

CASE No.

4957

Application,

Transcripts,

Small Exhibits

ETC.

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
MORGAN HALL
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
Wednesday, April 25, 1973

IN THE MATTER OF:

Application of Pierce and Dehlinger
for a non-standard oil proration unit,
or in the alternative, compulsory
pooling, Lea County, New Mexico.

Case No. 4955

IN THE MATTER OF:

Application of Pierce and Dehlinger
for a non-standard oil proration unit,
or in the alternative, compulsory
pooling, Lea County, New Mexico.

Case No. 4956

IN THE MATTER OF:

Application of Pierce and Dehlinger
for a non-standard oil proration unit,
or in the alternative, compulsory
pooling, Lea County, New Mexico.

Case No. 4957

BEFORE: RICHARD L. STAMETS
Examiner

TRANSCRIPT OF HEARING

1 MR. STAMETS: Call next Case Number 4955.

2 MR. CARR: Case 4955, Application of Pierce and
3 Dehlinger for a non-standard oil proration unit, or in
4 the alternative, compulsory pooling, Lea County, New
5 Mexico.

6 MR. MORRIS: Mr. Examiner, I'm Dick Morris of
7 Montgomery, Federici, Andrews, Hannahs and Morris,
8 Santa Fe, appearing on behalf of the Applicant in this
9 case and in cases 4956 and 4957, which I now move be
10 consolidated with Case 4955 for the purposes of the
11 Hearing.

12 MR. STAMETS: Are there any objections to this
13 consolidation?

14 MR. LOSEE: Let me appear, first.

15 MR. STAMETS: Mr. Losee?

16 MR. LOSEE: A. S. Losee of Losee and Carson. I
17 am appearing with Mr. Rosco Walker of the Colorado Bar,
18 representing Mr. Charles A. Baer, Trustee in
19 Bankruptcy in Reorganization of King Resources Company,
20 Arthur Lipper III, and the Madison Avenue Group. We
21 have no objection to the consolidation.

22 MR. STAMETS: The cases will be consolidated for
23 purposes of testimony.

24 MR. MORRIS: We have one witness, Mr. Martin
25 Dehlinger; and we ask that he be sworn at this time.

1 MARTIN DEHLINGER,
2 was called as a witness and after being duly sworn according
3 to law, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. MORRIS:

6 Q Mr. Dehlinger, please state your name and where you reside.

7 A My name is Martin E. Dehlinger. I reside in Midland,
8 Texas.

9 Q What is your connection with the Applicant, Pierce and
10 Dehlinger, in these cases?

11 A I am the Dehlinger of Pierce and Dehlinger partnership.

12 Q What is your profession, Mr. Dehlinger?

13 A By training, I am a geologist.

14 Q Would you briefly outline your education and experience
15 as a geologist?

16 A I have a Bachelor of Science from the Texas College
17 of Mines with a major in geology and a minor in chemistry.
18 I have a Master's Degree from the University of Texas with
19 a major in geology and a minor in petroleum engineering.

20 I have worked as a geologist with Humble Oil
21 Company, Murphy Corporation, Forced Oil Corporation; and
22 for the last six years, I have been an independent oil
23 operator.

24 Q How much of your experience has been in the Permian
25 Basin area?

1 A About 20 years.

2 MR. MORRIS: Are the witnesses' qualifications
3 acceptable?

4 MR. STAMETS: They are.

5 Q Mr. Dehlinger, if you will please refer to what has been
6 marked as Exhibit 1 in this case, which is a three-part
7 exhibit containing three separate plats, would you first
8 on the first part of that exhibit identify the color
9 code?

10 A The color code on Exhibit 1 has a pink color which
11 represents acreage held in the majority interest by
12 King Resources. The yellow color represents acreage
13 which is held by Pierce and Dehlinger with varying other
14 operators.

15 Q And is the working interest under each of the color
16 coded tracts shown on this plat?

17 A Yes, sir. They each differ in color, and each unit
18 shows the working interest as represented in that tract.

19 Q Would you please refer to these three plats and outline
20 in detail, Mr. Dehlinger, what it is that Pierce and
21 Dehlinger seeks by its applications in these cases
22 including the various alternatives; and as you go through,
23 please state your preferences with respect to the
24 various alternatives.

25 A Pierce and Dehlinger comes to the New Mexico Oil

1 Conservation Commission with the following requests in
2 the Vada Bough "C" field in Sections 13, 14, and 24,
3 9 South, Range 33 East, Lea County, New Mexico. Our
4 first request and preferences are for a non-standard
5 proration unit consisting of the Southeast Quarter of
6 the Northeast Quarter of Section 14 and the West Half,
7 Northwest Quarter of Section 13 and --

8 Q Excuse me. You said the West Half of the Northwest. Do
9 you mean the South Half?

10 A Excuse me. The South Half of the Northwest of Section 13
11 and the Southwest of the Northeast of Section 13. So
12 our second non-standard 160-acre proration unit request
13 is for the South Half of the South Half of Section 13.

14 Our next request is for a non-standard 160-acre
15 proration unit described as the South Half of the North
16 Half of Section 24.

17 Q Now, these recommendations or requests that you have just
18 gone through refer to three separate non-standard units
19 as shown on the first plat of this three-part exhibit?

20 A Yes, sir.

21 Q All right. To what wells at what locations would you
22 propose to dedicate these non-standard units?

23 A The first non-standard unit which would be in the North
24 Half of Section 13, we would dedicate that 160 acres to
25 a well to be drilled 1980 from the North and the East of

1 Section 13. The second proration unit, which is the
2 South Half of the Southwest of 13, would be dedicated to
3 a well 660 from the South.

4 Q Excuse me. You said the South Half of the Southwest.
5 You don't mean that. You mean the South Half of the
6 South Half of 13?

7 A South Half of 13, I'm sorry.

8 Q All right.

9 A Dedicated to Well 660 from the South and the West of
10 Section 13. The third non-standard proration unit,
11 which is the South Half of the North Half of Section 24,
12 would be dedicated to a well 1980 from the North and
13 660 from the East.

14 Q All right. Now, does this first plat and the explanation
15 that you have made with respect to it represent your
16 preferences or alternatives that you are presenting here
17 today?

18 A Yes, sir. This is our first choice.

19 Q All right. Now, please refer to the second plat and
20 for the sake of brevity you might just explain it by
21 comparing wherein it differs from the first plat.

22 A The second plat differs from the first plat in that the
23 140-acre tract lying in Section 14 has been left out and
24 our proration unit or non-standard proration unit would
25 be a 120-acre tract described as the South Half of the

1 Northwest Quarter and the Southwest of the Northeast
2 Quarter and dedicated to a well to be drilled 1980
3 from the North and the East lines of Section 13. The
4 other two tracts remain as the first plat.

5 Q All right. Is this alternative for the 120-acre unit
6 presented in recognition that the Commission might have
7 some qualms about extending a non-standard unit across
8 section lines?

9 A Yes, sir. It is.

10 Q Now, please turn to the third of the three plat exhibits
11 and explain that alternative.

12 A The third plat is our last and least desirable request,
13 but it takes into account a force pooling with other
14 operators which we have been unable to come to an
15 agreement with. These 160-acre regular units would be
16 described as the Northeast Quarter of Section 13.

17 Q While you are at it, go ahead and state the location of
18 the well that it would be dedicated to.

19 A To be dedicated to a well 1980 from the North and 660
20 from the East line of Section 13. The second regular
21 160-acre proration unit to be described is the Southeast
22 Quarter of Section 13 dedicated to a well to be drilled
23 660 from the South and the East lines of Section 13,
24 and there is under this arrangement a new proration unit,
25 regular proration unit is to be made out of the Southwest

1 Quarter of Section 13 and is dedicated to a well already
2 producing 660 out of the South and the West lines of
3 Section 13.

4 The last and fourth regular 160-acre proration unit
5 is described as the Northeast Quarter of Section 24 and
6 would be dedicated to a well to be drilled 1980 from the
7 North and 660 from the East lines of Section 24.

8 Q In referring to the Southwest Quarter of Section 13, you
9 referred to the presently existing well. Is Pierce and
10 Dehlinger presently the operator of that well?

11 A Yes, sir.

12 Q And under your request for compulsory pooling, would
13 Pierce and Dehlinger be the operator of the other three
14 wells that you would propose to drill?

15 A Yes, sir.

16 Q You are not making any proposal at this time with respect
17 to compulsory pooling of the Northwest Quarter of Section
18 13 or the Northwest Quarter of Section 24?

19 A No, sir.

20 Q You have stated that your preferences for non-standard
21 units and your least desirable alternative is compulsory
22 pooling. Would you amplify on that statement?

23 A Yes, sir. The King Resources, as we have previously
24 noted as having the pinning acreage in this area is,
25 now has financial and legal problems which attach

1 themselves to their acreage; and if we were in operations
2 with them using their acreage, why, those problems might
3 also rub off on us.

4 Q Let me ask you specifically, Mr. Dehlinger, are you in
5 possession of abstracts of title that reflect that there
6 are claims of lien against some of the King Resources
7 agents?

8 A Yes, sir.

9 Q Are there any other reasons other than just financial
10 reasons or reasons related to King Resources operating
11 under bankruptcy trustee that would cause difficulties
12 here in obtaining a communitization?

13 A Well, sir, we just haven't been able to get along with
14 King Resources. We have been involved in this area for,
15 since last July; and in reference to this well in the
16 Southwest Quarter of Section 13, we had to go to court,
17 federal court in Denver and get that well. And off and
18 on after that we had tried to talk with King Resources
19 and make some arrangement to drill or to meet the
20 producing offsets to this acreage, but we have been
21 completely unsuccessful. In fact, we just can't get
22 together with them.

23 Q Would you outline in a little more detail the
24 negotiations that you have undertaken with King Resources
25 and its attorneys and the efforts that you have made

1 individually or that you have caused your attorneys to
2 make on your behalf with respect to the development of
3 this area?

4 A As I say, on or about October the 19th, 1972, why, we
5 went to court and the court gave us possession of the
6 well in the Southwest Corner of Section 13; and after
7 the judge had indicated that we had, that it was our well,
8 why, we asked the lawyer for King Resources to see if
9 we couldn't get together that day and lay out some
10 program to meet these offsets; but they declined to meet
11 with us.

12 And very shortly thereafter, they asked for a
13 review of this thing. We held any further activities
14 in the area off for another, must have been 45 or 60
15 days and then their review was denied. And we asked
16 them again and we didn't get any cooperation there. In
17 the meantime, the vice-president in charge of production
18 for King Resources come through Midland several times,
19 and he recognized the need to meet these producing
20 offsets, but still we weren't getting down to any
21 specifics. And then, let's see, on February 27th or
22 after a telephone conversation with Mr. Mann, we sent
23 him an AFE related to drilling a well in the Southeast of
24 the Southeast of Section 13 and to date have had no
25 answer in regard to that proposal.

1 At just about this same time, we also sent a number
2 of AFE's to our attorney in Denver, Mr. Gene Reidy, and
3 asked him to contact the Denver people of King Resources.
4 Mr. Reidy contacted a number of these people, Mr. Walker,
5 the attorney here today, among others; and we didn't
6 get any, nothing came of that.

7 And as late as last week, we journeyed to Denver with
8 the expectation that the head man, Mr. Baer, for King
9 Resources would be there and we would probably clear this
10 thing up. We arrived timely at the meeting place but
11 Mr. Baer didn't show up; and after considerable visiting
12 and conferring, why, nothing again was done. So we still
13 haven't accomplished anything.

14 Q When you say accomplished anything, are you referring now
15 to the communitization of acreage and the development of
16 the program for drilling the wells as you propose to
17 drill them?

18 A Yes, sir.

19 Q All right. You referred to, I think your words were you
20 wanted to develop a program to meet the offsets.

21 A Yes, sir.

22 Q What offsets are you referring to?

23 A The offsets to the subject acreage would stay in, well,
24 9 South, 33 East, Section 12, 660 from the South and the
25 East line to Del-Apache Well, and it is making about 300

1 barrels of oil per day and is draining the Northeast
2 Quarter of Section 13.

3 Q That's a Bough "C" well?

4 A Right.

5 Q There is a direct offset. Let's go now to 9 South, 34
6 East. There is a well 1980 from the South, 660 from the
7 West of Section 18 which is making, as I understand it,
8 I haven't had a report from the operator, but he is
9 making several hundred barrels of oil per day.

10 In Section 19 of 9 South, 34 East, 660 from the
11 North and the West lines, there is another producing
12 Bough "C" well making about 200 barrels a day. All of
13 these are approximately 660 off of our, the subject
14 acreage; and it's a well-known fact that there is an
15 extreme amount of drainage in this Bough "C" reservoir
16 in the Vada Penn.

17 Q In your opinion, Mr. Dehlinger, are these wells that you
18 have just referred to causing substantial drainage and
19 depletion of pressure from beneath your land?

20 A Yes, sir, extreme drainage.

21 Q And has this been occurring now for some time?

22 A This has been occurring for about 8 to 10 months probably.

23 Q How long have you been working trying to put together a
24 drilling program in this area? How long have you been
25 working with King Resources?

1 A Well, as I mentioned, right after the judge in October of
2 '72 indicated that we had possession of this well,
3 ownership of this well, why, we started trying then.

4 Q You have been at it for some time?

5 A Yes, sir.

6 Q Would you please now refer to what is marked as Exhibit
7 2 which is a set of three AFE's. Are those the, well,
8 state what wells and what locations those AFE's pertain
9 to.

10 A These AFE's would only apply if we were force pooled in
11 regular 160-acre tracts; and they, the first AFE would
12 be the DeSchmidt Federal which would apply to the well
13 1980 from the North and 660 from the East of Section 13.
14 The second one would be the Number 1 Ainsworth which
15 would apply to a well to be drilled 660 from the South
16 and the East of Section 13.

17 And the third, the Number 1 Samedan would refer to
18 the well drilled in Section 24, 1980 from the North, and
19 660 from the East.

20 Q In the event the Commission should order pooling of this
21 area, do you have any recommendation to make with respect
22 to the overhead charges? Is that set forth on Exhibit
23 3?

24 A Let's see. You had mine.

25 Q Would you explain Exhibit 3 and what your suggestions for

1 overhead charges of supervision would be? This is
2 Exhibit 3 of overhead charges and confined fixed rates,
3 a consensus of our idea on what other companies are
4 charging in this area for supervision of both drilling
5 wells and reducing wells.

6 And in this case here in regard to the Vada Bough
7 "C" well, the depth is in the \$8,000 to \$12,000 range,
8 and the charge for drilling a well per month we think is
9 commonly used in this country is \$1590 per month. Now,
10 that is a management-type charge for keeping up with
11 everyday operations, filling the forms, the curing
12 materials, et cetera. That is a charge not included in
13 the AFE itself?

14 A Right, yes, sir.

15 Q For drilling a well?

16 A Yes, sir.

17 Q What about for producing a well?

18 A For a producing well the charge is \$195 and that includes
19 only, that includes charges that are not direct to the
20 well. In other words, it does not include the pumpers,
21 it does not include the engineering, supervision, or any
22 of the other occasional jobs that have to be done on
23 a producing well.

24 Q Please refer to Exhibit 4 which is a plat and please
25 state what that exhibit is and what it shows.

1 A Exhibit 4 is a structure map of the Vada Bough "C" Field
2 contoured on top of the Bough "C" formation which is the
3 pay in the Vada. The color scheme as shown on this map,
4 the pink is King Resources acreage. The yellow is
5 Pierce and Dehlinger acreage. The wells circled in red
6 have been potentialized as oil wells, and it does not denote
7 quality of the well. The dry hole attempts are circled
8 in brown and represent wells that were tight and
9 non-productive in the Bough "C".

10 MR. STAMETS: Mr. Dehlinger, the red-circled wells
11 are completed in the Bough "C"?

12 THE WITNESS: Yes, sir.

13 A Now, there is one exception to the brown. There is a
14 well in Section 23, 9 South, 33 East, 1980 from the North,
15 660 from the East, which was drilled to the Bough "C"
16 and originally completed from the Bough "C". It produced
17 9,573 barrels of oil from the Bough "C" but then
18 apparently was depleted and plugged back to the Abo.

19 Now, these, you can see from the map why the
20 structural position is not the main criteria for
21 production in the Vada Bough "C", because you have high
22 wells that are tight and dry and you have low wells that
23 have made producers of varying qualities, and you have
24 by looking at the whole map, you can see that you have
25 tight areas scattered almost randomly throughout this

1 small portion of the map, Vada Fields.

2 Q Would you explain the significance of the dashed brown
3 lines shown on the map?

4 A The dashed brown lines encircle the areas with the tight
5 non-productive Bough "C" formation, except there seems to
6 be a main up-dip permeability pinchout so-labeled on the
7 Northwest side and crossing the common King Resources-
8 Pierce and Dehlinger acreage. We seem to see the
9 acreage in question if the wells in question seem to be
10 getting pretty close to a well-defined permeability
11 pinchout which any time you are getting close to it, why,
12 it increases your risks of a dry hole.

13 Q From the information shown on this plat, this map, would
14 you comment concerning the provision of your application
15 that requests the Commission in the event of force
16 pooling to assign a 200 percent risk factor applicable
17 to any non-consenting working interest owner?

18 A I think it's a pretty well-known fact in Bough "C"
19 country that any well is a wildcat; and due to the
20 random occurrence of these tight non-porous Bough "C"
21 zones, why, it is very difficult to predict your
22 probability of success. And I think that because of
23 these random-type zones plus the way we are getting on
24 the Northwest side of the field, why, we are liable to
25 have greater than normal risk of a dry hole.

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1 And on that basis we ask the maximum that the oil
2 Conservation will allow us for risk.

3 Q Is 200 percent penalty factor a common factor in
4 operating agreements in the Permian Basin within your
5 experience?

6 A Yes, sir. I think it is.

7 Q While we are talking about this plat, Mr. Dehlinger, let
8 me ask you if in your opinion the proposed non-standard
9 units that you have proposed as your first and second
10 alternatives, whether you believe them reasonably to be
11 productive from the Bough "C" and in the Vada Pennsylvanian
12 Pool?

13 A Yes, sir. I think we have, they are reasonably well-
14 situated and will contribute something to the proposed
15 wells.

16 Q In your opinion, Mr. Dehlinger, can the non-standard units
17 as you have proposed be approved by the Commission
18 without causing waste or impairing correlative rights?

19 A Yes, sir. I think that this would enable King Resources
20 to go about its business and drill its wells; and due to
21 the efficiency with which Bough "C" wells can drain, why,
22 they will be able to get their oil from their allotted
23 acreage and we can get our oil from our acreage and won't
24 be in each other's way.

25 MR. MORRIS: Mr. Examiner, at this time we would

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1 offer Applicant's Exhibits 1 through 4.

2 MR. STAMETS: Are there any objections to the
3 admission of these exhibits? They will be admitted into
4 evidence.

5 MR. MORRIS: That's all we have on Direct
6 Examination.

7 MR. STAMETS: Are there questions of this witness?

8 MR. LOSEE: Yes, Mr. Examiner.

9 MR. STAMETS: Mr. Losee?

10 CROSS-EXAMINATION

11 BY MR. LOSEE:

12 Q Mr. Dehlinger, when did you first become involved with
13 King Resources on this acreage?

14 A We turned the deal to King Resources originally.

15 Q Was that in 1969?

16 A Yes, sir. I think so.

17 Q So you didn't first get involved with them in 1972 when
18 you went to federal court as you had earlier said?

19 A Well, you mean as far as being operators or as peers
20 as operators, is that what you mean?

21 Q Well, regardless of the reasons, you farmed this acreage
22 out, that King Resources had, to them in 1969?

23 A Yes.

24 Q Pursuant to that farm-out, Pierce and Dehlinger has a
25 25 percent reversery interest of payout of the wells; is

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1 that correct?

2 A Yes, sir.

3 Q And pursuant to that farm-out agreement King Resources

4 drilled the Sheridan Number 1 Well in the Southwest

5 Quarter, Southwest Quarter of Section 13; didn't they?

6 A Yes, sir.

7 Q Pierce and Dehlinger didn't pay any share of the expenses

8 of drilling that well; did you?

9 A No, sir.

10 Q And as a matter of fact, the Southwest Quarter of Section

11 13 was dedicated to that well when it was completed as

12 a producer in 1970; was it not?

13 A Shortly after it was drilled as a wildcat on a 40-acre

14 proration unit; but shortly after that, why, they did

15 make a pool agreement.

16 Q They filed a unit designation in the court records and

17 the records of the Oil Commission will show the 160 of

18 the Southwest Quarter of Section 13 was dedicated; is

19 that correct?

20 A Well, sir, I don't think the records show that designation

21 in the New Mexico Oil Conservation Commission records.

22 No, sir; but they are in the abstracts.

23 Q I see. And so at that point in time everyone in the

24 Southwest Quarter of Section 13 was participating in

25 production from that well?

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- 1 A Well, the division order was so drawn up, but it is my
- 2 understanding --
- 3 Q Answer my question. Were they participating in the
- 4 production?
- 5 A Well, no, sir. They actually, Mr. Sheridan, he had to
- 6 sue to get \$2,000 worth of his money that King Resources
- 7 had taken.
- 8 Q I didn't ask whether they were paid. I asked whether
- 9 they were participating in production.
- 10 A Yes, sir. In theory, they did.
- 11 Q Okay. Now, after its completion up to sometime within
- 12 the last two months, it's actually produced about 25,000
- 13 barrels of oil; hasn't it?
- 14 A In the last --
- 15 Q No, since it was completed up until about November or
- 16 December of 1972.
- 17 A Yes.
- 18 Q 25,000 barrels?
- 19 A Yes.
- 20 Q And sometime in the summer of 1970 when King Resources
- 21 was having financial difficulties their production
- 22 ceased for about 60 days; did it not?
- 23 A Well, sir, actually it ceased for about 13 months.
- 24 Q Well, regardless of the period of time for which it did,
- 25 pursuant to the cessation of production, you went into

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1 the United States District Court in the District of
2 Colorado; did you not?
3 A Yes, sir.
4 Q And you have said that the Court held that you owned this
5 well. Was that your testimony?
6 A Well, that's my layman's opinion.
7 Q Well, you are now a lawyer?
8 A No, sir.
9 Q Let me read the Conclusion of Fact rendered first on
10 October 25, 1972 and confirmed by the U. S. District
11 Judge on January 9, 1972 and see if this sounds to a
12 layman like the Court gave you the well. This is the
13 original reference to the South Half of the Southwest
14 Quarter of Section 13. "Thus it must be concluded that
15 as of the date of the commencement of this
16 reorganization proceeding, the working interest of King
17 Resources Company in the subject oil and gas lease
18 terminated; and no interest in this property passed to
19 the reorganization trustee." Now, does that sound like a
20 conclusion by the Court that Pierce and Dehlinger owned
21 that well?
22 A Yes, sir, because they got this Stay Order to keep us
23 from going on there and producing that well.
24 Q Well, does that language sound like the Court turned the
25 well over to you?

1 A Well, that's the way we take it.

2 Q Did you have to go back and get another lease from the
3 landowner after the Court terminated it, get a new lease
4 on the South Half, Southwest Quarter of Section 13?

5 A Yes, we got a new lease.

6 Q And it wasn't the Court that awarded you any new lease?

7 A No, sir. They just sustained us.

8 Q And if I understand your second proposal, Mr. Dehlinger,
9 with respect to this, your first proposal which is for
10 the second well on Page 1 of your plat referring to the
11 Sheridan Number 1 Well drilled in the Southwest Quarter,
12 Southwest Quarter of Section 1 is not paid for by
13 Pierce and Dehlinger, but to the contrary, by King
14 Resources in which the Southwest Quarter was originally
15 dedicated to the well and had produced 25,000 barrels of
16 oil. You now ask this Commission to create an unorthodox
17 unit and deprive King, the Trustee in Bankruptcy and
18 creditors of any interest in the well and take the
19 proration unit comprising the South Half of Section 13?

20 A Yes, sir.

21 Q Do you think that sounds very equitable?

22 A This is the way it seems. What you have read said
23 nothing passes to the Trustee.

24 Q Mr. Dehlinger, I asked you whether it sounded very
25 equitable.

1 A Yes, sir.

2 Q Now, turning to your Plat Number 1 which has your three
3 first preferences and your first locations for a well
4 in the Southwest Quarter, Northeast Quarter of Section
5 13 --

6 A Excuse me just a second. Now, the first plat. Now what?

7 Q I'm looking at the well in the Southwest of the
8 Northeast.

9 A Southwest of the Northeast, yes, sir.

10 Q To be dedicated to an unorthodox unit comprising 120 acres
11 in Section 13 and 40 acres in Section 14?

12 A Yes, sir.

13 Q Why don't you wish to dedicate the Northeast Quarter of
14 Section 13 to that well?

15 A Well, we prefer not to work with King Resources because
16 we are afraid that their troubles might jeopardize our
17 interests.

18 Q Are you aware that the pool rules in the Vada Pennsylvanian
19 require that an unorthodox unit is a regular one-quarter
20 governmental subdivision of a section?

21 A Yes, sir.

22 Q And so that would be the Northeast Quarter of Section 13;
23 would it not?

24 A Yes, sir.

25 Q Do you think that well at that location is going to drain

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1 that 40-acre tract in Section 14?

2 A It would drain a portion, yes, sir.

3 Q Well, a portion. How about all of it?

4 A Well, if we just, it would drain its share, yes, sir.

5 Q By its share, you mean the whole 40? Is that a productive

6 40-acre tract?

7 A Well, actually that 40 over there in 14, why, we would

8 be willing to forego that 40.

9 Q As a matter of fact, doesn't your Exhibit 3 show that

10 that 40 is all outside of the pinchout area?

11 A It's on the edge of it.

12 Q Well, no, not to the edge. Five-eighths or seven-eighths

13 of the tract is outside of your pinchout line; isn't it?

14 A I'd say a quarter of it is good, yes, sir.

15 Q Do you think your well at this location is going to

16 drain the acreage in the East Half of the Northeast and

17 the Northwest of the Northeast of Section 13?

18 A Possibly will until King Resources does something with

19 theirs to drain theirs.

20 Q What do you mean possibly?

21 A It will.

22 Q It will; won't it?

23 A Yes.

24 Q Now, looking down to your second proposal which you said

25 was equitable that you keep the Sheridan Well that King

1 Resources paid for and take this elongated unit, do you
2 think that well will drain that North Half of the
3 Southwest Quarter of Section 13?

4 A It will.

5 Q Is that protecting correlative rights? Will your
6 unorthodox unit protect the correlative rights of the
7 owners of the North?

8 A If King Resources will drill their well, they will get
9 their oil from us in the South Half of the Southeast of
10 13 just like we will probably be taking some of their
11 oil from the North Half.

12 Q I'm sorry. I already thought King drilled a well in
13 that Southwest Quarter to protect the correlative rights.
14 Do I misunderstand that they already drilled one down
15 there? Did they have to drill another one to protect
16 them?

17 A Well, this is like I say. It is my opinion that the
18 Court gave us that well, and that's our well.

19 Q Do you think they ought to have to drill another well
20 down there in the Southwest Quarter of Section 13 to
21 protect the correlative rights in the North Half,
22 Southwest?

23 A Yes, sir.

24 Q That would be equitable? Let me turn to your proposed
25 units, your Number 3 proposal on this. I see you have

1 got the ownership of that South Half, the North Half of
2 24. Midwest Oil Corporation 10.19 percent and Samedan,
3 10.1 percent. What information did you have when you
4 prepared this plat and set up this ownership?

5 A Talking to Midwest and King Resources, Midwest and Samedan.
6 They believe that by virtue of this one well 660 from the
7 North and 1980 from the West of Section 24, 9 South, 33
8 East, that well was also down for about 13, for 14 months
9 and that the, their format was based on the acreage
10 returning to them on the cessation of production.

11 Q They haven't given any notice of termination; have they,
12 Midwest and Samedan?

13 A To you?

14 Q Yes.

15 A I don't know that.

16 Q Mr. Dehlinger, are you in a habit of farming out acreage
17 to people and then when it gets in jeopardy go back and
18 top lease it or --

19 MR. MORRIS: I object, Mr. Examiner. I have been
20 sitting by here allowing Mr. Losee to pursue this. This
21 goes a little too far. There is no evidence of a top
22 lease here at all. I think it's very clear that Mr.
23 Dehlinger has stated that they had a legal proceeding.

24 We are not here to retry the legal proceeding. The
25 Court declared that the existing lease terminated; and

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1 after that happened, I think Mr. Dehlinger has testified
2 he went and got a new lease. On Redirect I will bring
3 out how much he had to pay for that new lease which was
4 very substantial, and the insinuation there is a lot of
5 unfairness going on here is in itself very improper
6 because these matters were determined in court
7 proceedings.

8 The Commission shouldn't be asked to retry the
9 matter for equities that have already been determined.

10 MR. LOSEE: I think I'd like to make a statement in
11 response to that. I'll withdraw my last question, but I
12 want to respond to Mr. Morris. Obviously we are not
13 calling upon the Commission to try the title to it. He
14 merely said the Court had given him the well, and I don't
15 think legally that's what they did.

16 I think he was the one that raised, top leasing
17 means to me when you go back and get another lease from
18 the same party.

19 Part of the applicant's justification for this
20 laydown unit which obviously gives him a well that he
21 didn't drill or didn't pay for is that he has got
22 financial and legal problems with the protestants.
23 Although we are not sure at this point what they are,
24 we think it's a question of equity as far as he claims
25 that he can't get treated fairly by King Resources. And

1 that's the justification for the unit, and I feel like
2 I'm entitled to bring up unequitable considerations.

3 MR. STAMETS: The question is withdrawn?

4 MR. LOSEE: Yes.

5 MR. STAMETS: So we won't have to consider your
6 motion, Mr. Morris.

7 Q Turning down again to your third location on the
8 unorthodox unit on the South Half of the North Half of
9 Section 24 where you have the well located in the
10 extreme East end of that 120, will not that well join
11 the North Half of the Northeast Quarter of Section 24?

12 A It will.

13 Q What kind of financial and legal problems have you had
14 with King Resources other than the time you went to court?

15 A Well, we haven't had any, but we don't want to make
16 ourselves some by --

17 Q Is that your sole basis that you haven't had any problems
18 with them but you don't want to; and as a result you'd
19 like to solely develop your acreage on an unorthodox
20 pattern that drains offset acreage?

21 A Well, we believe that we should be able to get some of
22 our oil from under our leases and actually we are
23 already being drained by these producing offsets and
24 that we don't want to lose any more oil by drainage.
25 And if we do what we can on our leases, why, King can do

- 1 what they will on theirs and they will capture their
2 oil and we will capture ours and we can probably all
3 make some money.
- 4 Q Mr. Dehlinger, in your application do you say that you
5 haven't been able to reach any agreement to communitize
6 the tracts proposed on what I guess is Plat 3 which is
7 your least palatable acreage?
- 8 A Yes, sir.
- 9 Q I believe you said that you had submitted or your partner
10 an AFE on one well. What well was that?
- 11 A The one in the Southeast of the Southeast of 13.
- 12 Q You have received no response from King Resources on it?
- 13 A No, sir.
- 14 Q Well, what about your proposed location in the Southeast,
15 Northeast of 13? Have you sent them an AFE?
- 16 A If I'm not mistaken, I gave three AFE's that we are
17 looking at here to Mr. Mann when we were up at Denver
18 last week.
- 19 Q What day was that?
- 20 A Thursday.
- 21 Q Last Thursday?
- 22 A Yes.
- 23 Q Do you think six days before a hearing is ample time to
24 consider your AFE?
- 25 A Well, I would say that we should have had an answer

1 since February 27th when I presented him with an AFE.

2 Q Well now, I'm really talking about the AFE on the
3 Southeast, Northeast of 13. You didn't give that till
4 last Thursday, some 15 days after you filed this
5 application.

6 A Well, our attorneys in Denver had talked to Mr. Walker,
7 Mr. Evans; and we have discussed and tried to come up
8 with something. And we haven't come up with something is
9 what it amounts to.

10 Q Now, in addition, the well in the Northeast Quarter of
11 Section 13 that you propose as the least likeable
12 alternative has a federal lease involved in it; does it
13 not?

14 A Yes, sir.

15 Q Are you aware that it would require a communitization
16 agreement on that well in which all the interest owners
17 and the United States Government agree to before you
18 could drill it?

19 A Yes, sir.

20 Q Have you submitted that to King to sign?

21 A No, sir.

22 Q Did you hear Mr. DePaul this morning testify in the
23 Tom Brown Application for compulsory pooling in the
24 Carlsbad Morrow Field?

25 A Yes, part of it.

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- 1 Q Did you hear his discussion about rates for drilling
- 2 wells, supervision, and for monthly supervision?
- 3 A No, sir. I wasn't here when he was talking about that.
- 4 Q Well, I believe your testimony was that the rates you
- 5 propose here which are what, would the Vada Penn
- 6 come in between 8,000 and 10,000 feet?
- 7 A Yes, sir.
- 8 Q You would have a drilling well rate of \$1,590?
- 9 A Yes, sir.
- 10 Q And I believe it was your testimony that this was
- 11 prevalent in the industry?
- 12 A Yes, or in that area, I think is the way I put it.
- 13 Q Well, is the depth of the Pennsylvanian in Lea County
- 14 much different than the depth of the Pennsylvanian in
- 15 Eddy County?
- 16 A Well, as I recall, he was talking about an 11,000 foot
- 17 well over there where he was. This is 9600.
- 18 Q So it's actually deeper over there?
- 19 A Yes.
- 20 Q Would he be incorrect if he said that their proposed
- 21 charge for drilling a well of \$450 per well was more
- 22 than Tom Brown needed and that he'd really be satisfied
- 23 with \$400 per well? Is he that much lower than the
- 24 industry?
- 25 A Yes, sir. I would say he was, because King Resources

1 at the time they got him, drilled their wells, they were
2 charging \$950 for drilling a well and that was four years
3 ago.

4 Q Well, at least if Mr. Brown said that, in his instance
5 he is an exception then to the industry?

6 A I sure think so.

7 Q Okay. Let's look at your rate charges. You got \$195 a
8 well at your depth?

9 A Yes, sir.

10 Q Mr. Brown, here again, his testimony was that he didn't
11 need \$150 and that really maybe \$125 would be reasonable
12 sum. Here again, is that a complete exception to the
13 industry?

14 A Well, for the, I think that what you are doing is
15 comparing apples and oranges. And again, I'll quote you
16 King Resources when they originally came in here. They
17 were charging \$127.

18 Q Why am I comparing apples and oranges with Tom Brown and
19 Pierce and Dehlinger?

20 A We are in different areas.

21 Q You are both independents, both operating out of Midland,
22 Texas?

23 A Yes, sir.

24 Q Have you ever drilled any well in the Carlsbad Morrow
25 Field?

- 1 A No, sir.
- 2 Q Do you realize any risk involved in it?
- 3 A Pardon me, sir?
- 4 Q Do you realize any of the risks involved in those?
- 5 A Oh, yes.
- 6 Q Do you realize most of the wells have got an intermediate
7 string of casings set in with a danger of blowout?
- 8 A Yes, sir.
- 9 Q So actually there ought to be more problem with drilling
10 one of those wells than there should be with yours?
- 11 A You've got heating shales and danger of getting stuck in
12 this area is very common.
- 13 Q Mr. Dehlinger, again to what you have called your Plat 3,
14 your least likeable locations which would create orthodox
15 units and force pool King Resources, all of those three
16 wells you propose are actually infield wells; are they
17 not?
- 18 A Yes, sir.
- 19 Q And they are not within the pinchout area or permeability
20 area that is shown on your Exhibit 3; are they?
- 21 A The well to be drilled in Section 24 is close to a tight
22 zone; and as you can see, if you were just making
23 comparisons, how rapid this permeability pinchout to the
24 Northwest side of the field can occur over here in
25 Section 89 South, 34 East.

1 Why, it looks like that permeability pinchout has
2 come way into the field, and this is the very same thing
3 that may happen here so that you have a risk.

4 Q But it's an infield well in that it's got a diagonal
5 offset in one direction as a producer and it's got a
6 diagonal one location away that's a producer?

7 A Yes, sir.

8 Q The wells that you have protracted on your Exhibit 3,
9 that's not all of the Vada Penn; is it?

10 A No, sir.

11 Q Have you counted the number of wells that were drilled
12 into the Pennsylvanian on this map in the field area?

13 A On this map, yes, sir.

14 Q How many do you have?

15 A 160.

16 Q Exactly 160?

17 A No. I say about.

18 Q How many producers did you count in those?

19 A Well, about 28. Now, when you say producers, that means
20 non-commercial as this is just they completed them
21 period.

22 Q Well, I'm taking your exhibit that --

23 A Right.

24 Q Would you care to venture that the ratio of 28 to 160
25 is something less than 20 percent?

1 A On a number system that's right. As far as risk of
2 getting a non-commercial well, why, that risk goes up
3 very fast.

4 Q Well, from 20 percent to 100 percent?

5 A Oh, it will go up to 60 or 70 at the state of depletion
6 of this field, yes.

7 Q Well, that hasn't, though, been historically the
8 experience of the operators who drilled the wells on the
9 map in the Vada Penn in this field; has it? It's
10 really been 20 percent.

11 A Well, if you are just saying completions, right.

12 MR. LOSEE: I think that's all.

13 MR. MORRIS: I have a couple more questions, Mr.
14 Examiner, if I may.

15 MR. STAMETS: Okay.

16 REDIRECT EXAMINATION

17 BY MR. MORRIS:

18 Q Mr. Dehlinger, when you acquired the new lease on the
19 area Southwest Quarter of Section 13, did you acquire
20 that from the landowner to which the mineral rights were
21 diverted when the lease was cancelled?

22 A Yes, sir. Actually it's not a landowner. The minerals
23 are separated from the surface here.

24 Q I see.

25 A And actually there was a change of name. The original

1 deal was those leases came from LL & E, but LL & E
2 subsequent to this sold their mineral rights I think in
3 the southern New Mexico to Exchange Oil and Gas, and we
4 picked it up from the Exchange Oil and Gas.

5 Q You had bought the original lease at one time and it's
6 pointed out you had the lease and farmed it out to
7 King Resources. You acquired the lease one time and
8 farmed it out and that lease was declared terminated,
9 and you went back and took another lease from the company
10 you just named?

11 A It's exchange.

12 Q Exchange. How much bonus did you have to pay for this
13 current lease?

14 A We paid \$50 an acre for that Exchange acreage.

15 Q According to the best information you have, Mr.
16 Dehlinger, approximately how much in the way of unsatisfied
17 claims of lien are there against the King Resources
18 acreage in this area?

19 A Well, sir, I'm not really qualified to say; and there
20 was some discussion of that at Denver last Thursday.
21 And I don't think Mr. Baer, Mr. Walker probably knows.

22 Q To your information there are substantial amounts of
23 liens against this property?

24 A Yes, sir.

25 MR. MORRIS: All right. That's all I have.

RECROSS-EXAMINATION

BY MR. LOSEE:

Q You acquired it from Exchange Oil and Gas?

A Yes, sir.

Q How much did you pay them for the South Half, Southwest Quarter with the well on it?

A \$50 an acre plus three-sixteenths.

Q So for that 80 acres, what did you pay? You bought the South Half, South Half?

A Yes, sir.

Q So the South Half, South Half cost you \$4,000 plus three-sixteenths with the completed Vada Penn Well?

A Actually you talk about the South Half of the South Half of 13. In the South Half of the Southeast of 13, Midwest has half-interest in that.

Q So I see, but your rate on 160 acres --

A \$50.

Q \$50.

MR. LOSEE: That's all I have.

CROSS-EXAMINATION

BY MR. STAMETS:

Q Mr. Dehlinger, in your opinion, will the wells that you have proposed here on each of these three proposals drain the acreage which you propose to drain, the acreage which you propose to dedicate to them?

1 A Pardon me?

2 Q In your opinion will the wells that you have proposed
3 here on each of these three proposals currently existing
4 on these various tracts which you have proposed on your
5 three plans drain those tracts?

6 A Yes, sir. I think it is common knowledge. Why, you can
7 drain much more than 160 if you could just sit there and
8 have the time.

9 Q What's the current rate of production on your well in
10 the Southwest, Southwest of Section 13?

11 A It's making 125 to 150 barrels of oil per day plus
12 another 150 barrels of water, and that represents
13 capacity of the equipment that's on the well.

14 Q What about the well located in the Northeast of the
15 Northwest of 24? Do you have any information on that?

16 A Mr. Mann told us at Denver last Thursday that it was
17 making about 42 barrels of oil per day and about, as I
18 recall, about 100 barrels of water.

19 Q Do you know what acreage is dedicated to those particular
20 two wells at this time?

21 A No, sir. I don't.

22 Q Okay. I'm sure that the Commission records will reflect
23 that information.

24 MR. MORRIS: Mr. Examiner, I checked those records
25 myself; and if I'm not mistaken, I think the files will

1 show that the well in the Southwest Quarter of 13
2 according to the Commission records now has only 40
3 acres dedicated to it. There may be instruments elsewhere
4 that cause a communitization of more acreage than that,
5 but I'm referring to the Commission's well file. I
6 believe 1-A already has 160-acre dedication.

7 MR. STAMETS: Thank you, Mr. Morris.

8 MR. MORRIS: I offer that information, only I'm
9 sure the well files, of course, will be the best evidence
10 of that.

11 MR. LOSEE: Mr. Morris, what is the communitization
12 dedicated to 1-A, the Northwest Quarter?

13 MR. MORRIS: Yes, sir.

14 Q I notice looking through Exhibit Number 1 here, the three
15 plans, that the first two plans result in drilling of
16 two additional wells, and the third plan results in the
17 drilling of three wells. In your opinion will the
18 drilling of three wells in here result in better drainage
19 than the drilling of two wells?

20 A It won't result in better drainage. It will result in
21 a more rapid withdrawal of the oil.

22 Q Referring to Plan Number 1 now, in this proposal you
23 would dedicate the Southeast of the Northeast of Section
24 14, 9 South, 33 East to your well in the North Half of
25 Section 13. Am I correct in feeling that this would

1 prevent the owner of the rest of the Northeast Quarter
2 of Section 14 from forming a standard drilling unit?

3 A Well, they will have to have a non-standard, also.

4 Q Okay. Both in Plan Number 1 and Plan Number 2, it would
5 appear that 200 acres will remain in the North Half of
6 Section 13 not dedicated to any producing well; is that
7 correct?

8 A Right, yes.

9 Q So again, some sort of non-standard unit would have to be
10 formed to dedicate this acreage to some well?

11 A Yes, sir.

12 Q Referring to your Exhibit Number 3, the Combined Fixed
13 Rates Exhibits, did you say that this was a composite of
14 a number of producers in the area?

15 A Yes, sir. Superior and Midwest and Tenneco all have
16 comparable, some higher.

17 Q Pierce and Dehlinger does operate a well or some wells
18 in this area?

19 A Yes, sir. Up in Roosevelt County we have, about five
20 miles away.

21 Q You are not the operator then of the well in the Southwest
22 of the Southwest of 13?

23 A Oh, yes. Excuse me, I'm sorry. Yes, excuse me.

24 Q What are Pierce and Dehlinger's combined fixed rates?

25 A Of course, we had no drilling rates, but just at the

- 1 minute, why, it's \$125.
- 2 Q That's substantially lower than this \$195 that you show
- 3 here on Exhibit Number 3?
- 4 A Yes, sir.
- 5 Q Mr. Dehlinger, you are aware, aren't you, that 200
- 6 percent is a maximum risk factor that the Commission is
- 7 allowed to apply?
- 8 A Yes, sir.
- 9 Q And this would be all we could apply to the very rankest
- 10 wildcat?
- 11 A Yes, sir.
- 12 Q And is it your feeling that these represent somewhat less
- 13 risk than the rankest wildcat?
- 14 A Like I say, every Bough "C" well is a wildcat; and
- 15 certainly it's not a rank wildcat. So the answer is
- 16 yes.
- 17 Q I'm somewhat confused concerning Mr. Losee's questions.
- 18 I got the indication that some AFE was only given to
- 19 King Resources six days ago and that in one area no
- 20 communitization had been submitted for approval. Could
- 21 you tell me where that was and kind of explain that to
- 22 me?
- 23 A The AFE, excuse me, the AFE's he refers to six days ago
- 24 would be the three locations along the East side of
- 25 Section 13 and 24. All right now, the communitization

1 agreements he mentioned concerning the federal
2 government, the federal lease, would be the Northeast
3 Quarter of Section 13.

4 Q I see. Mr. Dehlinger, had you furnished King Resources
5 AFE's on the two wells that you have proposed in Plans
6 1 and 2 here?

7 A Had we in Plans 1 and 2?

8 Q Right. Earlier than six days ago?

9 A Well, of course, they wouldn't be involved in plan, in
10 that.

11 Q That's right. All right. I see. I answered my own
12 question.

13 MR. STAMETS: Mr. Morris, you have brought this
14 problem of unsatisfied claims or liens against the
15 King Resources acreage here. To your knowledge is there
16 any law which would prevent Pierce and Dehlinger in the
17 event that we went with Plan 3 here, that would prevent
18 Pierce and Dehlinger from receiving funds to reimburse
19 them for King Resources' share of the drilling of the
20 well and the risk factor that might be imposed in this
21 case?

22 MR. MORRIS: Mr. Examiner, that's a point that I
23 had certainly intended to address myself to in a final
24 statement. I think it would be better to do it right
25 now to get it out in the open. This we see as a legal

1 impediment and very real, a very serious question to the
2 Commission granting this Plan 3. I frankly don't have
3 the answer to your question, but the very fact that I
4 don't have the answer makes it a problem.

5 The force pooling statute itself, 653 14-C,
6 specifically says that the portion of the production
7 allocated to the owner or owners of each tract or unit
8 included in a well spacing or proration unit formed by
9 a pooling order shall when produced be considered as if
10 produced from the separately owned tract or interest by
11 a well drilled thereon.

12 Now, I know that the intent of that was probably
13 for the purpose of holding acreage to attribute
14 production to that acreage so it would be held by
15 production; but unfortunately it catches us in this
16 circumstance, because if there is a lien against the
17 King Resources acreage and the statute says that this
18 production shall be deemed to have been produced from
19 that acreage, then the prior lien may well attach to that
20 production before Pierce and Dehlinger would be entitled
21 to retain it to reimburse themselves for the costs that
22 they have advanced for drilling the well and, of course,
23 also for whatever risk factor is awarded.

24 And if Pierce and Dehlinger would be jeopardizing
25 their expenditure here because they would be in a

1 situation not being able to retain the production, they
2 might be met with the claims of prior creditors who
3 would take the position that the force pooling statute
4 itself does not by its terms create any prior lien that
5 would take precedence over a prior claim of lien such as
6 exists here for the matters that were costs that were
7 incurred in the drilling of that well in the Southwest
8 Quarter of Section 13 which has never been paid.

9 So we feel it would be a very unsatisfactory
10 alternative for the Commission to order pooling in this
11 case, and one of two things could happen. It could just
12 prevent the development of the acreage. At the very
13 least, it would delay the development of the acreage
14 because I don't think what substantial amount of money
15 outstanding in the form of lien Pierce and Dehlinger
16 could afford to take the charge of having to pay off
17 King Resources' creditors.

18 And there is some urgency here both with respect to
19 the Pierce and Dehlinger position and also the King
20 Resources' position that their acreage is being drained
21 by the offset. So in summary, I can't really answer your
22 question; but there is a problem there; and I cannot
23 find the answer to it. I don't have any law or decision
24 that clarifies whether or not a force pooling statute
25 would give the operator advanced his cost of drilling

1 priority over a prior lien holder on the unit.

2 MR. LOSEE: I guess I'd like to respond to Mr.
3 Morris at this time rather than at the end. I think I
4 would like to make our representation here clear to the
5 Examiner. This is a receding and reorganization in which
6 one of the clients is a Trustee of the Bankruptcy State.
7 It's the responsibility of that Trustee to gather the
8 assets for the benefit of one of the creditors or for
9 the benefit of the eventual end result of the company.

10 I'm not here today and Mr. Walker and no one with
11 King Resources can say that three or four years from now
12 the reorganization will not turn the company into
13 solvency, but we have a responsibility, this Trustee
14 does, to these creditors and to maintain and protect
15 these assets. And hence, our appearance, we feel like
16 these are valuable assets.

17 I think the answer first to your question about
18 whether --. Assuming that King Resources doesn't come
19 up with the money to participate, as I mentioned, we are
20 representing KRC and Arthur Lipper and other owners who
21 are not connected with the representation in bankruptcy.
22 They had an interest in the acreage. The Bankruptcy
23 Court certainly has a power to authorize this.

24 Before working anything out about the liens, if the
25 Commission sees fit to force pool and assess a risk

1 penalty to the record acres, I'm not here now to tell
2 you that King will or won't participate. I think that's
3 a judgment that the Federal Referee in Bankruptcy and
4 the Trustee and the Federal Court will have to make.

5 I think as far as the innuendo about liens, I
6 haven't examined the record; but I suspect based on what
7 my clients tell me there are probably some mechanical
8 liens against the 1 and 1-A and the proration units
9 dedicated to those wells and that's all.

10 The mechanic and material main lien statute in
11 New Mexico clearly attaches only non-lease holders
12 estates. It won't have any effects at all on the
13 three wells proposed along the East side. It's not
14 going to attach to that acreage, and it's just in the
15 first place I can't tell you the extent of the liens;
16 but if they are mechanic and material liens, they are
17 not going to affect it and to be concerned about them is
18 to assume that the Bankruptcy Court is not going to
19 permit the investment in this. That's not a correct
20 assumption.

21 I'm not here to say they are or aren't. That's a
22 decision they will make when presented with the
23 prorations.

24 MR. MORRIS: Mr. Examiner, just one brief response.
25 Mr. Losee stated very positively that he didn't think the

1 lien would attach to the proration units where the
2 proposed wells were to be drilled; and I don't know how
3 he can state it that positively.

4 I would think that the lien would attach to the
5 lease itself, not to the, perhaps to other leases owned
6 by the same owner, but that it would attach to the
7 lease and that would cut across proration unit lines.
8 So I think there is still a substantial question as to
9 what the liens do attach to.

10 MR. LOSEE: Let's resolve that. I'll get the
11 statute when we finish.

12 MR. STAMETS: Mr. Dehlinger, if it weren't for the
13 problems that you have possibly had in the past with
14 King Resources and this you see as a potential in the
15 future for King Resources with King Resources, would
16 Pierce and Dehlinger normally seek to communitize and
17 drill these wells to the standard proration units?

18 THE WITNESS: Yes, sir.

19 MR. STAMETS: I believe you have also stated that
20 you feel that King Resources would have the opportunity
21 to drill wells especially in the South Half of 13 and
22 they already have their well completed in the North Half
23 of 24, that they would have the opportunity to dedicate
24 acreage and by offset drainage not be hurt by your
25 proposals here?

1 THE WITNESS: Yes, sir.

2 MR. STAMETS: Are there any other questions of
3 this witness? He may be excused.

4 (Whereupon, a five-minute recess was taken.)

5 STEWART EVANS,

6 was called as a witness and after being duly sworn according
7 to law, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. LOSEE:

10 Q State your residence and occupation.

11 A Stewart Evans. I live on 9674 East Powers Drive,
12 Inklewood, Colorado. I am employed as a Western
13 Division Manager for King Resources Company.

14 Q Would you state your qualifications as an expert
15 briefly and your educational experience and background?

16 A I graduated in 1958 from the University of Michigan
17 with a Master's in science and geology. I worked 11
18 years for Chevron Oil Company in Texas. I worked several
19 years for King Resources Company. Approximately eight
20 years of this period of time, I was involved with
21 working in West Texas and New Mexico.

22 Q Briefly state the development of the Vada Penn Bough "C"
23 Field.

24 A The field was --

25 MR. LOSEE: Will you accept his qualifications?

1 MR. STAMETS: Mr. Evans, you are familiar with the
2 subject of the Application and the Vada Pennsylvanian
3 Field?

4 THE WITNESS: Yes, sir.

5 MR. STAMETS: They are.

6 Q Now, will you briefly state the history of the full
7 development of this Vada Penn Bough "C" Field?

8 A Basically, the field was discovered in the early part of
9 1960. It has approximately 350 wells now. It's about
10 seven miles by twelve miles trending in a Northeast,
11 Southwest direction dipping to the Southeast. The wells
12 make water and oil at the same time that ranges from
13 30 to 60 percent.

14 The field has expanded in all directions in a rather
15 slow manner as wells are drilled.

16 Q Please refer to what has been marked as Protestant's
17 Exhibit 1 and briefly explain what is portrayed by this.

18 A This is a structure map on the top of the Bough "C" in
19 the immediate area of King Resources' acreage in the
20 Bough "C" Fields. The structure contours are on top of
21 the Bough "C". The productive wells are shown with a
22 black dot. The dry holes are shown with a normal dry
23 hole symbol. These wells are productive from the Bough
24 "C".

25 Q I notice a dry hole to the South of the acreage in Section

1 24 in the Northeast of the Southwest Quarter. Was that
2 drilled through the Pennsylvanian?

3 A Yes. That is a Bough "C" test. It was drilled in
4 November of 1963 at which time this acreage was
5 considerably shut off from the existing boundary
6 as then known as the Bough "C" field. No drill stem
7 tests of the Bough "C" zone were run.

8 Q Do you think that could be productive in the Bough "C"?

9 A I would think that from the log analysis that we have
10 in the area it's very difficult to say from a log
11 whether you have a productive well or not. The real
12 definitive test is a good drill stem test.

13 Q And there was none made?

14 A There was none run on this.

15 Q What about the well in Section 12 in the Southeast of
16 the Southwest?

17 A This well was drilled in 1956 by Magnolia. That was a
18 Halmberger test, a deep test. It was reentered in 1966
19 and again a deep completion was attempted.

20 At the time it was drilled they did core the Bough
21 "C" and discovered the core had no show. However, no
22 drill stem test was run of this zone. As you know,
23 with the high water cut that you have in these zones,
24 there is a good chance that a core result of no shows
25 would not be definitive of productive capabilities or not.

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1 Q Do you have a cross-section prepared running across this
2 acreage of your Exhibit 2?

3 A Yes.

4 Q Would you please briefly discuss it?

5 A This is a cross-section shown on Exhibit 1 by the
6 Numbers 1 through 6. Colored in blue on this cross-
7 section is the Bough "C" producing zone showing that it
8 is present across this productive area. At the same time
9 that we are looking at this, you will notice the Number
10 3 and the Number 4. The Number 3 Well is the Sheridan
11 Number 1-A Well, and the Number 4 Well is the Sheridan
12 Number 1 Well drilled by King Resources.

13 There was a significant difference in the method
14 of completing these wells. The Number 1 Well, the whole
15 zone was perforated 19 perforations from 1965 to 1969.
16 The Number 1-A Well, there were four perforations one
17 foot apart from 1965 to 1969.

18 The reason for this difference in perforations is
19 not known to me, because I was not actually involved
20 at the time in the completion of this well. However,
21 these wells when they were drilled were not part of the
22 Vada Penn Pool. They were set off two or three miles,
23 and there may have been some feeling in the people's mind
24 to complete this well that they could get a separation of
25 oil and water; but we feel from drill stem test data

1 that these wells are both of a capability of being good
2 wells. But difference in the productive rates is solely
3 due to the method of completion.

4 Q Based on cross-section, do you feel like the proposed
5 three locations of Pierce and Dehlinger on the East side
6 of 13 and 24 will be producers?

7 A Yes, I do.

8 Q Would you give the data on when the Sheridan Number 1 was
9 spudded, if you know?

10 A Yes. The Number 1 Well was spudded November of 1969 and
11 completed in February of 1970.

12 Q And it potentialized for --

13 A 150 barrels of oil and 300 barrels of water per day.

14 Q And the cumulative to 11/1/72?

15 A It was approximately 25,000 barrels.

16 Q Your Exhibit 3 is the well costs incurred by King
17 Resources in drilling this well?

18 A Yes.

19 Q Do you know whether or not the Southwest Quarter of
20 Section 13 was dedicated to this Number 1 Well?

21 A Yes, sir. It was.

22 Q And refer now to the Sheridan 1-A in the Northeast,
23 Northwest Quarter of Section 24. Would you give us
24 when it was started and when it was completed and its
25 initial production?

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- 1 A It was spudded on May 16, 1970, and completed 7/15/1970.
- 2 It was potentialized for 80 barrels of oil and 200 barrels
- 3 of water per day.
- 4 Q And its cumulative to 11/1/72?
- 5 A Approximately 15,000 barrels.
- 6 Q I believe you earlier said that in your opinion the
- 7 difference between the two wells was mainly the lack of
- 8 perforations in the one well?
- 9 A Yes. The drill stem test data. The Number 1-A Well
- 10 actually flowed on drill stem test. The recovery was
- 11 very substantial in the 1-A Well. The Number 1 Well
- 12 did not have anywhere near the recovery which leads us
- 13 to believe that the 1-A Well would be a good well if it
- 14 was properly completed.
- 15 Q All right. The Northwest Quarter of Section 24 is
- 16 dedicated to the 1-A Well?
- 17 A Yes, sir.
- 18 Q Protestant's Exhibit 4 sets forth the well cost for this
- 19 1-A Well?
- 20 A Yes, sir.
- 21 Q Please refer to what has been marked as Protestant's
- 22 Exhibit 5 and explain briefly what is portrayed by this
- 23 exhibit.
- 24 A This is a cumulative oil production map. The wells are
- 25 coded with the least number of wells being the oldest

1 wells and the highest number, the most recent well.

2 It exhibits the fields developing to the North and to the
3 West and also shows the cumulative production for these
4 wells as of 11/1/72.

5 It exhibits the fact that the field has been both
6 accumulative and the date of drilling shows that the
7 Federal has been developing to the North and West.

8 Q Please refer to what has been marked Protestant's Exhibit
9 6 and explain what this is.

10 A This is ultimate gross recovery as calculated by Mr. Mann,
11 a professional engineer and Vice-President of King
12 Resources Company. This shows the ultimate gross
13 recovery for the wells in the immediate area of Section
14 13 and 24, the acreage in question. The wells
15 immediately surrounding this acreage you will note that
16 six out of nine wells have an estimated recovery over
17 175,000 barrels.

18 Q Please refer to Protestant's Exhibit 7 and explain what
19 is shown by this exhibit.

20 A The various spacing units proposed under these various
21 cases today are shown on this map, and a circle which
22 would be a theoretical drainage pattern is shown around
23 their proposed well. Their well in the Northeast,
24 Southwest of the Northeast Quarter of Section 13 which
25 is labeled Unit G of that section.

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1 A theoretical drainage layer is shown which would
2 indicate that considerable acreage outside of the spacing
3 unit would be drained by a well in this area.
4 Q Is radial drainage believed to be a reasonable hypothesis?
5 A I believe so.
6 Q What about the Sheridan Number 1? Does it indicate --
7 A Yes. This is another theoretical drainage pattern around
8 this well. If a unit was formed, it would be the South
9 Half of the South Half of Section 13. It would indicate
10 that much acreage would be drained prior to draining the
11 South Half of the Southeast Quarter.
12 Q Is the same true to the well down in the --
13 A Yes. If that well was drilled in an elongated 160
14 which would be the South Half of the North Half of
15 Section 24, it illustrates the possible drainage that
16 could occur in the North Half of the Northeast Quarter.
17 Q Do you have an opinion, Mr. Evans, as to whether these
18 three proposed elongated unorthodox units would violate
19 the correlative rights of the offset acreage owners?
20 A In my opinion, they would.
21 Q Now, last Thursday King Resources' people had a meeting
22 with Mr. Dehlinger; did they not?
23 A Yes, sir.
24 Q What proposal, if any, did King Resources make to Mr.
25 Dehlinger?

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1 A In the afternoon, after morning discussions, we came
2 back and met with Mr. Dehlinger and his attorney and
3 proposed to them that we would form normal spacing
4 units in the area, that at the Southwest Quarter of 13
5 would be dedicated to the Sheridan Number 1 Well, that
6 the Northwest Quarter of 24 be dedicated to the 1-A
7 Well.

8 We would recognize their claimed interest which has
9 therefore been subject to approval by the Court, and we
10 would claim no reimbursement for the drilling of either
11 well and that we would agree to farm out or join them
12 in drilling the wells in the Northeast Quarter of Section
13 13, the Southeast Quarter of Section 13, and the Northeast
14 Quarter of Section 24.

15 Q What did they respond to that proposal?

16 A They responded that there was no way that we were going
17 to have an interest in the Number 1 Well and that they
18 were not interested in this type of settlement.

19 Q Now, as far as your farm-out terms were concerned, you
20 said you'd either farm out or drill those wells.

21 A Right.

22 Q What reservation, if any, would King Resources have?

23 A King Resources was going to deliver to Pierce and
24 Dehlinger a 75 percent net revenue interest lease which
25 meant that we would retain an eighth override which

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1 would absorb all existing overrides. There is presently
2 on most of the acreage a sixth-and-a-quarter override,
3 so we would be retaining a sixth-and-a-quarter override
4 or we would join in drilling the wells.

5 Q Mr. Evans, what would you estimate on a scale of 1 to 10
6 that any of these three wells along the East side would
7 be dry holes?

8 A I would say it would have to be between one and a half
9 and two on the side of being, otherwise, if you drilled
10 10 wells, one and a half of them would be dry.

11 Q About 15 percent of them?

12 A 15 percent.

13 Q So with respect to those three wells, where the maximum
14 risk factor is 200 percent, you would say that the risk
15 factor ought to be 20 to 40 percent?

16 A I would think that would be a fair number.

17 Q What would you consider a reasonable charge for a
18 drilling well supervision to be customary in this area,
19 Southern New Mexico?

20 A I would think it would be considerably less. I have not
21 participated in drilling a well recently, so I really
22 can't say accurately.

23 Q Has King Resources received a request from the United
24 States with respect to the East Half, Northeast of
25 Section 13 as to what plans were being made for drilling

1 a well?

2 A Yes. I received that after the meeting with Pierce and
3 Mr. Dehlinger and his attorney. When I went back to my
4 office, I had received that.

5 Q And it was the USGS position that the well in the
6 Southeast, Southeast of 12 was draining this East Half?

7 A Yes. This well was completed in September of 1972, and
8 they were inquiring as to how we prevented this well
9 from draining this tract.

10 MR. LOSEE: Nothing further.

11 MR. STAMETS: Are there questions of this witness?

12 CROSS-EXAMINATION

13 BY MR. MORRIS:

14 Q Mr. Evans, concerning your Exhibit Number 7 with the
15 circles on it --

16 A Yes, sir.

17 Q It would appear looking at the size of your circles that
18 this is more than a 160-acre drainage area that you have
19 shown by the circles.

20 A This is intended to be a schematic theoretical drainage
21 area.

22 Q If you had drawn a 160-acre circle, it would have been
23 considerably smaller than what you have depicted on
24 Exhibit 7; is that correct?

25 A Yes, sir.

1 Q You don't show on here any drainage area for the 1-A
2 Well?

3 A That's right.

4 Q Well now, the 1-A is draining some area; is it not?

5 A Right.

6 Q And its drainage pattern would interfere with the
7 drainage patterns of at least one, probably two, of the
8 wells shown on Exhibit 7?

9 A Well, we weren't considering the Northwest Quarter of
10 Section 40 here so I didn't put it on.

11 Q Well, nevertheless the fact that the 1-A has a drainage
12 area would certainly make the drainage patterns of the
13 Number 1 and the well to be drilled in Section 24 quite
14 different than what you have depicted here. This is
15 strictly a theoretical exhibit which completely disregards
16 the 1-A picture; is that correct?

17 A This is designed to illustrate the fact that basically
18 what acreage is nearest to the well and the fact that
19 elongated 160's are not near the well.

20 Q I believe you stated the opinion that if the Pierce and
21 Dehlinger Applications for non-standard units were
22 granted that the correlative rights of King Resources
23 would be violated. Is King Resources -- excuse me.
24 Let me back up a little bit.

25 Correlative rights under our statute is defined in

1 terms of opportunity to produce. If King Resources
2 came in and drilled wells on its own acreage and
3 established non-standard units which would be the
4 North Half, North Half of 24 and the North Half of the
5 South Half of 13 and some non-standard units in the
6 North Half of 13 and drilled wells on those acreages,
7 you could protect your correlative rights, couldn't you,
8 by exercising the opportunity that you have?

9 A I think the well in the Sheridan Number 1 Well in the
10 Southwest Quarter of 13 would be draining our
11 correlative rights in the North Half of the Southwest
12 Quarter.

13 Q Well, by the same token, if you drilled a well in the
14 North Half of the Southeast Quarter of Section 13 and
15 dedicated the North Half of the South Half to it, you
16 in turn would be draining some oil from beneath
17 Pierce and Dehlinger's acreage in the Southeast Quarter
18 of Section 13. So you'd have drainage and counter-
19 drainage; isn't that a common situation in the oil
20 business?

21 A I think that the reason that we have standard quarter
22 section field rules is to avoid that situation.

23 Q Nevertheless, doesn't it boil down to this, Mr. Evans,
24 that King Resources has the opportunity to protect its
25 correlative rights but it's going to have to get out and

1 drill some wells and spend some money to do so?

2 A I'm not familiar with the law of New Mexico as to the
3 definition of correlative rights.

4 Q You referred to your meeting last Thursday up in Denver.
5 Was Mr. Baer of your organization supposed to be at that
6 meeting?

7 A As far as I was concerned, no.

8 Q No?

9 A No.

10 Q Who is Mr. Baer?

11 A Mr. Baer is the Trustee.

12 Q The Trustee in Bankruptcy?

13 A Yes.

14 Q He has to give his approval, does he not, as to any
15 substantial commitment on the part of King Resources
16 with respect to money or commitments of acreage to any
17 kind of development of this sort?

18 A We were in phone conversation with Mr. Baer, and Mr.
19 Baer does not involve himself in the direct operations
20 of properties for the negotiations of farm-out deals.
21 When we have concluded a farm-out proposal or we make a
22 recommendation to him, and we had the ability to call
23 him on the phone that very day and have approval of the
24 farm-out proposal and the settlement proposal that we
25 proposed to Mr. Dehlinger and his attorney.

1 Q In answer to my question, though, he does have to
2 approve any program of this sort?

3 A Yes, sir.

4 Q Was a 60-day delay proposed by you in connection with
5 this project?

6 A In the non-consent, yes, it was a 60 rather than a
7 normal operating agreement. We proposed 60 days, but it
8 didn't seem to be an issue at the time.

9 Q In the event of force pooling is King Resources in any
10 position to recommend to Mr. Baer with any chance of
11 success that it pay its share of well costs?

12 A The operating term with King Resources, their
13 responsibility is to conduct business as though the
14 company was not in bankruptcy and to make recommendations
15 to the Trustee as though it was a normal course of
16 business. It's up to him to make the decision then of
17 what happens.

18 Q In view of your experience operating under the Trustee,
19 do you believe it reasonable that he would approve the
20 expenditure of funds for the drilling of these wells?

21 A We have participated in wells in the western division
22 and this western division. When the risk is sufficient
23 to recommend them to the Trustee and he feels they are
24 a good investment.

25 Q In this particular circumstance based on your experience

1 in dealing with Mr. Baer, do you think that he would
2 approve the expenditure of funds?

3 A This is a very difficult question. I would recommend
4 this, because I think these wells are an economic
5 venture. I really cannot predict exactly what he says,
6 but I think that he would take this recommendation very
7 seriously.

8 Q Mr. Evans, in the event the Commission should enter what
9 I would suggest here might be somewhat an unusual type
10 of order, let me try it on you and see what you think of
11 it. Consider a situation that the Commission would enter
12 a compulsory pooling order and provide that in the
13 event King Resources was not able to pay at the prorated
14 share of the well costs, the matter would revert to the
15 non-standard units that had been proposed by the
16 Applicants. Would that help your situation in
17 recommending it to the Trustee?

18 A Well, let's look at it this way. Suppose you proposed
19 or Pierce and Dehlinger proposed drilling a well in the
20 Southeast Quarter of 13 and we said yes. Now what if
21 they proposed one in the Northeast Quarter and we said
22 no? How are you going to do that?

23 Q We have made our proposals as to what we want to do.

24 A But I don't understand how your system would work at
25 the time, because I don't believe Mr. Pierce and Mr.

1 Dehlinger are prepared to absolutely commit themselves
2 to three firm wells at this time. They would want the
3 rights also to purchase and make one well ahead of time
4 with the continuous drilling operation.

5 Q It may be too problematical to speculate on any further
6 alternatives here, Mr. Evans. I appreciate what you are
7 saying, but nevertheless you are not in a position at
8 this time as I understand you to say that you can
9 commit with any assurance at all that Mr. Baer, the
10 Trustee, is going to permit King Resources to come in
11 and participate in these wells. So we are looking at a
12 very definite possibility of King Resources going non-
13 consent on all of the proposed locations.

14 A We would recommend to the Trustee, as I said, and he
15 has undertaken drilling in the past year on low-risk
16 development-type wells; but I am in no way in a position
17 to say that he would.

18 MR. MORRIS: I have no further questions.

19 MR. STAMETS: Are there any other questions of the
20 witness?

21 MR. LOSEE: I have no further questions.

22 MR. STAMETS: He may be excused. Are there any
23 other witnesses or any other testimony in this case?

24 We have a letter here to be read into the record.

25 MR. CARR: I have a letter from William Fullbright

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1 attorney for Hardin Zimmerman of Lamesa, Texas. And I'll
2 read just a portion of the letter.

3 "Mr. Zimmerman protests most strongly the creation
4 of any non-standard oil proration unit which would cross
5 the section line into Section 14 and appropriate any
6 part of Section 14 under the circumstances of this case.
7 To allocate the 40 acre tract out of Section 14 would
8 leave irregularly shaped acreage and insufficient acreage
9 for the development of Section 14 on standard proration
10 units. Such action would substantially interfere with
11 the development of the leasehold estate owned by Mr.
12 Zimmerman in Section 14 and could in no way be in the
13 public interest.

14 The Applicant in the above case has alternatively
15 sought a 120 acre non-standard proration unit or
16 compulsory pooling, both of which would apply only to
17 lands located in Section 13 and would not cross the
18 section line nor affect any lands in Section 14. Mr.
19 Zimmerman has no objection to either of these alternatives
20 and would in fact recommend same to you in lieu of any
21 proposal which would affect lands in Section 14."

22 MR. STAMETS: Any other statements in this case?

23 MR. LeMAY: William J. LeMay representing Read &
24 Stevens, Incorporated of Roswell, New Mexico. Read &
25 Stevens, Inc. are owners of direct offset production to

1 the point that Read & Stevens makes with respect to
2 Northeast Quarter of Section 13 is obviously true. There
3 isn't any way that King Resources or anybody else can
4 drill one well and protect the 100 and 200 acre
5 unorthodox unit scattered up there without getting over
6 on the East side.

7 We join in what I call Plat 3 and in the request
8 for the designation of standard units and the forced
9 pooling order as far as the three standard locations.
10 We would recommend that the Commission make a penalty of
11 20 to 40 percent to assure these things in this type of
12 production.

13 MR. STAMETS: Mr. Morris?

14 MR. MORRIS: Very briefly, Mr. Examiner, I've
15 already brought to the Examiner's attention the
16 substantial legal problem with respect to the forced
17 pooling in connection with the lien problem. I have
18 examined claims of lien that have been filed in this
19 area and find that some of them are on the 40 acres on
20 which the Number 1 Well is located.

21 Some of them are on the 80. Some of them are on
22 160 and some of them are on the whole Section 13. So
23 at least the claims of lien cast a shadow over the
24 development of this acreage insofar as it involves
25 King Resources' acreage.

1 We don't want to have to bring a lawsuit in order
2 to proceed with development of our acreage in this area,
3 and that is the main reason we are pushing non-standard
4 units. It's just one of perhaps the very typical facet
5 of the problem of trying to deal with an organization
6 which is involved in bankruptcy proceedings, and we
7 would prefer to develop our own acreage. We are
8 prepared to do so beginning immediately.

9 We feel we need to do so immediately in order to
10 stop the drainage that is occurring right now with
11 respect to these offset wells, and we can understand the
12 Commission might have a leaning toward establishing and
13 maintaining regular units in this area, but the delay
14 that will be involved we feel will impair our correlative
15 rights, the fact that there is built-in delay here with
16 respect to dealing with King Resources and in view of
17 their unfortunate situation.

18 We feel that in order to protect our correlative
19 rights we should be given the opportunity to proceed with
20 the drilling of these wells in the manner set forth in
21 our Referred Alternatives One and Two. In the event
22 the Commission does determine to force pool in accordance
23 with our least desirable Alternative Number Three, I
24 may mention that with respect to the three standard units
25 that would require wells to be drilled we have specified

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1 exact footage indications.

2 Perhaps we should have specified that the wells would
3 be drilled at an orthodox location within that Quarter,
4 Quarter Section to avoid any possible problems with
5 respect to topography. We do urge upon the Examiner
6 that whatever is to be done in this matter be done as
7 soon as possible so that we can proceed with the
8 development on this. Thank you.

9 MR. STAMETS: Mr. Morris, that is an amendment to
10 your Application in the third alternative there to appear
11 that might a well be drilled at a standard location in
12 the various forced-pooled tracts?

13 MR. MORRIS: Yes. We probably should have brought
14 our Application with that flexibility in the first place,
15 but we would ask if the Commission can grant us that
16 flexibility and if you chose that alternative to provide
17 it for us.

18 MR. STAMETS: Any other statements in this case?
19 The case will be taken under advisement. We will adjourn
20 the Hearing.

21 (Whereupon, the Hearing was adjourned.)
22
23
24
25

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1 STATE OF NEW MEXICO)
2) ss
3 COUNTY OF BERNALILLO)

4 I, JANET RUSSELL, a Certified Shorthand Reporter, in and
5 for the County of Bernalillo, State of New Mexico do hereby
6 certify that the foregoing and attached Transcript of Hearing
7 before the New Mexico Oil Conservation Commission was
8 reported by me; and that the same is a true and correct
9 record of the said proceedings to the best of my knowledge,
10 skill and ability.

11 *Janet Russell*
12 CERTIFIED SHORTHAND REPORTER

13
14
15
16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. *4955, 4956, 4957*
21 heard by me on *April 25*, 19*73*.
22 *Richard J. Stamm*, Examiner
23 New Mexico Oil Conservation Commission
24
25

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MARTIN DEHLINGER

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STEWART EVANS

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E X H I B I T SOFFEREDADMITTED

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Docket No. 12-73

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 25, 1973

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter or Elvis A. Utz, Alternate Examiners:

CASE 4946: Application of Union Texas Petroleum for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Crosby-Fusselman Pool, Lea County, New Mexico, including a provision for classification of oil wells and gas wells, 80-acre spacing for oil wells, 320-acre spacing for gas wells, and a limiting gas-oil ratio of 5000 to one.

CASE 4947: Application of Tom Brown, Inc., for compulsory pooling, and a non-standard unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the N/2 of Section 13, Township 22 South, Range 26 East, South Carlsbad Field Extension, Eddy County, New Mexico, to form a non-standard 336.6-acre unit to be dedicated to a well to be drilled 1680 feet from the North line and 1980 feet from the East line of said Section 13.

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4948: Application of Skelly Oil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to re-complete its R. R. Sims Well No. 7 located 2200 feet from the South and West lines of Section 3, Township 23 South, Range 37 East, Lea County, New Mexico, as a producing oil well in its Penrose "A" waterflood project, Langlie-Mattix Pool, said well being an unorthodox location closer than 330 feet to another well producing from the same pool. Applicant further seeks an administrative procedure for approval of further in-fill development at unorthodox locations in its Penrose "A" Unit Area.

CASE 4949: Application of Skelly Oil Company for the amendment of Order No. R-1069-B, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-1069-B, which order promulgated special pool rules for the Bisti Lower-Gallup Oil Pool, San Juan County, New Mexico. Applicant seeks the adoption of rules for the classification of gas wells in said pool and the dedication of 320 acres thereto.

- CASE 4950: Application of Monsanto Company for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its Burton Flat Deep Unit Well No. 3 located in Unit V of Section 3, Township 21 South, Range 27 East, Eddy County, New Mexico, to produce gas from the Burton Flat-Morrow Gas Pool Extension and from an undesignated Strawn pool through parallel strings of tubing.
- CASE 4951: Application of Atlantic Richfield Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the N/2 of Section 15, Township 21 South, Range 26 East, Eddy County, New Mexico, to be dedicated to a well to be drilled by the applicant at a standard location to test the Morrow formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator and the risk involved in drilling said well.
- CASE 4952: Application of Atlantic Richfield Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Empire Abo Unit Area comprising 11,339 acres, more or less of State and Federal lands in Townships 17 and 18 South, Ranges 27, 28, and 29 East, Eddy County, New Mexico.
- CASE 4953: Application of Atlantic Richfield Company for a pressure maintenance project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project in its Empire Abo Unit Area, Empire-Abo Pool, Eddy County, New Mexico, by the injection of gas into the Abo formation through eight wells in Section 36, Township 17 South, Range 27 East, Sections 3, 4, and 9, Township 18 South, Range 27 East, and Sections 26, 31, 32, and 33, Township 17 South, Range 28 East. Applicant further seeks the promulgation of special rules for the operation of said project, including provision for the assignment of special allowables to wells in the project area based on reservoir voidage factors, the shutting-in of less efficient wells, and volumes of gas injected.
- CASE 4954: Application of Chace Oil Company for pool creation and down-hole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup Oil Pool and Dakota Oil Pool for its Jicarilla 70 Well No. 3 located in Unit C of Section 33, Township 24 North, Range 4 West, Rio Arriba County, New Mexico. Applicant further seeks authority to commingle production from each of said pools in the well-bore of said well and the establishment of an administrative procedure for down-hole commingling of additional wells to be drilled in the area.
- CASE 4955: Application of Pierce & Dehlinger for a non-standard oil proration unit, or in the alternative, compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for

(Case 4955 continued from page 2)

a 160-acre non-standard oil proration unit comprising the SW/4 NE/4 and S/2 NW/4 of Section 13, and the SE/4 NE/4 of Section 14, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to a well to be drilled in Unit G of said Section 13, or in the alternative, applicant seeks approval of a 120-acre non-standard unit comprising only the above-described lands in Section 13, to be dedicated to the aforesaid proposed well.

As an alternative to either of the above-described non-standard units, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NE/4 of the aforesaid Section 13 to be dedicated to a well which would be drilled in Unit H of said Section 13. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

CASE 4956: Application of Pierce & Dehlinger for a non-standard oil proration unit, or in the alternative, compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard oil proration unit comprising the S/2 S/2 of Section 13, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to its Sheridan Well No. 1, located in Unit M of said Section 13. In the alternative, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the SW/4 of said Section 13 to be dedicated to said well; and also pooling all said mineral interests underlying the SE/4 of said Section 13 to be dedicated to a well which would be drilled in Unit P of said Section 13. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

CASE 4957: Application of Pierce & Dehlinger for a non-standard oil proration unit, or in the alternative, compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard oil proration unit comprising the S/2 N/2 of Section 24, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to a well to be drilled in Unit H of said Section 24. In the alternative, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NE/4 of said Section 24 to be dedicated to the aforesaid proposed well. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

CASE 4958: Southeastern New Mexico nomenclature case calling for an order for the extension of certain pools in Lea County, New Mexico:

(a) Extend the Eumont Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 28: SW/4

(b) Extend the Gladiola-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, NMPM
Section 19: NE/4
Section 20: NW/4

(c) Extend the Humble City-Strawn Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM
Section 10: SE/4

(d) Extend the Jalmat Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 19: N/2

(e) Extend the Osudo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 35 EAST, NMPM
Section 5: Lots 11, 12, 13, 14 and SW/4

(f) Extend the West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM
Section 26: W/2 NW/4

(g) Extend the Triple X-Delaware Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 7: NW/4

(h) Extend the North Vacuum-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 8: N/2 SW/4

(Case 4955 continued from page 2)

a 160-acre non-standard oil proration unit comprising the SW/4 NE/4 and S/2 NW/4 of Section 13, and the SE/4 NE/4 of Section 14, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to a well to be drilled in Unit G of said Section 13, or in the alternative, applicant seeks approval of a 120-acre non-standard unit comprising only the above-described lands in Section 13, to be dedicated to the aforesaid proposed well.

As an alternative to either of the above-described non-standard units, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NE/4 of the aforesaid Section 13 to be dedicated to a well which would be drilled in Unit H of said Section 13. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

CASE 4956: Application of Pierce & Dehlinger for a non-standard oil proration unit, or in the alternative, compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard oil proration unit comprising the S/2 S/2 of Section 13, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to its Sheridan Well No. 1, located in Unit M of said Section 13. In the alternative, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the SW/4 of said Section 13 to be dedicated to said well; and also pooling all said mineral interests underlying the SE/4 of said Section 13 to be dedicated to a well which would be drilled in Unit P of said Section 13. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

CASE 4957: Application of Pierce & Dehlinger for a non-standard oil proration unit, or in the alternative, compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard oil proration unit comprising the S/2 N/2 of Section 24, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, to be dedicated to a well to be drilled in Unit H of said Section 24. In the alternative, applicant seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NE/4 of said Section 24 to be dedicated to the aforesaid proposed well. Also to be considered would be designation of applicant as operator of the well, allocation of well costs and charges for operation, charges for supervision of the well, and the establishment of a 200 percent risk factor for the well.

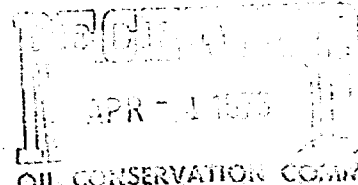
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BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF PIERCE &)
DEHLINGER FOR APPROVAL OF)
A NON-STANDARD OIL PRORATION)
UNIT, OR, IN THE ALTERNATIVE)
FOR COMPULSORY POOLING,)
VADA-PENNSYLVANIAN POOL,)
LEA COUNTY, NEW MEXICO)

Case No. 4957

APPLICATION



Come now Pierce & Dehlinger, a Partnership, by their attorneys, and apply to the New Mexico Oil Conservation Commission for approval of a non-standard oil proration unit, in the alternative for compulsory pooling, Vada-Pennsylvanian Pool, Lea County, New Mexico, and in support of its Application states:

1. Applicant is the operator of the S/2 N/2 of Section 24, Township 9 South, Range 33 East, Lea County, New Mexico.
2. Applicant seeks the establishment of a 160-acre oil proration unit in the Vada-Pennsylvanian Pool comprising all of the above described acreage, which non-standard unit would be dedicated to a well which applicant proposes to drill 1980 feet from the north line and 660 feet from the east line of said Section 24.
3. In the alternative, applicant seeks an Order of the Commission pooling all mineral interests in the NE/4 of said Section 24 to form a standard oil proration unit in the Vada-Pennsylvanian Pool, which proration unit would be dedicated to the well which applicant proposes to drill in the SE/4 NE/4 of said Section 24. Applicant has been unable to agree with the other mineral interest owners in the NE/4 of said Section 24 as to a voluntary Communitization Agreement covering the said lands and well. Applicant requests that it be designated as the operator of said well and that the Commission make the appropriate provisions for charges of supervision and for the risk

involved in the drilling of the proposed well, which charges for risk should be established at 200% of any non-consenting working interest owner's prorata share of well costs.

4. Approval of this Application, and any of the alternatives set forth herein, will prevent waste and protect correlative rights.

WHEREFORE, the applicant requests that this Application be set for hearing before the Commission or one of its examiners and that the Commission enter its Order approving one of the alternatives set forth in this Application, the applicant's preference of alternatives being in the order as stated herein.

MONTGOMERY, FEDERICI, ANDREWS,
HANNAHS & MORRIS

By

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