarify the record proper in the
21 application filed on November 12th in this proceeding, Corine
22 Grace was not listed as one of those who had approved or
23 disapproved, was that an oversight?

24 A That was strictly an oversight on our part and I
25 believe we corrected that later on.

1 Q And do you consider that she was a party to this
2 unit procedure?

3 A Yes, as far as we are concerned she's got her
4 participation percentages just like everybody else did.

5 MR. LAMB: No further questions.

6 MR. STAMETS: Are there any other questions of this
7 witness? I've got about one.

8

9 CROSS EXAMINATION

10 BY MR. STAMETS:

11 Q What happens if this unit is not approved and it
12 expires on January 1?

13 A It expires on January 1.

14 Q Okay, now, I presume that everybody is not just
15 going to run out there and plug their wells and just wholly
16 forget about secondary recovery. As a practical matter what
17 would happen?

18 A As a practical matter, everybody is not going to
19 run out there and plug their wells. Everybody is going to
20 sit around for a long time and eventually at some point in
21 time, I don't know what would happen. Probably maybe one
22 individual would put some water in the ground and try to flood
23 on a lease basis, I don't know whether -- I don't think the
24 whole field would ever be unitized. I don't think after what
25 we have been through this time, I don't think the whole field

1 would ever have the chance of unitization.

2 MR. STAMETS: Any other questions of the witness?

3 He may be excused.

4 (THEREUPON, the witness was excused.)

5 MR. STAMETS: Do you have any other witnesses,

6 Mr. Cooter?

7 MR. COOTER: I have one other witness, Ralph
8 Cronquist with Amoco and I probably should have saved him for
9 rebuttal, but he has a plane schedule and I would like to
10 call him at this time. Were you sworn?

11 MR. CRONQUIST: No, sir.

12 MR. COOTER: He was not sworn.

13 (THEREUPON, the witness was duly sworn.)

14 RALPH O. CRONQUIST

15 called as a witness, having been first duly sworn, was
16 examined and testified as follows:

17

18 DIRECT EXAMINATION

19 BY MR. COOTER:

20 Q Would you state your name for the record, please, sir?

21 A I'm Ralph O. Cronquist, employed by Amoco Production
22 Company.

23 Q How long have you been employed by Amoco?

24 A Thirty-eight years.

25 Q And where are you now stationed with Amoco?

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1 A. I'm located in their Houston Division office as
2 Senior Staff Engineer.

3 Q. During your employment with Amoco, have you had an
4 opportunity to become acquainted with the creation and operation
5 of various units throughout this part of the country?

6 A. Yes, I have worked on unit projects for the last
7 twenty years.

8 Q. Has that been your primary responsibility?

9 A. Yes, sir.

10 Q. Mr. Cronquist, during that period of time, have you
11 had an opportunity to observe units with a two-phase participa-
12 tion factor such as that that is proposed in this unit?

13 A. Quite a large number do have that type of participation
14 in the agreement.

15 Q. During your experience have you ever had occasion
16 to note that when one of those units became effective that
17 phase-one had expired and the changeover had occurred so that
18 with the effective date of the unit phase-two participation
19 formulas were in effect?

20 A. Yes, in particular I know of one such incident.

21 Q. Would you please name that, sir?

22 A. That is the Marrs Langley Mattox Unit in Lea
23 County, New Mexico which became effective about a year ago.
24 Because of the extended period of time that occurred, the
25 time of the effective date was based on phase-two participation.

1 MR. COOTER: That's all, thank you.

2 MR. STAMETS: Any questions of the witness? He
3 may be excused.

4 (THEREUPON, the witness was excused.)

5 MR. COOTER: That concludes our case, Mr. Examiner.

6 MR. STAMETS: Mr. Hunker, would you like to be
7 next?

8 MR. HUNKER: Yes, I would.

9 Before proceeding with our case in chief, if it
10 please the Commissioner, I would like to ask whether or not
11 the Examiner has been delegated the authority from the full
12 Commission to hear this matter, in view of the fact that
13 the law pertaining to hearings conducted by the examiners
14 is enacted many, many years, or for a number of years prior
15 to the 1975 Act, and I think that the record ought to show
16 that you were delegated the authority from the full Commission
17 to hold this particular hearing in connection with this
18 particular matter.

19 MR. RAMEY: I think the record should show that
20 the Commission met a week ago yesterday and designated Mr.
21 Stamets as the Examiner for this hearing.

22 MR. HUNKER: Very well. Then I would like to
23 also ask if a ruling was made on my request for a continuance?
24 I wrote and asked for a continuance of this particular
25 matter.

1 MR. RAMEY: That will have to be a matter for
2 Mr. Stamets to decide, Mr. Hunker, and the Commission has not
3 met since receiving your letter requesting a continuance.

4 MR. HUNKER: We have appeared and we are proceeding
5 with this matter and probably to our prejudice, but I would
6 just like to have the record show that we did ask for a
7 continuance on the basis that we had little opportunity to
8 prepare, that this is a matter of first impression before the
9 Conservation Commission, and we felt that the Examiner and
10 the Commission itself deserved better treatment than this
11 and had we had longer to prepare we would have our witnesses
12 all rehearsed and the questions all prepared and we would have
13 done a better job on the exhibits.

14 With that, if it please the Examiner, we will
15 continue with this. We have nine exhibits.

16 JOE JOHNSON

17 called as a witness, having been first duly sworn, was
18 examined and testified as follows:

19
20 DIRECT EXAMINATION

21 BY MR. HUNKER:

22 Q Mr. Witness, will you please identify yourself by
23 giving the Examiner your name, occupation and address?

24 A My name is Joe Johnson, I live at 2409 Brentwood,
25 Wichita Falls, Texas.

1 Q Are you a salaried employee of the McClellan Oil
2 Corporation?

3 A No. He thinks so at times. I am a consultant
4 petroleum engineer and a partner in a firm called Stevens
5 Engineering in Wichita Falls. We handle waterfloods through-
6 out the United States.

7 Q If you were appearing as a consultant today on
8 behalf of Burk Royalty Company, would your testimony be the
9 same as it is going to be?

10 A Yes, sir, I've got to stay in business.

11 Q What's your professional background, Mr. Johnson?

12 A I graduated from Texas A & M University, I have
13 a Bachelor of Science degree in petroleum engineering and I
14 have a Bachelor of Science degree in mechanical engineering,
15 and I graduated in 1952.

16 Q Have you been working in connection with secondary
17 recovery programs since 1952?

18 A With the exception of two years in Korea, yes, sir.

19 Q Have you had any experience in New Mexico with
20 regard to secondary recovery units?

21 A Yes, I have worked in New Mexico since about 1958.

22 Q What unit in particular have you been connected
23 with?

24 A The Russell Pool waterflood located about ten
25 miles northeast of Carlsbad, New Mexico, originally operated

1 by Neil H. Wills, presently operated by Barber Oil Company.
2 Then later I started work for Jack McClellan in the Sulimar
3 Queen field and that flood began in December of '71 and it
4 is still in existence today and doing very well.

5 Q How far is that pool from the Double L pool?

6 A It is immediatly adjacent to the Double L, located
7 to the south of the Double L field.

8 Q Is the producing formation the same formation?

9 A Identical.

10 Q Do you think that the reservoir characteristics
11 are the same?

12 A Yes, sir. It was mentioned previously by the
13 previous witness.

14 Q Have you testified as an expert before the
15 Commission previously?

16 A Yes, sir, I have.

17 MR. HUNKER: Are his qualifications acceptable?

18 MR. STAMETS: Any questions about the witness's
19 qualifications? He is considered qualified.

20 Q (Mr. Hunker continuing.) Are you familiar with
21 the unit operating agreement and unit agreement dated
22 January 1st, 1975 entitled Double L-Queen Chaves County,
23 New Mexico?

24 A Yes, sir, the unit agreement and the unit
25 operating agreement, yes.

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1 Q Explain to Mr. Stamets how you became familiar
2 with this matter and with these agreements?

3 A As mentioned by the previous witness, I have worked
4 on the Double L field, not from the very beginning, but shortly
5 after the project appeared to be headed toward secondary
6 recovery and after we began work on the Sulimar. I worked
7 on the engineering subcommittee which was under the direction
8 of Mr. Jon Bear.

9 Q You said you did do all of the engineering work for
10 Mr. McClellan in connection with Sulimar?

11 A Yes, sir.

12 Q Did you sit on a technical committee involving the
13 Double L pool for and on behalf of Mr. McClellan?

14 A Yes, sir, I did.

15 Q Did you attend the meetings that the previous
16 witness testified to that you attended?

17 A I think I missed several of the operators' meetings,
18 but it was not really necessary since Mr. McClellan was going
19 on his own behalf for me to be there, but all of the technical
20 subcommittee meetings except possibly one of the very first
21 ones, I believe I made.

22 Q All right. You have had us identify nine exhibits
23 and I would like for you to explain to Mr. Stamets what these
24 exhibits are.

25 Referring first to an exhibit that we call Number One,

1 I'll ask you to tell the Examiner what that is and what it
2 shows?

3 A. This is a copy of the proposed Double L-Queen field
4 unit, second edition, Engineering Committee Report, October 1,
5 '73, previously referred to by Mr. Bear and actually this is
6 a culmination of the work that was performed. Various points
7 include the reservoir characteristics of the field, recovery
8 estimates, water requirements and on Page Seven is the economics
9 which identify the operation costs expected, the secondary
10 economic limit and the primary economic limit. Then on page
11 eight we have the price of oil, production tax, anticipated
12 income from the sale of oil and gas to the working interest
13 ownership. If you will note, however, at this point we were
14 still estimating in that we were estimating a royalty only
15 coming off on the upper part of page eight. And there are
16 some overrides, so it is not a full eight seven five lease.
17 It goes into a general discussion concerning the economics,
18 including expense and investment.

19 There is a flow sheet on the next page and it goes
20 through a discussion concerning geology and the back portion
21 of it are the parameters identifying the cumulative produc-
22 tion as of twelve, one, seventy-two. The future primary which
23 was worked out in the committee and the ultimate primary, or
24 the figure of one million, four hundred and seventy thousand,
25 seven hundred and fifty-eight barrels.

1 It also has some other figures such as usable wells,
2 six-months period of income, projection, which indicated an
3 anticipated starting date of the flood, of the water injection
4 in the flood to be one, one, seventy-four.

5 Then my report has a map of the location of the
6 field within the State of New Mexico. Then also a map showing
7 the wells selected for water injection and an isopach map.

8 Q Is your Exhibit Number One substantially the same
9 as the previous witness's Number Eight?

10 A Very similar. There are a few additions, I think,
11 to his report that was presented in the form of curves that
12 I don't have in this report.

13 Q Why is it important to determine that economic
14 limits of the pool before you decide upon a formula for
15 participation in the reserves in that pool?

16 A Well, as a general rule the phase-one participation
17 factor is the remaining primary available to a particular owner.
18 The phase-two is the estimated secondary available to a
19 particular owner. So in order to establish primary, the
20 work done by this committee in the early part, I believe it was
21 on four, four, seventy-three. At that time we projected to
22 an economic limit as established within this report of three
23 barrels of oil per day. This was believed to be at that time,
24 the true economic limit for a well in this vicinity, with the
25 operation expenses incurred at this particular depth and

1 everyone agreed to this.

2 Q Was there one other factor, namely the price of oil
3 considered?

4 A Surely. It has to be considered in establishing what
5 is an economic limit, because an economic limit can briefly
6 be defined as being that point when the income to the working
7 interest is equal to the expense to the working interest,
8 therefore, he has reached an economic stopping point and/or
9 limit, so the price of oil would determine the income he is
10 going to be receiving from this.

11 Q I would like to quote for a minute from a text
12 entitled, "Petroleum Production Engineering" by Doctor Lester
13 Charles Urren of the University of California wherein he
14 says that: (Reading.) The estimation of economic life period
15 of an oil producing property is a problem that involves the
16 same physical and economic factors that have already been
17 discussed in connection with well spacing. Indeed the
18 estimation of economic life is but a different form of the
19 same problem and is subject to the same limitations that
20 were found to apply in connection with the well-spacing
21 problem. The rate of production decline, the cost of
22 production, and the selling price of petroleum are mutually
23 inter-related factors limiting the period of economic operation
24 of oil-producing property. The lower limit of profitable
25 operation is reached when the cost of producing a barrel of

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1 oil is equal to its selling price. (End of reading.)

2 Is this good authority for the position you have
3 taken, Mr. Johnson, or is it authority for the position that
4 you have taken with regard to this matter?

5 A Yes, it's good authority and it is very practical
6 and very sound.

7 Q In other words, economics have to be considered
8 when you decide on a phase-one and a phase-two secondary
9 recovery operation, is that correct?

10 A Yes, that is correct.

11 Q And the price of oil being received by the operators
12 in the Double L-Queen field, as of October 1st, 1973, was four
13 dollars and five cents, is that correct?

14 A This is four dollars and five cents gross, before
15 tax, tax being twenty-eight cents. You are talking about a
16 three dollar and seventy-seven cents, I believe, price.

17 Q So the committee's conclusion as to the economic
18 limit in determining what the phase-one participation factor
19 should be, was determined in part, at least, by the price of
20 oil, is that correct?

21 A Yes, sir, that is correct.

22 Q Okay, let's go on to your next exhibit. Will you
23 explain to the Commission what Exhibit Two shows?

24 A Exhibit Two -- first let me make one statement
25 concerning it. In the upper part of the exhibit there is a

1 block that has one hundred and eighty-one thousand barrels,
2 future unit primary reserves. This figure should be changed to
3 one hundred and eighty-one thousand, eight hundred barrels.

4 I have a drafting error there, I'm sorry.

5 What this exhibit is indicating is all of the
6 properties within the Double L field thrown together provide
7 the production decline which is shown here which indicates that
8 in the latter part of 1970 and the early part of 1971,
9 the production being obtained from all properties within the
10 Double L field contained within the unit agreement were
11 approximately forty thousand barrels per month. Now as you
12 can see from the decline trend this has continuously slipped
13 on down and I'm showing where the old economic limit was at
14 four dollars and five cents per barrel. You will note that
15 according to this curve, the anticipated point that we were
16 looking at that I'm projecting here, would have been in 1976
17 that we would have had an economic limit at the old four, oh,
18 five price. Actually what has happened, the reason we have
19 met, as mentioned by the previous witness, the figure of one
20 million, four hundred and seventy thousand barrels, which is
21 the shut-off point for phase-one and the beginning of phase-two
22 earlier, is that the committee actually projected this curve
23 in a straight-line fashion rather than in a curve fashion
24 away back there in 1972, and we have actually exceeded the
25 projection that was made by the committee at that time, so that

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1 we are really running in front of what our projection was
2 then.

3 Now, if you will also note, if you use an economic
4 limit according to the price of oil being paid today of
5 twelve dollars and fifty-six cents, obviously the economic
6 limit then must drop down. You are getting more for your oil,
7 therefore, instead of three barrels of oil per day as an
8 economic limit, it is going to be in a lower position. I will
9 develop that point later.

10 Q Will you turn to McClellan's Exhibit Number Three
11 and explain what that exhibit shows?

12 A Again this is a similar type decline trend and the
13 purpose of this was to determine exactly what was the
14 McClellan leases, all of them in the Double L field position.
15 If you will note again we are seeing a flattening action that
16 occurs on the curve, actually starting just about in about the
17 first part of 1975 and the curve is still walking out. I did
18 put a decline walking out on the horizontal. I did go ahead
19 and place a decline trend on it because I felt like it would
20 more or less follow the same trend as a general field that I
21 presented in the previous exhibit.

22 Again it shows the old economic limit position of
23 four, oh, five, and shows that obviously McClellan is making
24 money now even at the four, oh, five position.

25 And it also shows that if you utilize the economic

1 limit of twelve dollars and fifty-six cents for a future life
2 of approximately four more years would be indicated.

3 My projections indicate that as of this date, we
4 are looking at a figure of approximately fifty-four thousand,
5 four hundred and eighty barrels, future primary reserves from
6 the McClellan properties.

7 Q Turn now, if you will, to Exhibit Number Four and
8 tell the Examiner what that exhibit shows?

9 A Exhibit Four refers back to Exhibit Number One which
10 we had previously commented on as did Mr. Bear earlier,
11 that the committee had utilized three barrels of oil per day
12 per well, and that we had used a four, oh, five price, so
13 I was attempting in this exhibit to point out to bring, instead
14 of talking about barrels per day, I was trying to get it into
15 a dollar category.

16 The data here then indicates, number one, the
17 economic limit primary as established in the previous engineer-
18 ing committee was three barrels of oil per day per well.
19 Item two also is shown in that report, they used the four,
20 oh, five figure, or, we, used the four, oh, five figure with
21 a twenty-eight cent tax. However, there is gas sales coming
22 from this reservoir as well, so in order to get this thing
23 into a real true perspective, and utilizing the data, I believe
24 shown on page nine, which estimates the economics, it
25 identifies that gas thrown into the oil pricing and after tax,

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1 would bring us about three dollars and ninety-five cents
2 per barrel.

3 Now, I took exception previously and I still do,
4 and it is verified within the unit agreement that the working
5 interest ownership is not really eight, seven, five, there
6 are overrides, et cetera. I didn't weight these, but I'm
7 estimating them, based on what I can see in the unit agreement,
8 at a figure of about zero, six, two, five, and this would be
9 a straight across the board figure, and, therefore, in
10 estimating that the working interest ownership would receive
11 really eighty-one percent of the total gross income.

12 Calculations, therefore, in order to arrive at a
13 dollar figure show the three barrels of oil per day times
14 thirty point four average number of days in a month, equals
15 ninety-one point two barrels per well per month as an economic
16 limit. Using that figure and carrying it further to see
17 where the working interest -- what they would receive,
18 multiplying it times the point eight one, we come to a
19 seventy-three point nine barrels per well per month production
20 to the working interest.

21 Item five indicates what are we talking about in
22 dollars? We take the seventy-three point nine barrels per
23 well per month, multiply it times the three point nine five
24 dollars per barrel and come up with a figure of two hundred
25 and ninety-one point nine one dollars per well per month.

1 Therefore, the true economic limit as established by the
2 committee was two hundred and ninety-one dollars and ninety-one
3 cents per well per month.

4 Q Now turning to Exhibit Number Five.

5 A Exhibit Five carries this one further step. Now
6 a statement was made earlier that the primary economic limit
7 was made back in 1973 and that there have been price changes,
8 and there have, I'll agree to this. However, we did the last
9 four months operation expenses on thirteen of the wells
10 operated by McClellan Oil Company and the operation cost
11 average dollars per well per month over that four-month period,
12 was two hundred and ninety-six dollars, compared to the two
13 ninety-one that the committee originally estimated.

14 I think we have seen the change in the price of
15 oil definitely, and we have seen the change in the price of
16 drilling wells, but as far as operations I don't think the
17 change has been this drastic.

18 Again carrying further on that, item number one,
19 we have the average operation expense per well per month. This
20 is based on the thirteen wells. I went on and picked up
21 the two ninety-one figure and carried it forward since the
22 figures were so close. Now, we have a price of oil, though,
23 of eleven dollars and seventy-four cents per barrel, instead
24 of the previous three dollars and ninety-five cents. Now
25 this takes the twelve dollars and fifty-six cent figure,

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1 reduces it for tax and adds on ten cents for gas, because
2 there is some gas sales coming out there, they are not big,
3 but they are there.

4 Again we have the working interest ownership of
5 eighty-one percent, and the calculation then takes the two
6 hundred and ninety-one dollars and ninety-one cents per well,
7 divides it by the eighty-one or point eight one ownership in
8 order to arrive at what are we talking about as a hundred
9 percent income from a well in order to pay operational costs.
10 That figure comes up to three hundred and sixty dollars and
11 thirty-eight cents. Divide that then by the present price
12 of oil which is -- oil and gas -- eleven dollars and seventy-
13 four cents per barrel and we arrive at a new up-to-date
14 November 1, 1975 economic limit.

15 Again back on the engineering data of thirty point
16 seven oh barrels per month per well or one point oh two barrels
17 per day per well as opposed to the previous three barrels per
18 well per day established in 1973.

19 Q Are you saying that the new economic limit is now
20 required for this agreement to be fair, reasonable and
21 equitable?

22 A Yes, sir, it has to be.

23 Q Turning now to Exhibit Number Six.

24 A Exhibit Six has previously been testified to by
25 Mr. Bear and, I believe, pretty well confirms his figures.

1 The purpose of this exhibit is to establish where are we
2 now on this unit agreement, are we in phase-one or phase-two,
3 or what?

4 Cumulative production as of one, one, seventy-five
5 from the New Mexico data indicates one four oh four oh eight
6 oh barrels produced from the Double L properties included
7 within this project.

8 Oil production from the first of the year to eleven,
9 one, seventy-five complete. This is all of them. Sixty-three
10 thousand, six hundred and eighty-six or a sub-total of one
11 million, four hundred and sixty-seven thousand, seven hundred
12 and sixty-six. We can only estimate November production
13 because it is not in as of this date and won't be in until the
14 latter part of this month, as I understand, but based on what
15 we have seen in the last several months, it should approximate
16 six thousand barrels, so we concluded from this that the
17 November production did definitely bring it across the phase-one
18 position and into phase-two, and that the sub-total as of the
19 first of December would be one million, four hundred and
20 seventy-three thousand, seven hundred and sixty-six barrels.
21 Carrying it one step further to get to the point of beginning
22 of the unit agreement, should it be approved, we find that with
23 a fifty-five hundred barrel per month figure estimated, we would
24 have an estimated January 1 '76 production of one million, seven
25 hundred, excuse me, four hundred and seventy-nine thousand, two

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1 hundred and sixty-six, or considerably above that necessary
2 to reach the phase-two position and we haven't put a drop of
3 water in the ground yet.

4 Q Turning to Exhibit Number Seven, I would like for
5 you to explain that.

6 A Exhibit Number Seven is the future primary reserve
7 allocation summary. This refers back to the previous exhibits.
8 Item one sets out that with the McClellan operation at the
9 present, and this refers back to Exhibit Three, we are looking
10 towards, and this assumes no unit at all, we are looking
11 toward McClellan production to be approximately fifty-four
12 thousand, four hundred and eighty barrels to the true
13 economic limit. Should immediate unitization occur, though,
14 which is requested here, and as of January one as proposed
15 by Burk, the future unit primary reserves as we established
16 in Exhibit Number Two, set out a hundred and eighty-one
17 thousand, eight hundred barrels as future unit primary reserves.
18 But keep in mind we have crossed phase-one, we are now in
19 phase-two. Okay, so McClellan's reserve allocation on
20 phase-two would then be point, two, two, two, one, oh, five
21 instead of the present roughly thirty-one percent. So his
22 allocation then would be in the order of forty thousand,
23 three hundred and seventy-nine barrels. The difference is
24 fourteen thousand, one hundred and one barrels. What are
25 we talking about in the way of costs then to the McClellan

1 group, again using the eleven seventy-five figure and
2 eighty-one percent ownership, fourteen thousand, one hundred
3 and one barrels. The gross to the McClellan group would be
4 approximately a hundred and thirty-four thousand, two hundred
5 and six dollars.

6 Who is going to benefit? Somebody has got to benefit
7 if somebody gets hurt. Well, obviously from the unit agreement,
8 Exxon, Dalport and Burk will gain because the phase-one is
9 lower in their case, but the phase two is higher. McClellan's
10 is reversed. Roughly I'm estimating that Exxon would probably
11 gain approximately thirty-three thousand dollars from this.
12 Again referring back to the losses that McClellan would see.
13 Dalport and Burk approximately a hundred and one thousand.
14 What other operators are going to be hurt, again just utilizing
15 the changes that occur in the phase-one and phase-two? Amoco
16 is hurt, Roark and Hooker are hurt, Cleary is hurt. Which
17 operators will be helped much like Exxon, Dalport and Burk,
18 Grace would be helped.

19 Q. Have you also made a quick check as to what the
20 effect would be on the United States royalty?

21 A. Yes, Federal tracts in phase-one total forty-four
22 point, two four nine oh in phase-one. In phase-two the
23 Federal tracts total four oh point, five eight seven oh.
24 Again assuming that one hundred and eighty-one thousand,
25 eight hundred barrels which we feel should be added to get

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1 to the true phase-one position. The Federal revenue would be
2 reduced by approximately eight hundred and thirty-two barrels,
3 or approximately ten thousand dollars.

4 Incidentally the State also would be hurt somewhat,
5 but very minor.

6 Q And where would the benefit go?

7 A To the fee lands.

8 Q Turning to Exhibit Number Eight explain to the
9 Examiner what this exhibit shows.

10 A Again we are trying to, I guess, pinpoint why we
11 are objecting strenuously to this unit. Without unitization,
12 I'm speaking of the McClellan group, period. Without
13 unitization the present monthly income, according to the
14 curves, et cetera, is approximately, we figure, a thousand,
15 seven hundred and fifty barrels, eighty-one percent ownership,
16 eleven point seven four, we are talking about sixteen thousand,
17 six hundred and forty-one dollars gross. Present monthly
18 expense, again utilizing the two ninety-two figure, two
19 ninety-two, two ninety-six, isn't that right? Thirteen wells,
20 three thousand, seven hundred and ninety-six, so the present
21 profit being obtained by the McClellan group is twelve thousand,
22 eight hundred and forty-five dollars. Keep in mind when I'm
23 speaking of the McClellan group, I'm speaking of the group
24 that we previously mentioned which included Black, Toles,
25 Graham, McClellan, Patterson.

1 Okay, let's go to what would be the unit, what would
2 be the situation if the unit went into effect as requested now
3 the first of January?

4 The estimated monthly income, fifty-one hundred
5 barrels, a one percent ownership. McClellan interest point
6 two, two, two, one, oh, five according to the agreement,
7 eleven point seven four. Income, ten thousand, seven, seven,
8 two; estimated monthly expense -- we've got approximately fifty
9 wells according to the report that would be operative, assuming
10 a two ninety-two estimated expense and the expense based on
11 the percentage ownership of two, two, two, one, oh, five, we
12 have an expense then of three, two, four, three; profit seven
13 thousand, five hundred and twenty-nine dollars. What's the
14 difference? It shows that the McClellan group by being forced
15 into a unit would lose five thousand, three hundred and
16 sixteen dollars per month.

17 Now, if the changes are made in this unit which
18 would allow a true phase-one position to occur and come to
19 a culmination before phase-two begins, income from the unit,
20 again to the McClellan group, we are assuming fifty-one hundred
21 barrels, eighty-one percent ownership, and assuming a phase-
22 one participation as shown here which could change point
23 three, one, one, three, six, five income, a gross income
24 fifteen thousand, one, oh, one, expense four, five, four, six,
25 profit ten thousand, five, five, five, or a difference of

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1 minus two, two, nine, oh.

2 So even with the changes that we will recommend
3 finalizing this, we are still going to see a change in the
4 McClellan operation profit.

5 Q On behalf of Mr. McClellan what recommendations
6 have you made to him with respect to unitization, have you
7 favored it or have you been unfavorable?

8 A I have been unfavorable and I presented this in a
9 letter dated October of this year where he had asked me in
10 a previous meeting to look into this thing and make a recom-
11 mendation for the group. I did, and I reviewed it and found
12 that, gosh, we were right up to phase-one completion, if we are
13 not there already, and we are using old back data that we used
14 way back with four-dollar oil, and under those conditions I
15 could not recommend and did not recommend that he sign it, nor
16 that any of his group sign it.

17 Q You are not opposed to unitization as such,
18 though?

19 A Oh, no, it's a cinch flood, it's a very profitable
20 possibility here, but I think it ought to be equitable.

21 Q All right, turning to Exhibit Number Nine, following
22 through on your recommendation that the agreement be
23 equitable, explain that Exhibit and make your recommendations
24 to the Examiner, if you will?

25 A This is a summation of the recommendations in

1 which I came up after preparing these exhibits and making
2 the recommendation to Mr. McClellan, and that is, one, a
3 request that the Commission deny the unitization, or forced
4 unitization as of January 1, '76 as proposed by Burk Royalty.

5 Two, I would request that the Commission require an
6 amendment to the unit agreement, page ten, to reflect the
7 true primary reserves in "A", and ultimate primary recovery in
8 "C". These reserves to be determined by an emergency meeting
9 of the technical subcommittee immediately.

10 Three, that an amendment be ratified by the working
11 interest owners. All it requires here is seventy-five percent,
12 prior to January 1, '76. In so doing, as I read the unit
13 agreement, we have six months to get everybody else in line, but
14 at that point if we can get a true picture on the participa-
15 tion factor where the engineering subcommittee re-projects
16 these to a true and honest economic limit as of today, then
17 at that point we can get seventy-five percent with no
18 difficulty. This offer has been made, and it is obvious that
19 it takes very little -- Dalport and Burk, Humble, Amoco,
20 McClellan. This group would carry it long enough until every-
21 body else could be contacted and ratified.

22 The statement here is that eighty percent of phase-
23 one and seventy-five percent agreeing to go six more months
24 is all we need. That can easily be done through an emergency
25 meeting of the committee and an agreement in the committee.

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1 I am for, I strongly recommend to McClellan that
2 with this agreement that the unit become effective as of
3 January 1 and we take off because it is a good project. It
4 really is. We have proved the project in Sulimar, the same
5 sand, it is a money-making dude.

6 Q But it would be a losing deal for McClellan if it
7 was approved by the Commission in its present form, is that
8 correct?

9 A Yes, it would.

10 Q In your opinion, Mr. Johnson, would the working
11 interest owners that comprise the ownership of this unit area
12 be treated absolutely fairly if it were approved in its
13 present form?

14 A No, sir, they would not.

15 Q Do you think that the unit agreement would be work-
16 able if it were approved in its present form?

17 A It would be workable? No, sir, I'm afraid it would
18 not.

19 MR. HUNKER: I have no further questions on direct,
20 Mr. Stamets.

21 MR. STAMETS: Are there any questions of this
22 witness?

23 MR. COOTER: Yes, sir.

24 MR. STAMETS: Mr. Cooter.

25

CROSS EXAMINATION

1
2 BY MR. COOTER:

3 Q Mr. Johnson, just as a practical matter, if after
4 five years there is no unanimous agreement, do you really
5 believe that between this evening and the end of the month,
6 with the Christmas, that something is going to happen and there
7 will be, you really do?

8 A I sure do. With an earnest effort I see no reason
9 why not.

10 Q Well, I assume that everyone has expended earnest
11 efforts for the past five years?

12 A I agree.

13 Q I don't accuse anyone of bad faith.

14 A No, I don't either. I'm saying, though, Christmas
15 vacation and all this good stuff, yes, I think with an earnest
16 effort we can do it.

17 Q All right. Were you present at the meeting on
18 January 8, 1974 when the change was agreed to in the
19 operating agreement to change the change-over date from
20 phase-one to phase-two to be one, point, four, seven, oh,
21 seven, five, eight million barrels?

22 A I'm not sure, sir, I'm really not.

23 Q Well, to refresh your recollection, I'll ask you
24 if that meeting was held in the offices of Dalport Oil
25 Corporation, 3471 First National Bank Building, Dallas,

1 Texas, commencing at ten A.M. on that date?

2 A Could you tell me who was there?

3 Q Mr. Shepherd and Mr. Emery with Exxon, Mr. Cronquist
4 with Amoco, Mr. Bear with Burk Royalty, Mr. Todd with Dalport
5 Oil who called the meeting to order and the minutes reflect
6 your presence.

7 A I think that was the day it was snowing.

8 Q You recall that now that you were present?

9 A Yes.

10 Q And that was the date that that figure was changed
11 to what it is currently as set forth in the agreement as
12 offered here, one million, four hundred and seventy thousand,
13 seven hundred and fifty-eight barrels?

14 A Uh-huh.

15 Q And you agreed to that?

16 A Yes, sir.

17 Q Now what was the price of oil at that time?

18 A I'm not sure, sir, but I think it was still in the
19 four to five dollar range, but I'm not positive, it has
20 changed so much.

21 Q And it might yet change, depending on what the
22 President does with the bill that is now pending in Congress,
23 or what Congress does, depending upon what the President does?

24 A I think that the biggest factor here is the
25 Arabs more than us.

1 Q But that twelve-dollar figure may certainly come
2 down, that there exists from what you have read in the news-
3 papers and publications that that certainly is a good
4 possibility?

5 A It is a possibility. It could come down and then go
6 back up, as I understand it, but if you are asking me at this
7 point to predict what Congress is going to do, and what the
8 President is going to do, because this all affects the price
9 of oil, and what the Arabs are going to do, and I couldn't
10 even start with the first one.

11 Q All I'm asking you is that the price is subject
12 to some signs on the horizon that indicate to you, as to
13 everyone else that there might well be some rather drastic
14 changes made in the price of oil?

15 A This is possible.

16 Q And so the figures that you have used in your
17 exhibits might not be correct?

18 A It is very possible.

19 Q Come Christmastime this year?

20 A That's possible.

21 Q All right now, you were also present, were you
22 not, at the meeting held on September 12, 1973 when the
23 participation formula of fifty-five percent ultimate primary
24 and forty-five acre-feet was established for the phase-two
25 formula?

1 A I believe you are correct. That was three years
2 ago and I made a few meetings, and I'm sure your minutes
3 reflect it.

4 Q If the minutes reflect that you were there along
5 with Mr. McClellan you wouldn't have any reason to doubt
6 those?

7 A I was there.

8 Q Do you recall that it was Mr. McClellan who made
9 the motion that that formula be accepted as the phase-two
10 formula?

11 A If the minutes reflect this, yes.

12 Q All right. Now then, if that phase-two formula
13 had been established at fifty percent ultimate primary and
14 fifty percent acre-feet, are you following me, rather than
15 the fifty-five forty-five, let's say it was split fifty-fifty?

16 A Yes, sir.

17 Q Do you have an opinion as to whether or not Mr.
18 McClellan's interest under phase-two would have been less
19 than what it was established to be?

20 A You are losing me now.

21 Q What I'm saying is, if that formula hadn't been
22 fifty-five forty-five, but it had been fifty-fifty, there is
23 no doubt in your mind but that Mr. McClellan and his group's
24 interest under phase-two would have been less than what it
25 was established using the fifty-five forty-five formula

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1 that he proposed?

2 A I'm sure his proposal was in his favor, if that
3 is what you are getting at.

4 Q No, what I'm getting at, and if you don't know, tell
5 me and I'll bring out a witness, but what I'm getting at is
6 I think rather an elementary proposition, that the fifty-five
7 forty-five formula agreed to by everyone for phase-two
8 participation results in a larger interest to Mr. McClellan
9 than a fifty-fifty formula would have been if that had been
10 accepted?

11 A I'm reasonably sure that this is correct, but
12 without checking it I really don't know, but I will accept
13 your statement.

14 Q This is a matter of negotiation that was negotiated
15 between all of the working interest owners when they accepted
16 that fifty-five forty-five they also in like term accepted
17 the change-over time from one point three something million
18 gallons to one point four, seven, oh, plus?

19 A Well, now, I don't know whether the reason that
20 change was made was because of an economic limit.

21 Q Right, no, I'm not asking you the reason. This
22 was a matter of negotiation and agreement between all of
23 the working interest owners?

24 A I wonder if possibly a lease was attached to a
25 unit that hadn't planned to be in there before, I don't know.

1 Q But everyone agreed to it, this was a matter of
2 negotiation?

3 A Okay.

4 Q And they agreed to set this date when phase-one
5 went out and phase-two came in, they agreed with that in mind
6 of establishing, going along with what Mr. McClellan proposed
7 of a fifty-five forty-five phase-two formula?

8 A Okay.

9 Q Now, what I understand you want to do is just to
10 change one element of that, you want to change the date that
11 we switch from phase-one to phase-two, don't you?

12 A No.

13 Q You don't want to change that?

14 A Well, it will change it automatically.

15 Q What you propose is that that one million, four
16 hundred and seventy thousand be changed to an amount of one
17 million, five hundred and some odd thousand?

18 A No, no way. What I am proposing at this point
19 is that the engineering subcommittee meet and agree on this.
20 Here are people that would all go along together and they
21 would say, "All right, this is what it is going to come down
22 to."

23 Q That is your proposal set forth in your October
24 letter?

25 A Right, but I thought later on that that it was not

1 fair to you, or to your group, because now I'm dictating,
2 I don't want to dictate, I want to work in a manner so that
3 it is equitable to all people.

4 Q All right. And what you are proposing then is
5 that we just go back to the technical subcommittee and open
6 it all up again?

7 A It wouldn't take as long.

8 Q We've been at it five years now, Mr. Johnson.

9 A We've got the curves prepared, all we would have to
10 do is bring up the curves, extend the projection, determine
11 the primary, determine the ultimate primary, recalculate the
12 factors, and if everybody is happy we can go, that's it. We
13 did this before and it took two different days. If you
14 remember that was mentioned, I think, on the fourth and the
15 eighteenth, that we were doing different things.

16 Q That was where the parameters for the acre-feet
17 was resolved?

18 A Right. This was done in a real very quick fashion.
19 We've got the base work done, we are ready.

20 Q Well, I won't argue with you. Now, let me ask
21 you, is it customary to change unit participation with the
22 change in oil prices? Do you know of any other unit where
23 this is occurring?

24 A I've never had an oil price change like they've
25 changed lately.

1 Q Right, and it is pretty hard to tell what is going
2 to come?

3 A Yes, sir.

4 Q All right, your estimate of total recovery, with
5 secondary operations as I understand, remains the same, one
6 point eight plus million of secondary recovery?

7 A I don't agree with that figure. That was the
8 figure that Jon put out, I didn't put that figure out.

9 Q What would be your --

10 A I think this particular unit is going to recover
11 in the order of about three point two million on secondary.
12 Now, why do I think this?

13 Q I didn't ask you that, Mr. Johnson.

14 A Well, I think I should explain it, though, because
15 now we have opened up a different territory here.

16 Q Bear with me and my questions for a minute and
17 then if Mr. Hunker wants to ask you to go into further detail,
18 I'm sure he will come back with you on it, but bear with me
19 on my questions to you, please. I don't mean to cut you
20 short, I just want you to go along with me and answer my
21 questions, please.

22 You believe that the total recovery, through
23 secondary operations, far exceeds that which the technical
24 subcommittee indicated was their opinion of the secondary
25 recovery?

1 A. Yes, sir.

2 Q. Prior to today, have you expressed your opinion to
3 the operators to that effect?

4 A. I don't recall.

5 Q. Do you recall if you ever did?

6 A. I probably did, I talk a lot.

7 Q. Okay. If you believe there is a larger amount of
8 secondary recovery, what you are saying is that there is
9 a greater portion of that that is primary production and less
10 would be, because of the increased price in oil, we'll just
11 postpone putting into secondary recovery, more of that can
12 be obtained through primary production prior to the commence-
13 ment of any secondary recovery project?

14 A. The figure I gave you a minute ago was secondary
15 reserves, period.

16 Q. Of three million plus?

17 A. Yes, sir.

18 Q. What I'm getting at is that from that three
19 million plus that is going to be recovered whether waterflood
20 be instituted next month or five years from today, what you
21 are saying is that the primary production will produce this
22 much more, so there will be less under secondary recovery?
23 The same amount of oil is down there, you don't change the
24 amount of oil that is there now, do you?

25 A. No.

1 Q So if you recover more under the primary recovery,
2 then there is going to be less under secondary recovery?

3 A No, sir.

4 Q You are going to recover more?

5 A This is why we are receiving more primary. We
6 are able to take a well down further now with the price of
7 oil than we were before, so, therefore, what used to be
8 called primary previously at three barrels of oil per day
9 per well is still primary at one barrel of oil per day per
10 well.

11 Q I understand you thoroughly.

12 A And then if we use the same criteria as the
13 engineering subcommittee used, which was one point four times
14 primary, equals secondary, then the larger amount of primary
15 therefore equals a larger amount of secondary.

16 Q You are going to get more secondary recovery if
17 you just postpone the operation for several years?

18 A No, that wasn't what I said. Sure it's -- I'm
19 not advocating postponing, what I'm advocating is equity and
20 I'm advocating that we start it right away, but some of
21 this oil is primary. We had the same thing occur in Sulimar,
22 we were coming down on primary and we had a phase-one and
23 a phase-two and I think it went about six to eight months
24 before we entered into phase-two, but I have never been in
25 a unit where I walked into phase-two first.

1 Q Did you hear Mr. Cromquist testify as to this
2 unit?

3 A Yes, sir.

4 Q Are you acquainted with that unit?

5 A No, sir, I'm not.

6 MR. COOTER: That's all, thank you.

7

8 REDIRECT EXAMINATION

9 BY MR. HUNKER:

10 Q After the long lapse of time, Mr. Johnson, from
11 January of 1974 until the earlier part of this year, what
12 provoked Burk to go ahead with unitization at this late date?

13 A I think that Burk was active somewhat, they were
14 active all the way through in all probability with the
15 unitization, but other things became more important, in all
16 probability, except there was a ruling that came down which
17 states, quote, once a stripper, always a stripper. Therefore,
18 the thing that had Burk and us very worried was that if we
19 walked in under the two-tier system into a flood, and we
20 jumped that thing like we did in Sulimar, we moved from
21 twelve dollars to five dollars on it, which didn't make
22 anybody any sense. You are going to pour thousands of
23 dollars in this thing to make money and, wham, you lose
24 your price of oil, so this delayed it for a period. We
25 weren't inactive, or Burk wasn't, I don't think, but we

1 weren't real active either, maybe. But comes July one,
2 we get a new ruling, once a stripper, always a stripper, now
3 we don't have to worry about the fact that we are moving from
4 twelve to five, we are twelve to twelve.

5 Q In the twenty-three years that you have been in the
6 oil business, have you ever known such an inordinate increase
7 in price to occur?

8 A No, I testified to this effect about two or three
9 years ago in Oklahoma and the jury all laughed, and I was
10 estimating that we were going to go to five dollars. I would
11 never have dreamed that we would go to twelve, but we did.

12 Q Do you think the price of oil can increase as well
13 as decrease?

14 A That depends on the Arabs, I think, more than
15 anything else. They can control it and they are going to.

16 Q I would like for you to explain to Mr. Stamets, you
17 tried to make an earlier explanation, why you think the
18 recoverable secondary reserves in this Double L unit will be
19 considerably higher than were originally estimated?

20 A Again here I think the price has a bearing because
21 what the engineering subcommittee was doing was taking a
22 general average of the Queen floods that had gone on in the
23 past and they were saying, "Okay, they had so much primary,
24 and this much secondary, so one point four is a good figure,"
25 and that is what it came out.

1 I had estimated previously on the Sulimar project
2 south of here for McClellan, that we were looking somewhere
3 in the order of one, five as I recall. Later I had to up-date
4 that to one, seven and recently I have up-dated it to two point
5 one. Now, why? Because the projects are doing much better;
6 we've got better control of our water; we have less scaling
7 action than occurred in the old Queen projects; we've got
8 more recovery that's coming in; we've got a better price for
9 our product, so it is going to last longer. You can use this
10 for a guideline. For example, right now I'm running at a
11 one point three one of primary and I've only been flooding
12 in Sulimar for a little over three-and-a-half years. The
13 committee in the report here estimate one point four in ten
14 years, so with proper control there is no reason in the world
15 why we shouldn't reach this. Projections are very easily
16 made now in Sulimar where they weren't available when we made
17 the engineering committee report. We were going up on Sulimar
18 at that time. We have now leveled and we are coming on a
19 projected down, very, very well projected and we are moving
20 it out a little but it is still projectible. We are looking
21 at a two to a two point one recovery, and that's where I
22 think this is. Actually the Double L has better primary
23 per well than Sulimar.

24 Q In your opinion, Mr. Johnson, if the Commission
25 accepts your recommendation, will it be protective of

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1 correlative rights and be in the interest of the prevention
2 of waste?

3 A Yes, sir, it will. There is one other point too
4 that ought to come out of here too. The way this formula is
5 set up it not only affects phase-one, it also affects phase-
6 two.

7 Q In what respect?

8 A Phase-two is made up, as previously mentioned, in
9 fifty-five percent of C and C is the ratio of the volume of
10 oil determined to be ultimately producible from each tract
11 to the summation of the volume for all tracts. So we again
12 have got primary in our phase-two position, so it is going
13 to change it. The best I can tell that the figures that are
14 presented before, both for McClellan as well as the royalty
15 owners, and the losses and the pluses that would occur. It
16 will just about double the figures that I put out, so where
17 I had advised McClellan previously not to sign, I would have
18 to advise him doubly not to, unless there is a change that
19 is made.

20 MR. HUNKER: Mr. Examiner, I have nothing further.
21 I would like to move, however, to have admitted into evidence
22 the Exhibits One through Nine.

23 MR. STAMETS: Any objections to these exhibits?
24 They will be admitted.

25 (THEREUPON, Exhibits One through Nine

1 I really don't know, again a gauge of personalities, if
2 necessary.

3 Q Your maximum figure estimated for three years?

4 A Yeah, I think so because everybody is running into
5 an economic limit, a new economic limit. McClellan obviously
6 can run another four years before he starts paying more to
7 keep a property alive than the income he is going to be
8 receiving, unless the price of oil changes. That is when it
9 is going to occur that somebody is going to have to give, or
10 hopefully before then, because when it starts costing you ten
11 dollars to get eight dollars you are going to scream, and
12 everybody is going to scream and they are going to sit down
13 and really negotiate the way we ought to.

14 Q Is it important to ultimate recovery, maximized
15 ultimate recovery that this flood should be put into operation
16 now, and I'm speaking of a reasonable period after January 1,
17 rather than three or four years down the line?

18 A I think it would be a good idea for it to go in
19 as soon as it could, but really probably the theoretical
20 optimum time for this thing to have been put in was probably
21 shortly after it started drilling, but we just don't do it
22 that way.

23 I saw a paper once on a Russian project and they
24 don't have the problems we do in this respect, they all
25 agree, and they had a very, very optimum successful project,

1 perfect. Actually the ideal time, as you will note, for a
2 secondary project, is before everything is gone, gas, oil,
3 et cetera, but the closest we can get to that it seems like
4 is down the road sometime.

5 Q I believe you said that you thought if the committee
6 got back together they could work out a new primary figure?

7 A I think we can.

8 Q Within a couple of days?

9 A I think so, I do. It is going to take a definite
10 effort.

11 Q I presume that would require that the working
12 interests all agree again to the agreement?

13 A Really the representatives that are present here
14 are making the direct recommendation to the owners, so I
15 would say that if the committee agreed, the owners in all
16 probability would go right along with them and we only need --

17 Q The answer to my question is, "yes?"

18 A Okay, yes.

19 Q Thank you. Now you said that the unit agreement
20 is not workable in this form. Specifically, what did you
21 mean?

22 A In this form it specifies that we are working in
23 a phase-one phase-two position and that phase-one fades out
24 at one million, four hundred and seventy thousand, et cetera,
25 and in that form the unit agreement is not acceptable, I

1 cannot recommend it and I would say it is not workable.

2 Q Now, today, at this Hearing, do you have a formula
3 which you will propose for the allocation of the oil and
4 gas from the unit to the separate tracts?

5 A I think that the formula as presented in the
6 report is correct, in its formula, but the figures need to
7 be up-dated from an early 1973 date to a present date, and,
8 therefore, in all probability, that one million, four, seven,
9 oh, would change into a one million, five, eight something.
10 That's just my figure, and again I want to emphasize that I'm
11 not trying to say, this is the way it has got to be done.
12 I'm stating that we need to get together and decide what is
13 the true primary reserves with today's price.

14 Suppose we were using 1920 prices, that's twenty-
15 five cents, that economic limit sure would be a lot different.

16 Q From your testimony now, as I understand it, you
17 do not have a figure?

18 A No.

19 Q Which you propose as that cross-over point?

20 A No, sir, I do not. I have an estimate of what --
21 well, I have a figure that is presented on Exhibit Two. That,
22 I think, will be the outcome of this meeting, but that is
23 just my figure. That figure would add roughly a million --
24 excuse me, one hundred and eighteen thousand, eight hundred
25 barrels to the one million, four hundred and seventy-nine

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1 thousand that is predicted to be produced by the first. That
2 is an approximation, and I don't think I should put it down,
3 I think we ought to work it out.

4 MR. STAMETS: Are there other questions of this
5 witness? Mr. Ramey.

6
7 CROSS EXAMINATION

8 BY MR. RAMEY:

9 Q Mr. Johnson, say this committee went into meeting
10 in three days, Congress in three days passed their bill which
11 reduced the price of oil to seven, sixty-six, at the best,
12 say that stripper oil became old oil and the price went to
13 five, twenty-five, what would be the effect on this?

14 A We would have to adjust to that, whatever the
15 price is, but the thing about it is, I don't think -- we've
16 got to use what we've got that day. If that day is five
17 dollars or that day is eleven dollars or it is twelve dollars,
18 or if it is eight dollars, let's use it, but why use four.

19 MR. RAMEY: That's all.

20 MR. STAMETS: Any other questions of this witness?

21 He may be excused.

22 (THEREUPON, the witness was excused.)

23 MR. STAMETS: Do you have anything further,

24 Mr. Hunker?

25 MR. HUNKER: Nothing further.

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1 MR. STAMETS: Does anybody else wish to put on
2 testimony?

3 MR. TODD: Could I just make a statement?

4 MR. STAMETS: Let's see first if there is additional
5 testimony.

6 MR. LAMB: Mr. Examiner, on behalf of the Grace's
7 we do not wish to call a witness.

8 MR. STAMETS: We will take statements in this Case
9 at this time.

10 MR. TODD: I'm W. L. Todd, Junior, Dalport Oil
11 Corporation. I was chairman of the operator's committee
12 from the first meeting in June of 1970 until the January '74
13 meeting when Burk Royalty was selected as the operator and
14 as you can understand from the conversation today, we had
15 an awful lot of disagreements, and we had a lot of
16 compromises, and we went through some long sessions trying to
17 get everybody shuffled around and pleased with this thing, and
18 we have just about worn out everybody that is connected with
19 it, so I urge the Commission and hope that the Commission
20 will certainly issue an order that will keep this thing
21 from going under on January the first, because I truly believe
22 that if it goes under, it is going to be an awful long time
23 before we can work back to where we are today. And I assure
24 you that I don't want the honor of being chairman of the
25 committee the next time around.

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1 MR. STAMETS: Any other statements?

2 MR. McCLELLAN: I would like to make a statement.

3 I'm Jack McClellan of McClellan Oil Corporation. I feel
4 the same way as W. L. does, we have all put a lot of time
5 into this thing and it has been to our benefit actually because
6 the price of oil has continued to go up, but we are here to
7 try to get this thing settled and Joe Johnson, the engineer,
8 informs me that it can be done very rapidly.

9 My question would be, and this is not the time
10 for questioning any longer, is: there has never been any
11 mention whatsoever on the part of Burk or W. L. as to their
12 willingness to attempt such a change in this phase-one formula
13 to up-date it 'till today, and if there is no interest on
14 your part to at least attempt this, we may all be wasting
15 our time again, but if there is, I can guarantee you that
16 we would make every effort at any time, anywhere to try to
17 get this thing. We feel too that we don't feel we want to
18 see it go down the drain, we have all spent too much time
19 and money on it.

20 MR. STAMETS: Mr. Hunker, do you have a statement?

21 Mr. Reavis has one, let Humble go first.

22 MR. REAVIS: I think everybody has heard all they
23 want to today, but I have heard nobody say that this is not
24 going to be a successful unitization and a waterflood if it
25 is waterflooded. Of course, I have my doubts if it ever

1 falls apart that we could ever get to a point where we could
2 put the whole thing together, get the whole ball of wax again
3 in the same shape we have got it now. And, therefore, I want
4 to make this statement for Exxon. We urge the Commission to
5 grant an order unitizing the lands and interests in the Double L-
6 Queen pool that is provided for by the statutory unitization
7 act.

8 MR. STAMETS: Mr. Hunker.

9 MR. HUNKER: Mr. Examiner, I would like to call
10 your attention to Chapter two, ninety-three of the laws of
11 1975 and point out to the Commission that there are some
12 problems. First of all, the problem with regard to who
13 initially pays seventy-five percent of the cost of unit
14 operations? I think the testimony of the Burk witnesses is
15 rather indefinite on this score. There is a variance between
16 the provision of the law and the unit agreement. The unit
17 agreement apparently requires eighty percent.

18 I would also like to call your attention to the fact
19 that you might see fit to suggest a formula under the law
20 for these operators. I think it would be a precedent-setting
21 thing for you to do this, but I call your attention to the
22 provisions of 65-14-4, being Section Four of the same Act,
23 wherein relative value is defined as meaning the value of
24 each separately-owned tract for oil and gas purposes and
25 its contributing value to the unit in relation to like

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1 values of other tracts in the unit, taking into account,
2 acreage, the quantity of oil and gas recoverable therefrom,
3 the location on the structure, its probable productivity
4 of oil and gas in the absence of unit operations, the burden
5 of operations to which the tract will or is likely to be
6 subjected or to many of such factors, or such other
7 pertinent engineering, geological, operating, or pricing
8 factors as may be reasonably susceptible of determination,
9 and I suggest to you that it might not be out of line for the
10 Commission, in light of Mr. Johnson's testimony, to take it
11 upon itself to make a determination as to what the factor
12 should be. I don't know whether this would have to be
13 approved by the working interest owners or not, it's
14 problematical, but probably you would want to get some
15 ratification from those working interest owners.

16 And I would like to say this, that Mr. McClellan
17 and the group that he represents are not opposed to unitization.
18 He has very successfully operated the Sulimar project and
19 it has been most successful. He feels that the present
20 program will be successful, but as the operator of the
21 properties in which he has a number of partners, he cannot
22 see or stand idly by and see that they are penalized to the
23 extent of a hundred and thirty-six thousand dollars, which
24 according to Mr. Johnson's testimony which would be accom-
25 plished if the unit agreement is approved in its present form.

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1 I want to thank you very much for the attention
2 that you have given to Mr. Johnson. I wish that I had had
3 more time to review the transcripts of the Commission with
4 the earlier cases that you heard so that I could have
5 avoided some delay, but that's just the way it was. I
6 wanted to be sure that I saw the exhibits that were previously
7 testified to so that we had an opportunity to at least look at
8 them and cross examine if we wished to. With that in mind,
9 I want to thank you again for your kind attention and we do
10 hope you will see fit to protect the correlative rights of
11 the McClellan group and that you will go so far as to see to
12 it that the agreement that is ultimately approved is fair,
13 reasonable and equitable as required by law. Thank you
14 very much.

15 MR. COOTER: A very short closing statement, Mr.
16 Examiner. First with regard to the statutory requirement of
17 seventy-five percent. We believe that the requirement is
18 that, regardless of whether or not the Commission should grant
19 unitization, it must be ratified by the owners of seventy-
20 five percent of the interest of the ones then charged, not
21 only with the operating expenses, but the capital investment
22 as well.

23 As this agreement has worked out, and as it has
24 come down to the eleventh hour, that is done following an
25 accepted full formula that was proposed by Mr. McClellan and

1 agreed to by many of his group by letter ballot and then
2 carried on. It has now been formally ratified by those in
3 excess of seventy-five percent. We believe that the statute
4 is complied with.

5 Now then the question is, should we change the date
6 of phase-one to phase-two? Well, this was set out by Mr.
7 McClellan, this proposal, after we filed this application
8 for statutory unitization. Up until that was filed, all we
9 knew was, no. It was not acceptable despite the five years
10 of negotiations that have been going on. Then at eleven-
11 thirty, which is where we are today, on December 3, is the
12 proposal being made that let's extend this date because now
13 it is economically feasible to continue with primary production
14 until these wells have reached a lower point of production?
15 That is the same throughout the field. We don't believe
16 that the correlative rights of Mr. McClellan are adversely
17 affected by that any more than anyone else. If it is
18 economically feasible for Mr. McClellan to produce, it is
19 the same way, it is economically feasible for Burk Royalty
20 to produce because they are getting the same price for their
21 oil, but that isn't really the important part. What is the
22 important part is that absent approval by the Commission when
23 over seventy-five percent of the people say, "Let's go, let's
24 make it a unit; we now have the statute, let's make the whole
25 thing a unit," we no longer have to be on a voluntary basis

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1 as the agreements were originally planned. Now Mr. Johnson
2 says, well, in the few days remaining in December we are
3 in effect going to re-negotiate all of those participation
4 formulas on a figure that will be agreeable to Mr. McClellan.
5 That might be the decision of the Commission, but in effect
6 from what Dalport has said and what Burk Royalty has said and
7 what Exxon has said, in effect, that is the death blow to
8 the unit.

9 Now whether or not it is revitalized in two or
10 three years later on down the line when Mr. McClellan's
11 interests become a little more pinching, I don't know. He
12 might be able to reinstate it or reinstate it in part or
13 get something going, we don't want to anticipate that.

14 What we are saying is now, is following Mr.
15 McClellan's formula, which everyone else agreed to, which
16 affects every operator in exactly the same manner, this is
17 the unit agreement as we are presenting it to you. Over
18 seventy-five percent of those who will pay not only the
19 capital investment costs, but the operating costs, as of
20 today, or whenever the order is entered, have agreed to it,
21 and that is just what the statute requires. It is now
22 presented as whether or not even with this seventy-five
23 percent that should be acceptable to the Commission and the
24 Commission act on it.

25 This fifty-five forty-five formula is a matter of

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1 of give and take, it is a matter of negotiation. If it had
2 been sixty-forty, Mr. McClellan's interests would have
3 benefited more than the fifty-five forty-five. Likewise, if
4 it had been fifty-fifty his interest would not have been as
5 great, they would have been adversely affected, but this was
6 negotiation, give and take, that has all gone on over a period
7 of five years, here we are down to the eleventh hour, the clock
8 is almost beginning to strike. If we have the unit, if the
9 statute provides that with this amount of approval this can
10 be done, we submit that it treats everyone throughout the
11 unit just exactly in the same manner and for that reason we
12 ask that the Commission grant the application and that it
13 be done promptly so that we can go back and get final
14 approval from the USGS and from the Commissioner of Public
15 Lands if it is granted, otherwise the matter expires.

16 MR. STAMETS: Any other statements in this Case?

17 MR. CARR: Mr. Examiner, we have received a letter
18 from E. E. Morris, Division Engineering Manager with Amoco
19 supporting the application for a flood.

20 MR. STAMETS: I would ask at least Mr. Cooter and
21 Mr. Hunker submit a proposed set of findings and form of
22 order for my consideration in this matter. I would like both
23 of the attorneys to look especially at Section 65-14-6, (b) and
24 (c) of the statutes.

25 Since time is critical on this matter, I would

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1 like to have these proposed orders by next Wednesday, if at
2 all possible.

3 Is there anything further in this Case?

4 We will take the Case under advisement and the
5 Hearing is adjourned.

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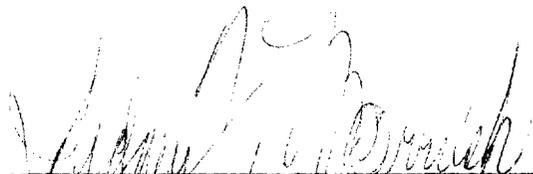
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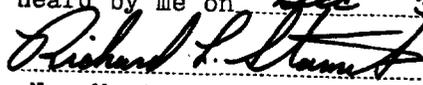
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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a court reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.


Sidney F. Morrish, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5596, heard by me on Dec 3, 1975.

Richard L. Stant, Examiner
New Mexico Oil Conservation Commission

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Phone (505) 982-9212