

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF HUDSON OIL COMPANY OF)
TEXAS, WILLIAM A. HUDSON AND EDWARD R.)
HUDSON FOR COMPULSORY POOLING)

CASE NO. 13,598

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

June 8th, 2006

Santa Fe, New Mexico

2006 JUN 12 PM 1 06

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, June 8th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 13,598

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR
and
OCEAN MUNDS-DRY

FOR THE ARD ENTITIES:

PADILLA LAW FIRM, P.A.
1512 South St. Francis Drive
P.O. Box 2523
Santa Fe, New Mexico 87504-2523
By: ERNEST L. PADILLA

* * *

ALSO PRESENT:

Raye Miller
Mary Hudson Ard

* * *

1 WHEREUPON, the following proceedings were had at
2 9:21 a.m.:

3 EXAMINER JONES: Okay, let's go ahead and call
4 Case 13,598, Application of Hudson Oil Company of Texas,
5 William A. Hudson and Edward R. Hudson for compulsory
6 pooling.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. I'm appearing today in association with Ocean
11 Munds-Dry from our office. We represent Hudson Oil Company
12 of Texas, and I have one witness.

13 EXAMINER JONES: Other appearances?

14 MR. PADILLA: Mr. Examiner, my name is Ernest L.
15 Padilla for the Ard entities.

16 EXAMINER JONES: Any witnesses?

17 MR. PADILLA: We will have one witness, possibly.

18 EXAMINER JONES: Will all witnesses who intend to
19 possibly testify stand for -- to be sworn?

20 COURT REPORTER: I believe we need a third
21 potential witness to stand.

22 MR. PADILLA: We may call -- I don't know who Mr.
23 Carr is calling, so we would --

24 EXAMINER JONES: I guess we can swear him at that
25 time.

1 MR. PADILLA: Okay.

2 (Thereupon, the witnesses were sworn.)

3 MR. CARR: May it please the Examiner, I have an
4 opening statement.

5 EXAMINER JONES: Okay.

6 MR. CARR: Mr. Examiner, as you're aware we're
7 here today on an Application filed by Hudson Oil Company of
8 Texas, William A. Hudson and Edward R. Hudson, seeking an
9 order pooling a 320-acre spacing unit in Eddy County, New
10 Mexico, for the purpose of drilling a well to test certain
11 formations down through and including the Morrow formation.
12 This is a simple compulsory pooling application.

13 It is opposed here today by the Ards. But it is
14 important to remember that the Ards are not here seeking to
15 pool the lands, they're not here seeking an order
16 designating them operator of the well.

17 This Application is brought before you pursuant
18 to the compulsory pooling provisions in the Oil and Gas
19 Act, and that statute sets out certain preconditions that
20 must be met. But once -- for a pooling order. But once
21 those conditions are met, the statute provides that the
22 Division shall pool all or part of such lands or interests
23 or both in the spacing or proration unit as a unit. So
24 once the preconditions are met, by statute you are directed
25 to pool the lands.

1 The Hudsons and Hudson Oil Company of Texas are
2 here today having met all statutory preconditions for a
3 pooling order. They have a right to drill. They propose
4 to drill. They have contacted the other interest owners in
5 the spacing unit, reached voluntary agreement with owners
6 of more than half of the working interest in the well, in
7 addition to their own, but they have been unable to reach
8 voluntary agreement with certain interest owners,
9 principally the Ards.

10 Mrs. Ard is the sister of Edward Hudson and
11 William Hudson, and there are other issues between them at
12 this time that are currently in litigation in the State of
13 Texas, but those are not issues in this compulsory pooling
14 case. The issues are those that spring from this section
15 of statute. Do we have a right to drill? Do we propose to
16 drill? Have we tried to reach voluntary agreement and been
17 unable to do so?

18 This is the second time in the last year and a
19 half when the Hudsons have been opposed by the Ards when
20 they proposed to drill a well in this area. At the prior
21 hearing -- and it is our understanding today that the Ards
22 do not oppose the drilling of the well, they in fact may
23 favor it, but the basis of their opposition is that Hudson
24 Oil Company of Texas is designated operator of the well.

25 In addition to that objection, in the past

1 hearing they appeared and presented some specific
2 provisions from an operating agreement that they've
3 requested be included in the order to protect their
4 interests.

5 In this case they requested certain data from the
6 Hudsons, and I directed the Hudsons not to provide it but
7 to let the Ards seek that through subpoena, because you
8 will see in this case that the Hudsons cannot satisfy the
9 Ards, even when they give them exactly what they're asking
10 for.

11 So they filed a subpoena. And they sought
12 geological information, our geological information. And
13 they also, in the subpoena, asked the Division to order
14 that each of the Hudsons be present here today and be
15 prepared to testify. There was no ruling and has been no
16 ruling on the motion to quash the subpoena, and all the
17 pleadings that have been filing and going back and forth.

18 As to the geological information -- because
19 frankly, we needed to eventually go forward with this and
20 get this well drilled -- Hudson has provided the data that
21 they have that is responsive to the subpoena. And the
22 evidence is going to show that the well is in the area
23 where there is active Morrow development. It's at a
24 standard location on a standard unit.

25 Limited geological study was made of the

1 prospect, but the geological data that we have and have
2 submitted to the Ards was enough for both Yates with a
3 third of the well, and Marbob with 20 percent
4 approximately, to decide to participate. And as you know,
5 the Morrow formation by character is such that you have to
6 drill it before you -- and get to that formation before you
7 actually know whether or not you've been able to intercept
8 one of the lenticular sands that comprise the producing
9 Morrow intervals.

10 As you also know, the Division never requires any
11 party to prepare a geological study for the other side, for
12 a potential opponent. Today we have complied with the
13 subpoena, we have provided them the data that we have used,
14 the data that we have.

15 As to their request for witnesses, at the May
16 11th hearing we were prepared and advised the Ards through
17 their counsel that we had all Hudsons available, and they
18 would be here to testify. On the Ard's motion the case was
19 continued, and we advised them at that time if the case was
20 continued William A. Hudson would be unable to attend
21 today's hearing, and they continued the case anyway. And
22 today I'm here with Randall Hudson and Edward Hudson, and
23 they're prepared to testify pursuant to the subpoena to any
24 matter relevant to the issues that are before you.

25 As for our efforts to reach a voluntary

1 agreement, the evidence is going to show that if the
2 objection is to the Hudsons operating the well, the Hudsons
3 -- because the Ards actually had suggested Marbob operate
4 the well at the last hearing, the Hudsons agree to let
5 Marbob operate.

6 To avoid a new round of disputes over language in
7 the operating agreement, the Hudsons asked the Ards to
8 submit their own operating agreement so we could get the
9 project moving. And although we did this months ago and
10 the Ards expressed interest in this, we never received a
11 JOA.

12 And so we advised the Ards if we didn't have a
13 JOA by this date, we would go to hearing, we would proceed
14 on our original application, we would seek an order pooling
15 their lands and designating Hudson Oil Company of Texas as
16 operator of the well, and that is what we're doing here
17 today.

18 And I have one witness, Randall E. Hudson [sic],
19 that I'm prepared to call at this time.

20 EXAMINER JONES: Mr. Padilla?

21 MR. PADILLA: Mr. Examiner, very briefly, I'm not
22 -- don't want to do a closing argument at this time, as Mr.
23 Carr seems to be doing, but I do agree with him that the
24 nature of this case involves the compulsory pooling
25 statute.

1 Mr. Carr argues about preconditions. We contend
2 that this case is premature, that the preconditions for
3 compulsory pooling under the applicable statute have not
4 been complied with, and that's why we're here.

5 The evidence will show that the only thing that
6 the ^{Hudsons} Ards have really gotten in this case has been an
7 application for permission to drill. That indicates that
8 they have made an application for drilling this well, and
9 that does not constitute a proposal under the statute.
10 There has to be more, there has to be much more than has
11 been provided.

12 Perhaps the witnesses can tell us what was
13 supplied to Yates Petroleum and what was supplied to Marbob
14 Energy. It doesn't matter whether Marbob Energy may be the
15 operator, and they operate a number of wells in New Mexico,
16 but by the same token neither the Hudsons nor the -- Marbob
17 has supplied any information that would attempt to solicit
18 participation in this well, and that's what we're here
19 about, that there has been no attempt.

20 Now we're not trying to do any Texas litigation
21 extension here. This is simply a compulsory pooling
22 application. Whether or not they have complied with the
23 preconditions is what is at issue here. Our contention in
24 this hearing is going to be that they have not complied.

25 Thank you.

1 EXAMINER JONES: Mr. Carr?

2 MR. CARR: At this time, Mr. Examiner, I would
3 call E. Randall Hudson.

4 Actually, I have another set if anybody wants it.

5 MR. GRAPPE: Thanks, Bill.

6 EDWARD RANDALL HUDSON, III,

7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q. Would you state your name for the record, please?

12 A. It's Edward Randall Hudson, III.

13 Q. Mr. Hudson, where do you reside?

14 A. Fort Worth, Texas.

15 Q. By whom are you employed?

16 A. Hudson Oil Company of Texas.

17 Q. Could you explain William A. Hudson and Edward R.
18 Hudson's relationship to Hudson Oil Company of Texas?

19 A. Edward R. Hudson is my father, William A. Hudson
20 is my uncle, and they collectively own Hudson Oil Company
21 of Texas.

22 Q. And what is your position with the company?

23 A. I am classified as vice president.

24 Q. And have you previously testified before the New
25 Mexico Oil Conservation Division?

1 A. I have not.

2 Q. Could you review for the Examiner your
3 educational background and your work experience?

4 A. Sure, I have a geology degree from Washington and
5 Lee University in Lexington, Virginia, and I spent a year
6 underground working for Sunshine Mining Company in the
7 Tintic district of Utah, and then about two years working
8 for Burnett Oil Company based out of Fort Worth on some of
9 their west Texas properties before coming to work for
10 Hudson Oil in late 1986, I believe.

11 Q. And since graduation have you at all times worked
12 as a geologist?

13 A. That is correct.

14 Q. Are you familiar with the Application filed in
15 this case on behalf of Hudson Oil Company of Texas?

16 A. Yes.

17 Q. And are you actually the individual who was
18 responsible for putting this prospect together?

19 A. That is correct.

20 Q. Are you familiar with the status of the lands in
21 the area that is the subject of this case?

22 A. Yes.

23 MR. CARR: We tender Mr. Hudson as an expert
24 witness in petroleum geology.

25 EXAMINER JONES: Objections?

1 MR. PADILLA: No objection.

2 EXAMINER JONES: Mr. Hudson, what county in Utah?

3 THE WITNESS: We were in the Tintic district. It
4 was southwest of Provo, Utah, in a variety of counties. I
5 think Juab was the primary county; it's been 20 years, I've
6 technically forgotten a great deal about my underground
7 experience as I've moved into the soft rock oil and gas
8 area, but about 30 miles south of the big Kennecott
9 property that you can see from the moon.

10 EXAMINER JONES: Okay, thank you. Mr. Hudson
11 is -- Mr. Edward Randall Hudson is qualified as an expert
12 petroleum geologist.

13 Q. (By Mr. Carr) Mr. Hudson, would you briefly
14 state what Hudson Oil Company of Texas seeks in this case?

15 A. Yes, we would like to drill a well in the
16 northwest quarter of Section 12 of Township 17 South, Range
17 31 East, Eddy County, New Mexico, at a standard location
18 660 from the north and west line to test the Morrow
19 formation, among others, on a 320-acre north-half proration
20 unit.

21 Q. If the well is completed in a formation developed
22 on 160-acre spacing, what acreage would you dedicate to the
23 well?

24 A. It would be the northwest quarter.

25 Q. And then as to 40-acre formations?

1 A. It would be the northwest of the northwest of
2 said Section 12.

3 Q. Are you aware of any formations developed on 80-
4 acre spacing?

5 A. No, I'm not.

6 Q. And the well is the Hudson -- Francotte?

7 A. Francotte.

8 Q. -- Francotte Federal Well --

9 A. Yes.

10 Q. -- Number 1?

11 A. That is correct.

12 Q. And that is at a standard location?

13 A. Yes.

14 Q. In all formations?

15 A. Yes.

16 Q. Now we're seeking an order pooling today from the
17 base of the San Andres formation down through the Morrow,
18 correct?

19 A. Yes.

20 Q. What is the status of the acreage above the base
21 of the San Andres?

22 A. The acreage above the base of the San Andres is
23 subject to an existing joint operating agreement that
24 Hudson Oil Company of Texas is the designated operator of
25 and has a different set of working interest owners.

1 Q. Is 100 percent of the working interest above the
2 base of the San Andres committed to that joint operating
3 agreement?

4 A. Yes.

5 Q. And Hudson Oil Company of Texas is the operator
6 of all formations above the base of the San Andres?

7 A. Yes.

8 Q. Let's go to what has been marked for
9 identification as Hudson Exhibit Number 1. Would you
10 identify that and review it, please?

11 A. Let's see, Exhibit 1. That is a plat showing
12 specifically outlined in the dark, heavy black line,
13 Section 12 of 17-31, Eddy County.

14 Q. And the red --

15 A. The --

16 A. -- the subject --

17 A. -- the -- I'm sorry.

18 Q. -- well spot --

19 A. Yes, the red dot represents the location of our
20 Francotte Federal Number 1.

21 Q. This plat also shows other development in the
22 area?

23 A. Yes. As you can see, there are quite a few wells
24 in the area.

25 Q. You're proposing to dedicate, at least in the

1 Morrow formation, the north half of this section; is that
2 correct?

3 A. Yes.

4 Q. And what is the primary objective in that well?
5 The Morrow?

6 A. The Morrow, yes.

7 Q. What pool will it be located in?

8 A. I think it's the -- I believe it's the
9 Undesignated Fren-Morrow.

10 Q. Is there other Morrow production in the immediate
11 area?

12 A. There is. In Section 2, to the northwest, and in
13 Section 11 to the immediate west, are two producing wells
14 operated by Chevron.

15 Q. If we look at the well to the northwest, that
16 well is in the southwest of the southeast --

17 A. Yes.

18 Q. -- quarter; is that correct?

19 A. That is correct.

20 Q. And is that a good producing well?

21 A. That is a very good producing well. The two
22 wells together, I don't remember the split between the two
23 individual wells, but that well and the well located in the
24 northeast of the northwest of Section 11 have -- I believe
25 their cumulative production is about 16 BCF gas out of the

1 Morrow formation.

2 Q. And those wells are in the Morrow, the immediate
3 offsets northwest and to the west?

4 A. That is correct.

5 Q. Let's go to what has been marked as Exhibit
6 Number 2. Would you identify that, please?

7 A. That is a list of the working interest owners in
8 our Francotte Federal Number 1 well.

9 Q. Okay, referring to this list, can you tell me
10 what percentage of the working interest as been committed
11 to the well?

12 A. The percent that is committed to the well is
13 about 73 percent.

14 Q. And that would include the Marbob interest?

15 A. Marbob has a little over 15 percent, Yates
16 Petroleum has 33 percent or so, and the Hudson group has
17 about 28 percent.

18 Q. So we have 28 percent not committed, the rest of
19 it is committed to the well?

20 A. About 23 percent is not committed, that's right.

21 Q. When you decided to go forward with this well,
22 did you propose the well to each of these interest owners?

23 A. Yes, we sent out an AFE and a joint operating
24 agreement on September 9th of 2005.

25 Q. And have you been willing to share the

1 information you have on the prospect with any of these
2 owners?

3 A. Yes.

4 Q. And based on the information available to Marbob,
5 they decided to participate?

6 A. That is correct.

7 Q. And based on the information provided to Yates,
8 they decided to participate?

9 A. That is correct.

10 Q. And have you provided everything that you've
11 provided to Yates or Marbob to the Ards?

12 A. That we have.

13 Q. Let's go to Exhibit Number 3. Would you identify
14 that, please?

15 A. Exhibit 3, I believe, is a copy of my letter
16 dated September 9th, 2005, which was the initial submission
17 of our AFE and JOA for the Francotte Federal well.

18 Q. And this letter was sent to the Ards?

19 A. Yes, it was, and we have the documentation
20 reflecting that attached as well.

21 Q. Attached as the second page of this exhibit is a
22 list of all the other interest owners to whom you've
23 provided this material, correct?

24 A. That is correct.

25 Q. And you indicated at that time that -- offered

1 them the chance to participate?

2 A. Yes.

3 Q. What is the second page in Exhibit Number 3?

4 A. The second page of Exhibit 3 is a list of all of
5 the working interest owners to this Francotte Federal
6 Number 1 well.

7 Q. And then behind that do you have an AFE?

8 A. Behind that we've got an AFE, yes.

9 Q. And this AFE has been provided to each of the
10 interest owners?

11 A. Yes, it was.

12 Q. Would you review the totals set forth on this
13 exhibit?

14 A. Yes, the AFE for a completed well was \$1,896,825,
15 dryhole \$1,165,500.

16 Q. And when was this AFE prepared?

17 A. This AFE was prepared in late August of 2005.

18 Q. How do these costs compare to the costs that you
19 would have to put in an AFE if you prepared it today?

20 A. If we prepared an AFE today, based on other
21 drilling we're involved in currently in Eddy and Lea
22 County, my estimate would be that the costs associated with
23 both dryhole and completed well would go up somewhere in
24 the \$400,000 to \$600,000 range.

25 We have -- The delay involved in all of this has

1 cost us a great deal of money.

2 Q. Now, this is the AFE we're using for the purpose
3 of this hearing?

4 A. That is correct.

5 Q. It's simply an authorization for expenditure?

6 A. That is correct.

7 Q. And the cost that each party will be required to
8 bear will, in fact, be the actual costs that are incurred
9 in drilling --

10 A. Yes.

11 Q. -- is that fair to say?

12 A. Absolutely.

13 Q. In Exhibit 3 is there also a copy of the
14 operating agreement which you propose be used?

15 A. There is.

16 Q. And behind that, you have a copy of the
17 application for permit to drill with all attachments?

18 A. Yes.

19 Q. Behind that there is a letter dated October the
20 10th, 2005. Would you identify this, please?

21 A. That would be a letter that I wrote on October
22 the 10th, 2005. It was a second contact to all of the
23 working interest owners. We were -- It was done in an
24 effort to try and get an answer from some of those that we
25 had not gotten answers from. We were hoping to drill the

1 well by the end of 2005, based on the request of some of
2 our consenting working interest owners, and I was trying to
3 move things along.

4 Q. And you indicated in that letter that you had
5 contracted with Marbob Energy Corporation to handle the
6 drilling of the well?

7 A. That is correct.

8 Q. Is Marbob the party that the Ards had, in the
9 prior case, expressed an interest in having operate the
10 well?

11 A. Yes, that is correct.

12 Q. What is the next letter?

13 A. The next letter?

14 Q. In that exhibit, yes.

15 A. In that exhibit. That would be the response we
16 received from Ard Energy, dated October 22nd, 2005.

17 Q. And did you contact me concerning this letter?

18 A. Yes, I did.

19 Q. And what were you advised to do?

20 A. You advised me to do absolutely nothing as a
21 result of that letter.

22 Q. And I advised you that they could seek the
23 information through subpoena?

24 A. Correct.

25 Q. Now behind that we have a letter dated November

1 28th, 2005. What is that?

2 A. Let's see, November 28th. That would be a letter
3 from Jim Bruce, who was the Ards' first attorney with
4 respect to this matter --

5 Q. And does that letter request a continuance
6 from --

7 A. -- requesting a continuance, yes.

8 Q. -- from the December 5th hearing?

9 A. That's correct.

10 Q. Behind that is a letter dated January the 26th.
11 What is this?

12 A. That is another letter from Jim Bruce, their
13 initial attorney, again requesting yet another continuance.

14 Q. On the January 26th letter, are you looking at
15 the letter signed by me?

16 A. Yes.

17 Q. That letter also --

18 A. I'm sorry, that was a letter from you to Jim
19 Bruce, excuse me.

20 Q. And that letter indicates that at that time we
21 enclosed information that they had requested pursuant to
22 the subpoena; is that correct?

23 A. That is correct, yes.

24 Q. We have then a number of letters, January 26th,
25 March 10, March 28th, April the 6th. All of those letters

1 are again requests to continue the case; is that correct?

2 A. Yes.

3 Q. Would you identify what has been -- a letter
4 dated May the 2nd?

5 A. A letter from you, Bill Carr, to Jim Bruce
6 regarding the geologic data.

7 Q. And does this confirm that any additional data
8 that they are seeking simply does not exist?

9 A. That is correct.

10 Q. In this letter, did we again offer to let them
11 propose a joint operating agreement with Marbob Energy
12 Corporation as operator of the well?

13 A. We did.

14 Q. Did you receive any response -- did we receive
15 any response from the Ards to this letter?

16 A. Only the response that the attorney that they had
17 at the time had resigned from the matter.

18 Q. Has the time created any issue for you or the
19 other working interest owners concerning farmouts or term
20 assignments?

21 A. Yes, there are -- or there is a term assignment
22 involved in this that deals with Yates Petroleum's 1/3
23 interest, and we don't have the luxury of an assignment
24 that will continue forever. We need to move ahead to get
25 this well drilled for a variety of reasons. Yates'

1 interest is subject to that term assignment. Costs seem to
2 do nothing but go up.

3 Q. And maybe this is an obvious question to everyone
4 here, but what have prices done during this period of time?

5 A. They have done nothing but go up. Drilling costs
6 and all associated costs with drilling a well, as everyone
7 is well aware, have escalated rather considerably in the
8 last three or four months.

9 Q. Mr. Hudson, in your opinion have you made a good
10 faith effort to obtain the voluntary participation of the
11 Ards in this well?

12 A. Yes, we have.

13 Q. The AFE is marked also as our Exhibit Number 4?

14 A. Correct.

15 Q. Are the costs set forth in that in line with
16 what's charged by other operators in the area?

17 A. It is in line with costs for last fall when this
18 was originally proposed. As I mentioned earlier, the cost
19 to drill this well now will be considerably higher.

20 Q. What is Hudson Exhibit Number 5?

21 A. Exhibit Number 5 is the COPAS -- what is
22 regularly referred to as the COPAS that is attached to most
23 joint operating agreements.

24 Q. And these include the accounting procedures?

25 A. That is correct.

1 Q. Do these COPAS accounting procedures provide for
2 periodic adjustment of overhead and administrative charges?

3 A. Yes, they do.

4 Q. Does Hudson request that the overhead and
5 administrative costs set by the order that results from
6 this hearing be adjusted in accordance with these COPAS
7 procedures?

8 A. Yes.

9 Q. What are the estimated overhead and
10 administrative costs set forth in this COPAS form?

11 A. \$5500 a month for a drilling well and \$550 a
12 month for a producing well.

13 Q. Are these consistent with Ernst and Young
14 numbers?

15 A. Consistent, although I would say they are low,
16 with the median Ernst and Young numbers for wells to this
17 depth in this area.

18 Q. Have these figures been accepted by both Yates
19 and Marbob?

20 A. Yes, they have.

21 Q. And do you recommend that these figures be
22 incorporated into any order that results from this hearing?

23 A. Yes.

24 Q. Does Hudson Oil Company of Texas request that in
25 accordance with Division Rules the maximum charge for risk

1 of 200 percent be imposed on each working interest not
2 voluntarily committed to the well?

3 A. Yes.

4 Q. Does Hudson Oil Company of Texas seek to be
5 designated operator of the well?

6 A. Yes.

7 Q. In your opinion, will granting this Application
8 be in the best interest of conservation, the prevention of
9 waste and the protection of correlative rights?

10 A. Yes.

11 Q. How soon does Hudson Oil Company of Texas plan to
12 spud the well?

13 A. As soon as possible.

14 Q. Do you request that the order in this matter be
15 expedited to the fullest extent possible?

16 A. Yes. As you can see, we began this process in
17 September, early September, of 2005. A great deal of time
18 has passed, and we need to move along.

19 Q. Is Hudson Exhibit Number 6 an affidavit
20 confirming that notice of today's hearing has been provided
21 in accordance with the Rules of the Division?

22 A. Yes, it is.

23 Q. The second page of that exhibit is a list of the
24 parties to whom notice has been provided?

25 A. Yes.

1 Q. Behind that is the notice letter?

2 A. Yes.

3 Q. The Application?

4 A. Yes.

5 Q. We then have included copies of the return
6 receipts from each of the parties to whom notice was
7 provided?

8 A. Yes.

9 Q. And the last page is a copy of the notice of
10 publication where the legal ad for this case was published
11 as required by Division Rules?

12 A. Yes.

13 Q. Were Exhibits 1 through 6 either prepared by you
14 or compiled under your direction and supervision?

15 A. Yes.

16 MR. CARR: May it please the Examiner, at this
17 time we'd move the admission into evidence of Hudson Oil
18 Company of Texas Exhibits 1 through 6.

19 EXAMINER JONES: Objections?

20 MR. PADILLA: No objection.

21 EXAMINER JONES: Hudson Oil Company Exhibits 1
22 through 6 will be admitted into evidence.

23 MR. CARR: And that concludes my direct
24 examination of Randall Hudson.

25 EXAMINER JONES: Mr. Padilla?

CROSS-EXAMINATION

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BY MR. PADILLA:

Q. Mr. Hudson, in your testimony you indicated that you prepared this prospect --

A. Yes.

Q. -- is that right? Can you tell us what information you looked at to decide that the well would be located in the northwest quarter of the northwest quarter of this section?

A. The information we looked at was the well log data available for the other wells in the area.

Q. And tell me again, where are the wells that you -- in Exhibit Number 1, that you actually looked at?

A. I believe in the immediate area 13 wells to the Morrow have been drilled, some of which have been since this prospect was put together. But with respect to Exhibit 1, there are wells located in Sections 1, 2, 3, 11, 13 and 14.

Q. Okay, let me go -- be a little bit more precise. In Section 1, where is the Morrow well?

A. I believe the one at the time was in the northwest quarter of Section 1.

Q. Is that the one with the star?

A. Probably, although I'm not going to verify the data of the symbols on this page. It was simply prepared

1 as an exhibit.

2 Q. I understand, but you said you prepared the
3 prospect. I'm trying to figure out what you looked at.

4 A. We looked at a well in the west half of Section
5 1. I believe it's located in the northwest quarter.

6 Q. Okay, and that would be approximately a mile
7 away; is that right?

8 A. Correct.

9 Q. Okay. Let's go on to Section 2.

10 A. Uh-huh.

11 Q. What Morrow wells are located there?

12 A. We looked at a well located in the southeast
13 quarter, the southwest of the southeast, and we looked at a
14 well located in the southeast of the northwest of Section
15 2.

16 Q. The well on the southwest of the southeast, is
17 that the one with the star again, with the star symbol?

18 A. Yes, that should be pretty accurate.

19 Q. Is that a producing well?

20 A. It is a producing well.

21 Q. What kind of production has been encountered in
22 that well?

23 A. That is an excellent Morrow well by our judgment.
24 The cums on that well, as I said, when combined with the
25 well located in the northwest of Section 11, are

1 approximately 16 billion cubic feet, and it is still
2 producing.

3 Q. And let me go back to Section 1. Is that well up
4 there in the northwest northwest still producing?

5 A. No. In fact, with respect to any Morrow wells
6 that I discuss under the questions that you're asking, the
7 only two that are producing are the two located in Sections
8 2 and 11 that I've just referred to. The other 11 wells
9 are all dry holes.

10 Q. The one in Section 11, is that the one with the
11 star -- the well with the star symbol, in the south half of
12 the south half -- I mean --

13 A. It would be the --

14 Q. -- the south half?

15 A. No, the one that's producing would be in the
16 northwest quarter.

17 Q. Okay. And that is the well with the star on it,
18 right?

19 A. Yes.

20 Q. Did you prepare any type of cross-section in your
21 evaluation of this prospect?

22 A. We took the logs that are involved in the wells
23 that are in the immediate area and laid them against each
24 other, yes.

25 Q. Who did you do that with?

1 A. I did it myself.

2 Q. How many Morrow wells evaluations and prospects
3 have you prepared before?

4 A. A handful.

5 Q. Can you tell me about --

6 A. Four or five.

7 Q. And you prepared drilling prospects for these?

8 A. Yes.

9 Q. Did you drill the wells?

10 A. Yes, we did.

11 Q. Are you operating the wells?

12 A. Yes, we do.

13 Q. Where are the wells located?

14 A. The wells are located in the -- the wells that we
15 operated are located in Section 13 of 17-31 and 12 of 17-
16 31.

17 Q. Are there any other Morrow wells to the east of
18 the proposed location?

19 A. How far east?

20 Q. Well, let's start out in Section -- well, just
21 east of Section 1.

22 A. That would be Section 6, and I do not believe
23 there is a Morrow test in Section 6. My memory doesn't
24 recall one.

25 Q. Is there a -- Are there any wells in Section 7?

1 A. No Morrow tests in Section 7 that I'm aware of,
2 no.

3 Q. Now your Application also calls for testing the
4 other formations below the base of the San Andres as I
5 understand it, right?

6 A. To the extent that it's warranted, yes.

7 Q. What prospects are you going to look at on the
8 way down below the San Andres?

9 A. Any that will produce.

10 Q. So you have no idea right now --

11 A. This is a Morrow-based prospect. We will drill
12 through several other producing intervals in the course of
13 getting to the Morrow. The closest offsetting production
14 between the base of the San Andres and the Morrow is a Yeso
15 well in the northeast of the southwest of the same Section
16 12.

17 Q. Are you going to drill stem test any wells -- any
18 potential zones, on the way down that look promising?

19 A. That is a possibility.

20 Q. Is that in your AFE?

21 A. No, it's not.

22 Q. What kind of production -- Well, let me ask, is
23 this, from a geological standpoint on the proposed well, on
24 a trend?

25 A. A defined trend?

1 Q. Yes, a define Morrow trend through this area?

2 A. Well, we've got two wells cum'ing approximately
3 16 B's within a mile of us. Trend is a tough word in the
4 Morrow formation. It's a snaky little devil. And as a
5 general rule I would say yes, we are in the Morrow trend
6 that is currently being developed in this part of Eddy
7 County.

8 Q. Even though you don't have any control to the
9 east, any Morrow well control to the east, right?

10 A. That is correct. Well, we have a well that is
11 east of our location, being the northeast of the southeast
12 of Section 12. That is a control point that lies east of
13 our location.

14 Q. Okay.

15 A. We also have a control point in the northeast
16 quarter of 13, another well that we drilled, that is --
17 technically, it is east of our location, although by true
18 definition they are both southeast of our location.

19 Q. Did you send the Ard entities any information
20 concerning what you've just now told me in terms of
21 production or potential trends or anything like that?

22 A. No, I did not.

23 Q. Why did you not send anything like that?

24 A. On the advice of my counsel, Mr. Carr.

25 Q. I don't want to get to your attorney-client

1 discussions that you had with Mr. Carr, but is that
2 geologic information confidential?

3 A. The geologic information that I have just
4 referenced is available on the GO-TECH website, as far as I
5 know.

6 Q. But you just told me you didn't send anything to
7 the Ards --

8 A. Yes, I did.

9 Q. -- by way of the discussion that we're having
10 now?

11 A. Correct. As a general rule, we find that when we
12 send something to the Ards it creates problems for us.

13 Q. Was there some retaliatory response or lack of
14 response on your side by not sending the geologic
15 information?

16 A. I didn't provide any geologic information to
17 Yates.

18 Q. Now partly your exhibits -- let me be -- let me
19 get it -- I'm referring to the letter that you have in your
20 exhibits where you were sent something requesting
21 information. It's a letter dated October 22nd, 2005. Did
22 you ever respond to that letter?

23 A. No, on the advice of Mr. Carr.

24 Q. Okay. And correct me if I'm wrong, but that
25 letter is dated October 22, 2005, and Mr. Carr sent a

1 letter, I believe, in May of this year saying, We're not
2 going to give you any information. May 2nd, 2006. Is that
3 when the decision was made not to respond to the letter?

4 MR. CARR: I object to the question. That isn't
5 what the order says -- the letter says. It says there
6 isn't any information responsive that hasn't been provided.
7 It doesn't say we're not going to give you the data.

8 EXAMINER JONES: Can you re-state it?

9 Q. (By Mr. Padilla) Well, I can re-state -- I'm a
10 little confused here. I'm not trying to argue with you,
11 Mr. Hudson, I'm just trying to find out when you decided
12 that there was no additional information.

13 A. I received the letter dated October 22nd shortly
14 thereafter and contacted Mr. Carr, and we discussed the
15 letter and a decision was made at that time that there was
16 nothing we were going to provide the Ards.

17 Q. Did you inform the Ards that you weren't going to
18 provide any information before May 2nd, 2006?

19 A. As we were headed to our hearing that was
20 originally scheduled for December, it seemed to me it was
21 all going to take care of itself rather timely.

22 Q. In what respect? How was it going to be taken
23 care of --

24 A. Had this been -- had this meeting occurred in
25 December of 2005, that would have been five weeks after

1 this letter had occurred, and all of the discussion we're
2 having now would have occurred then.

3 Q. Does that mean that you weren't going to respond
4 to this thing because the hearing was scheduled for
5 December?

6 A. No, it means I didn't respond to this on the
7 advice of my counsel. You'd have to ask him why he gave me
8 that advice.

9 Q. Well, let's take this December 22nd, 2005,
10 letter. The first item of the requested information is --

11 A. You mean the October 22nd --

12 Q. The October 22nd letter, 2005.

13 A. Uh-huh.

14 Q. The first item states, In your letter of October
15 10, 2005, you indicated that you had, quote, contracted
16 with Marbob Energy Corp. to handle the drilling operations,
17 close quote, for the proposed well. Please furnish me with
18 a copy of the relevant contacts or agreements.

19 Did you -- Why would you not disclose that
20 information?

21 A. There is no contract with Marbob. I have an oral
22 contract with Johnny Gray.

23 Q. An oral contract with Johnny Gray for drilling a
24 \$1,895,000 --

25 A. Yes, sir.

1 Q. -- well?

2 A. Yes, sir.

3 Q. And what is the substance of the oral contract?

4 A. Johnny is going to drill and complete the well
5 for us, and I'm going to pay him about \$25,000 for doing
6 it.

7 Q. Why isn't Hudson Oil and Gas drilling the well?

8 A. Because rigs are very difficult to get right now,
9 and Johnny has access to more than we do. We are not a big
10 operator, Johnny is a big operator. He offered the rig, I
11 said terrific.

12 Q. Did you ever tell the Ards that there was no
13 contract or agreements or anything?

14 A. I responded based on the advice of my counsel.
15 As I said, had we had this meeting in December we would
16 have just had the discussion you and I had at that time.

17 Q. You just weren't going to provide the information
18 anyway because you were going to hearing, right?

19 MR. CARR: Objection, argumentative.

20 MS. MacQUESTEN: Sustained.

21 Q. (By Mr. Padilla) All right. Who is the drilling
22 contractor in item number 2?

23 A. Well, it could be one of several that Johnny is
24 currently using or was using at the time, Patriot,
25 Patterson. I wasn't specific as to which rig we got.

1 We've worked with all of them before.

2 Q. Where did you work with Patriot?

3 A. Patriot drilled our Warhol well in Section 13 of
4 17-31 for Hudson Oil.

5 Q. Why is that a secret? Why is this item number 2
6 a secret?

7 A. As far as I know, it's not a secret.

8 Q. Okay, why couldn't you disclose that?

9 A. You have to ask Mr. Carr.

10 Q. You don't know independently of Mr. Carr?

11 A. Mr. Padilla, we have a long, very litigious
12 relationship with the woman sitting behind you, and we find
13 that when we provide information in the manner that is
14 requested -- by that I mean not through attorneys -- that
15 it usually costs us a great deal more attorney time. We
16 are to the point, with the woman sitting behind you, of
17 dealing primarily on a lawyer-to-lawyer basis.

18 I provided her with an AFE and a JOA to drill
19 this well.

20 Q. Did you provide this information to other
21 interest owners who may have requested?

22 A. No. Yates didn't ask for anything, they returned
23 the AFE signed.

24 Q. Of all the interest owners, no one asked for any
25 information?

1 A. No one asked for any information.

2 Q. They just said, We're going to just drill this
3 well, put our money up without --

4 A. That is the nature of the Morrow --

5 Q. -- any information?

6 A. That is the nature of the Morrow, as far as I'm
7 concerned. We've been fairly active in it over the last
8 three or four years, and that -- As I said, we sent Yates
9 the AFE and the JOA, and we got back a signed AFE.

10 Q. Did you prepare any kind of drilling prognosis
11 for this well?

12 A. I did not prepare a drilling prognosis for this
13 well.

14 Q. With item number 4, did you tell anyone, Look at
15 the logs for the wells in Section 1, 2 and 11?

16 A. I didn't tell anybody anything. I assume that
17 Yates got the AFE, noted the location of the well, and did
18 whatever they felt was justified to allow them to render a
19 decision, and the same is true of Marbob.

20 Q. Did you send the Ards an application for
21 permission to drill?

22 A. Yes, we did.

23 Q. And that's the only information you've sent them,
24 other than the AFE and the COPAS, right? The --

25 A. Well, they requested copies of the information

1 prepared for filing with the State, and that is what we
2 sent them, which I believe also will outline the pipe and
3 casing program.

4 Q. So you complied with item number 6 only; is that
5 correct?

6 A. On the advice of my counsel, that is what we did.

7 Q. What's wrong with providing the request on
8 listing number 5, being specific pipe and casing program
9 and cost per foot?

10 A. You'll have to ask Mr. Carr.

11 Q. Was that information contained in your AFE?

12 A. Yes, the cost for the pipe involved was contained
13 in the AFE, and the casing program is outlined in the APD.

14 Q. What's your expected spud date now?

15 A. If I get a green light today?

16 Q. Yes.

17 A. We need to spud this well before the middle of
18 August.

19 Q. Now going back to your exhibits -- and you asked
20 for a number of continuances in this case yourself, right?

21 A. Correct.

22 Q. So all of the delay hasn't been the Ards' fault,
23 right?

24 A. That's a fair statement.

25 Q. All right.

1 A. I might add that subject to the three subpoenas
2 we received relative to this, most of the delays on our
3 part involved the scheduling of three individuals who, per
4 the subpoenas, were apparently required to be here. My
5 father and uncle don't spend 100 percent of their time in
6 Fort Worth in the office, and trying to arrange dates where
7 they can all be any one place -- all three of us can be at
8 any one place at one time, is somewhat difficult, and that
9 is the nature of our continuances.

10 Q. Let me -- Are you aware of a hearing in January
11 where Mr. Carr appeared and said he would provide data
12 other than geophysical data?

13 A. Like APDs?

14 Q. Like -- Well, no, that they would provide data
15 other than geophysical type of data?

16 A. Well, APD is not geophysical.

17 Q. I understand that, but any other data that you
18 may have had --

19 A. You mean geologic?

20 Q. Geologic or any other data?

21 A. If Mr. Carr said that, that's what Mr. Carr said.

22 Q. And he didn't provide any information regarding
23 his statement to the Commission?

24 A. I've done, I believe, everything that Mr. Carr
25 has asked me with respect to this matter.

1 Q. Now, the AFE was prepared by Sheryl Baker; is
2 that right?

3 A. The AFE was prepared by -- yes, Sheryl Baker,
4 that is correct.

5 Q. Who is she?

6 A. She works for Marbob.

7 Q. And she's a petroleum engineer, I take it.

8 A. You'd have to ask Raye Miller that. I don't know
9 her exact qualification.

10 Q. You don't know who she is?

11 A. Ray?

12 MR. MILLER: "She" is a he.

13 THE WITNESS: "She" is a he.

14 Q. (By Mr. Padilla) Okay.

15 A. I asked Johnny for a copy of an AFE. This is
16 what I was provided. I have not met Sheryl Baker.

17 Q. You never talked to Mr. Baker, right?

18 A. No, I did not.

19 Q. Didn't ask any questions about the AFE?

20 A. We reviewed it, it was acceptable to us, and that
21 is what we used for our AFE. As I said, we had contracted
22 with Johnny to handle the drilling and completion, so the
23 cost basis for this was essentially based on numbers he had
24 relative to the work to be done.

25 Q. You didn't compare it to other AFEs that you were

1 -- that you had drilled for Morrow wells yourself?

2 A. Oh, sure, we did.

3 Q. You did?

4 A. Sure.

5 Q. What is the cost of the Morrow wells that you had
6 drilled?

7 A. At that time?

8 Q. Yes.

9 A. Well, this was consistent with that, it was
10 actually slightly lower than some of the wells we were
11 drilling at the time, relative to the equivalent depths.
12 You've got Morrow wells that vary in cost because some are
13 at 13,000 feet and some are at 9000 feet.

14 Q. Now once a well is drilled -- Let me understand
15 your relationship with Marbob. What -- How are you going
16 to use Marbob here?

17 A. I'm sorry, I thought I made that clear. We have
18 contracted with Marbob to drill and complete this well for
19 us.

20 Q. For \$25,000 --

21 A. Yes, sir.

22 Q. -- more or less?

23 A. That is correct.

24 Q. What happens afterwards?

25 A. Hudson Oil Company of Texas will operate the well

1 if it's successfully completed as a producing well. If
2 it's plugged and abandoned, we move to the next Morrow
3 prospect.

4 Q. What is your staffing levels at Hudson Oil and
5 Gas?

6 A. We have a Maljamar field office with a production
7 engineer and two pumpers there, as well as a clerical
8 secretary, in New Mexico.

9 Q. How many wells do you operate in New Mexico?

10 A. About 75, I believe.

11 Q. Producing wells?

12 A. Yes.

13 Q. What's the total production you have, today?

14 A. I couldn't tell you exactly. We're somewhere in
15 the -- 150, 200 barrels a day, total production, something
16 like that.

17 Q. From the 75 wells?

18 A. That's correct. Maybe two-fi- -- that's a number
19 I don't pay attention to. Two-hundred-something barrels a
20 day. I'm not sure, sir. I wasn't -- realized I was going
21 to be asked that question.

22 Q. How much gas do you produce from those 75 wells?

23 A. Again, I don't have that number in front of me.
24 It's a relatively small number. We're not a big outfit.

25 Q. The Morrow wells that you have drilled, are they

1 not producing or --

2 A. They're producing from other intervals. You mean
3 the wells that we have operated?

4 Q. Yeah, the ones you testified about, like six
5 wells that you've -- Morrow wells that you've drilled?

6 A. Yes, the ones that we drilled as operator,
7 they're producing from other intervals. Some of the other
8 prospects that I had put together were drilled by other
9 operators.

10 Q. Now I'm a little confused here. I thought you
11 had producing like six Morrow wells, six prospects that you
12 had put together, drilled it?

13 A. You asked me how many Morrow prospects I had
14 worked on --

15 Q. Right.

16 A. -- and put together --

17 Q. Right.

18 A. -- and I said a handful.

19 Q. And I understood that to be about six.

20 A. Somewhere -- I don't have an exact count, yes.
21 Somewhere in that range.

22 Q. And none of them are producing in the Morrow?

23 A. None of the ones that we are operating are
24 producing in the Morrow, no.

25 Q. But they were drilled to the Morrow?

1 A. Yes. I'd like to do more. It's very difficult
2 for me to get a Morrow well drilled.

3 Q. Well, I understand that it may be difficult to
4 drill a Morrow well, but I'm trying to get at your success
5 rate here. You haven't been successful in any of the
6 Morrow wells you've drilled?

7 A. In the wells that we have drilled, we have
8 drilled two to the Morrow that we have operated, and
9 neither are producing from the Morrow.

10 Q. Where are they producing from?

11 A. The Grayburg-San Andres and the Yeso. This is a
12 difficult area for the Morrow here, as I mentioned. There
13 are two good producers and there are 11 dry holes that
14 Chevron, BP and OXY have drilled around them, and Hudson.

15 Q. Let me go to your Application here, make sure who
16 the Applicants are. You testified that the Application of
17 Hudson Oil Company of Texas and William A. Hudson and
18 Edward R. Hudson are the Applicants, right?

19 A. Yes.

20 Q. Why are William A. Hudson and Edward R. Hudson
21 Applicants in this case?

22 A. William A. Hudson and Edward R. Hudson own the
23 working interest in this well, and they own Hudson Oil
24 Company of Texas.

25 Q. Looking at Exhibit 2, I don't see any ownership

1 by William A. Hudson and Edward R. Hudson.

2 A. Exhibit 2 being the -- ?

3 Q. Well, this list with --

4 A. Well, if you'll look at the top of --

5 Q. -- working interests.

6 A. -- if you'll look at the top of that exhibit you
7 see ERH Trust 2.

8 Q. Right.

9 A. ERH Jr. is my father, Edward R. Hudson, Jr., and
10 WAH II, that is William A. Hudson, II. So they both own
11 approximately 8-percent working interest in this well.

12 Q. Well, did they individually own that or the
13 trusts?

14 A. They are the trustee of their own trust. It's
15 the same thing.

16 Q. Is that a revocable trust or irrevocable trust?
17 Do you know?

18 A. Revocable.

19 Q. And you're telling me the Hudson Oil Company of
20 Texas is owned by William A. Hudson and Edward R. Hudson?

21 A. Yes.

22 Q. If an order is issued by the Division, all three
23 would be the operators in this case?

24 A. Hudson Oil Company of Texas will be the operating
25 company in the order issued by this Division.

1 Q. What are the assets of Hudson Oil Company of
2 Texas?

3 A. They're very few; it is an operating company.

4 Q. It has no assets; is that fair to say?

5 A. The -- other than the clerical office, things
6 like that, that's all that there is, yes.

7 Q. In an earlier case here, Chaparral Energy, there
8 was some concerns about financial ability -- about a
9 corporation that was being excluded from the proration
10 unit.

11 Does Hudson Oil Company of Texas have any
12 financial ability to handle a blowout or anything like
13 that?

14 A. Absolutely.

15 Q. How, if it doesn't have any assets?

16 A. We've got insurance, just like every other
17 operator out there. And the assets of Edward R. and
18 William A. are participating in this well.

19 Q. But they're in the trust, Mr. Hudson.

20 A. I'm not sure I follow your questioning.

21 Q. Well, the Application is not as -- by the
22 trustees of the trust, so they're not putting the trust
23 assets on the line. It may be a legal question, but -- you
24 may not know, but this Application isn't by any of the --

25 A. We're a licensed, bonded operator in the State of

1 New Mexico and have been for quite a while. As far as I
2 know, we meet every requirement to operate in New Mexico
3 and have done so without any problem for a long time.

4 MR. PADILLA: Just a moment.

5 (Off the record)

6 Q. (By Mr. Padilla) Mr. Hudson, earlier to one of
7 the questions I had, you indicated you were producing about
8 75 wells. Do you have any plugging responsibilities with
9 regard to those wells?

10 A. Plugging responsibilities?

11 Q. Yes. You had very little production from those
12 wells --

13 A. Right.

14 Q. -- 75 wells. I'm asking whether you have any
15 potential liability with regard to plugging those -- some
16 of those wells?

17 A. Well, we will have to plug them as the production
18 requires, sure.

19 Q. Of those 75 wells, how many are plugged and
20 abandoned? I mean, just temporarily abandoned, I should
21 say.

22 A. Currently I don't have the exact number, but a
23 small handful. I believe we're in pretty good compliance
24 with the OCD.

25 Q. You're only -- out of 75 wells, you only produce

1 200 barrels a day?

2 A. I'd have to -- That is not a number that I have
3 in front of me right now. I don't know what the total
4 production is. I'm sure we can look on line and determine
5 it. I frankly don't know.

6 Q. You don't know whether you have some type public
7 plugging liability with regard to those wells?

8 A. We're bonded and licensed in New Mexico, and if
9 the wells require plugging, we will comply and plug them.

10 Q. Well, I realize you're bonded. But the bonding
11 is generally insufficient to handle plugging a number of
12 wells. You'd agree with me there, right? It costs a lot
13 more to plug wells than, say, having a \$10,000 or a \$25,000
14 bond?

15 A. Sure.

16 Q. Okay. Does Hudson -- Is there an entity named
17 Hudson and Hudson?

18 A. No longer, no.

19 Q. How about Hudson and Hudson, Inc.?

20 A. No.

21 Q. W.A. and E.R. Hudson?

22 A. No.

23 Q. W.A. and E.R. Hudson, Inc.?

24 A. No.

25 Q. Are all the signs on your wells under Hudson Oil

1 and Gas of Texas?

2 A. It should say Hudson Oil Company of Texas. I
3 believe they are in compliance. That is up to my
4 production foreman in Maljamar. I cannot speak that I have
5 seen every sign and confirmed, but I would expect that
6 would be the case, yes.

7 Q. Does Hudson Oil and Gas of Texas own an interest
8 in this well?

9 A. I'm not familiar with Hudson Oil and Gas. That
10 is a company that I'm not aware of.

11 Q. Well, let me be more precise, I'm probably saying
12 that wrong. I mean Hudson Oil Company of Texas.

13 A. No, they do not own a direct working interest in
14 this well.

15 MR. PADILLA: Okay, that's all I have.

16 EXAMINATION

17 BY EXAMINER JONES:

18 Q. Mr. Hudson --

19 A. Sure.

20 Q. -- it looks like the -- there's two Ard entities
21 that haven't signed for about 11 percent total?

22 A. Yes, sir, that's correct.

23 Q. And then these other entities, what's the deal
24 with them?

25 A. Those are the Iverson interests, which they did

1 not return the AFE, but they have given us indications.
2 Initially they were behind the Ard name on the docket for
3 the compulsory pooling. The gentleman that looks after
4 those interests for the Iversons has -- or was diagnosed
5 with cancer, and it took his attention away from this.

6 I am led to believe that in the event we do get
7 an order that allows us to drill this well, it is quite
8 likely that the Iversons will work out some sort of a term
9 assignment or farmout agreement with us and/or Marbob, and
10 that's sort of what we have been going on. They have been
11 pretty quiet throughout. We have no reason to believe that
12 there will be any worry there.

13 Q. Okay. So if you hit the Morrow you'll have a
14 good payout, if you hit a poor Morrow you may or may not
15 pay it out?

16 A. Exactly, yes, yes.

17 Q. If you hit no Morrow at all and you hit a decent
18 Paddock zone, can you pay that well out?

19 A. It won't pay out. It will in all likelihood cash
20 flow, but the odds of recovering are -- the drilling cost
21 has simply gotten very, very high. A \$2.5 million expense
22 for a Paddock/Yeso producer is -- that's going to be tough
23 to get back.

24 Q. I guess one of the big questions I had was the
25 orientation of the spacing unit. Is there a south half --

1 A. Yes, sir, we had drilled a well in the south
2 half. It would be the northeast of the southwest on a
3 south-half spacing unit.

4 We had a compulsory pooling hearing about a year
5 ago on that well with the Ards, and because we were granted
6 a south-half unit for that well and that well was drilled,
7 we felt the best way to approach this next well would be a
8 north half unit, yes, sir.

9 Q. Okay. So you're -- How good is that well?

10 A. That's a Yeso well.

11 Q. Okay.

12 A. It's -- It came on at about 80 barrels of oil a
13 day, and it's down to about 15 now a year later.

14 Q. In the Paddock?

15 A. In the Paddock, yes, sir.

16 Q. So you're going between the dry hole and the
17 Morrow and a real good well in the south?

18 A. That's correct, yes.

19 EXAMINER JONES: Okay, excuse me a second here.

20 THE WITNESS: Sure.

21 (Off the record)

22 EXAMINER JONES: Okay, that's -- Okay, we have no
23 questions.

24 MR. CARR: I do have some redirect.

25 EXAMINER JONES: Redirect, okay.

1 We'll take redirect, and then a break. How about
2 that?

3 REDIRECT EXAMINATION

4 BY MR. CARR:

5 Q. Mr. Hudson, you have had a long history of
6 dealing with the Ards, have you not?

7 A. Unfortunately, that is true.

8 Q. Is it fair to say that in attempts to accommodate
9 the concerns of the Ards you've found it to be a difficult
10 thing to do?

11 A. Very difficult.

12 Q. In this particular dispute, and in the dispute
13 concerning the well in the south half of the section,
14 you're aware that the Ards have expressed displeasure with
15 the fact that Hudson Oil Company of Texas has been proposed
16 as operator of the well?

17 A. Yes, and that apparently is their primary
18 complaint.

19 Q. And is it not true that you agreed to let Marbob
20 Energy Corporation operate the well?

21 A. Yes, we offered that as some sort of a truce to
22 allow us to proceed.

23 Q. At the hearing on the well in the south half of
24 this section, the Ards also expressed concern about certain
25 language that they wanted in a joint operating agreement;

1 is that correct?

2 A. Yes.

3 Q. Did you also agree to let them propose their own
4 joint operating agreement for this well?

5 A. We did, we asked them to provide us with a JOA
6 and received nothing.

7 Q. In your opinion, were you attempting to give them
8 what they were asking for?

9 A. I can't think of any better way to allow them to
10 get what they were asking for than to ask them to submit
11 their own JOA.

12 Q. Did they ever submit a JOA?

13 A. No, sir.

14 Q. Concerning the information that they requested in
15 their letter of October of last year, you received that
16 letter, did you not?

17 A. Yes, sir.

18 Q. You referred it to me?

19 A. Yes.

20 Q. You were advised to let them seek the information
21 by subpoena?

22 A. That is correct.

23 Q. Did they do that?

24 A. Yes, they did.

25 Q. And there were various motions concerning that

1 subpoena; isn't that right?

2 A. That is correct.

3 Q. Now Mr. Padilla pointed out that at a hearing in
4 January I stood up and agreed that we would provide to them
5 not geophysical data but the other data that they requested
6 that we had?

7 A. That is correct.

8 Q. Have we done that?

9 A. Yes.

10 Q. The first point in the October letter from the
11 Ards, they sought a copy of your contract with Marbob?

12 A. Right.

13 Q. You don't have a written contract with Mr. Gray;
14 is that your testimony?

15 A. That is correct.

16 Q. Is that consistent with your prior experience?

17 A. Yes.

18 Q. Have you had relationships, business
19 relationships, with Mr. Gray on verbal agreements in the
20 past?

21 A. Yes. In fact, we drilled the Knockabout well,
22 the well in the south half of this same section, under the
23 same compulsory pooling situation a year ago with the same
24 arrangement.

25 Q. Today do you know who the drilling contractor

1 will be for this well?

2 A. I do not yet.

3 Q. And so at this point in time it still would be
4 impossible to provide to them the second thing they seek,
5 and that is the contract with the drilling contractor?

6 A. That is correct.

7 Q. It does not exist?

8 A. It does not exist.

9 Q. The third thing they requested was a prognosis
10 for the well. You have not prepared one; is that right?

11 A. We did not -- no, sir.

12 Q. You have provided the APD for the well?

13 A. We did.

14 Q. The fourth item they requested was geology. Have
15 you used any geological information in selecting the
16 location for this well that is not a matter of public
17 record?

18 A. No, we have not.

19 Q. Did you use geophysical data to select this
20 location?

21 A. We did not. We have found that with the Morrow
22 geophysical data is not of much help.

23 Q. Is the specific pipe and casing program and cost
24 per foot set forth in the AFE?

25 A. Yes.

1 Q. And the copies of the information that you
2 prepared for filing with the State was the APD and the
3 attachments thereto; is that right?

4 A. That is correct.

5 Q. And they have been provided to the Ards?

6 A. Yes.

7 Q. The last letter in Exhibit 3 was a letter from me
8 to James Bruce, the prior attorney for the Ards, confirming
9 that we had nothing else to provide?

10 A. Yes.

11 Q. Are you aware of any motion to compel or any
12 other action by the Ards, other than just complaining at
13 the hearing about what we've done?

14 A. None whatsoever.

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

16 FURTHER EXAMINATION

17 BY EXAMINER JONES:

18 Q. Mr. Hudson, the --

19 A. Yes.

20 Q. -- Application asks for Hudson Oil Company to be
21 designated as operator of the well, but you're just going
22 to let Marbob drill the well?

23 A. That's correct, yes, sir, we are literally with
24 them to give us access to a rig, and -- much as we did last
25 year with the Knockabout well.

1 They drilled and completed the well, and we took
2 it over and have been operating and producing it ever
3 since, yes.

4 EXAMINER JONES: Okay, let's --

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

6 EXAMINER JONES: I guess we're done with this
7 witness.

8 MR. PADILLA: I don't have any further questions.

9 EXAMINER JONES: Okay.

10 THE WITNESS: Thank you, sir.

11 EXAMINER JONES: Thanks a lot, Mr. Hudson.

12 And let's take a break for 15 minutes, come back
13 at 10 till 12:00.

14 MR. CARR: Ten to 11:00.

15 EXAMINER JONES: Ten to 11:00.

16 (Thereupon, a recess was taken at 10:40 a.m.)

17 (The following proceedings had at 10:53 a.m.)

18 EXAMINER JONES: Okay, let's go back on the
19 record.

20 And Mr. Carr, was that -- Are you done with your
21 case?

22 MR. CARR: That concludes my direct case.

23 EXAMINER JONES: Mr. Padilla?

24 MR. PADILLA: Well, we'll call Ron Grappe to the
25 stand now.

RONALD E. GRAPPE,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. PADILLA:

Q. Mr. Grappe, would you please state your full name?

A. Ronald E. Grappe.

Q. Mr. Grappe, where do you live?

A. Houston, Texas.

Q. What do you do for a living?

A. Oil and gas consultant.

Q. How long have you been an oil and gas consultant?

A. I'm sorry, I can't hear you.

Q. How long have you been an oil and gas consultant?

A. I've been an oil and gas consultant for about 13 years. Prior to that I was a corporate officer for about 20.

Q. Mr. Grappe, when and where were you educated formally after high school?

A. Northwestern State University in Natchitoches, Louisiana, with a BA in political science and history and a JD degree from South Texas College of Law in Houston, Texas.

Q. Mr. Grappe, did you ever take the bar exam?

1 A. No.

2 Q. Can you tell us why?

3 A. Well, it's one thing leads to another. I went to
4 Houston to go to law school and got into the oil and gas
5 business because with a political science and history
6 degree I was not too employable. So I got into the oil and
7 gas business while I was going to law school and realized
8 that was the avenue that I wanted to take as a businessman.
9 I went ahead and completed my law degree, and it
10 immediately paid dividends relative to my upward mobility
11 as a corporate officer, to the point of being president of
12 a mid-size independent.

13 Q. What did you deal with as a corporate officer?

14 A. Well, for a substantial part of my career I
15 coordinated all oil and gas operations, including drilling
16 operations, from internally generated prospects as well as
17 outside, third-party-generated prospects. I supervised
18 staffs of various sizes from time to time of geologists,
19 geophysicists, engineers, landmen and accountants.

20 Q. How long did you do that?

21 A. For the better part of 10 years.

22 Q. Okay. Then what did you do after that?

23 A. I went into the consulting business.

24 Q. Mr. Grappe, how long -- I take it you're a
25 consultant for the Ard entities involved in this case,

1 being Ard Oil, Ltd., and Ard Energy Group, Ltd.?

2 A. Yes.

3 Q. How long have you been a consultant for the Ard
4 entities?

5 A. Since July of 2004, something short of two years.

6 Q. Have you previously testified before the Oil
7 Conservation Division as a practical oilman?

8 A. Yes.

9 Q. Are you familiar with the issues involved in this
10 case?

11 A. Yes, I am.

12 MR. PADILLA: We tender Mr. Grappe as a practical
13 oilman.

14 MR. CARR: No objection.

15 EXAMINER JONES: Mr. Grappe is -- How do you
16 spell your last name?

17 THE WITNESS: G-r-a-p-p-e.

18 EXAMINER JONES: Okay. Mr. Grappe is qualified
19 as an expert -- practical oilman, I'm sorry.

20 Q. (By Mr. Padilla) Mr. Grappe, what has been your
21 involvement historically in this compulsory pooling issue?
22 I understand there was a prior compulsory pooling issue,
23 and you were involved in that also, right?

24 A. I was, yes.

25 Q. Okay. Starting on this particular -- let's

1 confine ourself to the issue here today, to this compulsory
2 pooling hearing. Tell us briefly what you have -- how you
3 have been involved in this case?

4 A. Well, for the Ards I provide several functions
5 based on my background, from executive management, oil and
6 gas operations, from the land aspect, from working with --
7 if need be -- hiring consulting engineers and geologists,
8 whatever the case may be.

9 To make it -- give you a hypothetical, if an AFE
10 comes in it's immediately forwarded to me. I gather
11 necessary data from whoever is proposing it. To the extent
12 that I can augment that through public sources, I do. To
13 the extent that I need to hire consultants to do other
14 things, to come up with a recommendation. And I make a
15 recommendation to the management committee of the Ards, for
16 -- either to participate or not participate.

17 So that was the case in this proposal. The AFE
18 came to me, and subsequently I wrote a letter requesting
19 information, of which it's been testified nothing was
20 forthcoming.

21 Q. And you're referring to your letter dated October
22 22, 2005. Is that the letter that you sent out --

23 A. Yes, this is --

24 Q. -- as part of --

25 A. -- this is a standard letter that I send out to

1 anyone that sends us a proposal. Needless to say, because
2 time is of the essence, and with all the drilling activity,
3 we get a lot of the proposals in. So on some of the
4 smaller ones I may do it over the phone, whatever, and do
5 as much as I can to expedite the process.

6 But on large expenditures such as the drilling of
7 a Morrow well, and which is requiring several hundred to
8 maybe upwards of \$300,000 investment from the Ard entities,
9 I put a formal request in with the operator, as I did in
10 this case. In many cases they call me up and say, Ron,
11 I'll e-mail you this, or I'll fax you that, or we talk
12 about it, on all these things.

13 Now conversely, I've talked with people in New
14 Mexico because I've -- throughout my career -- I've done
15 this for 20 years, or this aspect of it, and -- or had
16 somebody under my supervision. It was just a matter of
17 protocol. When you get something in, if it's substantial
18 enough to do an in-depth review, you went after the
19 information, accumulated the data. And the place you start
20 with is the party proposing the well, which in most cases
21 is the operator.

22 Q. How do you determine what is substantial and not
23 substantial?

24 A. Well, no, if -- exaggeration slightly to make the
25 point, if we get an AFE in and our net result of that is

1 \$75, we're not going to go through all of this for that
2 kind of exposure. But what I'll do is try and drill down
3 for future opportunities, maybe in offsets and that sort of
4 thing, to justify even my cost of being involved in
5 reviewing it.

6 So you can get the dimension of, you know,
7 several hundred dollars or less, up into the several
8 hundred thousand dollars. The several hundred thousand
9 dollars, without a doubt, I want to get as much information
10 as I can from wherever I can.

11 Q. Based on the AFE presented in this case, what's
12 the exposure to the Ards?

13 A. Based on -- Well, you know, something less than
14 11 percent, times something less than \$2 million, so you're
15 looking at \$200,000 to \$200,000.

16 When I got the AFE, even in August, based on
17 other AFEs I said, Well, that's great, it's a great AFE.
18 But I was -- one of the things I wanted to question, once I
19 got some base information, is -- now -- and I realize this
20 is an estimate, but that's why a dialogue between the
21 proposing parties -- a dialogue is necessary, because I go
22 down through this AFE saying, where did these numbers come
23 from?

24 It's the same reason for me to ask, what is your
25 casing program? How much of this, how much of that? How

1 much are you paying for it? Are they paying too much? Is
2 it above market? Is it less than market? The same issue
3 with other costs involved here.

4 Q. Let's look at the AFE and be a little bit more
5 specific for the Examiner. What particular items here were
6 you looking at, that you may have required additional
7 information?

8 A. Well, generally because, you know, you get into
9 your tangibles -- and that's something I usually ask right
10 off the bat, and again there's lots of questions as we move
11 down the process that I could ask some -- on some of the
12 less expensive or costly items. But I try to get the
13 costly items out of the way, to get a comfort factor with
14 the legitimacy of these numbers.

15 And so I start with -- you know, one of the
16 biggest costs is your production casing, tubing and
17 attachments. You know, that's something approaching
18 \$300,000. In some cases, you get into the frac'ing
19 techniques. These wells are frac'd and usually very
20 expensively, so that's two things. But initially I always
21 ask for, what is your casing program, and what is the cost
22 per foot?

23 Now granted, a -- lump sum amounts in here. But
24 to understand again -- it's a matter -- That's what I'm
25 paid to do, is to understand and feel confident that this

1 is a real number. It's not a number that is three years
2 old. And whoever prepares this is using old data, because
3 as has already been pointed out -- and I'll ditto that --
4 costs are going up.

5 Not only cost, where's the casing coming from?
6 What condition is it in? Has it been laying in somebody's
7 pipeyard for 15 years. Questions like that come about.

8 But initially I start with this boilerplate
9 letter, but from that some additional dialogue usually
10 takes place.

11 Q. Did you -- Let's talk about dialogue. Did you --
12 What efforts did you make to gain more information, other
13 than the October 22nd, 2005, letter?

14 A. Well, you know, I have several. I'll start with
15 my letter, send it out to them, and then also agreed -- You
16 know, we're both in Fort Worth. I work out of Houston, but
17 I'm in Fort Worth quite a bit of the time. And I said if
18 he felt like -- Well, my exact words, If you feel a meeting
19 would be more productive, please give me a call at the
20 Ards' office, and I'll be -- and -- pretty much, was -- I
21 was trying an invitation, let's get together, expedite this
22 process.

23 Q. Let's look at the items on the October 22nd,
24 2005, letter. What -- Let's look at item number 1. Why
25 were you concerned -- or why did you use that item?

1 A. Well, in one of Mr. Hudson's letters to the Ards,
2 he indicated he had contracted with Marbob to handle the
3 drilling operations. So, natural -- provide me a copy of
4 the contract. It's obviously been testified here there was
5 no written contract but, you know, I realize from time to
6 time there may be something that's not reduced to writing,
7 but a verbal contract is -- State of Texas, at least, I
8 don't know about here -- it's a contract nonetheless. They
9 could have provided me the terms of the contract, as they
10 did here this morning. I mean --

11 Q. Before today, did you know what the --

12 A. No, I had no idea.

13 Q. -- Marbob was going to have an agreement for
14 \$25,000?

15 A. No, I had -- That's why I asked the question.

16 Q. Okay. Item number 2, Hudson Company of Texas'
17 contract with the drilling contractor, why is that
18 important?

19 A. Well, I can appreciate the timing of everything,
20 but I asked the question because sometimes when you
21 contract for drilling you may have a rig committed for some
22 time in the future that's drilling a number of wells. So
23 it's not unrealistic to ask for that, because you do commit
24 to contracts some time in the future, to tie up the rig.
25 But also, more substantive information that I need is, what

1 rig? Is this a rig that's been stacked for 20 years?

2 The costs are going up, obviously, and everybody
3 in this room realizes, because of the activity. And the
4 market is driving it up. As a result of that, the
5 equipment, pipe rigs and everything, is being pulled from
6 every resource. And as a result of that, we want to know
7 what kind of rig, what shape the rig is in.

8 And then further to that is the drilling
9 contractor, who it is. They're in great demand right now.

10 And to take it down to even another level -- and
11 I realize this is probably as important as any of the other
12 stuff that I've mentioned, is what kind of crews are they
13 running? What are their experience levels? I mean, we're
14 having some problems with this big play in Fort Worth, the
15 Barnett Shale, and they're pulling people off the streets,
16 practically, in some cases, and putting them on rigs.

17 So all of this is important because having a
18 great play, an interesting play, one that is interesting
19 and that you want to spend several million dollars to put
20 in is great. And you have a great rig -- you don't have
21 the crew to accomplish it and drill that hole and drill it
22 effectively, efficiently and safely, you haven't
23 accomplished your goal.

24 So all those things are -- in different regards,
25 but all of them are very important.

1 Q. Is this due diligence that you would do in any
2 drilling proposal?

3 A. Any one that would require a substantial
4 investment. And again, you asked me before and I gave you
5 some sideboards there, and there's a lot of leeway in
6 between. We're getting so many -- maybe three years ago --
7 or excuse me, a year and a half ago I'd have gotten in an
8 AFE, and because our interests were small, maybe the
9 expenditure was \$10,000.

10 Well, some of them I tried to drill down as best
11 I could and get as much information as I could, but I have
12 to be cost-effective in the way I use my own time, because
13 the demands on my time -- plus, you know, the Ards are
14 paying me a fee. And so I abbreviate that process
15 sometimes with the \$10,000, except that we started getting
16 10 and 15 and 20 of these \$10,000 proposals till -- I use
17 the expression that we're being ten and fifteen and twenty
18 thousand dollar'd to death.

19 So I've had to -- And it's a judgment call. But
20 in a situation like this -- That's why I gave you the
21 sideboards. This one is not a judgment call. I go after
22 and drill down on these issues in every regard, for the
23 reasons I've pointed out.

24 Q. In your experience, is this information that's
25 really handed to you by the proponent of a well?

1 A. Well, it varies, it depends on the other
2 company's procedure. But whether you're talking about
3 Yates Petroleum -- their name has been mentioned here,
4 we've had some proposals from them. Maybe two years ago or
5 a year and a half ago they would have given us less
6 information, but over a period of time they know the Ards
7 -- and Ron Grappe, he's going to ask for certain
8 information. And as time has gone on, they've given us
9 more and more.

10 But even when they didn't give us the information
11 and we only may early on just got an AFE, I would write a
12 letter, pick up the phone, call whomever I could, starting
13 with the -- whomever prepared the AFE and say, Look, I need
14 some additional information, and may be verbally given
15 some.

16 And I would -- I'd like to say that in every
17 instance I got every single thing I asked for. Well, I
18 didn't. But I always got some cooperation beyond an AFE in
19 every instance, I can say that unqualified. And that comes
20 in the form of talking to geologists, drilling engineers
21 that's going to be over it, that prepared the AFE,
22 completion engineers. To the extent that they have
23 something in-house that they could provide us that's not
24 proprietary, they do. And I used Yates, COG has been one,
25 Edge Petroleum has been another. And you know, there's a

1 whole repertoire out there. Some give more and some less.
2 But in every regard that I've asked for information, I've
3 always gotten something in addition to just an AFE.

4 Q. What did you get, specifically in this case?

5 Aside from the initial proposal which came -- Well, let me
6 put it this way, let me rephrase the question. As a result
7 of your letter, what did you get?

8 A. As a result of the letter, October the 22nd, I
9 eventually was delivered the information as far as item
10 number 6 which, you know, I ask that as a matter -- and not
11 that everything's in some kind of priority hierarchy here,
12 but number 6 is, well, guys, you know, please give me that.

13 And a lot of people say, Aw, that's on the
14 Internet, and sometimes it's not imaged immediately.

15 And I say, Yeah, help me out here. I'll try and
16 get back to you as soon as I can. Get me the information
17 sooner, and the sooner and I get the information, the
18 sooner I will make a decision to participate or not, and
19 the sooner you can get on with what you're proposing to do.

20 In this instance, it was not until February --
21 late January, excuse me, or early February, because it went
22 from Mr. Carr to Jim Bruce to me -- that we got what they
23 had filed in -- with their application to drill.

24 Now as Mr. Hudson testified, that included in
25 that was their casing program. Was that additional

1 information we were interested in? Yes, sure. But I asked
2 for it.

3 But there's one still thing that still to date
4 has not been provided. We have a lump sum which now it's
5 been testified that this AFE, and rightfully so, is
6 probably \$400,000, \$500,000, \$600,000 low. I'd like to
7 know, well, have you tied up your casing? Is that price --
8 What is volatile here? Is it the rig? It's the casing?
9 What have we got going here? And I'd like to know, to
10 truly drill down on it, the price per foot.

11 Now, is that asking too much? Not at all,
12 because whomever has it, whether they have it in their
13 inventory or they have to go out and purchase it -- When I
14 was directing it, there were bids put out for stuff. And
15 you have all this in your internal process anyway.

16 So all I'm -- I'm just asking -- I'm not asking
17 for something to be generated for Ron Grappe's case. For
18 the Ards. It's information that is readily available to
19 the operator.

20 Q. This AFE is dated September 6th, 2005. Do you
21 have an idea as to whether or not that bottom figure of
22 \$1.896 million is accurate now?

23 A. Well, let me put it this way. I probably since
24 this time received probably a dozen other Morrow AFEs, and
25 none of them have been in this price range. You're looking

1 at \$2.5 million, \$2.3, \$2.5, up to in excess of \$3 million.

2 Of course, as they pointed out, the depth has
3 something to do with it. This is 12,500. You can have
4 something in the 11,000 range, based on where we're -- our
5 ownership is, all the way down to -- we've had a few that's
6 gone down to 14,000 feet. So obviously that will impact
7 that, so I'm talking generally with some qualifications
8 there.

9 Q. Is that why price per foot is important?

10 A. Well, when I say price per foot, I'm not
11 necessarily talking about -- I'm talking about the casing.
12 When you talk about price per foot, obviously the deeper
13 the well, the longer the rig is going to be on location.
14 So your rig cost will be higher, as a total line item.

15 Q. What's your estimate as to this total well cost
16 as stated here?

17 A. I have not drilled down on this, because again,
18 I'm one person, and the clients are my predominant client.
19 I have other clients, but for probably the last six months
20 I've devoted just about 100 percent of my time, to the
21 extent that I can move forward with a recommendation to the
22 Ards...

23 In other words, if I have five of these or 10 of
24 these on my desk, as I get the information together, then I
25 drill down on these things, because if they wait two weeks

1 maybe the prices have changed, if they wait three months
2 the prices have changed. I'm not going to drill down on an
3 AFE that's been prepared on September the 6th until I start
4 getting some information that I can start -- that will
5 assist me to drill down on this.

6 So to answer your question relative to picking
7 apart these individual costs, I haven't spent a substantial
8 time on it because I need additional information.

9 Q. Is that additional information also included
10 within the drilling prognosis or what -- Well, let me ask
11 you, what is the drilling prognosis under item 3 of your
12 letter?

13 A. Well, a drilling prognosis -- and they're all
14 sizes and shapes, and again it depends on company policy,
15 on what they -- you may have something as abbreviated as a
16 half a page that talks about, we're going to drill to this
17 depth, and your casing program is in there, where they plan
18 on potentially testing, if they're going to do -- what kind
19 of testing are they going to do, DSTs or whatever, what
20 kind of potential frac, with a range in there.

21 To -- just line-item identifying those, which --
22 well, I guess you could put it down to something less than
23 a page. But also it could stretch for as long as you want
24 to.

25 Now the deeper the well, the more costly the

1 well, the more expensive it is, the higher the risk, the
2 more detail -- I like to see -- and generally, the more
3 detail you get. And then you could run into paragraphs
4 when they talk about starting the rig location, how many
5 days they're going to be on -- building the surface
6 location, the pads, tanks, moving the rig in and how long
7 before they set this string of production casing -- or,
8 excuse me, drilling pipe, or whatever the case may be.

9 So it's detailed. It can go down to the nth
10 degree that they have a roadmap. And you know, good, well-
11 managed companies have been my experience -- they give and
12 they expect whoever put that AFE, the drilling engineer, to
13 put together something like to hand to -- so there's not a
14 lack of communication on what they're going to be doing, at
15 what stage, what comes first, second and on down the line.

16 So again, it's something that I ask for, that I
17 get in most cases. And to the extent that I don't get it,
18 I have always gotten something verbally, where, Ron, we
19 don't -- Maybe it's a small outfit and there's only two
20 people, and they're communicating daily over the phone, and
21 we just don't do it. That's fine. It doesn't make any
22 difference that I think it's necessary, but I have to -- I
23 try to deal with them. I'm not being unreasonable.

24 And so again, I use judgment based on the
25 dialogue, how helpful people are. They'll take it so far,

1 and if they say, Ron, this is just all I've got -- and
2 sometimes they referred me to another person in the
3 company, sometimes they refer me to a consultant. So I
4 just go, spending as much time as I think I need to, to get
5 as much data as I need to, to zero in on the legitimacy of
6 cost, as well as whether or not we want to participate in
7 this.

8 Now again, some of this dialogue, or lack
9 thereof, starts establishing in my mind, well, what kind of
10 operator are these people? You know, are they stonewalling
11 us, or they just really don't do these things? Or they
12 don't know what their cost per foot is. What you don't
13 know -- I have to go through a deductive process here --

14 Q. Okay, as far as this specific well is concerned,
15 your testimony is that you received nothing; is that it?

16 A. My testimony is, I -- we received nothing except
17 for, in February, late January -- we may have received it
18 through Jim Bruce; I didn't receive it in Fort Worth until
19 February, of which was applicable to item 6, which
20 contained some information as to my request in item 5
21 regarding the pipe and casing program.

22 Q. And that was the application for permission to
23 drill?

24 A. Right.

25 Q. When were you invited to subpoena anything that

1 you may require to satisfy your request in October?

2 A. When I realized they were going to compulsory
3 pooling and a hearing was set, and I realized there was
4 nothing produced, and my comments to Jim Bruce is that,
5 Jim, you know, is subpoena -- from a practical standpoint,
6 give me the times, what is required, how do we go about
7 this? And I deferred to his judgment. It looks like we
8 may have to subpoena witnesses and documents here. I hate
9 to go through that expense, but we're going to try and do
10 what we can so we can get the information.

11 Q. I take it that you were invited, or you were
12 told, if you want this information you're going to have to
13 get it through a subpoena; is that fair to say?

14 A. I didn't remember it as that. My point was, we
15 were fixing to go into a hearing, and we didn't have the
16 data. And I said, Well, if we're going to spend the
17 expense of my time, and perhaps the Ards', and yours -- and
18 you had been retained in January -- and possibly Mr.
19 Bruce's time, I wanted to make sure if we came over here,
20 that hopefully we'd be able to get some information.

21 This is what this whole process is about, is what
22 information, if anything, were provided? In this case,
23 almost nothing. And in that case, use this hearing as an
24 opportunity to gain information. I've already pointed out,
25 we've gotten a little bit of information here this morning,

1 and it relates to item number 1.

2 Q. Were you ever told, We're drilling this well
3 because there are other Morrow wells that -- or in Sections
4 1, 11 --

5 A. No conversations, no dialogue, nothing with the
6 other side.

7 Q. Mr. Hudson testified this morning that he didn't
8 want to supply anything, as I understood his testimony,
9 because when he dealt with the lady sitting behind me it
10 was litigious. Was there ever a problem in terms of this
11 litigious between the parties here that would have
12 prevented giving you some of this information?

13 A. I can't speak from what -- where their frame of
14 mind is. I wear several hats here. I'm familiar with the
15 litigation to some extent. I asked to be involved in it.

16 But as far as this drilling of these wells, I
17 have an obligation to make my best assessment of whether to
18 participate or not in a well, of which in most cases
19 they're time-sensitive for one reason or the other, and I
20 do whatever I can to do that. That's why I responded in
21 the letter.

22 Obviously, I don't have the approach that the
23 Hudsons have demonstrated here today, that it doesn't make
24 any difference if I ask for the letter or not -- or I mean,
25 I sent the letter or not. My point is, is that, guys, we

1 have an operation, we're an ongoing oil and gas operation,
2 and we need information. Please give it to us. Maybe it
3 was wishful thinking on my part that a meeting could be
4 held. I asked for it anyway. It was an exercise in
5 futility, as it turned out, yeah.

6 The next time we get an AFE from the Hudsons,
7 they can expect to get a similar letter. Maybe I need to
8 be a little more detailed in what I'm asking for. I try to
9 hit the high points and not have operators running around
10 and spending a lot of time and energy. I try to hit the
11 high points, see if it's something we're interested in
12 going, then drill down further if I need to.

13 Again, I have no apologies, no reservations about
14 asking this of anyone. And quite frankly, a number of your
15 large operators in New Mexico do provide it. And not only
16 that, they have requested it. Not of us, we're not in the
17 drilling business. But in researching this with other
18 operators, saying, Look, am I being unreasonable here?
19 Well, no. Maybe 15 or 20 years ago people didn't provide
20 it, but in this day and time and this environment, what
21 you're asking for -- in any time, is prudent and
22 reasonable, especially in the times we're -- now, where the
23 costs have gotten out of sight.

24 So I appreciate and ditto the Hudsons' concern
25 about cost. That's why I need the information. The sooner

1 we're provided the information, the sooner we'll be able to
2 get to a conclusion and a decision.

3 Q. Mr. Hudson testified earlier that he proposed at
4 some point that you prepare the JOA. Did you ever know
5 about that?

6 A. Telephone conversation I had with Mr. Bruce. And
7 again, it was a telephone conversation, I keep a log. I
8 can't tell you today, but it was several months ago, 30,
9 60, 90 days ago, saying that -- and primarily the call was
10 about -- because I'd called him -- where are we on the
11 hearing? Where are we on the hearing? These continuances
12 -- and never in a single situation, except for one, was it
13 postponed for anybody out of Fort Worth. And only once,
14 maybe twice, was it postponed because -- a conflict with
15 Mr. Bruce's work schedule or personal schedule.

16 To accommodate that, that's why, Mr. Padilla --
17 we met with you in January, understanding that Mr. Bruce
18 may not be able to accommodate us; we're not his only
19 client -- we decided to piggy-back, in case there was a
20 conflict in the future, so we could proceed forward and
21 eliminate all these continuances.

22 So the initial conversation with Mr. Bruce was
23 him responding back to, What are we -- Are we going to
24 hearing or not? I need to adjust my schedules, and perhaps
25 the Ards' schedules, to be able to be there.

1 And he says, Well, it's been continued, but
2 they've made an offer that Marbob -- possibly if you would
3 be satisfied with Marbob being operator.

4 I said, We've discussed that in the past, I will
5 make this request in saying, Yes, we'll be interested in
6 entertaining it, I'm telling you so there's no
7 misunderstanding, I'm not taking this up with the Ards,
8 because I still -- I don't care if it's Marbob, Hudson Oil
9 Company of Texas, Purple-Pink Oil Company. I still need
10 the data. I've still got a proposal in front of me. Get
11 me the data. Put together a JOA. We can be doing these
12 things all along.

13 Then it came -- well -- And I passed that along,
14 subsequent to my conversation with Mr. Bruce.

15 Let me point out, it was led in the testimony by
16 Mr. Hudson this morning like they've made these offers.
17 This is conversations between attorneys, nothing -- if
18 there's more in writing than has been presented here, I've
19 never seen it, nothing about Marbob being operator or us
20 proposing the JOA or whatever the case may be.

21 Anyway, so that was the initial conversation.

22 The second conversation with Mr. Bruce is saying,
23 Well, Ron, you all had special concerns before, you all
24 prepare the JOA.

25 And I said, Jim, wait a minute, wait a minute.

1 They're making the predicate of them providing us
2 information, I suppose, that now we accept Marbob as
3 operator and we prepare the JOA. Jim, it doesn't work that
4 way, number one. Two, I have an obligation on many fronts
5 and my time is valuable. To the extent that I have -- that
6 they're serious about proceeding with this, put it in
7 writing to me, and I'll consider whatever they put in
8 writing to me.

9 And that's the -- that's the total conversation
10 that I had --

11 Q. Is Ard in the business of preparing JOAs?

12 A. No. Oh, preparing them? No, because we're not
13 an operator. As far as reviewing them, amending them and
14 -- because again, that's my background, I was in the
15 operator position in a lot of cases, and also in the non-
16 operator's.

17 We have an ongoing -- if there is no JOA, with
18 proposals that we receive on an ongoing basis I may be
19 negotiating, you know, on a weekly basis JOAs or revisions
20 to JOAs. So you know, we're -- I'm capable and we're
21 capable of responding to things. But has there ever been a
22 single case in the last -- almost two years -- where
23 somebody made an offer to me and they said, Ron, why don't
24 you attach your JOA? I'm -- say, Wait a minute.

25 You know, I'm not trying to be -- who goes --

1 who's on first, or who's going to go first, the chicken-
2 and-the-egg situation. But guys, I've got a lot to do, get
3 your proposal over to me, and -- that indicates at least
4 that you're that serious, and then I'll review it and get
5 back to you as soon as I can, and that's been my procedure
6 and my approach.

7 Q. The Ards never proposed to drill this well,
8 right?

9 A. No.

10 Q. What's your understanding of -- Let me hand out
11 what we've marked as Ard Exhibit Number 4. Now that's a
12 transcript of a hearing in January, correct?

13 A. Yes, January the 5th.

14 Q. I believe it's on page 3 --

15 A. Well, let me stand corrected. That was a
16 transcript of a proceeding, putting things of record. But
17 as far as it being an official hearing, it wasn't a
18 hearing.

19 Q. But it's a transcript of something on the record?

20 A. Yes.

21 Q. And can you direct the Examiner's attention to
22 some statements that Mr. Carr made in relation to providing
23 data?

24 A. Okay, if I could start with Mr. Bruce, because it
25 was -- Mr. Bruce said -- the whole reason for us asking for

1 this to go on record.

2 Q. Okay, what --

3 A. And I will -- That's on page 3.

4 Q. What line?

5 A. Line 24 --

6 Q. Okay.

7 A. -- when it says:

8

9 MR. BRUCE: [Can] I ask one thing? One of the
10 cases that was continued -- Excuse me, just for the
11 record, Jim Bruce, and I represent the Ard interest,
12 [etc.]

13 And if the record could reflect, I'm here with
14 the principals...

15

16 And we were there ready to be heard and have the
17 hearing go forward in January. No delay there. Myself and
18 the management committee, Mr. and Mrs. Ard were both there,
19 along with me.

20 It said -- He continues on line 7 of page 4, this
21 is Mr. Bruce:

22

23 Yesterday when we discussed this matter, there
24 was a question about turnover of some data that the
25 Ard['s] interests had previously requested, and I know

1 there's no subpoena on that data, but we had requested
2 it, and I had separately mentioned that to Mr. Carr,
3 and I'd like the record to reflect that if that
4 information is going to be turned over, it would
5 certainly help, the sooner, the better, before the
6 next hearing.

7

8 And Mr. Carr goes on, on line 15, and he talks
9 about -- I'll read it if you'd like --

10 Q. Let me ask you this: What was your understanding
11 of what data was available at that time, in response to the
12 discussions that Mr. Bruce and Mr. Carr had?

13 A. Well, I was present and hearing it, and then
14 reading it after we got the transcript, because I didn't
15 want to be under the misimpression that information was
16 going to be forthcoming, and it wasn't.

17 And so I refer you to Mr. Carr's comments on line
18 18 -- Oh, excuse me, starting at line 15:

19

20 MR. CARR: May it please the Examiner, William F.
21 Carr, I represent the Hudson interest. As we were
22 directed yesterday, we're prepared to meet with Mr.
23 Bruce and review what they need. We won't give
24 proprietary or confidential information, but it looked
25 like to me, from a letter that was attached to his

1 response to a motion to quash the subpoena, then, most
2 of that data can be provided, and I'll meet with Mr.
3 Bruce, and we [will] quickly get that to the Ard[']s
4 interests.

5

6 Q. Did you ever receive anything from Hudson or
7 through Mr. Carr, or additional data?

8 A. The only thing we received in February, which I
9 looked at and reviewed -- I certainly didn't think that was
10 what Mr. Carr was referring to in totality, that we were
11 going to get their application for -- to drill and their
12 attachments, so I read it, I put it in the file and I put
13 it off to the side to consider when the, to me, perhaps
14 more important data that I'd asked for in the letter, would
15 be forthcoming, of which it never did come.

16 Q. What was your understanding of what was going to
17 be forthcoming?

18 A. Everything else I requested in the letter.

19 Q. Other than geophysical and --

20 A. Right.

21 Q. -- confidential information?

22 A. Right.

23 Q. And when did you hear about anything trying to
24 resolve the data that you thought you were going to get?

25 A. Definitely, it was Mr. Carr's letter in May --

1 and I don't know that I even have that here -- when he says
2 there is no more data.

3 Q. At any time prior to May 2nd did -- that's the
4 date of this letter --

5 A. Okay.

6 Q. -- did you get anything saying, We don't have any
7 more, or anything else?

8 A. No, nothing.

9 Q. Now you've read the statute in this case about
10 well proposal, a working interest can propose -- can ask
11 for a compulsory pooling application and pool the various
12 interests in the interest of conservation. In your
13 experience, do you have an opinion whether or not a
14 proposal has been fully complied with in this case?

15 A. Well, let me make clear that I'm not here to give
16 a legal opinion, but I'm here to say that I -- when I came
17 to work for the Ards it had been some time since I had
18 worked in the New Mexico environment. I acknowledged that
19 we needed a good regulatory attorney. That's when we
20 retained -- well, I say retained. Actually, the Iversons
21 had already retained Mr. Bruce for the prior drilling of
22 the Knockabout that was referred to earlier.

23 And he referred me to the statutes, and I got up
24 to speed at that point, and I've read some transcripts
25 relative to what's required, because I need to have a

1 working knowledge of that ongoing, because while I referred
2 to earlier that I wish I could sit here and say that in
3 every case that I asked for these things, that I got it
4 all, no.

5 And from time to time we've had to consider going
6 to the hearing to get -- with other operators, to get the
7 same amount of information. So I don't want to mis- or
8 ill-advise the Ards to go to this hearing to get this
9 information and spend that amount of money if what I'm
10 asking for is unreasonable.

11 My reading of the statute, for whatever it's
12 worth, is that there has to be some effort. What that
13 effort is, quite frankly, Mr. Carr has helped educate me,
14 based on his comments, given very succinctly and
15 articulately in our prior hearings and other hearings that
16 he's been involved with, setting out the conditions that
17 have to be met, and one of those conditions being that
18 something other just than an AFE should accommodate and
19 constitute a proposal to drill.

20 And again, Mr. Carr is a great advocate. I
21 apologize if I'm putting you on the spot, but I'm also at
22 the same time commending you because, quite frankly, that's
23 been the most articulate, definitive definition of what is
24 required that I've seen. So I have to be frank about it
25 and tell you where my -- My experience has been to make a

1 recommendation, to continue to ask for this stuff. And why
2 is it being asked for and deemed to be reasonable? It's
3 because other operators have provided it. And also from
4 the standpoint that other operators are requesting it. And
5 then thirdly is that there's some legal opinion out there
6 that what I'm requesting is prudent and reasonable in this
7 form.

8 Q. Do you have an opinion from an industry
9 standpoint whether or not the preconditions that Mr. Carr
10 talked about before have been met in this case?

11 A. Well, all I can do -- Okay, I'll address that
12 from the standpoint of my interaction with third-party
13 operators, and considering they don't give me the
14 information in weighing the option and the expense where
15 they're coming to.

16 As far as other operators requesting the same
17 information -- and I do strive to -- it makes me -- I don't
18 want to appear to be unreasonable, I don't want to be
19 costing third-party operators expense, unnecessary expense.
20 And so the more -- or more comfortable I can become that
21 these are industry standards, it's prudent, it's reasonable
22 to request them, more comfortable I am, the better off I
23 am.

24 And I've read the transcript and the legal
25 memorandum of a recent case that Yates Petroleum -- and

1 Yates is an active operator, so I hope they don't mind the
2 fact that I refer to them from time to time. And they
3 requested perhaps a more detailed list than mine in a
4 recent. It was attached as an exhibit of a letter that was
5 requested of a third-party operator. And eventually that
6 third-party operator accommodated them to a great extent.

7 So those things, I'm trying to give you
8 specifics, rather than just a hand-wave up here, of what my
9 opinion of the industry standard is.

10 But throughout my career, as I mentioned to you
11 -- it's not in -- just in New Mexico, it's in Texas,
12 Oklahoma, Louisiana, Montana, North Dakota, New York,
13 Pennsylvania, Ohio, Alabama, Florida, Mississippi, Arkansas
14 -- of all those jurisdictions that I've been active from
15 time to time, and some of them active all at one time, I've
16 always made this request.

17 Q. Now you were referring to a case that you
18 researched, Case Number 13,690, when you were talking about
19 the Yates --

20 A. Yes.

21 Q. -- instance.

22 Mr. Examiner, we ask that the Division take
23 administrative notice of the motion to dismiss in that
24 case, and the supporting memorandum filed by Yates
25 Petroleum in that case regarding the very issues that are

1 involved in this case, in terms of precondition.

2 EXAMINER JONES: Any objections?

3 MR. CARR: I don't know what the -- by number,
4 what that case is. Could you give a caption in the case?

5 MR. PADILLA: Caption of the case is Application
6 of Pride Energy Company --

7 MR. CARR: Okay.

8 MR. PADILLA: -- for compulsory pooling, Lea
9 County, New Mexico.

10 MR. CARR: I have no objection to including that.

11 EXAMINER JONES: Okay, we'll take administrative
12 of Case 13,690.

13 Q. (By Mr. Padilla) Mr. Grappe, do you have any
14 experience about the Applicants being operators in this
15 case?

16 A. Yes.

17 Q. Why?

18 A. Well, on its face -- and I will expand beyond
19 that, and I use this as a criteria with anyone -- an
20 operator that gives us an AFE and refuses to provide any
21 additional information for a \$2 million operation --

22 MR. CARR: I would object. I think that the
23 record shows we provided the information that we have, that
24 was sufficient for other owners to decide to join. I think
25 we provided the limited data that we had and that we felt

1 was appropriate to make our decision to proceed with the
2 well.

3 THE WITNESS: The question I was asked, though,
4 was, based on my evaluation, not third-party evaluations.

5 MS. MacQUESTEN: Mr. Carr's objection is noted,
6 and please proceed with your --

7 THE WITNESS: Thank you.

8 MS. MacQUESTEN: -- answer.

9 THE WITNESS:

10 Q. (By Mr. Padilla) Thank you. That an operator,
11 third-party operator that refuses to provide data, that is
12 an indication to me on its face that that is the beginning
13 of a tumultuous and troublesome relationship ongoing.

14 My experience as an operator in my -- as a --
15 representing -- in a consulting capacity as a corporate
16 officer, when -- my philosophy always was, two heads are
17 better than one.

18 When -- If it was a substantial expenditure
19 especially a substantial expenditure such as this, I would
20 have my staff -- they would present a recommendation to me
21 in a presentation. And to augment that I'd say, fine,
22 we're going to call and ask for an operator meeting with
23 all the non-operators. Let's bring them in, let's let them
24 ask questions. We'll get them the data ahead of time. Let
25 them ask questions.

1 And believe me, many times that the engineers from the
2 non-operators or geologist, or whatever the technical
3 background -- people they would send to the meetings, it
4 was almost without an instance that it was -- we learned
5 something. Sometimes a little bit, sometimes a lot.
6 Sometimes it was, they could find the pipe cheaper
7 somewhere else. Sometimes it would be, You're committed to
8 this guy. You know, we've had bad experiences with them.
9 Would you maybe consider going with somebody else?

10 Getting everybody together, sitting down, talking
11 about them -- And did we resolve all of our differences and
12 answer all questions in that meeting, all the time? No.
13 But it was a mechanism that I used, that once we internally
14 decide to put this on our budget, to proceed to drill, it
15 was a mechanism that always expedited the process.

16 So now I'm -- and that's in the operator's chair,
17 the non-operator's chair. You know, not that I would have
18 the opportunity, luxury or expending the Ards' money and
19 going to these operators' meetings, wherever they may be
20 held. But believe me, I would look forward to it, because
21 that would expedite the process, I could get information I
22 needed, that I required. Not the other third operators or
23 non-operators. What they do in their criteria is
24 established on a company-by-company basis. Then I would
25 like -- I'd like for that. Short of those meetings, I

1 would like to have them respond to this.

2 But to have an operator propose a \$2 million --

3 Q. You said, Respond to this. You're pointing to --

4 A. Oh, I'm sorry, it's the October 22nd, 2005,
5 request for data that I sent.

6 And to have an operator not provide us the
7 information we requested, to me, is the beginning of -- we
8 are -- Let's just put it colloquially. We're getting off
9 on the wrong foot. That's one thing.

10 Two, when I look at a proposal from a third
11 party, I look at who they are. And who they are is, how
12 many wells do they operate? What kinds of wells do they
13 operate? Do they operate in this area? Do they have --
14 How many of these deep Morrow wells, as in this instance,
15 have they drilled? What is their success ratio? When were
16 they drilled? What was the circumstances on what they came
17 about?

18 And because as we all know, technology changes
19 and is constantly, in many cases, getting better, there's
20 more out there, I'd much rather -- stating the obvious, I'd
21 much rather have somebody that has drilled a hundred
22 Morrows -- wells -- than somebody that's never drilled one
23 at all.

24 So --

25 Q. Well, there's been discussion of having Marbob

1 operate the well. What's your objection to Marbob --

2 A. As I think I stated on the record --

3 Q. -- if you have an objection?

4 A. Well, as I stated on the record when I was
5 talking about the hearing on the compulsory pooling on the
6 Knockabout, and them as an operator, we don't have any
7 objections.

8 However, my objection to Marbob in this instance
9 would be initially the same objection I have to Hudson Oil
10 Company of Texas, because I'm sure, since Mr. Carr
11 represented Marbob in that prior Knockabout compulsory
12 pooling, Knockabout -- I mean, excuse me, Marbob was well
13 aware of what we were requesting in my October 22nd letter.
14 And I did communicate that through our attorney of those
15 requirements, if Marbob was willing to present those to us,
16 we -- while I had no objections to their operations and
17 their experience at all, that I would like to demonstrate
18 some good faith here, give us some information, and let's
19 get off on the right foot.

20 Q. Did you have any concerns about the financial
21 ability of Hudson Oil Company of Texas to be operator?

22 A. Yes, and the criteria was, number one, they've
23 referred to -- and I'm only making reference to this as a
24 matter of where I got this information, because the
25 litigation in Tarrant County has nothing to do with this,

1 quite frankly. It involves interests that's not even
2 involved in this case, a party's interest.

3 So -- But my reference is, where did I get the
4 information I'm fixing to divulge? It's -- Mr. Ed Hudson's
5 testimony in a hearing in the state district court in
6 Tarrant County when he was asked, who is Hudson Oil Company
7 of Texas? And he responded -- I'm paraphrasing -- himself
8 and his brother. You know, what are their assets, and --

9 MR. CARR: Objection. This is absolutely
10 inappropriate. There is no question here about the ability
11 of the Hudsons to operate this along with the other 65 or
12 70 wells they operate, and anything that we're hearing here
13 today in this format is just rank hearsay, and it is
14 absolutely inadmissible, and I object.

15 MS. MacQUESTEN: Sustained.

16 EXAMINER JONES: Sustained.

17 MR. PADILLA: May I respond?

18 MS. MacQUESTEN: Yes.

19 MR. PADILLA: Financial ability is the issue
20 here, and it has something to do with the Tarrant County
21 litigation. We're not trying to bring in the Tarrant
22 County litigation. I asked him whether he had a complaint
23 or a concern about the financial ability of Hudson Oil
24 Company of Texas, and he's responding to that.

25 MS. MacQUESTEN: Mr. Padilla, I have no problem

1 with him responding to that. I do have a problem with him
2 paraphrasing testimony supposedly given in another
3 proceeding. If you have that testimony of record and with
4 to present it, that would be a different matter, but we
5 cannot accept it from a witness giving his recollection.

6 Q. (By Mr. Padilla) Mr. Grappe, you have provided
7 to me a transcript of portions of testimony given by Mr.
8 Hudson in Texas regarding Hudson Oil Company of Texas.

9 MR. CARR: May I ask which Mr. Hudson you're
10 talking about?

11 MR. PADILLA: Edward Hudson.

12 THE WITNESS: Edward Hudson, Jr., yes.

13 Q. (By Mr. Padilla) Okay. And you have transcript
14 that I'm holding here?

15 A. Well, that's the transcript I gave you right
16 before I came over to the witness stand.

17 MR. CARR: May it please the Examiner, Edward
18 Hudson was -- he is here pursuant to a subpoena issued on
19 by the Division. It was never ruled on by the Division.
20 If there are questions, ask Mr. Hudson.

21 MR. PADILLA: I'll be happy to ask Mr. Hudson.

22 MS. MacQUESTEN: Let's --

23 MR. PADILLA: I'll move on.

24 MS. MacQUESTEN: Let's proceed that way. Thank
25 you.

1 Q. (By Mr. Padilla) What other concerns do you have
2 about the financial ability of Hudson --

3 A. I reviewed their production of -- that's been
4 reported on the ONGARD -- State of New Mexico site. I
5 pulled -- personally pulled every well that was listed
6 under Hudson Oil Company of Texas, and their average -- and
7 I say "average", it's based on 2005, simply by taking the
8 total number, dividing by 365 days, that their daily
9 production is something less -- a fraction less than 125
10 barrels a day, from the wells.

11 The gas production is -- I did the same
12 computation. The gas production is something less than 195
13 MCF a day.

14 Now I'm not saying that everybody has to be an
15 Exxon. I've worked for single-family clients or -- all the
16 way up to Shell Oil Company and BHP of America. But what
17 does concern me is that many of these wells are approaching
18 an environment of economic limit. I mean, do the numbers.
19 And should the price go down substantially, as we've seen
20 in the past, within the near term, whatever, Hudson Oil
21 Company of Texas would be confronted with the potential
22 plugging liability in the hundreds of thousands, if not
23 millions, of dollars. I have not done that assessment.

24 Just based on the facts that I've testified to
25 today, that presents a concern for me.

1 Another concern is, this is very old production
2 and could last -- I don't know how long. So I tried just
3 to zero it in, of not making a lot of subjective valuations
4 regarding their production, just taking those bare facts.
5 And that on its face gives me pause about their financial
6 ability of going forward.

7 Yes, they have a bond in place. If they were
8 called on to plug any number of wells there, that bond
9 would be insufficient. That's between the State of New
10 Mexico and the Hudson Oil Company of Texas as what was
11 required them.

12 You're asking me my concerns as to Hudson Oil
13 Company of Texas operating -- being named the operator of
14 this well. And if we choose, should a compulsory pooling
15 be granted pursuant to this Application, we will be forced
16 to write a check to Hudson Oil Company of Texas of
17 something in excess of \$220,000, based on their AFE, which
18 is low, by their own testimony, potentially up to \$300,000.
19 That's a lot of money.

20 The address is concerned relative to blow-out
21 insurance that Hudson Oil Company of Texas has. That's
22 fine. We'd look at what those limits are. Insurance
23 companies have limits. But the other part of it is, what
24 if they don't pay their bills and mechanics' liens are
25 placed on it?

1 MR. CARR: Objection. I mean, there is nothing
2 in evidence that would suggest the Hudsons have ever been
3 late paying any bill. We're just out speculating, trying
4 to smear somebody else. It's typical of this entire
5 relationship, and that's what we're doing here and it is
6 inappropriate, and I object to it.

7 EXAMINER JONES: Sustained.

8 MS. MacQUESTEN: Yes, Mr. Padilla, if you could
9 have your witness summarize his opinion and move on to a
10 different area, please.

11 Q. (By Mr. Padilla) Can you summarize your opinion?

12 A. I have grave concerns of Hudson Oil Company of
13 Texas' financial ability to fulfill their commitments
14 presently under the wells that they operate, and also
15 alleviating any concerns I have regarding their ability to
16 prudently administer \$200,000 to \$300,000 of the Ards'
17 money.

18 MR. PADILLA: I don't -- Pass the witness.

19 CROSS-EXAMINATION

20 BY MR. CARR:

21 Q. Mr. Grappe, you, I think, described the
22 relationship between the parties as tumultuous. Was that
23 your word?

24 A. I used that word in reference to -- response to
25 some question, yeah, I remember that.

1 Q. And you would agree with me that the Hudsons and
2 the Ards do have issues between them?

3 A. Yes, but I'm here to testify relative to the
4 issue at hand.

5 Q. All right, and the issue at hand is negotiation
6 concerning the development of this particular spacing unit
7 and this well; is that right?

8 A. I'm here to testify relative to any
9 correspondence, oral or anything presented to us pursuant
10 to this proposal.

11 Q. And those are the negotiations between the
12 parties concerning this proposal?

13 A. There were no negotiations.

14 Q. Now let me ask you in that regard, you understand
15 that good faith negotiations have to run two directions,
16 not just one; isn't that right?

17 A. Of course.

18 Q. And so you proposed or requested certain data by
19 a letter dated October 22nd, 2005, the letter we've been
20 talking about?

21 A. Yes.

22 Q. And you were present here today, and you do
23 understand that as of today there is no contract or any
24 document that would evidence a contract or agreement that
25 would be responsive to item number 1? You do understand

1 that, do you not?

2 A. I understand that there's no written, but there
3 was also verbal conditions that educated me relative to
4 that regard, sir.

5 Q. But you understand there is no contract -- we
6 don't have a copy of a relevant contract --

7 A. There is no written contract --

8 Q. Right.

9 A. -- there is a verbal contract.

10 Q. And you -- And there's not a copy of a verbal
11 contract; is that right?

12 A. I suspect not.

13 Q. That's right. Now let's look at Exhibit -- item
14 2. We talk about a drilling contractor and the contract
15 with that individual. You understand that one of those
16 still does not exist. There is no such contract today?

17 A. I understand that they have contracted with
18 Marbob, and Marbob has rigs under contract, so I would
19 assume that Marbob's contract with those rigs or drilling
20 contractors could be made available.

21 Q. And you're assuming that, but you heard the
22 testimony that as of this moment we do not know who the
23 drilling contractor would be, and that there's no contract
24 with a drilling contractor for this well; you were present
25 for that testimony?

1 A. (Nods)

2 Q. Now as to the third item, your drilling
3 prognosis, you were present when Mr. Hudson testified that
4 he had not prepared one. Were you not present for that?

5 A. Yes, I was.

6 Q. When we look at the geological and geophysical
7 data, you were reading a transcript from a hearing in
8 January, and you are aware at that time that the issue of
9 geophysical information was resolved by Mr. Bruce and
10 myself when we agreed that it was not going to have to be
11 produced, if there was any?

12 A. That's my understanding.

13 Q. And as for the geological data, you heard Mr.
14 Hudson testify today about the information that he looked
15 at, wells that are -- logs that are available on commercial
16 services. You're familiar with those commercial services,
17 are you not?

18 A. Yes.

19 Q. And you have information on the wells surrounding
20 this prospect without getting it from the operator; isn't
21 that correct?

22 A. Correct.

23 Q. And you are aware that I advised Mr. Bruce we had
24 no other geological data to present in response to this
25 letter. You are aware of that, are you not? Now --

1 A. By your letter of May the 2nd.

2 Q. And are you aware that following the hearing on
3 January the 5th, that we did -- then did present the APD?
4 You are aware of that, are you not?

5 A. I testified that we received it in February, yes.

6 Q. And would you look at my letter to Mr. Bruce,
7 January 26th? It's in our Exhibit 3, toward the back of
8 that.

9 A. And the date of that again was -- ?

10 Q. January 26th, 2006.

11 A. Okay.

12 Q. And if you -- Do you see that, from me to Mr.
13 Bruce, January 26th?

14 A. I have it.

15 Q. The last sentence in the first paragraph, and I
16 read, I have requested a continuance of the hearing in this
17 matter to February 16...to allow time for us to meet to
18 discuss the enclosed data and the prior subpoenas issued to
19 compel the attendance of William A. Hudson, Edward R.
20 Hudson and Randall Hudson. Do you see that?

21 A. Yes.

22 Q. Do you have any idea -- Can you tell me why we
23 never got a response to that request for an opportunity to
24 meet to discuss the data we were enclosing?

25 A. No.

1 Q. You are concerned and don't want the Hudsons to
2 operate this well; isn't that right?

3 A. I think I made that pretty clear.

4 Q. And you made that pretty clear about the
5 Knockabout well last year, did you not?

6 A. I did.

7 Q. And the Hudsons did -- And at that time, a year
8 ago, you even indicated Marbob would be an acceptable
9 alternative operator, did you not?

10 A. In that instance, yes.

11 Q. And where we stand today is that again you're
12 objecting to Hudson being operator of the well?

13 A. Yes.

14 Q. This year in January, Hudson did offer to let you
15 designate Marbob operator of the well, pursuant to a JOA
16 that you would prepare; isn't that right?

17 A. No.

18 Q. Are you unaware of that?

19 A. In January, that it happened? I'm -- that was --

20 Q. Are you aware that that offer was -- were you
21 ever aware -- made aware of that?

22 A. I testified that Mr. Bruce, through a telephone
23 conversation, advised me of that several months ago. But
24 Mr. Carr, it was not in January.

25 Q. Could it have been in February of this year?

1 A. It was sometime after we received the data.

2 Q. All right. And it's been at least several
3 months?

4 A. Correct.

5 Q. And can you explain to me why there's never been
6 an inquiry of Hudson as to any of the many interesting
7 questions you've raised for the first time here today?

8 A. Repeat the question, please?

9 Q. If you had all of these concerns in January or
10 February, when you only had the APD, do you have any idea
11 why no one ever asked us any of those questions?

12 A. The major question we asked, Mr. Carr, was
13 relative to all the data.

14 Q. And we had responded to that, and we said
15 verbally that's what we had, and then as we got toward the
16 hearing I was asked to put it in writing, and I did. And
17 when you ask for information or try to negotiate with an
18 operator, do you send one letter in October and then just
19 sit back and wait until June to start complaining in a
20 hearing?

21 A. No.

22 Q. Well, then why did you do it here today?

23 A. I did it here today because I had made efforts
24 through our attorney to -- When is the data forthcoming,
25 when is --

1 Q. Well --

2 A. -- the data -- Let me finish, please, Mr. Carr.

3 Q. Sure, go ahead.

4 A. May -- Your May letter was the first time that I
5 realized there would be no additional data forthcoming.

6 Q. Maybe you shouldn't be complaining to Hudson but
7 to your lawyer.

8 A. Is that a question or a comment?

9 Q. That is a comment.

10 Now let me ask you, did you contact Mr. Bruce and
11 say, You know, this isn't what we wanted? We want more
12 than the APD?

13 A. Absolutely.

14 Q. You're a -- You have a law degree, do you not?

15 A. Yes, I do.

16 Q. If someone's stonewalling you, couldn't you seek
17 a motion to compel?

18 A. Yes.

19 Q. Do you have any idea why, after we made our offer
20 to let you designate Marbob and provide your own JOA, we
21 heard nothing except we're still considering it, we're
22 still considering it, could you continue again? And we
23 did. Do you know why that's the only response we got from
24 you?

25 A. I can't respond to that because I have not -- I'm

1 not aware of that being a response.

2 And you're asking relative to filing additional
3 motions. We are going through this exercise, being here
4 today, being in January, going through and subpoenaing the
5 data, which you refused to give us and saying, Let them
6 subpoena it. My client's expending dollars to accomplish
7 something through what I in my opinion say is industry
8 standards that should be supplied. And quite frankly, Mr.
9 Carr, you have written very eloquently about that it is
10 reasonable and appropriate and necessary information.

11 Q. And one of the things you've cited is a brief I
12 wrote in the Yates-Pride case?

13 A. Yes.

14 Q. And if we look at that, you will see that Yates
15 didn't just sit back and do nothing. They even moved --
16 they were moving to dismiss and taking action to assure
17 that the other side knew what they wanted. And you didn't
18 do that?

19 A. No, I didn't.

20 Q. Yeah. All right, now let's take a look at the
21 AFE. You got the AFE sometime last fall with the original
22 proposal letter; isn't that correct? Sent to you on
23 September the 9th, a letter dated September the 9th?

24 A. Yes.

25 Q. And you looked at that information and the

1 request back was for a specific pipe and casing program and
2 the cost per foot, right?

3 A. Excuse me?

4 Q. And after you got the AFE, you asked in your
5 letter for a specific pipe and casing program and cost per
6 foot?

7 A. Yes.

8 Q. And you had the information from us, the AFE and
9 the APD, and that had some information on those subjects?

10 A. Correct.

11 Q. And you wanted more?

12 A. I wanted what I originally requested.

13 Q. Which was more than what we had given you?

14 A. Right.

15 Q. Do you know why you never asked us for more?

16 A. Mr. Carr, I made a request that is plainly stated
17 out per foot. I'm sorry if you don't understand what cost
18 per foot means. You gave me a lump sum. I'm not here, and
19 I do not have the time or energy, to do your job or Hudson
20 Oil Company's as operator.

21 Q. Well, let me ask you this. When I wrote on
22 January the 26th and offered to meet to discuss the data
23 that we had provided, did you ever know I had done that?

24 A. No.

25 Q. You don't know why there was never a follow-up on

1 that?

2 A. If I didn't know that it was offered, I obviously
3 wouldn't have known why there wasn't a follow-up.

4 Q. You understand an AFE is just an estimate, it's
5 just authorization -- seeking authorization to expend the
6 funds that are set forth on that document?

7 A. I do.

8 Q. And you realize that once the well is drilled,
9 the cost may not, in fact, be the same -- probably won't be
10 as on an AFE?

11 A. I do.

12 Q. And you understand that under the pooling
13 provisions before the Oil Conservation Division you would
14 have a right, if pooled, to come challenge the
15 reasonableness of any of those costs?

16 A. I do.

17 Q. All right. You do understand that both Yates and
18 Marbob have joined the well with less data than what you're
19 looking for?

20 A. I was made aware of that today, yes.

21 Q. You know, do you have any concern today about the
22 language in the operating agreement that was proposed last
23 year when we sent the well proposal to the Ards?

24 A. Would you like for me to go -- refer to the
25 operating agreement and go through it?

1 Q. No, my question is, do you still have concerns
2 about the language in that? You did a year ago with the
3 Knockabout?

4 A. Right.

5 Q. And do you still have concerns with the terms of
6 the JOA as proposed?

7 A. Yes.

8 Q. And yet we asked you to provide your -- propose
9 your own, and you didn't do it?

10 A. No, I did not.

11 Q. You have expressed your concerns about the
12 Hudsons and their ability to drill the well, and you've
13 looked at the production per day on the wells that they are
14 operating and you got a fairly low number. Was that what
15 you came up with?

16 A. I testified to the number I came up with.

17 Q. And that's what you're using to question their
18 ability to financially operate this well?

19 A. It's simply a criteria that I looked at, one of
20 them.

21 Q. And do you know that these wells that -- the 65
22 wells were, in fact, drilled back in the 1930s?

23 A. I knew that some of them were, not all of them.

24 Q. And that, frankly, if you look at them, it may be
25 remarkable that they're able to get this much out of them

1 today?

2 A. I didn't do any assessments relative to the --

3 Q. Do you have --

4 A. -- decline curves or anything else.

5 Q. Do you have any idea how much of the Hudsons'
6 properties are non-operated compared to operated?

7 A. No.

8 Q. That would be something that would have some
9 bearing on your evaluation of them as an operator, would it
10 not?

11 A. I was looking at liability.

12 Q. Are you aware of any time that the Hudsons have
13 been cited or have in any circumstance violated any of the
14 Rules of the Oil Conservation Division?

15 A. I'm not aware of any.

16 Q. Okay. How many Morrow wells do the Ards operate?

17 A. None.

18 Q. How many wells do they drill -- have they
19 drilled, to the Morrow?

20 A. We've participated in a number of them.

21 Q. You're not proposing to pool the lands and have
22 the Ards drill the well, are you?

23 A. I've made that quite clear.

24 Q. And so we're not -- there's no competing
25 application?

1 A. No.

2 Q. And in terms of the ownership of the Ards in this
3 property, their ownership is confined to below the San
4 Andres --

5 A. That is correct.

6 Q. -- is that right? Above the San Andres it's
7 covered by an operating agreement, and the Hudsons are
8 operator above that point?

9 A. Right.

10 Q. In terms of the negotiations between the parties
11 in an attempt to reach an agreement, you would agree with
12 me that good faith negotiations require that the parties
13 talk both ways; isn't that right?

14 A. No, because there were no negotiations instituted
15 on either side, Mr. Carr --

16 Q. You would agree with me --

17 A. -- so your classification of negotiations --

18 Q. Okay.

19 A. -- that is a non-starter --

20 Q. All right.

21 A. -- it didn't happen here.

22 Q. Hudson proposed a well to Ard?

23 A. Correct.

24 Q. They sent an AFE?

25 A. Correct.

1 Q. They sent a JOA?

2 A. Correct.

3 Q. You wrote a letter and requested data?

4 A. Correct.

5 Q. We have a tumultuous relationship? Your word.

6 A. Right.

7 Q. Okay. We said, We're going to put this in a
8 framework; if you want it, subpoena the data. And you did.
9 We came to hearing and I said, I'll give you what we have,
10 I think we have, and we gave you an APD. And I said, I'm
11 continuing the case so we can talk about this, and we never
12 heard back?

13 A. Are you making a statement or a question, Mr.
14 Carr?

15 Q. I mean, do you have -- you agree with me that
16 that's --

17 A. No, I do not agree. You've gone through --

18 Q. When did -- when did you -- when did anyone from
19 Ard talk to anyone through their counsel or directly and
20 say, Hey, where's the casing? Could we get it cheaper?
21 None of those things happened, did they?

22 A. No, they didn't because --

23 Q. That's all I have.

24 A. -- there was no response to a letter, there was
25 no response to the October 22nd, letter that I wrote. And

1 I apologize if you think it's imprudent on my part to do 15
2 follow-ups.

3 Q. But the --

4 A. I didn't propose the well.

5 Q. Did you --

6 A. This is not our application.

7 Q. Did you see the subpoena that was issued?

8 A. I directed that it be prepared, yes.

9 Q. And what was attached to it?

10 A. I don't remember.

11 Q. There was nothing but a form subpoena and your
12 letter; isn't that right?

13 A. I said I don't recall.

14 Q. It'll be in the file, wouldn't it?

15 A. It would be where?

16 Q. It would be in the file?

17 A. The file of the case, correct.

18 Q. And we have reviewed each item in the subpoena in
19 the case here today; isn't that correct?

20 A. You've reviewed my letter and made a response to
21 it.

22 MR. CARR: Yes, that's all I have. Thank you.

23 EXAMINER JONES: I don't have anything. Do you
24 want to re-direct?

25 MR. PADILLA: Well, I have a few questions.

1 EXAMINER JONES: Okay.

2 REDIRECT EXAMINATION

3 BY MR. PADILLA:

4 Q. Mr. Grappe, prior to May 2nd, 2006, did you ever
5 get something saying, We don't have any information?

6 A. That was my first notice that no additional data
7 would be provided.

8 Q. Was there any follow-up about the proposed
9 meeting from Mr. Carr or anyone else about meetings, to
10 your knowledge?

11 A. No, none at all.

12 Q. Now Mr. Carr asked you about the Yates case.
13 Effectively he said that Yates was more proactive by filing
14 the motion to dismiss. Did you find it necessary to file a
15 motion to dismiss before today's hearing?

16 A. No.

17 Q. Now even though there may be a tumultuous
18 relationship between the parties here, going down to the
19 brass tack here, is there any reason why the operators in
20 this case would not provide you information, other than
21 they say it didn't exist, but even in terms of saying,
22 There isn't any information? Is there any reason, to your
23 knowledge, that would have prevented them from doing that?

24 A. No.

25 MR. PADILLA: No further questions.

EXAMINATION

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BY EXAMINER JONES:

Q. Well, Mr. Grappe, I have one question. The risk penalty -- I don't hear anybody contesting the risk penalty in this case.

A. Well, the risk penalty in this regard is something that we've accepted in the past, it's something that we've used as -- frankly, as what we negotiate in our operating agreements. Now a lot of operating agreements with these Morrow wells have jumped in 500-percent penalties. And -- you know, and believe me, I've so far been able to negotiate those down to the 300-percent penalty, which is a recoupment of costs, 100 percent, then the 200. So it's the same basis. So I have no objections to that.

EXAMINER JONES: Okay, that's -- Do you have a question, Gail?

MS. MacQUESTEN: I don't have a question.

EXAMINER JONES: I think we're -- Are you guys done with this witness?

MR. PADILLA: (Nods)

EXAMINER JONES: Thank you very much, Mr. Grappe.

MR. GRAPPE: Thank you.

EXAMINER JONES: Do you want to call one more witness?

1 MR. PADILLA: We'll call Ed Hudson, Jr.

2 EXAMINER JONES: Is he going to take a long time?
3 Should we take a break?

4 MR. PADILLA: I don't think so.

5 EXAMINER JONES: Okay. Mr. Hudson, can you stand
6 to be sworn?

7 MR. ED HUDSON, JR.: Yes, I did not stand before.
8 (Thereupon, the witness was sworn.)

9 EDWARD RANDALL HUDSON, JR.,

10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 EXAMINATION

13 BY MR. PADILLA:

14 Q. Mr. Hudson, please state your full name.

15 A. Edward Randall Hudson, Jr.

16 Q. Do you normally use "Jr." at the end of your
17 name?

18 A. Yes.

19 Q. And you're from Fort Worth, and you're the
20 Applicant in this case, right?

21 A. I'm one of the Applicants, yes.

22 Q. Why was it necessary for this case to have three
23 Applicants?

24 A. Because in our prior case we had only one, Hudson
25 Oil of Texas, and the Ards objected and asked where my

1 brother and I were.

2 Q. So you have three Applicants in this case for
3 that reason?

4 A. Seems so.

5 Q. When was this proposal made or established? Do
6 you know? How was -- Can you tell us how this --

7 A. I'm not sure what you mean.

8 Q. The well proposal, how did it come about?

9 A. We had drilled two dry holes on the Puckett, we
10 wanted to drill another, given the substantial production
11 to the west. And, I don't know, my son worked on it with
12 us all summer, and then it was mailed out, evidently, in
13 early fall.

14 Q. Now, would you describe the relationship between
15 you and your sister as tumultuous?

16 A. I haven't spoken to her since we initiated some
17 proceedings against her that she didn't like.

18 Q. Okay. And would that -- So how do you deal with
19 her? Through counsel? Is that the way you --

20 A. As I said, in the last three or four years I
21 haven't spoken to her. I don't deal with her at all. If
22 there's any dealings with, it goes through attorneys.

23 Q. You've never done anything outside of being -- of
24 -- you do everything through attorneys when you deal with
25 her?

1 A. Currently.

2 Q. Mr. Hudson, I have a letter here dated November
3 16th, 2005, from W.A. Hudson, II, to Mr. Grappe. Let me
4 just hand it to your counsel.

5 Take a look at that letter, Mr. Grappe -- I mean,
6 Mr. Hudson, sorry. That letter is -- it doesn't have
7 anything to do with this case, but that letter is directly
8 -- from your son to Mr. Grappe directly, right?

9 A. No, it's from my brother to Mr. Grappe directly.

10 Q. Okay, from your brother to Mr. Grappe?

11 A. Yes.

12 Q. And you didn't deal through counsel on that
13 letter?

14 A. Mr. Grappe is an attorney. No, we did not deal
15 through counsel on that letter.

16 Q. You didn't send that letter -- or you didn't tell
17 Mr. Carr to send that letter in response to Mr. Grappe?

18 A. This letter was in response to a letter from Ron
19 Grappe indicating that my sister's properties previously --
20 probably her separate property, had been put into two
21 partnerships, probably making it community property, and
22 asking that we change our records to indicate certain
23 leases but not all the leases. And the response is that we
24 will respond when we are furnished with the paperwork
25 establishing that, and we will change the records only when

1 they furnish us with copies of all the leases that should
2 be changed. We are not going to do it on a piecemeal
3 basis.

4 Q. I understand that, but in that letter you didn't
5 deal through counsel, right?

6 A. Small point. I'll agree with you, yes.

7 Q. All right. Did you use any consultants in this
8 case in coming up with this well proposal?

9 A. No.

10 Q. Just yourselves -- you and your son --

11 A. Yes.

12 Q. -- and your brother?

13 A. Me, my brother and my son.

14 Q. Okay. You didn't seek any information from
15 anyone else?

16 A. No. I know we had conversations with Yates and
17 with Marbob. But we didn't ask, we simply discussed.

18 Q. The proposal, right?

19 A. The proposal.

20 Q. The --

21 A. The drilling of the well.

22 Q. The drilling of the well. This looks like a good
23 location to drill a Morrow test, right? Kind of thing?

24 A. If any location looks good to drill a Morrow
25 test. I'm not sure there's any truth in the statement that

1 this is a good location. Any Morrow test is a crapshoot.

2 Q. Well, I understand that, but you had discussions
3 about maybe other production in the area and that sort of
4 thing.

5 A. Of course.

6 Q. Yates --

7 A. Yes.

8 Q. -- and Marbob?

9 A. I'm not sure we discussed it with Yates, but with
10 Marbob, yeah.

11 Q. Did you --

12 A. Marbob having -- both of them having participated
13 in our previous wells on the Puckett lease.

14 Q. Did you have any discussions of the same sort
15 with any of the other working interest owners?

16 A. No.

17 Q. None with the Iversons?

18 A. Are there any other working interest owners? Oh,
19 the Iversons, no.

20 Q. Well, they were force pooled in the first one?

21 A. Yeah, they were force pooled in the first
22 instance.

23 Q. What is your day-to-day dealings with Hudson Oil
24 Company of Texas?

25 A. I am trained as a lawyer, I look after some of

1 the legal things. I -- Having been looking after our
2 interests since about 1960, I have acquired a certain
3 amount of knowledge in it, and we have had quite reasonable
4 success. The 75 wells we keep hearing about were drilled
5 about the time I was born in the 1930s, and I would think
6 we are doing the State of New Mexico, as well as ourself, a
7 favor keeping those producing. It also holds the deep
8 rights under the four sections that they are drilled on.

9 Q. And that's the Puckett lease, is that --

10 A. (Nods)

11 Q. Okay, yes?

12 A. Pardon me?

13 Q. Yes? You nodded, and I take it that's a yes?

14 That's the Puckett lease?

15 A. Yes.

16 Q. Okay. What's your brother's day-to-day
17 involvement in operations?

18 A. Similar to mine, he is also an attorney.

19 Q. What are the assets of Hudson Oil and Gas -- Oil
20 Company?

21 A. There are virtually none. It is a partnership,
22 50-50, between me and my brother. Both of us have quite
23 substantial assets, and either one of us could write a
24 check for plugging all 75 wells on the Puckett with no
25 difficulty at all.

1 Q. So you have no assets, essentially, in --

2 MR. CARR: Objection.

3 Q. (By Mr. Padilla) -- in Hudson Oil Company?

4 MR. CARR: Objection.

5 THE WITNESS: It is an operating company without
6 assets.

7 MS. MacQUESTEN: Excuse me, sir, we have an
8 objection.

9 Do you have a response, Mr. Padilla?

10 Or Mr. Carr, first, would you like to --

11 MR. CARR: The witness --

12 MS. MacQUESTEN: -- state your objection?

13 MR. CARR: I object, the witness has just
14 testified that he could write a check to plug 75 wells, and
15 Mr. Padilla's follow-up question is, So you have no assets?
16 I think it's absolutely --

17 MR. PADILLA: Well, let me --

18 MR. CARR: -- inappropriate.

19 MR. PADILLA: -- let me rephrase.

20 Q. (By Mr. Padilla) Hudson Oil Company of Texas is
21 a separate entity, right?

22 A. Yes.

23 Q. And it's a corporation?

24 A. Yes.

25 Q. And it has a limited liability, correct?

1 A. Probably.

2 Q. Does the liability of Hudson Oil and Gas
3 automatically -- Hudson Oil Company of Texas, automatically
4 flow to you?

5 A. It probably would, as being the two major
6 shareholders, me and my brother.

7 Q. Are you saying that the corporate veil could be
8 pierced easily and get to your assets? Is that --

9 A. Doesn't it happen fairly often?

10 Q. I don't know.

11 A. I don't either. But yes, I think it probably
12 can.

13 Q. How many employees do you have at Hudson Oil
14 Company?

15 A. Ten. I don't know if that's limited by the
16 number of fingers that he has to hold up or --

17 Q. Did you have any idea, before he mentioned --

18 A. I know how many are in the office, and I know
19 that in the field we have a fluctuating number, so I'm not
20 sure of that.

21 MR. PADILLA: Okay, that's all I have. Pass the
22 witness.

23 EXAMINER JONES: Questions, Mr. Carr?

24 MR. CARR: I have no questions of Mr. Hudson.

25 EXAMINER JONES: Okay, thank you, Mr. Hudson.

1 MR. HUDSON: Free to go?

2 EXAMINER JONES: Is that the -- is that --

3 MR. PADILLA: That's the end of our case, we
4 rest.

5 EXAMINER JONES: Okay. Well, anybody want to --
6 Do you wish to make any closing statements?

7 MR. PADILLA: Sure.

8 MR. CARR: I'm the Applicant, I go last.

9 (Laughter)

10 MR. PADILLA: I thought it was always the other
11 way around.

12 (Laughter)

13 MR. CARR: It's never the other way around.

14 MR. PADILLA: Again, I'm going to -- I don't want
15 to parrot my opening statement. There may be a tumultuous
16 relationship here; the issues of this case are separate and
17 distinct from any historical background as far as
18 litigation between the parties.

19 But I think if you go to this case 13,690 that we
20 ask the -- I think Mr. Carr is -- 13,690, I think Mr. Carr
21 is exactly right, there are preconditions in that case. I
22 couldn't do a better job than what he did in trying to
23 analyze the requirements under Section 70-2-17, as far as
24 compulsory pooling is concerned.

25 You have to have -- Mr. Carr brings up the issue

1 of good faith, and really, when it comes down to who's
2 proposing the well, you should -- the good faith would say,
3 this contract for drilling this well, either through JOA or
4 whatever, there's a good faith element in every contract
5 that -- or covenant of good faith and fair dealing in every
6 contract.

7 This is no different. We're trying to elicit
8 some participation in a well. And so you have to have some
9 well, some kind of good faith, some kind of information
10 flow or dialogue or whatever you have before you enter into
11 the contract, in order to enter into the contract, and
12 those negotiations have to be in good faith.

13 Now we're not trying to sell the horse here.
14 It's Hudson that is trying to sell the horse. And they're
15 supposed to give us some idea that the horse is sound.

16 To say, Well, what did you do since January to
17 May, you haven't done anything, you didn't meet with us,
18 you didn't make a phone call -- but the very first
19 instruction that was essentially made here is, We're not
20 going to give you anything. You have to subpoena it, or
21 you have to do something in order to get it. Not even
22 saying we don't have that information, we don't have any
23 drilling prognosis, we don't have geologic information.

24 But they could have said, you know, we compared
25 these three logs, we looked at these three logs. Why don't

1 you take a look at them, have your advisor look at the
2 three logs, and we think that there's a trend coming down.
3 People do that. They certainly had discussions with Marbob
4 and Yates, saying, Well, this looks like a good prospect.
5 But here, nothing.

6 Now I understand there's a background of
7 conflict, but it's Mr. Grappe that's dealing for the Ards.
8 I can understand that Edward Hudson wouldn't want to speak
9 to his sister. But you have a consultant, and he could
10 have picked up the phone and said, You know, we don't have
11 this information, talked to Sheryl Baker who prepared the
12 AFE, or talk to the other geologist who we talked to, or
13 the geologist from Yates, said this or said that. Nothing.

14 And so we have these litigious positions from the
15 very beginning. We're not going to give you anything.
16 We're only going to give you an APD that talks about
17 prairie chickens and when you can drill. That is not
18 helpful at all, and it's not in good faith in terms of
19 trying to elicit participation.

20 I'm sure, as Mr. Edward Hudson testified here,
21 they did talk with other interest owners. There could have
22 been something that said, Look, we're not going to tell
23 you, you're going to have to make up your own mind, but
24 look at these three logs, look at this, or call -- like I
25 said before, call these other people and then decide

1 whether you want to join or not join, and not -- Or even if
2 they wanted to go through counsel. But Mr. Carr didn't
3 write his letter until May 2nd.

4 Now, in litigation attorneys don't do anything,
5 in my experience, until you get close to hearing. So I can
6 understand why this got to May 2nd and all of a sudden Mr.
7 Bruce asked Mr. Carr, Mr. Carr says, We have nothing, we're
8 not going to give you any more.

9 But normally, you would have parties talking to
10 each other one way or the other. And I don't think it's
11 necessarily incumbent upon the Ards to ask for information
12 past January. In January, Mr. Carr said we -- he indicated
13 -- and I'm not trying to put Mr. Carr on the spot here. He
14 made the representation on behalf of his clients. He
15 presumably had authority to say what he did and try to
16 resolve the thing at that time, say, Yeah, we'll give you
17 that. And then it turns out -- at that time it should have
18 been apparent to him or to his clients that there was no
19 other information. He could have said that, but you didn't
20 say that.

21 You know, the representation that he made was
22 presumably made in good faith saying, There is additional
23 information, and then you wait from January to May, and
24 there's nothing else.

25 So going back to the preconditions is like --

1 even the statute -- it has to be some fairness element here
2 in terms of force pooling. And you say, Well, you know,
3 before you bring this up, occasionally you have to make
4 those efforts, you know, to try to get participation. I
5 don't see it here. I don't see anything here other than,
6 The Morrow is spotty, and we all know that.

7 I can see why they chose the northwest quarter of
8 the northwest quarter, but they didn't tell anybody
9 anything about that in the proposal. Send the AFE, send
10 the JOA, take-it-or-leave-it kind of attitude. That's
11 what's happened in this case.

12 And then when that didn't happen it's just
13 simply, File an application to force pool, because we're
14 going to litigate with those people anyway. Seemed like
15 that was -- that was the precondition here. We can't talk
16 to his people, so we're going to file a force-pooling
17 application before you even respond to anything to say
18 that's the way we're going to deal with it.

19 And that is actually the testimony in this case.
20 The testimony is, We didn't respond to this thing because
21 we were coming to hearing anyway, back in October, in
22 December. So we've got five weeks, we'll give it to them
23 at the hearing, we'll go to hearing. That's not the way it
24 works.

25 You should have provided the information ahead of

1 time, then if there was no joinder based on available
2 information, then you give it -- then you go to a
3 compulsory pooling hearing.

4 But you can't put the compulsory pooling
5 application first and somehow force some kind of thing in
6 saying, Well, you're uncooperative because the parties have
7 been in litigation for a long time, so it's useless to do
8 anything in this case. So I think that's where we stand
9 here.

10 Now even with Marbob, everybody knows that Marbob
11 is a good operator in New Mexico and that they operate a
12 number of wells. But there isn't anything saying, Well, we
13 have a verbal contract, we're going to drill the well for
14 \$25,000 and we're going to do it on a gentlemen's agreement
15 and, you know, that -- you know, but we want to know who's
16 going to drill the well. I think they could have said,
17 It'll either be one of three contractors, they're all good,
18 or whatever.

19 Nothing was said like that. For all we know, it
20 could have been somebody brand new. That's probably a
21 little remote for drilling a Morrow well, but still it
22 could have been that kind of possibility where you have
23 somebody saying -- you know, if it's a reputable drilling
24 contractor, probably there wouldn't be any objection, but
25 they could have said, The drilling contractors that Marbob

1 uses are these. Call Raye Miller, ask him who they use.
2 None of that kind of discussion.

3 Now they're saying the JOA should have been
4 prepared by the Ards, and submit a JOA in response. Well,
5 I don't think that's the way it works, as Mr. Grappe
6 testified. It just doesn't work that way. Non-operators
7 don't prepare joint operating agreements.

8 But all that is just a subterfuge for coming here
9 ahead of time, before submitting any kind of information
10 saying, Join the well, here's the AFE, and, oh, by the way,
11 we do have an APD, you should probably have that. We're
12 not going to give you any more information.

13 So I think -- and I implore you to look at the
14 very well drafted memorandum -- motion to dismiss that Mr.
15 Carr filed in the Yates case against Pride Energy's
16 application. And I think that sets the standard, and it's
17 direct, and that's what's probably in this case.

18 Thank you.

19 MS. MacQUESTEN: Mr. Padilla, before we move on
20 to Mr. Carr, I just had a few questions to ask you so that
21 I understand what you're asking for in this case.

22 I have a prehearing statement filed on behalf of
23 the Ards, but it was filed by Jim Bruce back in December of
24 2005, and I have an entry of appearance from you. Was
25 there another prehearing statement filed?

1 MR. PADILLA: No.

2 MS. MacQUESTEN: All right. The prehearing
3 statement filed by Mr. Bruce states the case this way: He
4 says that Ard does not seek to prevent or delay the
5 drilling of the well, however Ard seeks information so that
6 it may make an informed decision on joining the well, and
7 then goes through various issues that he has regarding
8 information.

9 After hearing your closing statement, it sounds
10 to me as though the issue is not, We wanted to come here to
11 acquire additional information to make a decision; you are
12 now arguing, as I understand it, that we should deny this
13 Application because it doesn't meet the statutory
14 requirements?

15 MR. PADILLA: Exactly. I don't know how -- Even
16 if you go back to the -- to the prior -- to the prehearing
17 statement, if you don't meet the precondition anyway, then
18 you don't have standing, and that's -- legally, that's the
19 only thing that can happen. I mean, I don't think the
20 Division can issue an order saying, Go ahead and drill the
21 well, even though those parties are not pooled.

22 MS. MacQUESTEN: And what is the precise
23 statutory language you're relying on for this? What are
24 the preconditions, where can I find in the statute the
25 preconditions that you say were not met?

1 MR. PADILLA: Well --

2 MS. MacQUESTEN: Because -- I'm asking, because
3 we don't have a prehearing statement setting out your --
4 and you've only referred to Mr. Carr's memo, which I don't
5 have a copy of. So if you could direct me where I should
6 be looking in this case.

7 MR. PADILLA: The statute itself says that a
8 working interest may seek voluntary agreement; if you don't
9 get voluntary agreement, then an application for compulsory
10 pooling may be brought after the proposal has been made.

11 We contend that there's no proposal here because
12 there's been a failure to communicate any meaningful data
13 regarding the drilling of this well. AFE is insufficient
14 to an operating agreement, it's insufficient just by the
15 very nature of things.

16 There's discussions with Yates Energy -- Yates
17 Petroleum, I should say -- and with Marbob about drilling
18 this prospect, whether it's on the phone or otherwise. Mr.
19 Grappe testified that normally -- sometimes it's hard to
20 get information, but you get it at some point or another.
21 We need this, we need this. Or at least being told, We
22 don't have anything.

23 And so I guess you have a chicken-or-the-egg kind
24 of argument here. Maybe it might be superfluous at this
25 point, after this hearing, because you've presumably got

1 the information here today at the hearing, but it shouldn't
2 be at hearing that you get this information. It should be
3 -- a proposal should include something other than just an
4 AFE.

5 MS. MacQUESTEN: Do I understand you to say that
6 you've received the information you need now, after this
7 hearing?

8 MR. PADILLA: I'm not sure that we got it. I
9 mean, we didn't come to this hearing -- I mean, we got the
10 information, but there's no additional information, but we
11 didn't get anything as to the merits of the proposal or
12 anything like that.

13 MS. MacQUESTEN: But are you asking us today to
14 make a ruling that the information provided, including the
15 information today, is insufficient for us to grant this?

16 MR. PADILLA: Yes.

17 MS. MacQUESTEN: Okay, thank you. I wanted to
18 understand what the argument was. Thank you.

19 EXAMINER JONES: Mr. Carr?

20 MR. CARR: Well, listening to the case today, I
21 have one initial reaction and that is, I am happy that Mr.
22 Padilla and Mr. Grappe have finally found an authority on
23 compulsory pooling.

24 (Laughter)

25 MR. CARR: I would suggest that they should,

1 while reading my statements, put them in context, because
2 if you look at the Yates-Pride case you will find that the
3 issue there was really whether or not there had been good
4 faith negotiations and whether there were negotiations that
5 simply ran both ways.

6 The provision in the Oil and Gas Act that Ms.
7 MacQuesten was questioning about is found in Section
8 70-2-17.C. That is the statutory provision that authorizes
9 you to pool lands.

10 And I think it's important that when you look at
11 this case, that's where you start, because it says, and I'm
12 going to quote, Where such -- It starts out by saying where
13 there's more than one interest owner in a spacing or
14 proration unit and then it says, and I quote, Where such
15 owner or owners have not agreed to pool their interests and
16 where one such separate owner or owners who has the right
17 to drill, has proposed to drill or proposes to drill a well
18 on said unit to a common source of supply, the Division, to
19 avoid the drilling of unnecessary wells or to protect
20 correlative rights or to prevent waste -- and then it says,
21 shall pool all or any part of such lands or interests or
22 both in the spacing or proration unit.

23 The preconditions are:

24 More than one interest owner in a spacing unit.
25 Clearly we have that here.

1 One owner has the right to drill. No one has
2 challenged the fact that the Hudsons own the interest in
3 the spacing unit and as such have a right to develop their
4 minerals.

5 Has proposed to drill. We proposed to drill by
6 letter last fall, with an attached AFE and a JOA.

7 And then it says, Where the parties have been
8 unable to reach agreement, the Division shall enter an
9 order pooling the lands. Clearly you don't have any doubt
10 in your minds that we haven't been unable to reach an
11 agreement. I mean -- and that's the statute. It's a
12 mandatory directive to you when these preconditions are
13 met.

14 So the question then becomes, you know, have
15 there been real efforts to try and reach an agreement? I
16 think you can see the relationship is definitely a
17 tumultuous relationship. And I think you found in trying
18 to just find out from Mr. Padilla, Ms. MacQuesten, that
19 it's very hard to know where they really are. I mean, did
20 you get the data today? Do you not have the data today?
21 And this is typical of any kind of relationship between the
22 parties.

23 The parties aren't talking to each other, and so
24 at the outset we decided it would be wise to conduct this
25 through counsel. That's why I've been cited, I guess, over

1 and over again here today.

2 And the Ards have been here, and they have talked
3 -- We learned a lot of stuff today too, because we haven't
4 heard from them. But they talked about all kinds of things
5 that didn't happen, that might have happened.

6 They could have called us and said, There are
7 multiple drilling contractors, these three, we'll use one
8 of them. But you see, that's all just more of the
9 subterfuge Mr. Padilla is trying to accuse us of, and I
10 think when you look at the facts, that bird comes to rest
11 with the prairie chickens he was talking about over on his
12 side of the room.

13 What really happened? Well, the Hudsons proposed
14 a well to the Ards, along with a list of other people shown
15 in our Exhibit 3. We attached a JOA and we attached an
16 APD. And as we have in the past, every time we propose a
17 well to them we immediately started being aware -- becoming
18 aware that we had opposition. And they sent a letter to
19 us, and the Hudsons call and say, Should we respond?

20 And I said, Don't respond, we'll tell them to
21 pursue it through a subpoena, and that's what we did. And
22 they did, they got a subpoena and they attached their
23 letter.

24 You know and I know that you don't require us to
25 go out and prepare data for someone who's going to oppose

1 us. We have given them the data that we have. And this
2 transpired into December and January, and I did come to a
3 hearing, I said, We're going to give you what we have. And
4 when I got it, I was surprised. But we sent it on, it was
5 the APD. And if you look at my letter of January the 26th,
6 I offered to meet and discuss that. We heard nothing else.

7 This case -- We're talking about one particular
8 case, but it comes in a context. We were here a year ago,
9 and in that case there were complaints about Hudson
10 Operating and new language and complaints about what was in
11 the joint operating agreement. And they may stand back and
12 say, Well, that's not how it's done, or this relationship
13 is not how things are generally done.

14 But at the time we approached them about meeting
15 on the data and trying to work out their subpoena directed
16 at both Bill and Ed Hudson, we said, We are prepared to let
17 you prepare your own joint operating agreement. If you
18 want Marbob, name them as operator and send it to us, and
19 we'll get this thing done.

20 And we also said, Make it for this one well or
21 make it for the area -- and we have, unfortunately, a
22 number of these coming -- cover the whole area, let Marbob
23 operate.

24 And the response got was, We're interested. And
25 month after month all we heard was, the Ards were

1 interested and they hoped to get one to us soon. That's
2 all I heard. I didn't hear a follow-up question from them
3 on the AFE, or on casing, or tubing, or cementing, or cost,
4 or prognosis on the well. We heard nothing.

5 In January when we delivered the APD, we advised
6 their counsel, This is what we have, and we were willing to
7 meet on it.

8 And in May I got a call and said, Would you
9 confirm that? And so I checked with Marbob and I checked
10 with the Hudsons, and we confirmed it in writing. And it
11 is not my business as counsel for Hudson to go talk
12 directly to the Ards. I talk to their counsel. And that's
13 what happened.

14 You have a case before you. You have multiple
15 owners in a spacing unit. You have a party with a right to
16 drill, who has proposed to drill, has sent out a proposal
17 that was acceptable to most of the owners in the spacing
18 unit, Yates, Marbob. You have a letter that was sent to us
19 that was then reduced to a subpoena, and we have told you
20 that we didn't have that kind of data because in this area
21 that's not the way we go about it.

22 And if they don't like the way Hudson and -- with
23 the Yates and with Marbob want to develop the Morrow, they
24 don't have to join. But on the other hand, we don't have
25 to go out and prepare a case for them. And to come in here

1 and start citing the Yates-Pride case -- which factually is
2 very, very different; the parties are back and forth almost
3 daily about the data on these properties -- and then to
4 suggest that you can take that in a generic way and apply
5 it to the facts of this case is simply outrageous, and it's
6 simply wrong.

7 We've been trying for over a year to drill this
8 well. I'm afraid we're going to be trying to drill another
9 one after this. But the truth of the matter is, what we've
10 been dealing with, we are absolutely convinced it's for one
11 purpose and that's for delay, and it has worked very well
12 in this case.

13 But now the case is before you. I don't know if
14 they have the data they want or not. I can't figure that
15 out either. But I will tell you, you do have every
16 single -- every single, solitary precondition in the
17 compulsory pooling statute before you, and every condition
18 has been met, and we are entitled to an order. The statute
19 says you shall enter an order.

20 And we need the order and we need it soon,
21 because the prospect becomes less attractive all the time
22 as prices go up. And we wait expecting a JOA with a
23 designation of an operator that never comes.

24 EXAMINER JONES: Thank you both.

25 MR. CARR: Thank you.

1 MR. PADILLA: Thank you.

2 EXAMINER JONES: With that, we'll take Case
3 13,598 under advisement.

4 And let's break until two o'clock for lunch.

5 (Thereupon, these proceedings were concluded at
6 12:50 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____.

_____, Examiner
Oil Conservation Division

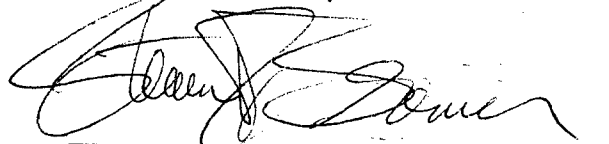
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 11th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006