

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

7 October 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of TXO Production Cor- CASE
poration for compulsory pooling 9233
and directional drilling, Lea
County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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2

MR. STOGNER: Call next Case

3

Number 9233.

4

5

MR. TAYLOR: The application of TXO Production Corporation for compulsory pooling and directional drilling, Lea County, New Mexico.

6

7

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, on behalf of the applicant and I have three witnesses.

8

9

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell & Black, P. A., of Santa Fe.

10

11

In this matter I represent Amerind Oil Company and also Mr. Bill Seltzer.

12

13

I may have one witness. I also have a couple of motions I'd like to present to the Examiner at the beginning of the hearing.

14

15

MR. STOGNER: Mr. Dickerson, the witness that you might have, would be be representing both parties or just one?

16

17

MR. CARR: You mean Mr. Carr?

18

MR. STOGNER: I'm sorry. What did I call you?

19

20

MR. CARR: The witness that I'd

21

have -- Mr. Dickerson.

1 Mr. Dickerson just took offense
2 at that.

3 MR. STOGNER: Oh, and you
4 didn't?

5 MR. CARR: No, I did not. I
6 have a witness for Amerind Oil Company.

7 MR. STOGNER: My apologies, Mr.
8 Dickerson.

9 MR. DICKERSON: It hurts, but
10 it's all right.

11 MR. STOGNER: Are there any
12 other appearances in this matter?

13 Will the witnesses please stand
14 to be sworn?

15
16 (Witnesses sworn.)

17
18 MR. STOGNER: Mr. Carr?

19 MR. CARR: At this time, Mr.
20 Examiner, I move that this case be continued or in the --
21 for thirty days, or four weeks, or in the alternative be
22 dismissed.

23 I make this motion on behalf of
24 Mr. Bill Seltzer. Mr. Seltzer owns a 1/64th undivided in-
25 terest in the northeast quarter of Section 4, Township 17

1 South, Range 37 East. This land is subject to the pooling
2 application. He acquired this interest by assignment on
3 January 30th, 1986.

4 Your rules concerning notice
5 provide that in a case involving compulsory pooling actual
6 notice shall be given to each known individual owning an un-
7 committed leasehold interest that has not been voluntarily
8 committed to the area proposed to be pooled.

9 Mr. Seltzer is such an interest
10 owner. He was provided no notice of this application as re-
11 quired by Division rule. In fact, no one has ever corres-
12 ponded with him directly on this matter in any way and we
13 therefore move that the case be continued for thirty days,
14 or in the alternative, dismissed until proper notice is
15 given to him.

16 MR. STOGNER: Mr. Dickerson?

17 MR. DICKERSON: Mr. Examiner,
18 first of all with respect to Mr. Carr's statement that the
19 application seeks to pool Mr. Seltzer's interest, if you'll
20 look at the application in your file you will see a list of
21 parties listed by name and address who are sought to be
22 pooled in this proceeding.

23 Mr. Seltzer's name does not ap-
24 pear on it. It does not appear on that list for the reason
25 that TXO was unaware that Mr. Seltzer had an interest in

1 this acreage until approximately 5:00 o'clock on Monday af-
2 ternoon, day before yesterday.

3 TXO stipulates and it is my
4 opinion that as a matter of law the pooling application that
5 we're proceeding upon today does not, is not intended to,
6 and cannot operate to adversely affect Mr. Seltzer's inter-
7 est in any way.

8 Promptly upon notification that
9 Mr. Seltzer does have an interest in the spacing unit of the
10 subject well, my clients have contacted Mr. Seltzer by tele-
11 phone. They will continue to be in contact with him and at-
12 tempt to come to some agreement, but we're here today pre-
13 pared to go forward with our evidence as to the other par-
14 ties named in the application who have not agreed to volun-
15 tarily commit their interest to this well, and we submit
16 that as to those parties, in view of the fact that we are
17 not in any way affecting Mr. Seltzer's right that he has to
18 participate in this well or take any other action that he
19 deems in his best interest, since we're not adversely af-
20 fecting him in this proceeding, we should be allowed to go
21 forward against the other parties owning substantial inter-
22 est in this spacing unit who have not agreed to pool their
23 interests.

24 MR. CARR: Mr. Examiner, --

25 MR. STOGNER: Mr. Dickerson,

1 who had -- oh, I'm sorry, who had Mr. Seltzer's interest be-
2 fore him?

3 MR. CARR: Amerind.

4 MR. STOGNER: And then Mr.
5 Seltzer got this interest from Amerind on January 30th, '86?

6 MR. CARR: Yes.

7 MR. STOGNER: Mr. Carr, you
8 were about to say?

9 MR. CARR: I would -- we would
10 differ with Mr. Dickerson's statement that this application
11 would in no way adversely affect Mr. Seltzer's interest.

12 Mr. Seltzer has an interest,
13 just like Mr. Dickerson could hold an interest or I could
14 hold an interest acquired from someone for whom we had pre-
15 viously or currently worked.

16 But to go forward and force
17 pool all the interests in a spacing unit except the holder
18 of a 1/64th interest, puts that person in a position where
19 operations are going forward, there's limited or no exposure
20 from the party who is drilling a well and going forward with
21 that plan, and we submit that it effectively forecloses any
22 ability he might have to effectively negotiate.

23 I think what we're doing is
24 looking at your notice rule. Your notice rule requires that
25 those who are not voluntarily in can be force pooled by ac-

1 tion involving the police power of this state, but that the
2 purpose of notice is so that all those interest owners in
3 that tract that's being pooled have an opportunity to pre-
4 pare to negotiate and to protect their property interest,
5 and just because we can say, well, we'll throw him out,
6 doesn't mean that his interests are being protected, that he
7 is not being adversely affected. We submit quite the con-
8 trary, that the decision is in fact being made at this pro-
9 ceeding as to an interest. The rules have simply not been
10 complied with.

11 MR. STOGNER: Mr. Dickerson?

12 MR. DICKERSON: My client
13 informs me that it was aware that Mr. Seltzer is active in
14 the area. It was aware that he was active in the area
15 because his name appears on many instruments throughout the
16 area.

17 It's my information that Mr.
18 Seltzer acts as independent landman or contracted landman
19 for Amerind.

20 It was the personal nature of
21 his interest in this spacing unit that TXO was unaware of
22 until Mr. Carr's telephone call to me Monday afternoon.

23 The evidence that we propose to
24 offer, I need to summarize it very briefly for the purpose
25 of this motion, is that there is one reservoir in this

1 Strawn Pool which is the subject of this application. There
2 are two existing wells located in the reservoir. The sub-
3 ject well, the well which is the subject of my client's ap-
4 plication, is also located in the same Strawn reservoir will
5 be our evidence.

6 The well immediately to the
7 north offsetting my client's acreage is a well operated by
8 Amerind in which our information is also that Mr. Seltzer
9 also has a small interest.

10 That well makes approximately
11 500 barrels of oil per day.

12 The other well located in this
13 same Strawn Pool, which is operated by the third party not
14 involved in this proceeding, makes in excess of 500 barrels
15 of oil per day.

16 My client has been attempting
17 for a substantial period of time to get a well drilled in
18 order to protect its correlative rights to produce its fair
19 and equitable share of oil from this same Strawn reservoir
20 which is currently being actively drained by one well oper-
21 ated by Amerind.

22 We submit that it's not a coin-
23 cidence that Amerind is here opposing this application. We
24 further submit that it is here opposing this application for
25 the purpose of delay, because every day that goes by the

1 production from its existing well in which Amerind and Penn-
2 zoil collectively own approximately 45 -- 47 percent inter-
3 est in that well, whereas TXO has a small interest slightly
4 in excess of one percent in that well, violates the correla-
5 tive rights of TXO in order to develop its acreage to the
6 south in the same Strawn reservoir.

7 For that reason we think it's
8 perfectly clear that the adverse consequences to TXO with
9 continuations of this case, based on lack of notice to an
10 interest owner with a minuscule percent interest in the well
11 would benefit the other parties at the expense of my
12 client's interest.

13 And we further submit that the
14 drilling of this well operates, if TXO elects proceed to
15 protect itself to drill this well, while Mr. Seltzer remains
16 perfectly capable of participating in it and an offer to do
17 so is extended to him, he is not required to do so, and I
18 would point out in the event TXO proceeds and drills the
19 well, it is TXO, not Mr. Seltzer, that assumes all the risk
20 of an unfavorable outcome of that well.

21 MR. STOGNER: Mr. Carr?

22 MR. CARR: TXO is seeking an
23 order that invokes the pooling statutes of the State of New
24 Mexico that are based the police power of the State of New
25 Mexico and they will affect a property in which he has an

1 undivided interest.

2 Now in this situation when you
3 exercise that police power, the statutes which govern your
4 activity and the rules of this Division provide that there
5 are certain things that must be done first.

6 One of them is you have to give
7 notice and that has not been done. The question isn't
8 drainage. The question is before they ask you to invoke --
9 before they ask you to pool these lands, whether or not they
10 have complied with the statutory and regulatory provisions
11 that entitle them to that order. We submit they have not.

12 There's a sign in the Land Of-
13 fice as you walk up the stairs that reads, "Lack of planning
14 on your part does not constitute an emergency on our part."

15 Now I would submit to you that
16 failure to perfect this application on their part does not
17 give you the right to go enter an order or take an action
18 adverse to someone's correlative rights. Mr. Seltzer's in-
19 terest is small by comparison to TXO's, true, but the owner
20 of each property is entitled to the protection of the Oil
21 and Gas Act, is entitled to have their correlative rights
22 protected.

23 Drainage, yes, it is occurring.
24 We know that well. We sat all summer while a Strawn Pool
25 was being drained, while we had an application pending here.

1 The drainage has been occurring for over a year from the
2 Pennzoil well offsetting it, and what we are doing is pro-
3 posing to you a motion in the alternative, one to continue
4 for thirty days so, one, we have had the benefit of the not-
5 ice statute and now we have notice; and two, so that there
6 can be an effort to obtain some voluntary agreement. If
7 not, we have no other alternative but to ask the case be
8 dismissed.

9 MR. STOGNER: Let's take a five
10 minute recess at this time.

11 Before so, though, I'll take
12 administrative notice of that sign. The only one I've ever
13 seen says, "State Land Office", or "Handicapped parking."

14 Thank you, Mr. Carr.

15
16 (Thereupon a recess was taken.)

17
18 MR. STOGNER: This hearing will
19 come to order.

20 I've made a decision on your
21 motion, Mr. Carr, and I'm going to let Mr. Taylor here speak
22 for me since he has a more silver tongue than I have.

23 MR. TAYLOR: We're going to
24 deny the motion to dismiss and go ahead and hear the case,
25 but I guess we decided what we'll do is we'll allow Mr.

1 Seltzer to decide whether we'll continue the case for thirty
2 days after hearing it today, or go ahead and enter an order.
3 I don't know that there was any deadline for drilling the
4 well, so we -- normally when we have a lack of notice case,
5 what we do is wait till notice is appropriate, and I think
6 it's appropriate to let Mr. Seltzer or his attorney decide
7 that because I suppose if he doesn't ask for a continuance
8 and they go ahead and drill the well, that might let him
9 have some (unclear) if they do drill it.

10 So we'll go ahead and hear the
11 case today.

12 MR. CARR: I have one addition-
13 al motion.

14 MR. TAYLOR: Okay.

15 MR. DICKERSON: I'm afraid to
16 ask. We're going to hear the case --

17 MR. TAYLOR: Right.

18 MR. DICKERSON: -- but continue
19 Mr. Seltzer's --

20 MR. TAYLOR: Well, we could
21 continue it, which would mean an order wouldn't be entered
22 until after the next -- until after thirty days. In other
23 words, if -- where there's a failure of adequate notice we
24 often will let the case be heard but continue it for another
25 thirty days, call it again at that time, and only after that

1 will the Examiner recommend an order.

2 MR. DICKERSON: So call it on
3 November 4th only insofar as it affects Mr. Seltzer's inter-
4 est, so the evidence that we put on today will not by any of
5 us be --

6 MR. TAYLOR: Right.

7 MR. DICKERSON: -- intended to
8 affect his interest.

9 MR. TAYLOR: Correct, and do
10 you wish for the case to be continued after it's heard to-
11 day?

12 MR. CARR: What's that? I
13 didn't hear it.

14 MR. TAYLOR: After it's heard
15 today do you want it to be continued for thirty days until
16 adequate notice is filed?

17 MR. CARR: We will request
18 that, yes.

19 MR. STOGNER: I will also add
20 if Mr. Seltzer and TXO reach an agreement before that thirty
21 days is up, I will be prepared to issue an order at that
22 time.

23 MR. CARR: May I go forward
24 with my next motion?

25 MR. STOGNER: Yes, Mr. Carr,

1 you may.

2 MR. CARR: Again on behalf of
3 Mr. Seltzer, I move that the application be dismissed and
4 I'd like to state the grounds for this motion.

5 Since, as is clear here, TXO
6 was unaware of Mr. Seltzer's interest, no effort has been
7 made to obtain his voluntary joinder in the well.

8 I would direct the Examiner's
9 attention to Order R-8282-B. This case was an application
10 of Marathon Oil Company for compulsory pooling. In that
11 case Mr. Dickerson represented James A. Davidson in opposi-
12 tion to that application.

13 An order was entered September
14 18, 1987, by the Division. Basically what was involved was
15 originally a 40-acre tract pooled by Marathon. Mr. David-
16 son's interest was pooled.

17 Subsequent to that, the spacing
18 was changed and the spacing unit appropriate for a well in
19 that pool then became 80 acres. Marathon sought to amend
20 their original pooling order to add the additional 40 acres
21 in which Mr. Davidson had again the same interest he had in
22 the first 40.

23 Mr. Davidson appeared through
24 Mr. Dickerson in opposition to that application.

25 The order entered on the 18th

1 of September, Finding No. 12 provides, that although the
2 circumstances in this case are unusual, the Division should,
3 in order to abide by its statutory obligation to protect
4 correlative rights, require that Marathon's attempt to se-
5 cure Davidson's voluntary agreement concerning the subject
6 acreage prior to the hearing for a forced pooling order.

7 Now, they then went ahead and
8 denied the application and provided, however, that the ap-
9 plicant could re-open the case upon a proper showing that a
10 good faith effort was made to try to reach a fair and
11 reasonable voluntary agreement with James A. Davidson, and
12 was unable to do so.

13 We submit here that what is be-
14 fore you already today shows that no effort to obtain a fair
15 and reasonable voluntary agreement has been -- no effort
16 along those lines has been made toward Mr. Seltzer, that at
17 a minimum the application would have to be denied.
18 To avoid having to go through the process of the hearing we
19 would ask that it be dismissed on the grounds that no effort
20 has been made to obtain voluntary joinder.

21 MR. DICKERSON: Mr. Examiner,
22 may I very briefly?

23 MR. STOGNER: Mr. Dickerson?

24 MR. DICKERSON: Mr. Examiner,
25 Mr. Taylor heard that case and I was involved in it and I'm

1 intimately familiar with it.

2 The critical difference between
3 that case and this case is that in that case Marathon stipu-
4 lated that it was its opinion as a matter of law that it did
5 not have to, nor did it intend to, attempt to gain the vol-
6 untary joinder of Mr. Davidson in the additional 40-acre
7 tract in which he owned a 38-1/4 percent working interest,
8 which Marathon was seeking to quote amend unquote the pre-
9 vious final pooling order to include.

10 To the contrary, in this case
11 you heard me stipulate on behalf of TXO that it does recog-
12 nize the requirement that it negotiate with Mr. Seltzer in
13 order to attempt to obtain a voluntary joinder or commitment
14 of his interest, and further, that it has already started
15 that process and intends to continue with it.

16 MR. STOGNER: Thank you, Mr.
17 Dickerson.

18 MR. CARR: I would simply close
19 by stating that this very case that we're talking about in
20 which Mr. Dickerson represented James Davidson, the Commis-
21 sion denied an application and gave to Marathon the option
22 to come back once they had made good faith efforts to obtain
23 a fair and reasonable voluntary agreement.

24 We submit that it doesn't make
25 any difference whether they intended to or not, the facts

1 are that no such effort has been made here and until it is
2 made it is not appropriate to bring this matter before you.

3 MR. STOGNER: Okay. Mr. Carr,
4 I'm somewhat familiar with this case and in this particular
5 case there was some unusual circumstances. I do not see
6 that there is a similar nature in this particular case, and
7 by continuing this case for thirty days after hearing today,
8 I believe that should be sufficient time for both parties,
9 and I stress both parties, not only TXO but Mr. Seltzer, to
10 try to reach voluntary agreement. There's got to be two
11 parties in this and in continuing this case for thirty days
12 I believe this would be an adequate time; therefore, I'm
13 going to overrule your motion to dismiss.

14 MR. CARR: Just to clarify your
15 ruling, it was not your statement that someone who was being
16 pooled has the duty to -- to pursue that (unclear).

17 MR. STOGNER: Well, I didn't
18 really say that.

19 MR. CARR: Okay, I just -- I
20 just wanted to clarify it.

21 We're ready to go forward.

22 MR. STOGNER: Mr. Dickerson?

23

24

25

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

4
5 DIRECT EXAMINATION

6 BY MR. DICKERSN:

7 Q Mr. Travis, will you state your name,
8 your occupation, and by whom you're employed?

9 A My name is Gary Travis. I'm a petroleum
10 engineer with TXO Production Corporation in Midland, Texas.

11 Q Mr. Travis, you have not previously tes-
12 tified before this Division as an engineer, have you?

13 A No, sir.

14 Q Will you for the Examiner briefly sum-
15 marize your educational and employment history?

16 A I graduated in December of 1981 from the
17 University of Texas at Austin with a degree in petroleum en-
18 gineering.

19 Went to work for TXO Production Corpora-
20 tion as a drilling engineer. I've worked for them for five
21 years.

22 Q And in what areas do your responsibili-
23 ties for TXO as an engineer, do they include the subject
24 area of this application?

25 A Yes, they do.

1 Q And are you familiar with the application
2 filed in this case by TXO and have you made an engineering
3 study of the available data?

4 A Yes.

5 MR. DICKERSON: Mr. Examiner,
6 tender Mr. Travis as an expert petroleum engineer.

7 MR. STOGNER: Mr. Carr?

8 MR. CARR: No objection.

9 MR STOGNER: Mr. Travis is so
10 qualified.

11 Q Mr. Travis, will you briefly summarize
12 the purpose of TXO's application in Case 9233?

13 A We're applying for an approval to re-en-
14 ter the Hightower No. 1 Well, re-enter it and deepen it di-
15 rectionally, and also for the compulsory pooling of this
16 proration unit.

17 The Hightower No. 1 Well is located 810
18 feet from the north line and 660 feet from the west line of
19 Section 4, Township 17 South, Range 37 East, and it is TXO's
20 proposal to re-enter this well and deepen it directionally
21 to a standard subsurface location.

22 We further seek an order pooling all
23 mineral interests in the Shipp Strawn Pool underlying this
24 proration unit.

25 Q And when you speak of a standard bottom

1 hole location of your directionally drilled well, you're
2 speaking of a standard location under the rules of the Shipp
3 Strawn Pool?

4 A That is correct.

5 Q Okay. What is the purpose of deviating
6 this well from the vertical?

7 A We plan to deviate it ~~300 feet~~ to the
8 northeast of the surface location in order to gain better
9 porosity and --

10 Q Geological advantage?

11 A Right.

12 Q Mr. Travis, will you refer to what we
13 have submitted as TXO Exhibit Number One and tell the Exam-
14 iner what you show on that exhibit?

15 A This is a copy of a land plat showing the
16 location highlighted in yellow of the Hightower No. 1 Well
17 TXO is making this application.

18 Q With a proposed east half northeast
19 Strawn spacing unit?

20 A Yes.

21 Q Okay, turn to Exhibit Number Two and tell
22 us the information reflected on that exhibit.

23 A This is a Form C-103 filed with the State
24 of New Mexico by Mesa Petroleum Corporation, December 31st,
25 1975, showing the plugs that were used to plug and abandon

1 this well, plus the casing stub 8-5/8ths with the top at ap-
2 proximately 10,000 -- 1,089 feet, excuse me.

3 Q Okay, refer to Exhibit Number Three and
4 describe to us TXO's proposed operations in the re-entry of
5 this well.

6 A What I've done here is diagrammed the
7 well as it is presently and in order to show pictorially a
8 step-by-step procedure of the actual re-entry of the 8-
9 5/8ths inch stub.

10 TXO proposed to move in a workover unit
11 and -- and drill out the cement plug set in the surface cas-
12 ing and at the show of the surface casing at 375 feet, con-
13 tinue down through open hole to the top of the 8-5/8ths inch
14 stub at 1,089, drilling with a 12-1/4 inch bit to the top of
15 that stub.

16 At that point TXO plans to enter the hole
17 with an impression block and get an impression of the top of
18 the 8-5/8ths inch stub.

19 We plan to use a workover unit at this
20 time to see if we can get in the 8-5/8ths without moving a
21 rig out there and incurring the cost of moving a large rig
22 and this way we feel like we can see how easily it is to get
23 in the 8-5/8ths inch stub with a workover unit and lower our
24 cost. And we plan to spend maybe 8 days at the most and we
25 don't anticipate spending over \$20,000 just trying to get in

1 the 8-5/8ths inch stub.

2 The next page I pictorially represented
3 the flat bottom mill we're running the hole with and dress
4 off -- we'll run in with a flat bottom mill and dress off the
5 8-5/8ths inch casing. That will make it a uniform diameter,
6 smooth it off, smooth off the top.

7 The next page shows an overshot on a
8 joint of wash pipe, which will go over the outside of the 8-
9 5/8ths inch stub, drilling the cement that might be on the
10 outside of the casing, and also smoothing up the outside of
11 the casing to make a better contact with the lead seal we
12 anticipate running.

13 The next page shows the lead seal casing
14 patch on the end of the 8-5/8ths inch casing and the lead
15 seal and grapple which will make the 8-5/8ths one continuous
16 string to surface.

17 I've also included a diagram of this lead
18 seal so that everyone can get a better idea of what that
19 seal looks like. It shows the grapples and the lead seal.

20 And then finally on the last page I show
21 the 8-5/8ths inch casing tied in with the lead seal casing
22 patch and cement circulated around that casing seal and back
23 to surface.

24 Q Okay. Turn to Exhibit Number Four, Mr.
25 Travis, and tell us what you show on that exhibit.

1 A Exhibit Number Four, I've represented a
2 procedure. I've already gone over steps 1 through 10.

3 At step 11 I shows moving in and rigging
4 up a drilling rig. This will -- we'll use this drilling rig
5 to deepen the well and drill it directionally.

6 I've gone step by step showing our -- our
7 directional procedure here. We'll go in with a, of course,
8 a 7-7/8ths inch bit and nonmagnetic drill collar on the rest
9 of our drilling string, and then we'll drill out to the old
10 TD of 8606.

11 And then on step 14 we drill to approxi-
12 mately 9600 feet. At this point we'll take a magnetic mul-
13 tishot directional survey from 9600 back to the casing shoe
14 at 8-5/8ths as we trip out of the hole.

15 That will be a continuous survey from
16 9600 back to 8-5/8ths. At that point we'll continue to trip
17 out of the hole and in with a wireline and directionally
18 survey the intermediate casing so we know where the shoe of
19 that intermediate casing is.

20 At this point we'll get an accurate bot-
21 tom hole location at 9600 feet of where the wellbore is
22 TD'ed, and in this region wells tend to deviate to the
23 northeast, so it's our hope that we're already in the direc-
24 tion that we want to go and we can either at this point
25 drill deeper and kick it off at a lower point or, if it

1 looks like we need to kick it off then, we'll kick it off at
2 9600 feet.

3 Through the kickoff we'll run in with the
4 7-7/8ths inch insert rock bit and a 5-1/2 inch downhole
5 motor and a 1-1/2 degree bent sub on a nonmagnetic drill
6 collar and then the rest of the drill collars and drill
7 pipe.

8 We'll go in there with a steering tool on
9 wireline and orient our deflecting tool to the correct
10 direction and begin time drilling off to the northeast.

11 We will -- we'll have the steering tool
12 in the hole at this time and we'll drill approximately 100
13 feet with the the steering tool getting a continuous survey
14 of the direction and deviation of the well.

15 At that time we'll -- if we've got the
16 angle we want and the direction, we'll put it out and run in
17 with a stiff hole assembly, which includes a bit, an inte-
18 gral blade stabilizer, drill collars and a roller reamer,
19 and we'll use the integral blade stabilizer, the IBS, as a
20 fulcrum to maintain our angle and the roller reamer to wipe
21 out the kickoff point and also to reduce torque, and we will
22 drill to approximately 10,400 feet with this bottom hole as-
23 sembly, at which time we'll pull out of the hole and run in
24 with a semi-stiff hole assembly, which includes a bit, an
25 IBS, a short drill collar, another IBS, and a 30-foot drill

1 collar, a roller reamer, a drill colla
2 reamer, and this will hold our angle
3 reach TD in a circle of 150 feet radiu
4 at which time we will take a continu
5 back to the surface -- back to the bottom of
6 inch casing.

7 And during the stiff hole and (unclear)
8 hole assembly and the semi-(unclear) hole assembly, we'll be
9 running surveys at not more than 500 feet and more likely
10 200 to 300 feet to determine if we're maintaining our an-
11 gle, and this area is a good area for maintaining that an-
12 gle.

13 Q In your study of the existing wellbore
14 and the available information regarding that wellbore, Mr.
15 Travis, have you come across any information that would
16 cause you any reason to think that this may not be an accep-
17 table candidate for procedure such as that you just des-
18 cribed?

19 A I think this is a very good application
20 for a directional hole. All holes in this area tend to
21 drill very well directionally once they get their angle they
22 tend to keep that angle.

23 Q Is it your opinion that upon completion,
24 successful completion, of the subject well in accordance
25 with this procedure, that TXO and the information furnished

1 by it to the Oil Conservation Division will be able to docu-
2 ment the bottom hole location of your deviated well as being
3 a standard location within the rules of the Shipp Strawn
4 Pool?

5 A Yes.

6 Q Mr. Travis, refer us to your AFE
7 submitted as Exhibit Number Five and summarize the costs
8 reflected on that AFE.

9 A This is an AFE for the re-entry and
10 directional drilling of the Hightower No. 1 Well done in
11 September. It shows a total cost of approximately \$469,800
12 to do this operation. That includes completion and
13 production equipment.

14 Q This AFE was prepared by you?

15 A Yes, it was.

16 Q And in your opinion and based on -- let
17 me ask you, does TXO have experience either drilling as
18 operator or participating in drilling in Strawn Pools in
19 this area of Lea County?

20 A Yes, we do.

21 Q And in your opinion does the estimated
22 cost of this well that you project by Exhibit Number Five
23 represent your -- the best available evidence as to the
24 costs you anticipate in drilling that well?

25 A Yes.

1 Q Okay, refer now to the AFE shown as Exhi-
2 bit Number Six and compare it to Number Five and tell us its
3 purpose.

4 A This is an AFE for a well in the same
5 section that was done back in December of '86. I have re-
6 viewed it and the costs are pretty much -- are still in line
7 with what it cost to do the well today. The total cost on
8 it is \$573,000.

9 Q That projects the total cost of drilling
10 a well from surface to the same TD in this spacing unit
11 rather than re-entering an existing wellbore and deviating
12 it in the manner that you've described?

13 A That's correct.

14 Q And what's the cost savings as shown by
15 these two exhibits, approximately?

16 A We anticipate saving nearly \$100,000.

17 Q Let me ask you, in the event that TXO en-
18 counters unforeseen difficulties or problems in completing
19 the procedure that you've described, what would it do at
20 that point?

21 A We'd analyze the situation, of course,
22 and look at the economics of completing -- finishing the
23 well, and if it didn't look like it was economic or too ris-
24 ky, we would, of course, back off.

25 Q In your opinion is the greatest portion

1 of the risk involved in re-entering this hole in connection
2 with successfully re-entering the 8-5/8ths inch stub that is
3 looking up that you described?

4 A Yes, sir.

5 Q And if that procedure is successfully ac-
6 complished, do you have any reason to foresee any unusual
7 problems to be encountered in the portion dealing exclusive-
8 ly with the deviation of your wellbores as opposed to the
9 re-entry of the well itself?

10 A No, no problems at all.

11 Q Okay, identify Exhibit Number Seven and
12 tell us what it shows.

13 A What I've done here is itemize or isolate
14 the costs of the directional drilling. I've showed four
15 days of additional day work and supervision and the actual
16 tools and the supervision of the directional drilling man
17 and the surveys that we're going to run, and I've showed a
18 total cost of approximately \$37,000 to \$40,000 for the cost
19 of directional drilling.

20 Q The direct costs of the directional drill-
21 ling portion of your program.

22 A Right.

23 Q Okay. Mr. Travis, does TXO request that
24 any order issued by this Division approving your proposed
25 re-entry and deviation of this wellbore contain a provision

1 that allows for the fact that it may prove to be unsuccess-
2 ful and in that event to permit TXO to skid the rig to a
3 lawful location within the same spacing unit?

4 A Yes.

5 Q And drill a vertical hole to total depth?

6 A Yes, sir.

7 Q Were Exhibits One through Seven prepared
8 by you or under your direction and supervision?

9 A Yes, they were.

10 MR. DICKERSON: Mr. Examiner,
11 move admission of the Applicant's Exhibits One through Seven
12 at this time and I have no further questions of Mr. Travis.

13 MR. STOGNER: Mr. Carr, is
14 there any objection?

15 MR. CARR: No objection.

16 MR. STOGNER: Exhibits One
17 through Seven will be admitted into evidence.

18
19 CROSS EXAMINATION

20 BY MR. STOGNER:

21 Q Mr. Travis, what is the standard location
22 for a well in this particular pool? Do you know what the
23 special pool rules say? Or require?

24 A No, I don't know.

25 MR. DICKERSON: Mr. Examiner, I

1 believe it is within 150 feet of the center of any govern-
2 mental quarter quarter.

3 This subject well is located in
4 Unit A, you'll notice, which is an irregular governmental
5 quarter quarter but it's the applicant's intention to bottom
6 this well within that 300-foot radius circle of the center.

7 MR. STOGNER: And is irregular
8 inasmuch as it's just a fraction --

9 MR. DICKERSON: Correct.

10 MR. STOGNER: -- less than 40
11 acres, is that correct?

12 MR. DICKERSON: Yes, sir.

13 Q When was this well first drilled?

14 A It was drilled in 1975.

15 Q Do you know if there's any unusual corro-
16 sive problems in the intermediate strings on any of the
17 other wells that have been drilled out there?

18 A I don't think so at that depth, at 1,089.
19 I think that the top should be fairly intact. I think what
20 we have to watch out for is salt and anhydrite sections and
21 waterflows in those areas would be corrosive and I think
22 that we're above that; in fact, probably in the redbed sec-
23 tion area at that point.

24 Q What was the diameter of the hole that
25 the original 8-5/8ths was set in, do you know?

1 A 12-1/4.

2 Q So in essence this well will be cemented
3 from surface to the old setting depth --

4 A Yes, sir.

5 Q -- (unclear).

6 A That will give it more integrity and make
7 an 8-5/8ths a little bit more stable for the rest of the
8 drilling operations.

9 Q Now, the way I understand it, after you
10 drill your directional drilling, you'll be setting 5-1/2
11 inch casing?

12 A Yes, sir.

13 Q All the way to TD?

14 A Yes, sir.

15 Q What does your cement program for the 5-
16 1/2 call for?

17 A I've anticipated using about 800 sacks of
18 cement. What we'd like to do is, I think, since that's our
19 only zone of interest at the -- in the Strawn, if we cover
20 it by 500 feet I think we should have enough cement column
21 to keep it isolated.

22 Q Are you proposing any stimulation?

23 A Just an acid job; more or less clean up
24 and break through the acid and make sure all the
25 perforations are open; be an acid job with ball sealers.

1 MR. STOGNER: Mr. Dickerson, do
2 you -- will you be calling a geologist later on?

3 MR. DICKERSON: Yes, Mr. Exam-
4 iner, we will.

5 MR. STOGNER: I have no further
6 questions of this witness.

7 Mr. Carr, do you have any ques-
8 tions of Mr. Travis?

9 MR. CARR: Just a few, Mr.
10 Stogner.

11

12 CROSS EXAMINATION

13 BY MR. CARR:

14 Q Mr. Travis, the purpose of the applica-
15 tion is to bottom the hole at a standard location as close
16 to the offsetting production to the north and east as pos-
17 sible, is that not true?

18 A Correct.

19 Q The offsetting wells are in fact fairly
20 good Strawn producers in this area, are they not?

21 A Yes.

22 Q Have you -- do you have at this time a
23 bottom hole survey that tells you where the well is at the
24 current time, the bottom hole location?

25 A No, sir.

1 Q Now, I think you testified that the wells
2 normally in the area have a drift and they drift to the
3 north and the east.

4 A That's correct.

5 Q When you get in the hole could that fact
6 in and of itself cause you to change your plans to go drill
7 a straight hole on this acreage?

8 A I don't -- I don't think that, you know,
9 if we got down to 9600 and ran the survey and found out that
10 we were 200 feet to the northeast, well, we'd probably be
11 glad to find that out.

12 If we wanted to drill a straight hole by
13 setting the surface location over the bottom hole location
14 we wanted, I don't think we would hit that location we in-
15 tend to drill.

16 Q You're seeking authority to -- if in fact
17 your -- if your proposed directional drilling is not feas-
18 ible, you're seeking authority to drill a straight hole on
19 this acreage, is that not correct?

20 A That's correct.

21 Q What would be the surface location?

22 A 660 from the east and 660 from the north,
23 I think, is the rules.

24 Q So you would propose to drill in the cen-
25 ter of that --

1 MR. CARR: I'm just trying to
2 find out, Chad, there's been some question about what the
3 objective is in terms of bottom hole location. It seems to
4 me that if we could establish what the location would be for
5 a straight hole, it probably would establish that.

6 My guess is it's within 150
7 feet of the center of that quarter quarter, as far to the
8 northeast as you can go, and that's just what I'm trying to
9 establish.

10 MR. DICKERSON: My clients do
11 not anticipate, Mr. Carr, having to skid the rig. They are
12 seeking permission, if they do encounter difficulties with
13 the existing wellbore, to do so. I'm sure it would be skid-
14 ded the minimum amount necessary, which would make it still
15 a standard surface location and, of course, they are still
16 obligated to bottom it at a standard bottom hole location
17 under those pool rules.

18 So I don't know that they have
19 isolated the exact location if that contingency were to oc-
20 cur, but they intend to keep it standard top to bottom.

21 MR. CARR: And are you willing
22 to run a bottom hole survey to establish that location in
23 any event?

24 A Yes, sir.

25 Q Does your AFE include the cost of having

1 to go back and drill a straight hole?

2 A No, it's just for the re-entry.

3 Q But it would be TXO's intention --

4 A Well, there is a copy to drill but that
5 wouldn't be -- there's no charge to skid a well -- a rig.
6 They don't skid rigs much any more, anyway, just rig them
7 down and rig them back up.

8 Q But there might be additional costs if
9 that is -- alternative is pursued that aren't reflected in
10 the AFE.

11 A Yes.

12 Q When does TXO -- would they like to com-
13 mence the well, get all of this out of the way?

14 A Like to right away.

15 Q Are you prepared to go forward immediate-
16 ly upon getting approval?

17 A Yes.

18 Q Have you made any estimates of the size
19 of this particular Strawn reservoir, done anything along
20 those lines?

21 A I've looked at what we anticipate on fin-
22 ding and we feel that we can expect from 300-to-320,000 bar-
23 rels of oil.

24 Q In the entire reservoir?

25 A No, for our well.

1 Q And that's based on an estimate of the
2 size of this particular reservoir?

3 A Right.

4 Q And that's just from data on the three
5 existing wells in that pool?

6 A That's based on recovery factors obtained
7 from that pool and other pools.

8 Q And when was this -- and from other
9 pools?

10 A Yes, sir, and they all have a good re-
11 covery factor.

12 Q When was this pool actually discovered?

13 A I don't have that with me. I think the
14 geologist was going to show that --

15 Q That's fine.

16 A -- plat.

17 MR. CARR: I have no further
18 questions.

19 MR. STOGNER: And neither do I.
20 Are there any other questions of this witness?

21 MR. DICKERSON: No.

22 MR. STOGNER: He may be ex-
23 cused.

24

25

1

2

DAVID HUNDLEY,

3

being called as a witness and being duly sworn upon his

4

oath, testified as follows, to-wit:

5

6

DIRECT EXAMINATION

7

BY MR. DICKERSON:

8

Q Mr. Hundley, will you state your name,

9

your occupation, and by whom you're employed, please?

10

A My name is David Hundley. I'm a landman

11

with TXO Production Corp.

12

Q And have you as a landman on behalf of

13

your exmployer previously testified before this division?

14

A Yes, I have.

15

Q How recently?

16

A It's been along time.

17

Q Within the last year?

18

A Year or 18 months.

19

Q Mr. Hundley, are you familiar with the

20

land title situation in the proposed spacing unit of TXO's

21

well and in the surrounding area?

22

A Yes, sir.

23

Q And are you familiar with TXO's

24

application in this case?

25

A Yes, I am.

1 MR. DICKERSON: Tender Mr.
2 Hundley as a petroleum landman, Mr. Examiner.

3 MR. CARR: No objection.

4 MR. STOGNER: Mr. Hundley is so
5 qualified.

6 Q Mr. Hundley, will you tell us a little
7 bit about the history of well proposals on this spacing unit
8 proposed to be dedicated to this re-entry of the Hightower
9 Well?

10 TXO did not -- your proposal to drill
11 this well is not the first proposal to drill a well on this
12 spacing unit that's been made, is it?

13 A No, it's not. The initial proposal to
14 drill a Strawn test on this 80-acre tract was made, I be-
15 lieve, in November of 1986 by Amerind Oil Company through
16 its land consultant, Bill Seltzer. At that time TXO re-
17 viewed the proposal and in February executed and returned an
18 Authority for Expenditure for the drilling of that well, in
19 which we -- and requested an operating agreement so that we
20 could participate in the well.

21 Q What became of that well proposal? Was
22 the well drilled by Amerind?

23 A There was no well drilled on this 80-acre
24 tract by Amerind or anyone else, and our proposal or our
25 agreement to join in the participation of this well was --

1 was simply dropped and no action was taken.

2 Q When did TXO first propose this well, and
3 for this refer to what we have submitted as Exhibit Number
4 Eight, if you would.

5 A Exhibit Number Eight is a letter dated
6 June 30th, 1987, in which we propose the Hightower No. 1 re-
7 entry for this 80-acre tract as a Strawn test. The letter
8 was sent to the various parties and the certified return re-
9 ceipts are attached.

10 Q Briefly summarize for the Examiner what
11 did TXO propose in that letter?

12 A We proposed to re-enter and deepen the
13 Hightower No. 1 re-entry, as Mr. Travis has testified as to
14 the deepening operation, and so forth, for a Strawn objec-
15 tive.

16 Q Now for the purpose of brevity in your
17 presentation you show on the top of Exhibit Number Eight, do
18 you not, only the letter to Amerind? Do I understand you
19 and those certified receipts attached, identical letters
20 were sent to the other working interest owners?

21 A Right.

22 Q That you knew of. They were not set to
23 Mr. Seltzer as is proposed you do today.

24 A Right. Right. We did not notify Mr.
25 Seltzer.

1 Q Okay, direct the --

2 A We sent a --

3 Q Excuse me.

4 A That's all right, go ahead.

5 Q Direct the Examiner's attention to the

6 next correspondence --

7 A Okay.

8 Q -- which TXO had with the parties.

9 A The next letter is dated August 7th,

10 1987. It's directly behind the last certified mail receipt

11 for the June 30th letter.

12 It's followed by an addressee list and ad-

13 ditional certified mail receipts.

14 Q Again identical letters mailed to all the

15 parties.

16 A Right. This is a similar proposal to the

17 other letter regarding a Strawn test for the 80-acre unit

18 that we're interested in drilling on.

19 The next letter after the last certified

20 mail receipt attached there, is my letter dated September

21 11th, 1987, once again proposing that the parties agree to

22 participate in the well or farm out or if they were an un-

23 leased mineral owner to lease to us.

24 Attached to that letter was an operating

25 agreement for the 80-acre tract in which we propose to use

1 the operating agreement. Overhead rates were -- are pro-
2 posed as \$5500 as the drilling well rate and \$550 as a pro-
3 ducing well rate.

4 Q Mr. Hundley, before we get to that, let's
5 don't leave the letter quite yet.

6 That letter of September 11th that you're
7 referring to, that letter also enclosed with it an AFE for
8 the proposed re-entry of the Hightower Well and the devia-
9 tion of that well in the manner that we're seeking here to-
10 day, did it not?

11 A Yes, it was the AFE that was entered ear-
12 lier by Mr. Travis. The letter also references our forced
13 pooling case on this date. This letter was not sent to Mr.
14 Seltzer.

15 Q For the purposes of the record, you, as I
16 understand your testimony, originally furnished the parties
17 an AFE proposing to re-enter but drill vertically the High-
18 tower Well and then by your September 11th --

19 A Right.

20 Q -- proposal, you then for the first time
21 proposed the -- the deviation of the well to the slight ex-
22 tent testified to here today?

23 A Right. The procedure was altered slight-
24 ly to allow for the 200 feet or so deviation, if necessary.

25 Q All right. Let's, for the purpose of the

1 pooling portion of this case, Mr. Hundley, refer first of
2 all to page number 5 of the joint operating agreement which
3 was furnished to all parties with your September 11th order.

4 What were the proposed nonconsent penal-
5 ties contained in that joint operating agreement?

6 A The proposed penalties were 300 percent
7 and 400 percent; 300 percent being the well equipment and
8 400 percent being drilling costs.

9 Q Now TXO recognizes, does it not, that
10 those penalties proposed in the form of operating agreement
11 are in excess of those permitted to it under our compulsory
12 pooling statute was limited to an additional 200 percent of
13 total well costs?

14 A That's right. We understand that the
15 maximum we could receive at a forced pooling hearing and in
16 an order under forced pooling would be a total of 300 per-
17 cent.

18 Q Okay. Now, for the purposes of its ap-
19 plication and its request for establishment of overhead or
20 supervision charges, direct the Examiner's attention to the
21 portion of the joint operating agreement which sets forth
22 those figures.

23 A All right, that's listed on page 3 of the
24 Exhibit C, the accounting procedure, for drilling opera-
25 tions.

1 Q And those figures are --

2 A The drilling well rate in the submitted
3 operating agreement is \$5,500 and the producing well rate is
4 \$550.

5 Q Mr. Hundley, are you familiar -- TXO has
6 conducted operations previous to this application in this
7 well for Strawn objectives, has it not?

8 A Yes.

9 Q And in your capacity as an employee of
10 TXO are you familiar with overhead charges in the general
11 area in the recent past, either in TXO wells or in the wells
12 of other parties?

13 A Yes. As a matter of fact, the wells
14 drilled on this same quarter section operated by Pennzoil in
15 which we participated have identical overhead rates in the
16 operating agreement, and that's the basis of --

17 Q Identical to the ones that you're request-
18 ing today?

19 A Identical to our proposed rates and --

20 Q And Pennzoil is a party to this proceed-
21 ing, is it not?

22 A Yes, they are.

23 Q Okay, Mr. Hundley, refer to what we sub-
24 mitted as your -- the rest of Exhibit Number Eight consists
25 of nothing more than counterpart copies of your letters to

1 the various other working interest owners that you've pre
2 viously mentioned.

3 A Right, are for purposes of brevity we've
4 only included one copy. The copies at the back are identi-
5 cal.

6 Q Mr. Hundley, the application that we
7 filed in this proceeding set forth the names of -- and ad-
8 dresses of 31 different entities or individuals sought to be
9 pooled.

10 That list is no longer current, is it?

11 A No. Exhibit Number Nine is a list of the
12 parties who have not given an election to participate or
13 farmout.

14 I'd like to go through the list and tell
15 a little bit about our negotiations with each one.

16 Amerind Oil Company and Pennzoil Company
17 both have substantial working interests in this 80-acre
18 tract and have not made an election to join in this well or
19 farmout their leasehold interest.

20 We have offered a farmout agreement pro-
21 posal to them in which they receive the right to back in for
22 a third back in after payout.

23 Q And that offer was made to which parties?

24 A This offer was made to Amerind and Penn-
25 zoil.

1 Q Do you have any knowledge of your own re-
2 garding other trades in the area of this proposed well which
3 have been made?

4 A Yes. I know that this was the same farm-
5 out trade term under which Amerind farmed out to Pennzoil
6 for the Shipp well which we are offsetting directly one
7 spacing unit to the west.

8 I know that directly to the north, if
9 you'll look on the land plat, in the east half southeast
10 quarter of Section 33, Amerind operates the Hagger No. 1
11 Well in which Fina farmed out to Amerind and received a 25
12 percent back in at payout.

13 I am told that Mesa farmed out to Penn-
14 zoil for the well in the west half northwest quarter of Sec-
15 tion 3 and Mesa received a 40 percent back in after payout.

16 So you can see that we are equal to the
17 offer on the west. We are better than the offer on the
18 north and we are less than the offer on the east.

19 Q In your opinion is the offer extended by
20 TXO to Amerind, the one-third back in a fair and reasonable
21 offer and consistent with the general ongoing deals being
22 made in the vicinity.

23 A Yes.

24 Q Continue, Mr. Hundley.

25 A Okay. The next three mineral owners,

1 Cleroy, Lanroy, and J. R. McGinley, are just that, unleased
2 mineral owners who have not given us any indication whether
3 they wish to lease their minerals or join with their mineral
4 interest or farmout.

5 The next interest is Speer Brothers Sheep
6 and Cattle Company. We have discussed this proposal with
7 Speer Brothers many times and they are considering partici-
8 pating with us at this point. They have not made a final
9 decision.

10 The next owner is Mobil, who has a work-
11 ing interest. Mobil has apprised us verbally that they are
12 interested in participating in this well although their man-
13 agement has not given them final approval.

14 Q Mr. Hundley, before we go any further,
15 your figures under the column headed Interest are gross cost
16 interest in this well, are they not?

17 A Right, they are cost (unclear).

18 Q And so those percentages, your indica-
19 tions WI indicate a working interest, ULMI indicate unleased
20 mineral interest?

21 A That's right.

22 Q And these percentages set forth in that
23 column are the allocated cost of this well that TXO seeks to
24 allocate to each party who does not elect to participate in
25 the voluntary drilling of the well?

1 A That's right.

2 Q All right, continue with telling us the
3 status of the other parties.

4 A Okay.

5 Q Okay. Harry A. Miller, Jr., through E.
6 B. White are unleased mineral owners who have proposed to
7 lease their minerals to us for a one-third royalty.

8 We are reviewing that proposal but at
9 this time have not accepted those lease terms. They are
10 aware of this proceeding and know that we're going through
11 with forced pooling.

12 Q You're saying that the one-third royalty
13 reserved for lessors is -- you don't anticipate that that
14 will be satisfactory with TXO?

15 A No, I don't. That's substantially higher
16 than royalties in this area.

17 The next owner is Sohio with an unleased
18 mineral interest. Sohio, like Mobil, has indicated an in-
19 terest in participating; however, they are also waiting on
20 final management approval.

21 The next interest is Jack Hightower, who
22 has once again indicated a willingness to join or farmout
23 but has not made a final election. He's aware of these pro-
24 ceedings.

25 The next interest is Sun Exploration.

1 Once again they have not received final management approval
2 and they were advised of these proceedings.

3 The last owner is Texaco, which has a
4 working interest. We have recently spoken with Texaco and
5 they have indicated an interest in participating but we are
6 waiting on their management committee.

7 Q Mr. Hundley, what is TXO's approximate
8 interest in this proposed well?

9 A Right now our approximate interest is 6
10 percent. We recognize that as a small interest but in the
11 event of lack of action or as a result of lack of action,
12 and the potential drainage, we -- our management was under
13 the impression that if we did not press this issue nothing
14 would be done.

15 Q Mr. Hundley, let me ask you, and let's
16 refer for this purpose both to Exhibit Number One, which was
17 the land plat, and your Exhibit Number 9, the collective
18 interest of Amerind and Pennzoil in this well is in excess
19 of 30 percent of the outstanding interest, is it not?

20 A Yes, sir.

21 Q You testified that you believe that the
22 interest of Mobil, which is in excess of 11 percent cost of
23 this well, they have verbally or tentatively, in your
24 opinion, they are considering participating in this well?

25 A I think that they will make an election

1 to participate. They have given indication but no final --

2 Q And the same with Texaco with a 4 percent
3 interest, it's your belief that it's likely that Texaco will
4 join in the proposal that TXO has made?

5 A As will Sohio, also.

6 Q And with the exception of those parties,
7 the remainder of the working interest or unleased mineral
8 interest owners within the spacing unit are none of them in
9 excess of 3 percent, are they? I'm sorry, I see, well,
10 Sohio is 6-1/4 percent, but none of the others are in --

11 A Right.

12 Q -- excess of 3 percent.

13 A That's right.

14 Q Now, with reference to the land plat in
15 Exhibit Number One, let me direct your attention to the well
16 located in the southwest quarter of the southwest quarter of
17 Section 33, immediately offsetting your proposed spacing
18 unit to the north.

19 Do you have any knowledge regarding the
20 ownership within that wellbore? Do you know whether or not
21 TXO has an interest in that well?

22 A I think you mean the southeast quarter of
23 the southeast quarter of Section 30.

24 Q Southeast southeast, I'm sorry.

25 A We have roughly one percent interest in

1 that well.

2 Q And do you know whether or not Amerind
3 and Pennzoil have an interest in that well?

4 A According to our operating agreement,
5 Amerind has roughly 47 percent and Pennzoil has roughly 8
6 percent.

7 Q As compared to TXO's slightly in excess
8 of 1 percent of that well?

9 A Right.

10 Q Mr. Hundley, let me ask you to identify,
11 and we'll take this out of order, what we have marked as TXO
12 Exhibit Number Fifteen, identify that and tell us what it
13 is.

14 A Exhibit Number Fifteen is an affidavit of
15 mailing in which we notified the offsetting operators of our
16 intention to deviate this well as discussed earlier.

17 Q With certified receipts requested, were
18 they not?

19 A Yes, they are attached.

20 MR. DICKERSON: And the
21 originals, Mr. Examiner, of those receipts are contained in
22 one of the copies that we submitted to you.

23 Q Mr. Hundley, refer to Exhibit Number
24 Sixteen and briefly tell us what that instrument is.

25 A Exhibit Number Sixteen is an affidavit of

1 mailing for our application in this case with certified mail
2 receipts attached.

3 Q And those were directed to the parties to
4 be pooled.

5 A Yes.

6 Q And again those parties that were
7 notified are in excess of the parties shown on your Exhibit
8 Number Nine but for clarity, it's TXO's intent here today
9 to affect by this proceeding only those individuals or
10 companies shown on Exhibit Number Nine which you previously
11 discussed.

12 A Right. It is not our intention to pool
13 anyone else.

14 Q Mr. Hundley, with the exception of
15 Exhibits Fifteen and Sixteen, were Exhibits Eight and Nine
16 compiled by you or under your direction and supervision?

17 A Yes, sir.

18 MR. DICKERSON: Mr. Examiner,
19 move admission of TXO Exhibits Eight, Nine, Fifteen and
20 Sixteen, and I have no further questions of Mr. Hundley.

21 MR. STOGNER: Are there any
22 objections?

23 MR. CARR: No objection.

24 MR. STOGNER: Exhibits Number
25 Eight, Nine, Fifteen and Sixteen will be admitted into

1 evidence at this time.

2 Mr. Carr, your witness.

3

4

CROSS EXAMINATION

5 BY MR. CARR:

6 Q Mr. Hundley, I understood your testimony
7 to be that on September 11th you mailed out the AFE which
8 has been offered in this case to those interest owners that
9 you are seeking to pool here today.

10 A Yes. At any other time have you mailed
11 out an AFE or any other AFE to these interest owners?

12 A I believe my earlier letter contained an
13 AFE but it did not contain the directional procedure.

14 Q And that was an AFE for a straight hole
15 that was previously submitted?

16 A It was a re-entry in a straight hole.

17 Q And about what time would that have been
18 mailed to these interest owners, approximately?

19 A Well, it was first done on June 30 (not
20 clearly understood.)

21 Q Now you talked about an offer to the, I
22 guess, east of the subject prospect where Amerind had farmed
23 out to Pennzoil for a one-third back in after payout, is
24 that correct?

25 A No, it was to the west.

1 Q To the west? That was in a separate
2 reservoir, was it not, not the one we're talking about to-
3 day?

4 A I don't know when it was.

5 Q Okay, if you don't know, that's all
6 right.

7 A It's -- it's the west half of the
8 northeast quarter.

9 Q Okay.

10 A The 80-acre tract immediately adjacent to
11 the west.

12 Q Now if I -- if we can look at your
13 Exhibit Number Nine, these are a list of the individuals
14 who currently are not, as I understand it, voluntarily in
15 the well --

16 A Right.

17 Q -- or subject to the pooling -- or we've
18 got several groups of individuals, those who you've
19 voluntarily acquired joinder from --

20 A Right.

21 Q -- and then you have these individuals
22 who are going to be subject to the pooling application, is
23 that my understanding?

24 A Right.

25 Q And with the -- and then Mr. Seltzer.

1 A Mr. Seltzer is not a party to this.

2 Q Okay. What is the status of the Mark
3 Hannifin interest? Is it to be pooled or is it --

4 A Mark Hannifin has indicated a willingness
5 to farm out to us.

6 Q Do you have anything on that yet?

7 A Well, we don't have a signed contract.

8 Q When did you discover that Mark Hannifin
9 had an interest in this property?

10 A Monday.

11 Q And he was not included in the pooling
12 application, is that correct?

13 A No, he knows he's not involved in this at
14 all.

15 Q And if you can't reach an agreement then
16 you have the same problem with him you do with Mr. Seltzer.

17 A That's right. So he's -- he's indicated
18 a willingness to farm out and we don't anticipate a problem.

19 Q Have you agreed to terms as to that farm-
20 out?

21 A We have made an offer. He is reviewing
22 it.

23 Q Okay.

24 MR. CARR: That's all I have.

25 MR. STOGNER: Thank you, Mr.

1 Carr.

2

3

CROSS EXAMINATION

4 BY MR. STOGNER:

5 Q I'll refer to Exhibit Number Nine. What
6 is Mr. Seltzer's interest?

7 A Mr. Seltzer's interest is, as indicated
8 by Mr. Carr, a 1/64th --

9 Q Well --

10 A -- under certain leases.

11 Q -- let me back up. I'm asking you. I'm
12 not asking Mr. Carr.

13 A Okay.

14 Q What is Mr. Seltzer's interest?

15 A I've calculated Mr. Seltzer's interest as
16 1/64th proportionately reduced to .005, roughly. I don't
17 think it's a full 1/64th based on my examination.

18 Q .005 give or take a little bit.

19 A The -- the 1/64th reservation granted by
20 Amerind to Mr. Seltzer did not cover every lease in this
21 tract and consequently I think it must be proportionately
22 reduced.

23 Q Say what?

24 A The assignment from Amerind to Mr. Selt-
25 zer granted him a 1/64th interest under certain leases at-

1 tached to that assignment. All right? Those leases didn't
2 cover 8/8ths of the minerals, so if they cover 50 percent of
3 the minerals his 64th would actually be a 128th, and so
4 forth. All right?

5 Q I see.

6 A I reduced it proportionately and came up
7 with a .005 and, you know, four other numbers.

8 Q Okay. So it only depends where the tract
9 is at.

10 A Well, it depends on the -- right, the net
11 acres owned by the mineral owner under which his interest is
12 reserved.

13 Q And Mr. Seltzer's interest is only tied
14 in with Amerind's interest, is that correct?

15 A He received it from Amerind. He's a --
16 he's a separate owner and has no -- they're independent from
17 each other.

18 Q What does all these figures add up to on
19 Exhibit Nine? How big of an interest are we talking about?

20 A I don't know, I didn't total them; in ex-
21 cess of 50 percent.

22 Q I guess my question should be how much
23 interest do you have already acquired or had volunteered or
24 --

25 A Well, that would be the difference.

1 Q It doesn't exceed 50 percent?

2 MR. DICKERSON: Mr. Examiner,
3 so it's clear, TXO, part of that additional not to exceed 50
4 percent consists of interest owned by third parties who have
5 elected to participate in this well, not necessarily by TXO
6 itself.

7 Q To date has there been any written cor-
8 respondence with Mr. Seltzer?

9 A Yes. A certified letter was sent out
10 yesterday; telephone conversation Monday night after we
11 learned of his interest. We made the same offer to him
12 that's been made to Amerind.

13 MR. STOGNER: Okay, I'm going
14 to request that any correspondence with Mr. Seltzer, that
15 you send me a copy and we'll make it a part of the record in
16 this case.

17 MR. DICKERSON: Okay.

18 MR. STOGNER: I have no further
19 questions of Mr. Hundley.

20 Are there any other questions
21 of this witness?

22 Mr. Carr, do you have any fur-
23 ther questions?

24 MR. CARR: No, I don't, Mr.
25 Stogner, thank you.

1 MR. STOGNER: Okay, let's take
2 about a fifteen minute recess at this time.

3
4 (Thereupon a recess was taken.)

5
6 MR. DICKERSON: Mr. Hundley,
7 with your permission we would ask Mr. Hundley two additional
8 questions for the purpose of clarifying two points that
9 were previously discussed, and I'm not sure that we correct-
10 ly testified to the true facts.

11 MR. STOGNER: Okay.

12
13 REDIRECT EXAMINATION

14 BY MR. DICKERSON:

15 Q Mr. Hundley, what is your understanding
16 once more with respect to the gross interest or the cost in-
17 terest of Mr. Seltzer in TXO's proposed well?

18 A As I calculated Mr. Seltzer's interest,
19 it's .0005 and then some numbers. I'd previously testified
20 only two zeros.

21 Q So your --

22 A I'm sorry for the mistake.

23 Q -- opinion is that instead of approxi-
24 mately 1/2 of one percent it is approximately 1/20th of one
25 percent?

1 A Yes.

2 Q In addition, the -- Mr. Stogner asked
3 about the bottom hole location footagewise off the lease
4 lines earlier.

5 The lot that we're drilling in is actual-
6 ly a little bit long. It's greater than 40 acres, 40.95 ac-
7 res, not smaller, so our target location is 554 from north
8 and east.

9 MR. DICKERSON: And I have no
10 further questions of Mr. Hundley.

11 MR. STOGNER: Mr. Carr, do you
12 have any further questions?

13 MR. CARR: I have no further
14 questions.

15 MR. STOGNER: I have no ques-
16 tions of Mr. Hundley. He may be excused.

17 Mr. Dickerson?

18
19 GREG WILSON,
20 being called as a witness and being duly sworn upon his
21 oath, testified as follows, to-wit:

22

23 DIRECT EXAMINATION

24 BY MR. DICKERSON:

25 Q Mr. Wilson, will you state your name, by

1 whom you're employed, in what capacity, and where you re-
2 side?

3 A My name is Greg Wilson. I'm employed by
4 TXO Production Company.

5 Q And what is your occupation?

6 A Oh, I'm a geologist.

7 Q And you reside in Midland, Texas?

8 A In Midland, Texas.

9 Q You have not previously testified, have
10 you?

11 A No, I haven't.

12 Q Would you briefly summarize your educa-
13 tion and employment background for us?

14 A I have a BS in geology from Indiana Uni-
15 versity. I got that in 1980.

16 I worked as a mudlogger in Oklahoma for a
17 year after that and I had two years of gradute courses at
18 Indiana University after which I started work for TXO in
19 1984.

20 Q And do your duties with TXO include the
21 area involved in this application?

22 A Yes, they do.

23 Q And have you made a study of the geologi-
24 cal information available in this area and are you familiar
25 with that information?

1 A Yes, I have.

2 MR. DICKERSON: We tender Mr.
3 Wilson as an expert petroleum geologist, Mr. Examiner.

4 MR. STOGNER: Are there any ob-
5 jections?

6 MR. CARR: No objections to his
7 qualifications.

8 MR. STOGNER: Mr. Wilson is so
9 qualified.

10 Q Mr. Wilson, refer to what we have identi-
11 fied as TXO Exhibit Number Ten, if you would, and tell us
12 what that map reflects.

13 A This is a structure map. It's picked on
14 the top of the Strawn carbonate, which is the top of the to-
15 tal interval, not the top of the porosity.

16 What this shows generally is that the re-
17 gional structure is down to the northeast. The production
18 occurs for the most part but not entirely on structural
19 noses which also trend to the northeast. This structure is
20 a result of thickening of the Strawn, not really -- with
21 some local structure involved.

22 Structure is not really going to be a
23 factor in this well because there is no significant water
24 production in the down dip offsets.

25 Q In your investigation and study of this

1 data, Mr. Wilson, you are here to express an opinion based
2 upon the facts that you've examined with respect to an ap-
3 propriate risk penalty which TXO proposes to have imposed by
4 the Division in the pooling case.

5 A Uh-huh.

6 Q Correct?

7 A Yes.

8 Q Okay, with that in mind, would you refer
9 to Exhibit Number Eleven and tell us what that instrument
10 is?

11 A This is an Isopach map of the Strawn por-
12 osity greater than 4 percent. It's somewhat of an arbitrary
13 porosity cutoff but it seems that with a minimum of 4 per-
14 cent porosity you can get production from the Strawn carbon-
15 ate.

16 The porosity developments tend to be oval
17 or somewhat irregular. The contacts of the porosity, that
18 is where there is porosity and where there is not porosity,
19 tend to be rather sharp, as shown by the well in the north-
20 east of the northwest of Section 4 having 86 feet of poros-
21 ity. The well immediately to the east, which is the Penn-
22 zoil Shipp State No. 2, had no porosity. That's about an
23 800 feet distance between those two locations.

24 Q You're indicating the dry hole.

25 A Yes, the dry hole in the northwest of the

1 northeast.

2 So in only 800 feet, 86 feet of porosity
3 went to zero feet. There are several other similar examples
4 on the map.

5 Because of this very sharp contact be-
6 tween porosity and lack of porosity, and from my interpreta-
7 tion, we decided that we did need to deviate the hole 300
8 feet to the northeast.

9 The separation of some of these pods that
10 I've shown that is not necessary from the well data, is
11 based on some initial bottom hole pressure differences that
12 were taken from DST's. That will be our next exhibit and
13 I'll get to that in a moment.

14 The remainder of my interpretation is
15 basically from well data.

16 Permeability within these porosity devel-
17 opments is not uniformly continuous. That's to say that
18 even though you may have two wells that appear to be in the
19 same porosity development, there may or may not be good con-
20 tinuous permeability between the wells.

21 The, let's see, I think this can be ex-
22 plained by there's probably a number of overlapping porosity
23 zones which are not in direct communication. In other
24 words, you may have a zone developed low in a section and
25 one well developed high in the section than the other; there

1 may be some overlap but not necessarily communication be-
2 tween the two.

3 That involves or produces some risk in
4 the area because you may not know exactly which reservoir a
5 well is in, if there are several wells in the same reser-
6 voir, and to determine that really all we have is pressure
7 data and production.

8 Q Let me ask you, Mr. Wilson, there appears
9 to be on your Exhibit Number 11 a dry hole indicated to the
10 immediate --

11 A Uh-huh.

12 Q -- east of the proposed spacing unit that
13 we're involved with here.

14 A Yes.

15 Q Is that also a Strawn test?

16 A Yes. That's the Pennzoil Waldron No. 1,
17 and they encountered what appear to be 6 feet of porosity.
18 The apparent porosity may have been due to some washout in
19 the borehole, so that may actually be a zero, but from the
20 logs it indicated 6 feet of porosity.

21 Q And if I'm not mistaken, another dry hole
22 indicated up in the southeast quarter of Section 33 to the
23 north of your proposed location.

24 A Yes, that's the TXO Production Carter Es-
25 tate No. 1. Again they had a few feet of porosity, which

1 may or may not have been true porosity. That may have been
2 due to washout in the hole.

3 Q From your preparation of this map and
4 your interpretation of it, Mr. Wilson, can you point out for
5 our benefit, and those of Mr. Stogner, the reservoir bound-
6 aries that you perceive in this proposed location that TXO is
7 concerned with?

8 A Yes. The wells within the Shipp Field,
9 which are in Section 4, the initial bottom hole pressure on
10 the discovery well, which was the Pennzoil Viersen No. 1 in
11 the northeast of the southeast of Section 4, had an initial
12 bottom hole pressure on a DST of 2554 pounds. That's fairly
13 consistent with their Pennzoil Viersen No. 2 to the south-
14 west of that well. The Pennzoil Shipp No. 1, which is in
15 the southwest of the northeast, and the Tipperary No. 1 and
16 2-4 State, which are in the east half of the northwest of
17 Section 4, they're all within 50 to 100 pounds of that bot-
18 tom hole pressure.

19 The Amerind Hagger No. 1, which is in the
20 southeast of the southeast of Section 33, north of our pro-
21 posed location, had about 150 to 200 pounds more bottom hole
22 pressure, which suggests there may be some separation be-
23 tween those two reservoirs.

24 The well immediately east of that --

25 Q Now you're referring to your Exhibit Num-

1 ber Twelve now, correct?

2 A Yes. I'm sorry, I skipped ahead. This
3 is Exhibit Number Twelve.

4 All these pressures and the completion
5 dates of these wells are listed on here.

6 Q Mr. Wilson, before you continue with Ex-
7 hibit Number Twelve, let me ask you one additional question.

8 A Okay.

9 Q As I understood your testimony, TXO's de-
10 cision to attempt to deviate the re-entry that you propose
11 is based on your recommendation because of the geological
12 factors concerning the abrupt changes in porosity and the
13 necessity of that porosity to exist in order to establish a
14 commercial well?

15 A Yes.

16 Q Okay. Now refer back, if you would, to
17 Exhibit Twelve and continue telling us what you interpret
18 from that information.

19 A Okay, I was getting to my recommendation
20 to deviate the hole.

21 The Amerind Hagger in the southeast of
22 the southeast of Section 33 and then the Union Texas, let's
23 see, that would be the Shipp Estate No. 3-34 in the south-
24 west corner of Section 34, were comparable in bottom hole
25 pressure, within about 120 pounds.

1 Then immediately south of the Union Texas
2 well is the Pennzoil No. 1 Meyers, which had a final shut-in
3 pressure on a DST of 3582 pounds, which is, what, 700 pounds
4 more than the well immediately to the north and the Amerind
5 Hagger in Section 33, which suggests that there is a separa-
6 tion in those two reservoirs.

7 So it looked as though our location would
8 probably be in the same reservoir with the Amerind Hagger
9 and the Union Texas Shipp Estate.

10 In order to maximize the amount of poro-
11 sity that we can get, we felt it was necessary to move to
12 the northeast and try and get as close to that porosity de-
13 velopment as possible.

14 Q Are there any other indications on this
15 map that bear on your determination as to whether or not
16 drainage is or is not likely to occur in these reservoirs?

17 A Well, there's examples of both. The
18 example I just gave of the Pennzoil Meyers Well having 700
19 pounds more pressure than the adjacent wells, in Section 34,
20 the northwest quarter, there is the No. 4 Mesa Petroleum
21 West Knowles, which is in the northwest of the northeast.
22 Then immediately to the east, the No. 8 West Knowles Unit.
23 These wells were drilled about six years apart, the No. 4
24 being the first one. It was drilled in June of '75. It had
25 3400 pounds of bottom hole, approximately.

1 Six years later there was about a one-
2 third drop to 2269 pounds of bottom hole pressure. So they
3 did see a significant drop in bottom hole pressure and so
4 drainage over that distance is certainly possible in this
5 area, so I think that we can show examples of both, where
6 you may have drainage between two wells communication and
7 you may not have communication.

8 Q But at any rate in your opinion those
9 last three wells that you mentioned are in the same Strawn
10 reservoir, not the same Strawn reservoir as TXO's proposed
11 well here but as --

12 A Right.

13 Q -- compared to themselves within the same
14 --

15 A Yes, the last --

16 Q -- Strawn reservoir?

17 A The last two wells, the No. 4 and No. 8
18 Mesa West Knowles.

19 Q Okay, and that factor also bears, does it
20 not, on TXO's desire to drill this proposed well at the
21 earliest possible date?

22 A Well, yes, since these two wells show the
23 distinct possibility of pressure depletion and drainage. We
24 feel that since there are, well, three offset wells to the
25 northeast that are all top allowable wells, that there is

1 definitely a risk of drainage.

2 Q And you do not, do you, have any fool-
3 proof way of foretelling over what period of time production
4 is necessary to occur before drainage from TXO's acreage
5 begins or whether it's already begun?

6 A Not from the information that I have.

7 Q Okay, refer to Exhibit Number Thirteen,
8 if you would, Mr. Wilson, and tell us what it shows.

9 A This is a production study showing --
10 well, primarily of interest is the Strawn production but
11 also there is -- the wells are color coded as to productive
12 zones other than the Strawn.

13 The only cumulative production that is
14 listed is from the Strawn since the other formations have
15 already been penetrated in the borehole that we will be re-
16 entering, other than the Wolfcamp, which is not commercial
17 production in this area.

18 Q The Wolfcamp is the only prospective zone
19 in the area which lies deeper than the Strawn?

20 A Right. There is one well in this area
21 that produced from the Wolfcamp. That would be the Exxon
22 New Mexico State No. 1-X, which is in the northeast corner
23 of Section 9, south of our proposed location. It might be
24 exaggerating to call a Wolfcamp producer. They potentialled
25 it for for about 168 barrels a day and it dropped off almost

1 immediately, and it's no longer producing from the Wolfcamp.
2 So I --

3 Q My -- my point, Mr. Wilson, was that in
4 the proposed re-entry of the well that TXO intends all the
5 remaining, with the exception of the Strawn and the Wolfcamp
6 zones shown on your map, have already been penetrated and
7 tested --

8 A They've been penetrated and --

9 Q -- in that wellbore.

10 A Yeah, they've been penetrated and shown
11 to be nonproductive.

12 Q Okay. Excuse me, continue with your
13 production map.

14 A A point I'd like to make here is again
15 that separation of these small porosity developments,
16 examples of this would be the Pennzoil Viersen No. 2, which
17 is in the, I guess it would be northwest of the southeast of
18 Section 4, they had a good porosity development. They made
19 87,000 barrels. They're making 26 barrels a day; not one of
20 the better wells in the area but a commercial producer.

21 South of that in Section 9 there's the
22 Exxon No. 2 EX New Mexico State, which is in the northwest
23 of the northeast of Section 9. It's 149,000 barrels. It's
24 making 327 a day. Two good producers.

25 Immediately north of that is the Pennzoil

1 No. 3 Viersen, which is in the southwest of the southeast.
2 It lies almost directly in between the previous -- two pre-
3 viously mentioned wells. It's only about 600 feet from the
4 Exxon well, which is an excellent producer, and their ini-
5 tial potential was 116 barrels a day pumping. It was not a
6 flowing well. They only had, referring back to the Exhibit
7 Number Eleven, they only had 5 feet of porosity. So these
8 porosity developments can be limited. They can disappear
9 very quickly.

10 That's really the only points I wanted to
11 make other than to show the current production of the Strawn
12 in the area.

13 Q Okay, Mr. Wilson, refer us to your last
14 exhibit, Exhibit Number Fourteen, and tell us what you de-
15 pict on that cross section.

16 A Okay. This is a cross section showing
17 the wells immediately surrounding our proposed location.

18 Q Mr. Wilson, I neglected to point out that
19 on your previous Exhibit Number Eleven, the trace of that
20 cross section, the wells you're showing, in indicated on
21 that Exhibit Eleven.

22 A It's exhibited on Exhibit Number Eleven
23 and Number Ten.

24 Q Okay.

25 A The cross section runs, starting from

1 point A on the left, from the Pennzoil Shipp No. 1, which is
2 southwest of the northeast; then it runs north to the Penn-
3 zoil Shipp No. 2, it's the dry hole; then it runs directly
4 east, showing our proposed location; then to the north --
5 I'm sorry -- southeast of the southeast of 33, showing Amer-
6 ind's Hagger No. 1; and then down to the southeast showing
7 Pennzoil's Meyers No. 1, which is in the northwest of the
8 northwest of Section 3.

9 The purpose of this cross section is sim-
10 ply to illustrate both a good Strawn section and a section
11 lacking porosity.

12 As you can see in the far left well on
13 the cross section, it's the Pennzoil Shipp Estate No. 1,
14 porosity is developed mainly in the upper half of the Strawn
15 section.

16 The immediate offset to the north, which
17 is the next well on the cross section, there's no porosity
18 developed.

19 Following over to the Hagger No. 1, which
20 is the third well from the left on the cross section, the
21 porosity is developed more in the middle of the section,
22 which goes back to my interpretation that there may be sep-
23 arate porosity developments which could overlap but are not
24 necessarily in communication. This shows that we do have
25 two different types of porosity developments.

1 And then, finally, on the far right it's
2 the -- I've got the Pennzoil Meyers No. 1. This is an
3 acoustic log. The other logs are compensated neutron den-
4 sity logs. It's the only one that was available at the time
5 of this preparation, so there is some differences in appear-
6 ance, but the porosity is about equivalent to the Hagger
7 Well.

8 That's all I want to show here, was just
9 to illustrate the Strawn Section and show what a well lack-
10 ing porosity versus a good porosity development will look
11 like.

12 Q Mr. Wilson, were Exhibits Ten through
13 Fourteen prepared by you or under your direction and super-
14 vision?

15 A Yes, they were.

16 MR. DICKERSON: Mr. Examiner,
17 move admission of the Applicant's Exhibits Ten through Four-
18 teen.

19 MR. CARR: No objection.

20 MR. STOGNER: Exhibits Ten
21 through Fourteen will be admitted into evidence.

22 Q Mr. Wilson, do the facts that you have
23 discussed in summarizing your exhibits bear on your duty to
24 express your opinion upon the nature of the risk factor in-
25 volved in TXO's proposed operation in this case?

1 A Yes, they do.

2 Q And based on your examination of those
3 factors have you formed an opinion as to an appropriate risk
4 penalty to be imposed in this pooling order sought?

5 A Yes, I have. I think the maximum penalty
6 of 200 percent over the drilling costs would be appropriate.

7 Q Is there any short summary of the factors
8 you've discussed that --

9 A Yes.

10 Q -- you'd like to say?

11 A Yes. The reason that I believe this
12 would be appropriate is the inherent risk in this well.

13 Some examples of similar situations, the
14 four wells located in the center of the north half of Sec-
15 tion 4, the two Tipperary wells, the two Pennzoil wells, of
16 those three -- there are three producers, one dry hole. The
17 dry hole is the last drilled of those four. It's a similar
18 configuration to our location. You've got three good pro-
19 ducers. You come in between the middle at the fourth cor-
20 ner, and there's a dry hole, the Pennzoil Viersen No. 3, 600
21 feet from the Exxon producer. This is in the northwest of
22 the northeast of Section 9, and then immediately north, 600
23 feet away you've got an excellent producer and then a very
24 poor producer.

25 A similar situation in the north -- the

1 center of the north half of Section 34 to the northeast
2 here. There are four -- I'm sorry, three good producers.
3 The fourth corner of that square is a dry hole. That fourth
4 corner was the last one drilled.

5 So even with good well control there is
6 significant risk involved in this Strawn reservoir.

7 Q Mr. Wilson, in your opinion is the pro-
8 posed bottom hole location which TXO requests approval for
9 in this proceeding the best standard location for a Strawn
10 well to be drilled on the spacing unit consisting of the
11 east half northeast of Section 4?

12 A Yes, I believe it is. It looks as though
13 the reservoir that we would encounter is the same reservoir
14 that the Amerind Hagger No. 1 is in in the southeast corner
15 of Section 33, so it would be to our best interest to be as
16 close to that well as possible.

17 Q And in your opinion, Mr. Wilson, will ap-
18 proval of TXO's application be in the interest of conserva-
19 tion, the prevention of waste, and the protection of TXO's
20 and other parties correlative rights?

21 A Yes, I believe it would be. I'd also
22 like to add that not only are we trying to get close to a
23 producer but we're also trying to maximize our distance from
24 the two surrounding dry holes.

25 MR. DICKERSON: That concludes

1 my direct examination of Mr. Wilson.

2 I have no further questions,
3 Mr. Examiner.

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

6 Mr. Carr, your witness.

7

8 CROSS EXAMINATION

9 BY MR. CARR:

10 Q Mr. Wilson, as I understand your presen-
11 tation, the Shipp Strawn Field is comprised of a number of
12 separate reservoirs.

13 A From the available pressure data it ap-
14 pears to be.

15 Q And by locating this well at its proposed
16 bottom hole location, what you're doing, if I look at your
17 Exhibit Number Eleven, is getting a well at a structural or
18 at least into a section of the porosity section that will be
19 comparable to the Amerind well to the north and also the
20 well in the southwest of the southwest of 34.

21 A Yes, that's my interpretation.

22 Q By moving to this location you're also
23 moving toward the Meyers Well in the northwest of Section 3,
24 are you not?

25 A Yes, that's correct.

1 Q And is it your opinion that if those two
2 -- that the Meyers Well and the proposed well will not be in
3 the same pool -- or same reservoir, I'm sorry.

4 A That is my interpretation and opinion
5 based on the final shut-in pressures of the DST's run on
6 these three wells. 700 pounds is a significant difference.

7 Q So it's your opinion that the drainage
8 that you're concerned about is occurring to the north, not
9 to the east.

10 A To the north and northeast.

11 Q But not to the Meyers Well due east of
12 the proposed location.

13 A That's my interpretation and I certainly
14 could be proven wrong. We could end up in either reservoir
15 but that's part of the risk.

16 Q It might be possible that you might have
17 a four well reservoir.

18 A Yes.

19 Q Your well and those three others?

20 A Yes, oh, it's possible, certainly.

21 Q And it's possible that you might have a
22 reservoir with three wells and a dry hole, right?

23 A That's entirely possible, too.

24 Q That's what you're trying not to get.

25 MR. CARR: I have no further

1 questions.

2 MR. STOGNER: Mr. Dickerson,
3 any further questions?

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

6 MR. STOGNER: I have no ques-
7 tions of this witness. He may be excused.

8 Mr. Dickerson, do you have any
9 other witnesses at this time?

10 MR. DICKERSON: No, Mr.
11 Examiner, I do not.

12 MR. STOGNER: Mr. Carr.

13 MR. CARR: At this time I'd
14 call Mr. Leibrock.

15

16 ROBERT C. LEIBROCK,
17 being called as a witness and being duly sworn upon his
18 oath, testified as follows, to-wit:

19

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q Will you state your full name for the
23 record, please?

24 A My name is Robert C. Leibrock.

25 Q Mr. Leibrock, by whom are you employed

1 and in what capacity?

2 A I'm a petroleum engineer and Vice
3 President of Amerind Oil in Midland, Texas.

4 Q Have you previously testified before this
5 Division and had your credentials as a petroleum engineer
6 accepted and made a matter of record?

7 A Yes, I have.

8 Q Are you familiar with the application
9 filed in this case by TXO?

10 A Yes.

11 MR. CARR: Are the witness'
12 qualifications acceptable?

13 MR. DICKERSON: No objection.

14 MR. STOGNER: Mr. Leibrock is
15 so qualified.

16 Q Mr. Leibrock, would you briefly summarize
17 Amerind's activity in this immediate area?

18 A As you can see from any of the exhibits
19 just presented, I'm looking at Exhibit Ten now, that we have
20 drilled several wells in this particular area shown on the
21 map here, in Sections 33 and 3.

22 Q Have you also been actively involved in
23 development of Strawn reservoirs in this same general area?

24 A Yes, we have.

25 Q Were you present when Mr. Hundley

1 testified earlier today?

2 A Yes, I was present.

3 Q And at that time did you hear Mr. Hundley
4 compare certain offers that have been made to try and obtain
5 voluntary joinder in various wells in this immediate area?

6 A Yes, I did .

7 Q Would you refer to the Pennzoil Shipp No.
8 1 Well, located in the southwest of the northeast of Section
9 4, and explain the circumstances under which Amerind parti-
10 cipated in that well?

11 A At the time the Pennzoil Shipp No. 1 Well
12 was drilled none of the wells in Section 3 or the southeast
13 of 33 or the southwest of 34 had been drilled. In other
14 words at that time the development of the field was very new
15 and under those circumstances we farmed out to Pennzoil
16 based on a 33-1/3 backin after payout.

17 Q And in your opinion is this is a separate
18 reservoir within the Shipp Strawn Field?

19 A Yes, almost certainly.

20 Q Would you now go to the Meyers No. 1
21 Well, located in the northwest of Section 3 and review the
22 information you have on the voluntary joinder in that well?

23 A It's my understanding on that that
24 Pennzoil made a farm-in from Mesa based on a 40 percent
25 back-in after payout and this particular well, the Pennzoil

1 Meyers No. 1, was a discovery well for this particular
2 reservoir within the Shipp Strawn Field.

3 Q In your opinion would that -- those --
4 the circumstances concerning the development of that
5 property different from those presented here today?

6 A Yes, quite different.

7 Q Now let's go to your Amerind Hager No. 1
8 in the southeast of the southeast of 33.

9 A Uh-huh.

10 Q I'd like you to explain to the Commission
11 the circumstances surrounding the joinder of Fina in that
12 well.

13 A I do not recall exactly Fina's interest,
14 but they did farm out for a 25 percent back-in as to their
15 very, very small interest.

16 Q How small was that interest?

17 A I do not recall but I think that the
18 terms of that farmout, they did not make it a particularly
19 important matter since they had such a small interest.

20 Q Now you also have developed properties in
21 the north of 33, particularly the Amerind Meyers No. 1 in
22 the northeast of the northwest. Were you able to get
23 voluntry joinder of other interest owners in this -- in that
24 well?

25 A Yes.

1 Q And would you explain the nature of that
2 joinder?

3 A Let me explain the history of that
4 particular development. This is a two well field, the West
5 Casey Strawn Field, in the northwest of the northeast and
6 the northeast of the northwest of Section 33, the Shipp No.
7 1 being the discovery well in that field in December, '85.

8 Before that well was drilled we made a
9 farmout agreement with John Cox that in the event we drilled
10 the Meyers No. 1 that he would have a 40 percent back-in
11 after payout, and that those were, in fact, the terms under
12 which the Meyers No. 1 was drilled.

13 Q In your opinion are the proposals that
14 have been made to you in this matter of TXO comparable to
15 the offers that have been made to get voluntary joinder in
16 adjoining or wells in the general area?

17 A No, not at all.

18 Q In your opinion has a good faith effort
19 been made to obtain your voluntary joinder in this prospect?

20 A No.

21 Q Have you seen the AFE which was offered
22 into evidence at the hearing today?

23 A Yes.

24 Q Do you have any problem or objection to
25 AFE that has been presented?

1 A Not any major problem, although we would
2 probably do it differently.

3 Q Have you received, to your knowledge,
4 the cost for a straight hole?

5 A Yes.

6 Q And in any order that would result from
7 this hearing would you request that the figures for both a
8 directional hole and the straight hole be provided to you so
9 you could make your election with all those figures
10 available?

11 A Yes, that would be very helpful.

12 Q Now you stated that you've been active in
13 this area. In your opinion is a 200 percent risk penalty
14 appropriate for -- to be imposed against nonconsenting
15 interest owners in this area?

16 A On several previous cases I have
17 testified that 200 percent is appropriate; however, in this
18 particular case I think that it is not justified because of
19 the degree of development in this particular area, namely,
20 the fact, as Mr. Wilson has pointed out, his proposed
21 location is directly offset by three top allowable
22 producers.

23 Q What risk penalty would you recommend be
24 imposed?

25 A I would recommend in the -- in light of

1 these circumstances that a 100 percent penalty be imposed.

2 Q Do you have anything further to add to
3 your testimony?

4 A No.

5 MR. CARR: That concludes my
6 direct examination of Mr. Leibrock.

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

9 Mr. Dickerson, your witness.

10 MR. DICKERSON: A few
11 questions, Mr. Examiner.

12

13 CROSS EXAMINATION

14 BY MR. DICKERSON:

15 Q Back with respect to Exhibit Number Ten,
16 Mr. Leibrock, did I understand your testimony to be that,
17 directing your attention to the Meyers Well in the northwest
18 quarter of Section 3 offsetting the TXO proposed well to the
19 east, that it is your opinion that that well is in the same
20 reservoir as the Amerind well in the southeast quarter of 33
21 and the other well in the southwest quarter of 34?

22 A Yes, I think it is.

23 Q So you, as a petroleum engineer, you
24 disagree with TXO's witness that that well is in a separate
25 reservoir.

1 A Yes, I do.

2 Q And reasonable minds differ over data
3 available --

4 A Well --

5 Q -- to engineers all the time?

6 A Yeah, if you like I could go into the
7 reasons for my difference.

8 Q I don't think it is necessary at this
9 point.

10 A Okay.

11 Q I just wanted to make it clear for my --

12 A Right.

13 Q -- own mind that that was your opinion.

14 Let me ask you, you also heard, did you
15 not, Mr. Wilson's testimony regarding his interpretation of
16 the nature of this reservoir as -- as being dependent for
17 favorable well development primarily upon porosity develop-
18 ment in the various pods or mounds of this Strawn structure
19 that exists?

20 A Uh-huh.

21 Q Would you as a petroleum engineer agree
22 with that statement?

23 A Yes, in general.

24 Q And in other cases in the past, as I fur-
25 ther understand your testimony, you have recommended risk

1 penalties in pooling cases in this area of the maximum 200
2 percent.

3 A Right, under quite different circumstan-
4 ces than we have here today.

5 Q The circumstances perhaps being that
6 Amerind was the operator?

7 A No, the circumstances being that I think
8 in every case we were either drilling a well not offset by
9 any producers but rather offset by one or more dry holes in
10 the Strawn.

11 Q But in each of those earlier cases that
12 you referred to Amerind was the party seeking the pooling
13 order and the risk penalty?

14 A I believe that's correct.

15 Q Okay. And in this case, obviously,
16 Amerind is the party opposing --

17 A Right.

18 Q -- imposition of the risk penalty.

19 In your further opinion, as I understood
20 your testimony, the offers made by TXO in connection with
21 either participating in the completion attempt in their
22 proposed well, or farming out or doing several other
23 alternatives, were not reasonable, and you heard, did you
24 not, Mr. Hundley testify to other examples that have
25 occurred to his knowledge in the area?

1 A Yes.

2 Q Would it not be a fair statement of both
3 of you'all's testimony that there are varying offers which
4 are made and accepted which depend upon such factors as the
5 size of the interest; for instance, in the Fina farmout that
6 you referred to? The size of the interest involved has a
7 bearing on it, does it not?

8 A In general, uh-huh.

9 Q Relatively speaking, a very small inter-
10 est could be offered a relatively higher back-in at less
11 cost to the one making that offer, couldn't it?

12 A Well, I think, you know, I think it just
13 depends on the particular case. I don't know whether you
14 could make a general statement as to that.

15 Q Do you at this point feel, Mr. Leibrock,
16 that you have formed an impression of your company's inten-
17 tions with regard to this well? Are you inclined to parti-
18 cipate with TXO, which you've been invited and are continued
19 to be invited to do, or are you contemplating some other?

20 A Well, I think as we have informed their
21 representatives on several different occasions, that we
22 would -- we would be inclined to -- to either join or farm-
23 out but not under the terms that they've offered.

24 Q You heard Mr. Hundley testify, also, did
25 you not, Mr. Leibrock, or his knowledge of the extent of

1 Amerind's interest in the Hager Well immediately north of
2 the TXO proposed well?

3 A Uh-huh.

4 Q And if my memory serves me correctly, he
5 stated that Amerind had approximately 47 percent interest in
6 that well, is that --

7 A Yes.

8 Q -- correct?

9 A Yes.

10 Q And Amerind, as I understood his testi-
11 mony, also has approximately 17-some odd percent in the TXO
12 proposed well.

13 A Yes.

14 Q Is it your interpretation as a petroleum
15 geologist that the TXO proposed well, if it encounters pro-
16 duction, will be located in the same reservoir as the Amer-
17 ind Well?

18 A I think that's the most reasonable con-
19 clusion, that if it's in a reservoir at all, it would be in
20 that one.

21 Q And if that reservoir is encountered,
22 isn't it true that it would be to Amerind's advantage to
23 produce all of its share of oil from this one Strawn pool
24 through its Hager Well by reason of your relatively larger
25 interest there than participate in a TXO proposed well at

1 the subject location?

2 A That may be true. I really hadn't
3 thought about it in those terms.

4 Q So there is some incentive here, it would
5 appear, that -- for Amerind to delay the drilling of this
6 well because its economic interest is less in TXO's proposed
7 location than it is in the existing well in that same reser-
8 voir.

9 A No, I don't think we have any interest in
10 delaying this or any other well. We just, as I stated pre-
11 viously, felt like we have not been offered reasonable
12 terms.

13 Q Mr. Leibrock, you heard Mr. Hundley tes-
14 tify that Amerind at one time in November of 1986, I think
15 he said, had made a proposal to drill a well at -- upon the
16 same spacing unit, east half northeast Section 4, that TXO
17 proposes here.

18 A Uh-huh.

19 Q Was that correct?

20 A Yes.

21 Q Amerind did not drill that well, did it?

22 A No, we did not.

23 Q Would you like to tell us why you didn't?

24 A Yes. As I also told Mr. Wilson at that
25 time, we went ahead and made that proposal in anticipation

1 of drilling a well there but we wanted to wait and observe
2 some of the other offset wells which have subsequently been
3 drilled and based upon subsequent drilling by other opera-
4 tors we decided it best not to drill our original proposed
5 location.

6 Q But as I understood your testimony, the
7 Hager Well immediately offsetting the TXO location to the
8 north and the well directly to the east of that in the
9 southwest quarter of Section 34, have both been drilled,
10 have they not, since the Amerind proposal was made?

11 A Yes, that's correct.

12 Q And those are both very good wells --

13 A Yes.

14 Q -- or appear to be, are they not?

15 A Yes.

16 Q And a period of some months has now pas-
17 sed since those wells were put on production?

18 A Yes.

19 Q And Amerind has not to this point pro-
20 posed to drill a well in the east half northeast Section 4,
21 has it?

22 A That's correct.

23 Q And you testified that in your opinion
24 the location is not risky enough to justify a 200 percent
25 risk penalty.

1 A That's correct.

2 Q Has Amerind in the past drilled wells
3 upon 200 percent risk penalty in this area? I'm talking
4 about you as the pooling party, not as the pooled party.

5 A Yes, we have, uh-huh, as I repeat,
6 though, under what I consider to be quite different circum-
7 stances.

8 Q You heard our witnesses refer to the dry
9 hole immediately offsetting the TXO proposed re-entry to the
10 west.

11 A Yes.

12 Q That well's in rather close proximity to
13 this spacing unit, isn't it?

14 A Yes.

15 Q Does that have no bearing on your
16 opinion?

17 A Well, it has some bearing but on balance
18 we feel like this particular location warrants a smaller
19 penalty than the maximum allowable.

20 Q What about the dry hole indicated
21 immediately to the east of the TXO location in the west half
22 of the northwest quarter of Section 3?

23 A Well, that would be the same situation.

24 Q But TXO's location is offset to the east
25 and west by dry holes.

1 A It's also offset to the -- to the east by
2 a producing well closer than the dry hole.

3 Q As are other examples in this area.

4 A Right.

5 Q This Strawn porosity in the area can be
6 to whatever extent erratic.

7 A That's correct.

8 MR. DICKERSON: I have no
9 further questions.

10 MR. STOGNER: Thank you, Mr.
11 Dickerson.

12 Mr. Carr?

13 MR. CARR: No questions.

14 MR. STOGNER: I have no
15 questions of Mr. Leibrock. He may be excused.

16 Mr. Carr, do you have any
17 other witnesses?

18 MR. CARR: No witnesses. I
19 have a closing statement, brief.

20 MR. STOGNER: Mr. Carr, I'll
21 let you go first and, Mr. Dickerson, you may follows.

22 MR. CARR: May it please the
23 Examiner, TXO is before you here today trying to obtain
24 approval to drill a well as close as they can to three very,
25 good, producing wells in the Strawn formation, and this is

1 commended by Mr. Leibrock is certainly more in line with the
2 evidence before you.

3 Mr. Dickerson is going to talk
4 to you about Amerind having drilled other wells under a 200
5 percent penalty, but it's important to remember that Mr.
6 Leibrock explained none of those cases involved a situation
7 where they were offset on three sides by what everyone ad-
8 mits are three excellent wells in the Strawn.

9 We therefore request that if
10 the application is approved that it in fact provide for a
11 risk penalty of no more than 100 percent; that it expressly
12 require that AFE's for the directional hole as well as the
13 straight hole be provided to any nonconsenting working in-
14 terest owner so they may have all of that information at the
15 time they make their election whether or not to participate
16 under the terms of the order, and finally we would request
17 that any order require a directional survey to establish the
18 actual bottom hole location of the well.

19 As to Mr. Seltzer's interest,
20 it is our understanding that the case is going to be con-
21 tinued for thirty days within which time we will attempt to
22 reach some sort of a voluntary agreement with TXO.

23 If not agreement can be
24 reached, we have an opportunity to come back on November
25 4th. If, however, we can reach an agreement, we will imme-

1 diately notify you so that we're not unnecessarily delaying
2 a Commission action.

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

5 Mr. Dickerson?

6 MR. DICKERSON: Very briefly,
7 Mr. Examiner, I think it's apparent what's occurring here.
8 It is a question as to the penalty which should be imposed
9 in any situation as to who-- whose ox is being gored.

10 I know that the Division, and
11 you as one of the examiners, are more than familiar with the
12 Strawn development which is taking place not only in this
13 immediate area but in a much more broad area of Lea County,
14 and you have heard testimony in many cases regarding the er-
15 ratic nature of this Strawn development -- Strawn Pool
16 development and the separation of the pods of excellent,
17 commercial production by zones of little or no porosity,
18 which result in the presence of very close dry holes offset-
19 ting very good wells.

20 There's nothing more unique in
21 the circumstances presented to you in this case than that
22 which occurs throughout the development of the Strawn Pool
23 in the entire area through several existing Strawn pools,
24 and we submit that the testimony of TXO does support the im-
25 position of the maximum 200 percent risk penalty. It's

1 true, they're not offset on three sides by dry holes,
2 they're only offset on two direct sides by a dry hole, but
3 other dry holes in the immediate area.

4 In addition to the geological
5 risk encountered in any drilling well there is also some
6 limited element of mechanical risk involved in this one by
7 reason of the nature of TXO's proposal and attempt to
8 prevent economic waste by re-entering an existing wellbore
9 and we submit that that also bears on the factor of risk and
10 it would be entirely appropriate, entirely supported by the
11 evidence, and we respectfully request that the Division in
12 its order issued in due course of business in this
13 proceeding impose the requested 200 percent maximum penalty.

14 MR. STOGNER: Thank you, Mr.
15 Dickerson.

16 Is there anything further in
17 this case today?

18 There being none, Case Number
19 9233 will be continued to the Examiner Hearing scheduled for
20 November 4th, 1987, or the record will be left open pending
21 a voluntary agreement between Mr. Seltzer and TXO, at which
22 time you will apprise me of any such agreement, and also
23 keep the case supplemented with any written correspondence
24 between the two parties.

25 Thank you.

(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9233
heard by me on October 7 1987.
[Signature], Examiner
Oil Conservation Division

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

4 November 1987

IN THE MATTER OF:

Application of TXO Production Cor-
poration for compulsory pooling and
directional drilling, Lea County,
New Mexico.

CASE
9233

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

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

For the Applicant:

1

2

MR. STOGNER: Call next Case

3

Numbaer 9233.

4

MR. TAYLOR: Application of TXO

5

Production Corporation for compulsory pooling and

6

directional drilling, Lea County, New Mexico.

7

MR. STOGNER: This case was

8

heard several -- I'm sorry, on the October 7th, 1987,

9

hearing. Testimony was presented.

10

At this time we'll call for

11

any additional appearances or testimony.

12

There being none, Case Number

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9233 will be taken under advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9233, heard by me on 4 November 19 87.

Michael E. Stogor, Examiner
Oil Conservation Division