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MR. STAMETS: We'll call next Case  
7744.

MR. PEARCE: That is on the applica-  
tion of Clements Energy, Incorporated, for compulsory pooling,  
Lea County, New Mexico.

MR. PADILLA: May it please the  
Examiner, my name is Ernest L. Padilla. I have two witnesses  
to be sworn.

MR. CARR: May it please the Exam-  
iner, my name is William F. Carr, with the law firm Campbell,  
Byrd, and Black, P. A., of Santa Fe, appearing on behalf of  
Perry Poolè, P-O-O-L-E.

(Witnesses sworn.)

MR. PADILLA: Mr. Examiner, I call  
Wayne Newkumet as my first witness.

WAYNE NEWKUMET

being called as a witness and being duly sworn upon his oath,  
testified as follows, to-wit:

## DIRECT EXAMINATION

BY MR. PADILLA:

Q. Mr. Newkumet, would you please state your name for the record and where you reside?

A. My name is Wayne Newkumet. I live in Midland, Texas.

Q. Mr. Newkumet, what is your connection with the applicant in this case today?

A. I am a consultant for Clements Energy.

Q. Have you previously testified before the New Mexico Oil Conservation Division and had your credentials accepted and made a matter of record?

A. Yes, sir, I have.

Q. Are you familiar with the purpose of the -- today's hearing?

A. Yes, sir.

Q. Can you explain to us what that purpose is?

A. Our intent is to pool the northeast quarter of Section 14, 14 South, 34 East, for the drilling of an 11,000 foot, plus or minus, test at a location 660 feet from the north line and 660 feet from the east line of Section 14. That will be the Clements Energy, Inc. State 14 No. 1.

MR. PADILLA: Mr. Examiner, we tender Mr. Newkumet as a petroleum landman.

1  
2 MR. STAMETS: He is considered so  
3 qualified.

4 Q Mr. Newkumet, referring to what has been  
5 marked as Exhibit Number One, would you please tell us what  
6 that is and what it contains?

7 A Exhibit Number One is a land ownership plat.  
8 It shows the proposed pooled unit, the northeast quarter, in  
9 red. It also shows the proposed location of the Clements  
10 State 14 No. 1 Well.

11 Q Going on to Exhibit Number Two, can you tell  
12 us what that is and what it contains?

13 A Exhibit Number Two is a blow-up of Section  
14 14. It reflects the lease ownership data. It also reflects  
15 the proposed pooled unit, northeast quarter, again, in red.  
16 It shows the proposed location. Also, if you'll note, in the  
17 southwest quarter of Section 14 I've attempted to show the  
18 limits of the High Plains Penn Field.

19 Q Mr. Newkumet, what interests are you trying  
20 to force pool here today?

21 A The northeast quarter of Section 14 is owned  
22 by Clements Energy through a State of New Mexico lease shown  
23 on the Exhibit Number Two.

24 In addition Perry Poole owns the northwest  
25 quarter of the northeast quarter, State of New Mexico lease.

1  
2 Q. And that's the interest that you seek to  
3 force pool today?

4 A. That is correct.

5 Q. Mr. Newkumet, what efforts have you made to  
6 seek voluntary joinder of the northwest of the northeast --  
7 northwest quarter of the northeast quarter?

8 A. Okay, we've had several telephone conver-  
9 sations with Mr. Poole and two or three letters.

10 Q. Can you give us a chronology of the efforts  
11 that you have made?

12 A. Okay. The first contact we had with Mr.  
13 Poole was a telephone conversation of August 20th, 1982. In  
14 this conversation we initiated an offer by our field office  
15 in Roswell, Enick Diffie, E-N-I-C-K D-I-F-F-E-E. Mr. Diffie  
16 offered Mr. Poole -- offered to purchase Mr. Poole's leasehold  
17 for \$50.00 per acre and in addition 7-1/2 percent overriding  
18 royalty interest. We offered to buy not only the 40-acre  
19 tract in the proposed pooled unit but also the west half of  
20 the northwest quarter, a part of the same base lease.

21 Mr. Poole responded in that conversation  
22 that he would accept no less than \$451.92 per net acre; i.e.,  
23 the amount that Clements paid, if you'll refer back to Exhibit  
24 Number Two, the amount Clements Energy paid for the 520-acre  
25 in the balance of Section 14, not owned by Mr. Poole. That

1  
2 was a lease that we purchased at the June State of New Mexico  
3 land sale, a ten year term with an eighth royalty.

4 Q Mr. Newkumet, did you subsequently make  
5 other offers to Mr. Poole?

6 A Yes. We have a letter, well, actually, this  
7 is a letter of August 20th from the field landman to us.

8 Q Is that marked Exhibit Number Three?

9 A Exhibit Number Three, that's correct.

10 All that is is a letter where Mr. Diffee indicated to our  
11 office in writing exactly the terms of the offer that he'd  
12 made to Mr. Poole by the August 20 telephone conversation.

13 Q Going on to what has been marked as Exhibit  
14 Number Four, can you tell us what that is and what it contains?

15 A Okay, Exhibit Number Four is a letter from,  
16 again, from Enick Diffee to Mr. Poole, wherein we offer to  
17 purchase the lease for \$300 per acre and additionally 7-1/2  
18 percent override royalty interest.

19 He also indicated to Mr. Poole that we would  
20 absolutely not be in a position to pay the amount that he was  
21 requesting for this lease, in other words, \$451.92 per acre,  
22 and his 10 percent to 12-1/2 percent overriding royalty in-  
23 terest, which he indicated he wanted in a conversation between  
24 this letter and the initial contact.

25 Q What other telephone contacts have you had

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with Mr. Poole?

A. Okay, let's see. Well, of course, the October 19th telephone -- October 19th letter was prefaced by a telephone conversation in which we made an offer of \$200 per acre and a 5 percent overriding royalty interest for the tract in the pooled unit. That's where he indicated to us verbally that he would accept no less than the 10-1/2 percent -- 10 to 12-1/2 percent override and the price that we paid for the lease.

Q. Did you subsequently try to farm out the land from Mr. Poole?

A. Yes. Okay, by letter of November 12th, 1982.

Q. Is that marked as Exhibit Number Six, Mr. Newkumet?

A. That's correct. That's a letter from our office to Mr. Poole wherein we attempted to again purchase the lease and offered him several other alternatives, number one being a farm-out of his interest; number two, of course, the joinder. Also you'll note in that letter that we spelled out the working interest percentages that he would have in the well before and after payout under the farm-out terms.

And we also indicated to him in this conversation that if we were -- if we could not work anything out

1  
2 with him, we would have to go before the Commission and re-  
3 quest pooling.

4 Q Mr. Newkumet, can you give us an explanation  
5 of the reasoning behind the offers that you made vis-a-vis the  
6 bonus paid on the State acreage?

7 A Yes, I can. In determining a price to offer  
8 mineral owners and other individuals that own leases, we have  
9 to look at a couple of things. One, the term of the lease,  
10 how long that lease will be in effect, how long we have to  
11 drill on it.

12 Number two, we have to look at prices that  
13 have been paid in the area.

14 Number three, we're going to have to look  
15 at the net revenue interest under the lease that we have, we'd  
16 be delivered.

17 Q So essentially the \$300 offer was the final  
18 offer that Clements could make, is that right?

19 A That's correct. That was an offer made in  
20 attempts to tie this tract up without having to come before  
21 the Commission. We felt that the \$300 per acre was -- was  
22 well in excess of what the lease was worth because of the  
23 short term, number one, in other words, that lease expires  
24 November '84, and number two, the low net revenue interest  
25 due to the fact that he would be retaining an override, a

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large overriding royalty interest.

Q Mr. Newkumet, to your knowledge did Mr. Poole have notice of this hearing today?

A Yes.

Q Going on to what has been marked as Exhibit Number Seven, can you tell us what that is and what it contains?

A Okay. Let me go back for one second, back to Exhibit Six. You'll notice that there's a receipt for Federal Express. We did send that letter Federal Express.

Q Okay.

A Number Seven, Exhibit Number Seven is an AFE for the drilling of the well, reflecting a dry hole cost of \$543,483 and a completed well cost of \$847,303.

Q Do you have a suggestion as to what the drilling well rate should be for a producing and a drilling well?

A Yes, sir. Clements Energy, Inc. acquired the numbers that you requested from their Vice President of Engineering, who handles of their nationwide drilling operations.

Clements has in wells from the 8000 to 12,000 foot range, they charge \$4755 for a drilling well rate per month, and an overhead rate of \$475 per month for drilling

1  
2 well rate.

3 Q In your opinion is that a reasonable and  
4 comparable well -- are those reasonable and comparable well  
5 rates?

6 A Yes, I believe they are. In fact, other  
7 operators in New Mexico accept those and we accept their rates  
8 in this range.

9 Q Mr. Newkumet, does Clements Energy want to  
10 be designated the operator of this well?

11 A That's correct.

12 Q Do you have anything further to add to your  
13 testimony?

14 A I don't believe so, sir.

15 MR. PADILLA: Mr. Examiner, I'll  
16 call Jerry Barnes at this time.

17  
18 JERRY BARNES

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

21  
22 DIRECT EXAMINATION

23 BY MR. PADILLA:

24 Q Mr. Barnes, would you please state your  
25 name and by whom you're employed?

1  
2 A. My name is Jerry Barnes, B-A-R-N-E-S, and  
3 I'm a geological consultant for Clements Energy.

4 Q. What is -- okay, turn to what has been  
5 marked as Exhibit Number -- or let me -- have you previously  
6 testified before the New Mexico Oil Conservation Division and  
7 had your credentials accepted as a matter of record?

8 A. Yes, sir, I have.

9 Q. As a geologist?

10 A. Yes, sir.

11 MR. PADILLA: Mr. Examiner, we  
12 tender Mr. Barnes as an expert geologist.

13 MR. STAMETS: He is considered  
14 qualified.

15 Q. Referring to what has been marked as Exhibit  
16 Number Seven, would you please tell us what that is?

17 A. You mean exhibit next, Exhibit Number Eight?  
18 I believe Number Seven was the AFE.

19 Q. Correct. Correct.

20 A. Exhibit Number Eight is a structure contour  
21 map, which has been drawn on top of the Pennsylvanian producing  
22 zone in the High Plains Field.

23 The scale of the plat is one inch equals  
24 2000 feet. The contour interval is 50 feet. The proposed  
25 pooled unit outline is highlighted in yellow. That's the

1  
2 northeast quarter of Section 14. The prominent numbers dis-  
3 played beneath each circle surrounding offsetting wells is  
4 the structural position of the mapped horizon and additional  
5 information, such as tests if there were any, or cumulative  
6 production from those wells. The well so produced is also  
7 shown in small numbers directly beneath the appropriate well.

8                   Our proposed location is shown 660 from the  
9 north line, 660 from the east line of Section 14. May I  
10 point out that our proposed location would be a step-out to  
11 the High Plains Field. The nearest producer in that field is  
12 the Cayman Corporation No. 1 High Plains Well, located in the  
13 southwest quarter of Section 14. That well was completed in  
14 June 4 of 1969 with a flowing potential of 488 barrels of oil,  
15 plus 88 barrels of water per day.

16                   The well, however, was shut-in in March of  
17 1977, after having produced only 57,342 barrels of oil. That  
18 well was subsequently plugged and abandoned in 1980.

19                   May I point out that Exhibit Number Nine is  
20 an acoustic log from the Cayman Corporation well in Section  
21 14. It's intended to show the producing interval in the High  
22 Plains Field, as well as the perforated interval in this  
23 particular well. Prospective porosity greater than or equal  
24 to 5 percent is shaded in red on that exhibit.

25                   Q.           Mr. Barnes, where do you encounter the top

1  
2 of the Pennsylvanian formation, or where do you expect to en-  
3 counter the top of the Pennsylvanian formation?

4 A. As shown on Exhibit Number Nine, obviously  
5 our primary objective is the zone that produces in the High  
6 Plains Field. Because, however, of the occurrence of other  
7 Pennsylvanian producing zones in the area, both above and be-  
8 low our primary zone, we would ask that the Commission pool  
9 all rights below the stratigraphic equivalent of 9000 feet in  
10 Caymon Corporation No. 1 High Plains Well, down to the base  
11 of the Pennsylvanian at an approximate depth of 13,500 feet.

12 Q. In other words, your application and your  
13 request now, in your opinion are in conformity with each other?

14 A. Yes, sir, I believe they are.

15 Q. Mr. Barnes, do you have, in connection with  
16 your testimony here today, a risk factor that -- for drilling  
17 of this well?

18 A. Yes, sir. I made a study of the -- of the  
19 entire area in order to determine the risks.

✓ 20 Let me first of all point out that our pro-  
21 posed location is anticipated to be structurally high to the  
22 offsetting Caymon Corporation No. 1 High Plains Well, but let  
23 me further point out that in that particular well the poten-  
24 tial also, in potentialing the well, the well was also pro-  
25 ducing a significant amount of water. Should we come in

1  
2 structurally low to that well, we anticipate that our primary  
3 objective would certainly be wet.

4           The second factor in -- concerning the risk  
5 in the area is the risk of whether or not acceptable reservoir  
6 quality conditions will be encountered. Let me point out that  
7 examining the logs in surrounding wells, these conditions  
8 were not met.

9           Let me further point out that in fact of  
10 all the producing wells on the plat, that is three wells out  
11 of all the wells shown on the exhibit which produce, only  
12 one, the well in the northeast quarter of Section 22 located  
13 approximately one mile southeast of our proposed location,  
14 is in fact an economical producer. I'm sorry, the southwest  
15 of our proposed location, was in fact an economical producer.

16           In considering all of those risks, then,  
17 we'd ask that the maximum penalty of 200 percent be given us.

18           Q.           Do you have anything further to add to your  
19 testimony, Mr. Barnes?

20           A.           No, sir, I do not.

21                           MR. PADILLA: Mr. Examiner, we have  
22 nothing else, and we offer or tender Exhibits One through --  
23 One through Nine.

24                           MR. STAMETS: These exhibits will be admit-  
25 ted.

## CROSS EXAMINATION

BY MR. STAMETS:

Q I have one question that the original application was for pooling the Pennsylvanian, is that correct?

A Yes, sir.

Q And now you seek to pool all depths below 9000 feet through the Pennsylvanian?

A No, sir. What we're trying to do is just better define our original application, specifically seeking that, realizing that there may be differences of opinion as to where the top of the Pennsylvanian may indeed exist in the area, it was our intention to clarify that in our opinion the top of the Pennsylvanian in the offsetting wells would be at a depth of 9000 feet; the base of the Pennsylvanian in the area is generally encountered at a depth of approximately 13,500 feet, and as I said, we were trying to simply clarify our original application.

Q Thank you.

MR. STAMETS: Are there any other questions of the witnesses? They may be excused.

Anything further in this case?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7744 heard by me on 11-23-1982.

Richard L. Stamm, Examiner  
Oil Conservation Division

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