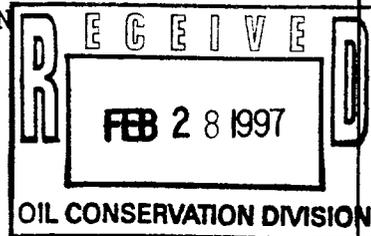


STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION



IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION COMMISSION FOR THE )  
PURPOSE OF CONSIDERING: )

APPLICATION OF INTERCOAST OIL AND GAS )  
COMPANY FOR COMPULSORY POOLING AND )  
UNORTHODOX GAS WELL LOCATION, EDDY )  
COUNTY, NEW MEXICO )

CASE NOS. 11,666

APPLICATION OF YATES PETROLEUM )  
CORPORATION FOR COMPULSORY POOLING AND )  
AN UNORTHODOX LOCATION, EDDY COUNTY, )  
NEW MEXICO )

and 11,677

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN  
WILLIAM WEISS, COMMISSIONER  
JAMI BAILEY, COMMISSIONER

February 13th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Thursday, February 13th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

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February 13th, 1997  
 Commission Hearing  
 CASE NO. 11,666

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| Exhibit A                | 19         | 35       |
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| Exhibit 1                | 20         | -        |
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(Exhibits 1, 2A through 2F, 3, and 7 through 11 were provided as extra copies of exhibits from the Division file. They were not offered into evidence, and Exhibits 2A through 2F were taken back by Mr. Bruce during the hearing.)

\* \* \*

| Yates     | Identified | Admitted |
|-----------|------------|----------|
| Exhibit 1 | 75         | 85       |
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\* \* \*

## A P P E A R A N C E S

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## FOR YATES PETROLEUM CORPORATION:

KELLAHIN & KELLAHIN  
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P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 1:36 p.m.:

3           CHAIRMAN LEMAY: Okay, we shall continue, Oil  
4 Conservation Commission, and we will now call case Number  
5 11,666, which is the Application of InterCoast Oil and Gas  
6 Company for compulsory pooling, and call Case 11,677, which  
7 is the Application of Yates Petroleum Corporation for  
8 compulsory pooling.

9           These cases, of course, will be -- combined  
10 testimony will be received, just in one hearing here.

11           So we shall begin with appearances in these  
12 cases.

13           MR. BRUCE: Mr. Examiner, Jim Bruce from Santa  
14 Fe, representing InterCoast Oil and Gas Company, which, by  
15 the way, is now known as KCS Medallion Resources, Inc. I  
16 have one witnesses.

17           CHAIRMAN LEMAY: Okay.

18           MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
19 the Santa Fe law firm of Kellahin and Kellahin, appearing  
20 on behalf of Yates Petroleum Corporation, and I have two  
21 witnesses.

22           CHAIRMAN LEMAY: Okay, will those witnesses that  
23 will be giving testimony, would you kindly stand, raise  
24 your right hand?

25           (Thereupon, the witnesses were sworn.)

1 MR. KELLAHIN: Mr. Chairman, when it's  
2 appropriate for the Commission, I'd like to make a brief  
3 opening statement --

4 CHAIRMAN LEMAY: Yes.

5 MR. KELLAHIN: -- before we proceed.

6 MR. BRUCE: Let me just hand out my exhibits, Mr.  
7 Chairman.

8 CHAIRMAN LEMAY: Okay.

9 We shall continue with opening statements.

10 MR. KELLAHIN: Thank you, Mr. Chairman. I'm the  
11 appellant, if you will, to the Commission, having lost  
12 before Examiner Catanach in December. I'm sure you're as  
13 tired of competing pooling cases as I am, and I'll explain  
14 why we're here with this one.

15 The method by which Mr. Bruce and I have agreed  
16 to present this case is to expedite the presentation so  
17 that you can focus on what he and I agree to be the issues  
18 for the Commission to decide.

19 As part of that expedited presentation, he and I  
20 have agreed to submit to you copies of the geologic  
21 displays that were used before Examiner Catanach. I do  
22 have my geologist present, Mr. Bruce does not have his. I  
23 think it would be unfair to ask my geologist questions.

24 The point is that in deciding this case, Mr.  
25 Catanach and Mr. Bruce and I both agree that geology was

1 not the deciding factor for Mr. Catanach to resolve who  
2 operated the spacing unit. And you can see for yourself  
3 very quickly the similarity in the geology.

4 In addition to expediting the matter, he and I  
5 have agreed to stipulate that the risk factor penalty, the  
6 maximum, is appropriate. Regardless of what you decide to  
7 do, that's the number that ought to be utilized.

8 We're dealing with the Burton Flat-Morrow Gas  
9 Pool. This is not a new discovery; this pool has been  
10 around for a while. And we're talking about competition  
11 between Intercoast, now Medallion, and Yates to develop  
12 Section 20.

13 We have presented Mr. Bob Fant to Examiner  
14 Catanach, who demonstrated the comparisons of cost, and we  
15 will give you that comparison and show you that when you  
16 look at the bottom line of the dollars you can't decide  
17 this case based upon a difference in well cost.

18 Now, I will call Mr. Fant to have him discuss  
19 with you his concerns about the casing program for the  
20 well. He concludes that there's a material difference in  
21 the plan that Medallion proposed and which they are  
22 initiating, versus the well plan that Yates proposed. It  
23 comes down to Yates' desire to have 5-1/2-inch casing set  
24 in the well. This is targeted as a Morrow gas well.

25 But Yates wanted the opportunity to have larger

1 casing in the lower interval so that they would have a  
2 useful wellbore to facilitate testing shallower gas zones  
3 as they backed out of the wellbore.

4 Medallion's preference was to use a smaller  
5 casing, and so that is a small item we want to talk to you  
6 about today. It is a big item for Yates in determining who  
7 operates.

8 You often asked, If both parties want the well  
9 drilled and if the location is the same, why in the world  
10 are we fussing over who operates? I tell you, it matters  
11 considerably.

12 As you know and as we know, the party operating  
13 the well make significant, important decisions during the  
14 drilling and completion, many of which are judgment calls  
15 made by the experts on the well and are not subject to --  
16 simply because of timing, not subject to polling all the  
17 working interest owners that participate.

18 So there is incredible discretion with the  
19 operator.

20 Our position is that the group that collects  
21 together the largest percentage and therefore has the  
22 greatest financial risk in the well should be allowed to  
23 operate.

24 Our position is, by human nature it is common  
25 that you pay closer attention to those investments where

1 you have more dollars at risk. And in today's busy world,  
2 if you have a small interest you tend to defer to others to  
3 take care of it because they have a larger interest.

4 That's simply the way we've structured our industry in most  
5 instances. Our operating agreements are often decided on  
6 majorities. A majority may be 50, 75, or there's a number.

7 Why we are here today is that my contention is,  
8 Examiner Catanach has departed from precedents established  
9 by the Division in deciding competing pooling cases.

10 In this case you will soon see that Medallion  
11 filed a force-pooling application prior to the time they  
12 specifically offered Yates the opportunity to participate  
13 in the well, identifying for them the spacing unit and  
14 providing them an AFE. That did not happen in this case.

15 In past cases, unlike this case, that has caused  
16 the Division to dismiss cases, simply by filing your  
17 pooling case prior to proposing the well formally.

18 In this case, unlike other cases, Mr. Catanach  
19 decided that was not the deciding issue. He awarded  
20 operations to Medallion and did not account for the fact  
21 that they had used the force pooling prior to exhausting  
22 reasonable efforts to negotiate.

23 The other item is that there is a substantial  
24 difference in percentage of ownership. When you look at  
25 the east half of the section, it's consolidated in such a

1 way that Medallion obtained one farmout from one interest  
2 owner, which gives them 24-percent working interest in the  
3 spacing unit.

4 The Yates group, all the Yates entities that  
5 we're familiar with, have 37.5 percent, and they've  
6 obtained the agreement pursuant to -- a Stonewall Unit  
7 operating agreement, such that they control 52.5 percent of  
8 the spacing unit. So there's a substantial disparity in  
9 ownership.

10 After we conclude the presentation of the  
11 witnesses, I want to show you examples of what I think is  
12 the Division's action in these matter, so that you can  
13 decide as a matter of policy whether there should be a  
14 substantial benefit to the party that collects the greatest  
15 percentage.

16 And if that is not to be an important deciding  
17 factor we would like to know that, because I and others in  
18 the industry have been settling disputed pooling cases  
19 based upon my perception from looking at these past  
20 decisions that majority is an important deciding factor.

21 The only time it's an exception is if there's a  
22 substantial technical difference in the geology where there  
23 is a significant disagreement over well locations, and then  
24 the case is decided on the science.

25 But if the science is generally in agreement, the

1 location is the same, then regardless of who proposes the  
2 well first or who develops the prospect, the practice has  
3 been, at least from my perception, one where you acquiesce  
4 to the majority and the majority then drills the well.  
5 There are some exceptions, and I will describe what those  
6 are later for you. But that is our presentation.

7 The other dilemma that we have for you today  
8 requires some decision by you, is that Examiner Catanach  
9 entered the order in January -- I think it was the 13th of  
10 January, 1997.

11 Soon after that, on the 21st, I filed a motion to  
12 stay the force-pooling order, the purpose of which was to  
13 stay the running of the elections under the order and stay  
14 having InterCoast/Medallion commence drilling the well  
15 until this Commission had a chance to pass judgment on  
16 these issues.

17 That stay was denied on January 31st. Mr. Bruce  
18 on -- I believe it was the 28th -- filed a response to the  
19 stay in which he opposed the stay. His position in that  
20 response is that Medallion had an expiring farmout that was  
21 going to expire on the 18th of February.

22 The fact of the matter is that Medallion had  
23 obtained another extension of this farmout. My stay was  
24 denied on the basic contention that they were losing a  
25 valuable farmout.

1           The truth of the matter is that that farmout had  
2           been extended and does not now expire until the 20th of  
3           March. You had an opportunity then and you have an  
4           opportunity now to make a decision in this case.

5           On Saturday, Medallion rigged up on the location,  
6           and they're drilling the well. So we have a problem from  
7           my perspective about a drilling well taking place as we  
8           speak and the issue of deciding who operates that well.

9           And to resolve that issue we have agreed to  
10          summarize the facts as quickly as we can. Mr. Bruce has  
11          given you a summary of facts from his point of view. He  
12          and I were unable to stipulate on those facts because I  
13          disagree with some of the items in it.

14          I have chosen to call Mecca Mauritsen when it's  
15          my turn, and I will go through the factual chronology as  
16          she contends it is, and you'll see the two positions in the  
17          next hour. And by then I can call Mr. Fant and we can  
18          conclude this matter.

19          I have agreed to let Mr. Bruce go first. Mr.  
20          Quinn has a flight schedule and weather's deteriorating,  
21          and we've accommodated his desire to try to return to Tulsa  
22          this afternoon.

23          So with those comments we're ready to proceed,  
24          Mr. Chairman.

25                 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

1 Mr. Bruce?

2 MR. BRUCE: Just a couple of quick comments, Mr.  
3 Chairman. I think Mr. Quinn will get into this, but as of  
4 now, these parties have been negotiating, trying to come to  
5 terms for five months.

6 Really, everybody has agreed to drill the well at  
7 the same location. The only issue is operatorship. Mr.  
8 Kellahin mentioned untimely or perhaps precipitous filing  
9 of a force-pooling application. That was back in  
10 September. If there were any defects, that has long since  
11 been cured. The parties have been negotiating for months.

12 Mr. Kellahin would have you think that the  
13 majority ownership in a well is the only factor to decide  
14 this case. I think I'll have a few closing remarks about  
15 that. I think that is only one factor.

16 As Mr. Quinn will get into in his testimony,  
17 really, we wouldn't be here today with not only this well  
18 but a well in the northwest quarter of Section 20 being  
19 drilled to the Morrow, without the efforts of Medallion.  
20 They're the ones who initiated efforts to get a well  
21 drilled.

22 We think that the order issued by the Division,  
23 in essence, giving Medallion a pat on the back, saying,  
24 Yes, you initiated efforts, you should get to operate the  
25 well, is correct.

1           And there have been other examples of this. I  
2 think one was at the last Commission meeting, the Penwell-  
3 Burlington fight. The Division granted operatorship to  
4 Burlington because Burlington had been fighting for months,  
5 if not years, to get a well drilled. This case is the same  
6 way.

7           And a couple of days after we got the order in  
8 this case, the Division ordered another order, R-10,742,  
9 similar to the Burlington-Penwell, similar to this case.  
10 That case was between Penwell and Santa Fe Energy. I lost  
11 that one. But the reasoning among all those three cases is  
12 the same.

13           Someone who takes the effort to get that well  
14 drilled and who has a substantial interest should be given  
15 the benefit of the doubt and allowed to operate the well.

16           I would also point out that the largest single  
17 interest is owned by Medallion, the largest single interest  
18 in this well. The second-largest interest in this well has  
19 signed the operating agreement proposed by Medallion.

20           So at this point, almost 50 percent of the well  
21 is committed to the well proposed by Medallion.

22           The final issue is the stay that was denied by  
23 the Division. And at this point, Mr. Chairman, I have to  
24 do a -- I never took Latin, but I think the term is *mea*  
25 *culpa*.

1           Mr. Kellahin, as he said, did file for a stay.  
2           And when I drafted the response to that stay motion, I  
3           based it on the facts as I knew them at that time. At that  
4           time I knew that the -- The only knowledge I had was that  
5           the farmout expired in mid-February, and I did state that  
6           in the motion.

7           At that time I was moving into, I think, a --  
8           You've heard me talk in your office, Mr. Chairman. I was  
9           moving into new offices, I was preparing for the Avalon  
10          Unit hearing. Unfortunately, I didn't have much contact  
11          with Medallion regarding my response to that stay.

12          So if the fault is here, it's mine. It's not my  
13          client's, it's mine. I did make a misstatement, to which I  
14          apologize to the Commission. There was nothing intentional  
15          or evil here. I make a living here and I can't afford to  
16          lie to the Commission and expect to continue to come here  
17          month after month.

18          The well has commenced. Mr. Quinn will talk  
19          about that.

20          But really, if you look at my response to that  
21          stay motion, the main argument is rig availability, and  
22          we'll get into that. And those statements are completely  
23          accurate. As Mr. Quinn will testify, rig availability is  
24          very, very tight in today's market. If they had not gotten  
25          this rig, the next firm available date is in April of 1997,

1 which would be beyond their farmout extension.

2 My final comment is, who is harmed? In our view,  
3 who is harmed by the well commencement? We don't think  
4 anyone. Virtually everyone wants this well drilled. They  
5 want it at the location that's being drilled. And that's  
6 what's happening; the well is being drilled.

7 If the Commission decides to award operations to  
8 Yates, which, of course, I don't think is proper, but if  
9 the Commission decides that, the drilling contract can be  
10 assigned.

11 The well is only down a few hundred feet. I  
12 think that's a side issue that really has nothing to do  
13 with operatorship, but I did want you to know what my  
14 position was on that.

15 We'll have Mr. Quinn testify about some basic  
16 land matters. I've got a few exhibits to present with  
17 really no testimony, just for the information of the  
18 Commission.

19 And at that point we would request that the  
20 Commission affirm the order of the Division.

21 Thank you.

22 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

23 Okay, I think we're ready. You may --

24 MR. BRUCE: Okay.

25 CHAIRMAN LEMAY: -- proceed.

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ROCK A. QUINN,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Rock Quinn.

Q. And who do you work for and in what capacity?

A. I work for KCS Medallion Resources, Inc., as a petroleum landman.

Q. And KCS Medallion was formerly known as InterCoast Oil and Gas Company?

A. Yes, that is correct.

Q. And that was simply a name change, I believe; is that correct?

A. That is correct. We had a change of ownership which precipitated the change from InterCoast to KCS Medallion.

Q. Okay. Have you previously testified before the Commission?

A. No, I have not.

Q. Would you please outline your educational and employment background?

A. Yes, I have a bachelor's degree, a BBA, in petroleum land management from the University of Oklahoma.

1 I graduated in 1980.

2 At that point in time I went to work for Texas  
3 Oil and Gas Corporation, whom I worked for for ten years,  
4 Shreveport, Louisiana. Subsequently worked for Marathon  
5 Oil Company in Houston, from 1990 to 1994.

6 And I have been employed with InterCoast/KCS  
7 Medallion from that time, from 1994 to the present.

8 Q. And does your area of responsibility include  
9 southeast New Mexico?

10 A. Yes, it does.

11 Q. And are you familiar with the land matters  
12 involved in these two cases?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Chairman, at this time I'd tender  
15 Mr. Quinn as an expert petroleum landman.

16 CHAIRMAN LEMAY: His qualifications are  
17 acceptable.

18 MR. BRUCE: Okay. Before we begin, Mr. Chairman,  
19 I've handed you two exhibits. The first one is marked on  
20 the back as Exhibit B -- I mean, excuse me, as Exhibit A.  
21 This is an outline of facts I put together.

22 I essentially took what you have before you from  
23 the Division's Order, and in the interests of making this  
24 as short as possible I'm just going to have Mr. Quinn  
25 testify on a few of the items that are set forth here.

1           The first section, I A, just simply summarizes  
2 the applications filed by Medallion and filed by Yates. As  
3 we stated, both Medallion and Yates seek to be named  
4 operator of the well. And as Mr. Kellahin said, the  
5 Division ruled against Yates, and Yates has appealed *de*  
6 *novo*.

7           Let me give you one -- I'm going to hand out a  
8 couple of exhibits to you. The first one is simply Exhibit  
9 1 from the Examiner Hearing, or at least the land plat from  
10 Exhibit 1 from the Examiner hearing, in looking at that.

11           Q. (By Mr. Bruce) Now, Mr. Quinn, in looking at  
12 Exhibit 1 and the Exhibit A that I've marked, could you  
13 describe, just very briefly, land ownership and perhaps  
14 reference the Stonewall Unit that Mr. Kellahin referred to  
15 as affects Section 20 or the east half of Section 20?

16           A. Yes, our proposed unit is the east half of  
17 Section 20. You'll note the well location, unorthodox  
18 located 990 out of the northeast corner there.

19           The offset producing unit, you will note, OXY to  
20 the north, being the south half of Section 17. Also they  
21 operate a well, west half of Section 16. And in the north  
22 half of Section 21 Petroleum Reserve Corporation operates a  
23 well covering that particular unit.

24           Q. And these parties were given notice of the  
25 original hearing?

1           A.    Yes, they were, in addition to the mineral owners  
2 within the southeast quarter of Section 21.

3           Q.    And the parties, both Yates and Medallion, have  
4 come to terms with OXY regarding this unorthodox location,  
5 giving information, et cetera?

6           A.    Yes.

7           Q.    Okay. Now, just looking at -- ignore the -- Or  
8 looking at Section 20, except for the northeast quarter,  
9 what is the ownership there? I mean in general terms.

10          A.    Well, the Stonewall operating agreement itself,  
11 for which Yates is designated operator under, covers entire  
12 Section 20, with the exception of the northeast quarter of  
13 Section 20. However, that operating agreement does cover  
14 an undivided 5-percent interest in the northeast quarter.

15                   In addition to that, the Stonewall -- the heart  
16 of the Stonewall operating agreement takes in portions of  
17 19, 30 and I believe Section 29 to the south. And I  
18 believe it covers in excess or around 1500 total surface  
19 acres.

20          Q.    And of the -- In the northeast quarter where the  
21 well is located, 95 percent of that northeast quarter is  
22 not committed to the Stonewall Unit; is that correct?

23          A.    Yes, that is correct.

24          Q.    And who owns that 95 percent?

25          A.    That is owned by -- KCS Medallion has obtained a

1 farm-in from Kerr-McGee. Kerr-McGee has recently sold  
2 virtually all their assets in this area to Devon Resources,  
3 or Devon Oil Company.

4 Q. Devon Energy?

5 A. Devon Energy. And so the ownership in the  
6 northeast quarter is Devon, approximately 48 percent, and  
7 Diamond Head properties, approximately 47 percent, as to  
8 the northeast quarter.

9 Q. The Diamond Head properties, that comes out of  
10 John Redfern, does it not?

11 A. That is correct. That's part of the Redfern  
12 family, with the remaining 5 percent is owned by Claremont  
13 Corporation, which is committed to the Stonewall operating  
14 agreement, for which Yates operates.

15 Q. In looking at page 2 of Exhibit A, paragraph B  
16 (4), it lists some rough interests owned by these parties.  
17 That was taken from the Division order, was it not, Mr.  
18 Quinn?

19 A. The Exhibit A?

20 Q. Exhibit -- Page 2 of your Exhibit A.

21 A. Yes, with the exception of Diamond Head and  
22 InterCoast, the Yates interests and thereafter are  
23 contractual interests. Those interests were provided to me  
24 by Yates Petroleum, as they are the operator and are --

25 Q. Okay.

1           A.    -- aware of the contractual ownerships within  
2 that operating agreement.

3           Q.    And so Medallion, Diamond Head and Yates  
4 Petroleum are the largest interest owners; is that correct?

5           A.    Yes, that is correct.

6           Q.    And then of course there are some other -- three  
7 other Yates entities who also own a fairly substantial  
8 interest?

9           A.    Yes.

10          Q.    Okay. As of this point, what percentage interest  
11 is committed to Medallion's well?

12          A.    At this point, in excess of 48 percent of the  
13 proposed unit area is committed to Medallion.

14          Q.    Okay, the Diamond Head interests have committed  
15 to your --

16          A.    The Diamond Head interest interests have signed.

17          Q.    Okay. Now, let's start with the chronology of  
18 events, starting at page 3 of the Exhibit A I handed the  
19 Commissioners, Mr. Quinn.

20                   Medallion first contacted Yates and the other  
21 interest owners in August and September of 1996; is that  
22 correct?

23          A.    Yes, by letter dated August the 26th we initially  
24 contacted Yates, requesting a farmout.

25          Q.    Okay. Yates soon informed you that they were not

1 interested in farming out; is that correct?

2 A. That is correct, by telephone conversations on  
3 September the 4th I got a strong impression that Yates  
4 would -- if they were interested, they would likely  
5 participate in this well, which was confirmed on September  
6 the 17th.

7 Q. Now, your first letter to Yates didn't specify a  
8 north- or east-half unit, did it?

9 A. No, it did not.

10 Q. Okay. It did specify a well at the current  
11 location?

12 A. Yes, it did, and I neglected to point out what  
13 particular proration unit we had in mind there.

14 Q. Okay. At that point you thought the south half  
15 was dedicated to a well, did you not?

16 A. That is correct, Yates operated a well in the  
17 south half for which I was not sure of the status of that  
18 particular well. I know that at the time it was shut in  
19 and we were not aware of what zone or whether or not the  
20 com agreement which was filed on behalf of that well was  
21 still effective or not --

22 Q. Okay.

23 A. -- for the south half of Section 20.

24 Q. Now, shortly after that you filed a pooling  
25 application, or Medallion filed a pooling application, on

1 the north half of Section 20; is that correct?

2 A. Yes, we did.

3 Q. Was that necessitated because of your short-term  
4 farmout?

5 A. Yes, we had obtained farm-in, like I mentioned,  
6 from Kerr-McGee, and we wanted to immediately initiate  
7 efforts to bring all the parties together for the drilling  
8 of the well within the time frame provided by the farm-in  
9 agreement.

10 Q. Okay, and after that you did send out a  
11 correspondence to all of the interest owners with AFEs, et  
12 cetera, did you not?

13 A. Yes, I did.

14 Q. Okay. Now, the hearing was first scheduled for  
15 what? October --

16 A. October the 17th, initially.

17 Q. Okay, and why was that continued?

18 A. Yates indicated that they needed additional time  
19 with which to evaluate the prospect, to decide what their  
20 decision was going to be.

21 Q. Okay.

22 A. And furthermore, Yates pointed out that -- the  
23 flaw in our original proposal to them, the fact that I did  
24 not provide them with an AFE. However, I did include well  
25 costs. I did not specifically state in my farmout request

1 that Yates has the opportunity to participate in the  
2 drilling of this well.

3 Q. Okay.

4 A. But I in no way meant to imply that that  
5 opportunity was not available to them.

6 Q. Okay.

7 A. But the reason it got postponed was because of  
8 their threat to file for a motion to dismiss it because of  
9 that, that particular flaw.

10 And so we agreed to -- And by that time I had  
11 provided them with an operating agreement, an AFE, they had  
12 it in their hands, they were looking at it, and we agreed  
13 to continue it to November the 7th.

14 Q. Okay.

15 A. In return, Yates represented to my counsel that  
16 they would not raise that issue again if we agreed to go on  
17 and continue that matter to the next -- to the November 7th  
18 hearing date.

19 Q. Now, shortly thereafter Yates proposed a well  
20 with a north-half unit, but the well was in the northwest  
21 quarter, as opposed to the northeast quarter; is that  
22 correct?

23 A. Yes, that is correct.

24 Q. Okay. Now, this hearing was scheduled for  
25 November 7th. Actually on that date, you traveled to

1 Artesia with your geologist to meet with Yates, did you  
2 not?

3 A. Yes, we did. We lined up a meeting which turned  
4 out to be -- The earliest we could get to Artesia from  
5 Tulsa was November the 7th, as it turned out. That was the  
6 date.

7 So of course we voluntarily continued that so  
8 that we could get together with them, discuss the issues  
9 and see if we could not reach a compromise or a resolution  
10 with regard to getting a well drilled in here.

11 Q. What was the sum of that meeting in Artesia on  
12 November 7th?

13 A. Well, basically, the parties were at an impasse,  
14 because Yates wanted to drill the well for the north-half  
15 unit in the northwest corner, unorthodox location. Of  
16 course, our location was in the northeast corner.

17 We suggested, in the spirit of compromise, that  
18 instead of having a laydown unit here for purposes of the  
19 drilling of the well we originally proposed in the  
20 northeast quarter, to re-orient the units, since that  
21 option was available, to standup units, make it for a west-  
22 half unit for the location that Yates preferred to drill  
23 and an east-half unit for the location that Medallion  
24 preferred to drill.

25 During that meeting Yates was adamant about their

1 location being -- the best location being the northwest  
2 corner. They felt that a well to be located in the  
3 northeast corner was too risky, and they just could not  
4 agree to consent to that.

5 Q. Okay. So as a result, did you come back and  
6 re-propose the well with an east-half unit?

7 A. Well, we proposed that east-half/west-half idea,  
8 and for the people present in the meeting for Yates, they  
9 felt that that was a workable plan. It appeared to address  
10 both parties' concerns for where they wanted their wells  
11 drilled.

12 However, Yates indicated that they would need  
13 upper management approval on this but felt it was a  
14 workable plan, and they would get back to us.

15 So we left that particular meeting thinking that  
16 we had us a deal, a workable deal. Yates could drill their  
17 preferred location, we could drill ours, which they felt  
18 was much too risky, and both parties could accomplish their  
19 goal of drilling their particular locations.

20 Q. Okay. Then you did -- What happened after that?

21 A. Well, we went back to our office, discussed the  
22 situation with our management. A decision looked positive  
23 by us because -- The ownership for Medallion was not  
24 impacted by the reconfiguring of the units.

25 We immediately put together the necessary

1 paperwork and the proposals to re-propose the well, based  
2 on an east-half unit, for which is what we did, and we also  
3 filed for a hearing date for the east-half unit.

4 Q. Okay. Now, one thing -- This is kind of a side  
5 issue here, Mr. Quinn. At one point you thought that --  
6 based on a report you received from a broker, I believe,  
7 that Kerr-McGee had the entire 95-percent interest in the  
8 northeast quarter?

9 A. Yes, this -- That is true. Our broker report  
10 incorrectly interpreted the assignment from the Redfern  
11 family or the Redfern Oil Company to Kerr-McGee as covering  
12 the full 95-percent interest in that.

13 In reality, the Rosalind Redfern interest was  
14 excepted out of that assignment. So we were under the  
15 impression that we had a 95-percent interest in that  
16 northeast quarter.

17 Mecca Mauritsen mentioned to me that she believed  
18 that Rosalind Redfern and Diamond Head Properties was the  
19 owner of that interest. I immediately checked into that  
20 and verified she was correct as to that matter. And so we  
21 were -- we did stand corrected on that particular matter.

22 Q. And as you said, as this point the Diamond Head  
23 interests have committed to your well?

24 A. Yes, they have.

25 Q. Okay, and you repropose the well as an east-half

1 unit and filed the application at this point. At this  
2 point, mid-November, when you did that, what was the  
3 farmout deadline you had.

4 A. The farmout deadline was January the 18th.

5 Q. Okay. Now, after this, what did Yates inform you  
6 about operatorship?

7 A. Yates, within -- I've got dates here -- within a  
8 couple weeks of our meeting, indicated that management was  
9 agreeable to the reorientation of the units and, in the  
10 same conversation, asked what we would think about them  
11 operating the east-half unit.

12 I indicated to Ms. Mauritsen that we found that  
13 unacceptable, that this was a prospect we had generated and  
14 had worked, we had met with them on, they were not in  
15 agreement with our location, and we had been the moving  
16 force in getting wells drilled in here, and we just were  
17 not agreeable, voluntarily agreeable, to allowing them to  
18 operate the east-half unit.

19 Q. Okay. And Yates subsequently sent out a proposal  
20 of its own for an east-half unit, did it not?

21 A. Yes, they did.

22 Q. And filed their own application?

23 A. And filed an application for a December 19th  
24 hearing on that particular one. At that time, our east-  
25 half hearing was coming up for December 5th hearing, and so

1 with the competing application we realized that it would do  
2 no good to go forward with it, so we voluntarily agreed to  
3 continue it to December 19th, so both applications could be  
4 heard simultaneously.

5 Q. Now, you still have this north-half application.  
6 That application was dismissed, was it not?

7 A. Yes, it was.

8 Q. Okay. So as of the hearing date back in  
9 December, essentially the parties have been negotiating  
10 over this same specific well in the northeast quarter of  
11 the northeast quarter for two to three months, have they  
12 not?

13 A. At the time of that hearing, yes.

14 MR. BRUCE: Mr. Chairman, this is simply -- This  
15 in the Division's file. It's an extra copy of Exhibit 2A  
16 through 2F, which is simply the correspondence from  
17 InterCoast and various parties. It's already in the  
18 Division file. I would just submit that for weight, if  
19 nothing else. I don't want -- I didn't want to make copies  
20 of everything and go through it in detail.

21 Q. (By Mr. Bruce) Just a couple of follow-up  
22 things, Mr. Quinn. You mentioned the initial farmout date  
23 was January 18th. When was it extended the first time?

24 A. Well, the initial expiration date of the farmout  
25 was January the 18th. We had -- We were able to obtain a

1 30-day extension to that farmout to a February the 17th  
2 date.

3 Q. Okay. Then, as Mr. Kellahin mentioned, it was  
4 extended a second time, was it not?

5 A. Yes, it was. On -- The OCD issued its order on  
6 January the 16th. We immediately proceeded to locate an  
7 oil and gas drilling rig which would be available by the  
8 February 18th date.

9 In our effort to do that, we realized rigs were  
10 very tight out here. We were unable to immediately locate  
11 a rig which would be available to us by that date. I  
12 called Devon, who was successor in title to Kerr-McGee. I  
13 told them that we were searching diligently to find the rig  
14 to drill it in time.

15 But out of an abundance of caution -- We felt  
16 that we had a good chance of making the expiration date,  
17 spudding on that date, but I requested additional time  
18 under that farmout, in the event we were not able to get  
19 the rig in there in time.

20 Devon's response was that we -- it's not their  
21 intention to pull the rug out from under us. If we're out  
22 there searching for a rig, they were not going to deprive  
23 us of an extension.

24 And in that representation to us, I thought that  
25 I would go on and write a letter to them and immediately

1 get him signed up for an additional 30-day extension to the  
2 February 18th commencement date under the farmout  
3 agreement, which I received from Devon. They signed up on  
4 the 21st.

5 Q. If you had not gotten the rig that's on there  
6 now, what was the next firm available date?

7 A. Well, according -- and I've spoken with our  
8 drilling engineers. The last available -- Unless we were  
9 able to slot into somebody else's spot who dropped out of  
10 the sequence of wells to be drilled, it was going to be  
11 April.

12 Now, we felt like we could -- there would be a  
13 slot that would open up in there, and we had an opportunity  
14 to get a rig in mid-January. We told them we were  
15 interested in it, and we went ahead and committed to taking  
16 that particular rig. This was Peterson rig.

17 Q. Okay. If drilling had ceased, what were the  
18 standby charges?

19 A. \$5000 a day.

20 Q. Okay. Now look at your Exhibit B, Mr. Quinn, a  
21 little land plat with a few wells on it. What does --  
22 What's represented on that Exhibit B?

23 A. This is a shot of the Stonewall Unit area.  
24 Actually, the Section 20, 19, 30 and 29 are parts of the  
25 Stonewall Unit area.

1           You will note that the wells and the numbers next  
2 to the wells are years that Yates has last drilled any  
3 wells in the Stonewall Unit area. You will note there that  
4 the last time Yates has drilled any Pennsylvanian-age well  
5 in the Stonewall Unit area has been almost 20 years, 1978.

6           Q.    Okay. And as I think you can agree -- Would you  
7 agree, Mr. Quinn, that since the summer of 1996 Medallion  
8 has been the moving force in getting a well or wells  
9 drilled in this Section 20?

10          A.    Yes, I believe we have. And in fact, if we had  
11 not taken the initiative out here and been a moving force,  
12 the likelihood is that there would be no wells drilling,  
13 whereas now there's going to be two wells drilled in  
14 Section 20.

15          Q.    Mr. Quinn, in your opinion is the granting of  
16 Medallion's Application and the denial of Yates'  
17 Application in the interest of conservation, the prevention  
18 of waste and the protection of correlative rights?

19          A.    Yes.

20          Q.    And were Exhibits A and B prepared by you or  
21 compiled under your direction?

22          A.    Yes, they were.

23                MR. BRUCE: Mr. Examiner [sic], I'd move the  
24 admission of Medallion's Exhibits A and B into the record.

25                CHAIRMAN LEMAY: Without objections, Exhibit A

1 and B will be admitted into the record.

2 MR. BRUCE: And my final thing, Mr. Chairman, is,  
3 as Mr. Kellahin said, there's -- I think Mr. Kellahin has  
4 extra sets of Yates' geologic exhibits. These are just  
5 extra sets of the geologic exhibits from the Examiner  
6 hearing submitted by Medallion. I think both geologists  
7 agreed that the location at 990 feet from the north and  
8 east lines is the preferable location. They might have had  
9 difference of interpretation. Yates' geologist here can  
10 speak to that. But they essentially agreed on the well  
11 location. And just if the Commission wants it, these are  
12 just simply a set from the prior hearing. I do not have a  
13 geologist handy.

14 And the final thing is, I think Mr. Fant of Yates  
15 will get up and discuss AFEs. I think his testimony at the  
16 last hearing was that when comparing apples to apples, AFE  
17 costs are not different between the two parties. And this  
18 is simply Exhibit 3 from the Examiner hearing. It's just a  
19 copy of Medallion's AFE, and I have no further comment on  
20 that.

21 And then the final thing, Mr. Chairman, is,  
22 because under the incorporating parts of the prior record,  
23 I would ask the Commission's indulgence and incorporate the  
24 record of the Examiner case.

25 CHAIRMAN LEMAY: Is it agreeable to incorporate

1 the record --

2 MR. KELLAHIN: I have no trouble with that, Mr.  
3 Chairman.

4 CHAIRMAN LEMAY: Okay. Let the record show the  
5 record of the previous Examiner hearing is incorporated  
6 into this record.

7 And does that conclude your --

8 MR. BRUCE: And that concludes my presentation --

9 CHAIRMAN LEMAY: -- presentation?

10 MR. BRUCE: -- Mr. Chairman.

11 CHAIRMAN LEMAY: Okay. Mr. Kellahin?

12 CROSS-EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Quinn, you don't intend the Commission to  
15 believe that Yates's desire to be the operator of the well  
16 in the northeast quarter is an indication that they think  
17 your location is too risky for a well?

18 A. Could you repeat the question?

19 Q. Yes, sir. We were talking about risk a while  
20 ago. Isn't Yates' assertion of the right to operate the  
21 well in the northeast quarter a strong indication of their  
22 faith that a well ought to be drilled in the northeast  
23 quarter?

24 A. Yes, they've obviously changed their mind.

25 Q. Okay. And they changed their mind since this

1 November 7th meeting?

2 A. Yes.

3 Q. And you had the impression in that meeting that  
4 Yates did not want a well drilled in the northeast quarter?

5 A. A very strong impression.

6 Q. And who was in that meeting with you?

7 A. Mr. Ray Beck, geologist for Yates Petroleum; Bill  
8 Siruta, geologist for Medallion; Mecca Mauritsen; John  
9 Yates; Randy Patterson and myself.

10 Q. None of those individuals at that meeting raised  
11 with you or discussed with you who was going to operate the  
12 well in the east half, right?

13 A. No.

14 Q. That's right, there was no agreement and no  
15 discussion on who operates the well in the east half of the  
16 section at the meeting on November 7th; is that not true?

17 A. That is true. If it was up to Yates, there would  
18 be no well drilled in the northeast quarter, at that  
19 meeting.

20 Q. So if Mecca Mauritsen testifies in a few minutes  
21 to the opposite recollection, then she would not be  
22 truthful in her testimony?

23 A. It is not how I recollect it.

24 Q. Do you recall your testimony on December 19th  
25 before the Examiner? You testified in that case, did you

1 not?

2 A. Yes.

3 Q. At that hearing you testified that InterCoast,  
4 now Medallion, had a farmout from Kerr-McGee, the net  
5 result of which is, in the east half of the section your  
6 gross working interest, if you will, is 24 percent, right?

7 A. Yes.

8 Q. Okay. You have no interest either then or now in  
9 the west-half of the section, right?

10 A. No, I do not.

11 Q. Okay. In your summary that Mr. Bruce provided  
12 you, when we look on the page number 2, under B (5), you've  
13 made a point here this morning -- or this afternoon -- that  
14 Diamond Head has now joined you with their 23 percent, and  
15 that now Medallion has in combination about 47.5 percent  
16 committed to it?

17 A. Yes, that is correct.

18 Q. All right. Do you see (5), Mr. Bruce's summary,  
19 (5), where it says "Diamond Head..."

20 A. Yes.

21 Q. "...was neutral in this matter, and indicated its  
22 desire to join whichever well was approved by the  
23 Division"? Do you see that?

24 A. Yes.

25 Q. Is that a truthful statement?

1           A.    "Whichever well" there meaning -- Actually, I  
2 think that was -- that's incorrectly stated.  It's  
3 whichever operator operated the well in northeast quarter.

4           Q.    Based upon the decision of the Examiner, right?

5           A.    That is correct.

6           Q.    Yeah.  And so once the Examiner order was  
7 entered, Diamond Head signed your AFE and your agreements,  
8 I assume?

9           A.    Yes, they did.

10          Q.    All right.  Are you suggesting to this Commission  
11 that now in combination with Diamond Head they should  
12 decide this case, based upon the fact that Diamond head is  
13 now committed to Medallion?

14          A.    Could you repeat the question?

15          Q.    Let me turn it the other way:  Did you not know,  
16 and did we not discuss at the last hearing the fact that  
17 Ms. Redfern for Diamond Head was going to sign with Yates  
18 if Yates was to be operator of the well?

19          A.    That is correct.

20          Q.    Okay.  So when we find this statement in here  
21 about Diamond Head being neutral, in fact, they intended to  
22 be neutral as to this dispute?

23          A.    Yes.

24          Q.    You testified on December 19th that at that point  
25 in time, the farmout with Kerr McGee expired on February

1 17th?

2 A. That is correct.

3 Q. Okay. You testified a while ago that the order  
4 was entered on the 16th of January, 1997. I think, in  
5 fact, it's the 13th, is it not, sir?

6 A. I became aware of it on January the 16th. I'd  
7 have to look at that order, but my recollection is it's  
8 January the 16th.

9 MR. KELLAHIN: All right.

10 MR. BRUCE: I think I received it on the 16th,  
11 Mr. Kellahin.

12 Q. (By Mr. Kellahin) For the record, sir, the order  
13 is dated and issued on the 13th, but apparently you got it  
14 on the 16th?

15 A. Yes, it was faxed to me the day that Mr. Bruce  
16 received it.

17 Q. Okay. Were you aware that Yates filed a request  
18 that the Commission or the Division stay that order and  
19 that we file that request on January 24th? Were you made  
20 aware of that, sir?

21 A. Yes.

22 Q. When did you become aware of that?

23 A. At some time subsequent to that date, within a  
24 day or so.

25 Q. Okay. And by the 24th, when Yates is requesting

1 a stay of the order, you already had in hand an extension  
2 of the expiring farmout which now extended into March 20th,  
3 1997; is that not true?

4 A. That is correct. As I've testified, I got that  
5 extension on January the 21st.

6 Q. Let me show you a copy, Mr. Quinn, of that  
7 extension letter and ask if you can authenticate it.

8 A. That's it.

9 MR. KELLAHIN: All right, sir.

10 Mr. Chairman, this is my only copy Mr. Bruce  
11 provided to me --

12 MR. BRUCE: I have extra copies, Mr. --

13 MR. KELLAHIN: I'd ask that it be submitted, and  
14 I'll have to find the number for it. We'd like to mark it  
15 as Yates Exhibit Number 11 to the Commission hearing today,  
16 and that will give us a sequence that stays in line with my  
17 exhibits, so that at an appropriate time I'll mark that as  
18 a Commission exhibit, Yates Exhibit Number 11.

19 Q. (By Mr. Kellahin) Mr. Quinn, did you assist Mr.  
20 Bruce in preparing Meridian's response requesting that the  
21 stay be denied?

22 A. Medallion's response --

23 Q. Yes, sir.

24 A. -- to that stay? I did -- I looked at it, yes, I  
25 did. She drafted it, I took a quick look at it.

1 Q. All right, and you looked at it before it was  
2 filed on January 28th?

3 A. Yes, I did.

4 Q. Did you recognize that the statements that he had  
5 made on your behalf were not truthful with regards --

6 A. No, I did not.

7 Q. -- to the extension? You did not see that?

8 A. I did not see that.

9 Q. Did you have the opportunity to make that  
10 judgment for yourself, had you thoroughly read the filing  
11 he was making for you?

12 A. If I would have noticed that on there, that  
13 particular footnote that you are referring to --

14 Q. Yes, sir.

15 A. -- I would have pointed that out.

16 Q. Do you recall at the last hearing the  
17 representations made by Yates that they would commit to  
18 having a rig available so that that well could be commenced  
19 prior to the expiration of the farmout which was then  
20 scheduled to expire on February 18th?

21 A. Yes.

22 Q. In your efforts to obtain a rig, did you contact  
23 Mecca to see if Yates had available a rig that might be  
24 utilized for this well?

25 A. On January the 22nd, I put a call to Mecca

1 Mauritsen. I was informed that -- And this was one day  
2 after I had received the farmout extension. I was informed  
3 that Mecca was in a meeting and she was unavailable. I  
4 left a message to please have her contact me, I needed to  
5 speak with her.

6 I have to this time not had my telephone call  
7 returned to me.

8 Q. Did you indicate to her or to a messenger the  
9 urgency of the call, that you were searching for a rig?

10 A. I don't leave those kind of messages with  
11 secretaries.

12 Q. Did you fax to Mecca's attention the fact that  
13 you needed a rig and wanted to know if they had one  
14 available for your use?

15 A. It was not my intention to rely upon Yates to  
16 help us out in a bitter operator dispute battle, to provide  
17 us an oil and gas rig in a timely manner to drill the well.

18 Q. Was it Medallion's purpose to rig up on the  
19 location on Saturday, February 8th, in order to preclude  
20 Yates from having an opportunity for a hearing before this  
21 Commission today?

22 A. Absolutely not.

23 Q. That was not your purpose?

24 A. It absolutely was not our purpose.

25 Q. Have you modified the well program for the well

1 to substitute in the 5-1/2-inch casing that Mr. Fant had  
2 requested be put in the well, or are you still pursuing a  
3 4-1/2-inch program?

4 A. At this point I'm only aware of the 4-1/2-inch  
5 casing program.

6 Q. Okay. On the 24th of September, 1996, you caused  
7 -- I believe your attorney at that point was Mr. Carr, was  
8 it not?

9 A. Yes, it was Bill Carr.

10 Q. All right. You caused Mr. Carr on February 24th  
11 to file a force-pooling case to force-pool Yates with  
12 regards to the well at the location you were suggesting in  
13 the northeast quarter, right?

14 A. That is correct.

15 Q. Okay. And that filing was made before you  
16 provided Yates with an itemized AFE, an operating agreement  
17 or an opportunity to participate in the well, and in  
18 addition you had not yet specified the spacing unit had  
19 you?

20 A. We had discussed the spacing unit with Yates over  
21 the telephone. It had not been specified in any written  
22 correspondence to Yates, between Yates and Medallion.

23 Q. In fact, on the 17th of September Janet  
24 Richardson for Yates -- In fact, you offered to send her an  
25 AFE an and operating agreement in your conversations with

1 her on the 17th of September, right?

2 A. Yes, which we did.

3 Q. And on September 14th you filed a force-pooling  
4 case against her, and then on October 9th you finally get  
5 around to sending her the AFE?

6 A. We did not file on September 14th.

7 Q. 24th?

8 A. Yes.

9 Q. All right. Am I right in understanding you --  
10 Yates did not receive your proposal until the month of  
11 October, the 9th of October?

12 A. That is correct, they -- They represent that it  
13 took the full nine working days to receive -- not working  
14 days, nine days to receive that letter from Tulsa, that is  
15 correct.

16 Q. Do you have a copy of the farmout proposal that  
17 dealt with the northeast quarter of Section 20, the August  
18 30th letter? Do you have that in your file?

19 A. The August --

20 Q. -- 30th, 1996, letter, from you to Yates?

21 A. Yes, I'm sure I do.

22 Q. The farmout request.

23 A. Yes, yes.

24 Q. All right. Do you want to get a copy of that out  
25 for me, sir?

1 A. Let me make sure --

2 Q. I've got one here.

3 A. Okay.

4 Q. A while ago, Mr. Quinn, you testified that apart  
5 from the fact that you hadn't specified in the farmout  
6 agreement the spacing unit or given them an AFE, you had,  
7 in fact, disclosed to them what you thought the total well  
8 costs were going to be. The letter says \$697,000, right?

9 A. Yes.

10 Q. That, in fact, is the wrong number, isn't it?

11 A. Well, that was in August, so --

12 Q. And by the time we're hearing, your well costs  
13 are now \$775,000 and change?

14 A. Whatever we represented it to be. But at the  
15 time that was our best estimate of the cost of drilling  
16 that particular well. They subsequently -- "they" being  
17 Yates -- were subsequently provided with AFEs. So I  
18 imagine the costs are different.

19 Q. When you talked a while ago about what you  
20 believed was a commitment by Yates not to file a motion to  
21 dismiss your Application, which was filed on December 24th,  
22 the grounds being that it had been filed before you had  
23 properly proposed the well, that you got that information  
24 from your counsel, that in exchange for a continuance Yates  
25 was not going to file a motion to dismiss?

1 A. That's correct.

2 Q. That was your testimony?

3 A. Yes, it was.

4 Q. And you got that information from Mr. Carr?

5 A. That is correct.

6 MR. KELLAHIN: Okay. Mr. Chairman, I would  
7 appreciate your indulgence to get an affidavit from Mr.  
8 Carr subsequent to the hearing and submit it in the record.

9 Q. (By Mr. Kellahin) When we look at the -- I'm  
10 sorry.

11 CHAIRMAN LEMAY: Just hold on a second.

12 (Off the record)

13 MS. HEBERT: Mr. Kellahin --

14 MR. KELLAHIN: Yes, ma'am.

15 MS. HEBERT: -- what do you think Mr. Carr will  
16 be able to put in his affidavit that wouldn't be attorney-  
17 client privilege?

18 MR. KELLAHIN: This gentleman has just released  
19 Mr. Carr from the attorney-client privilege by his  
20 testimony, saying his counsel had told him that Yates was  
21 not going to file a motion to dismiss, when, in fact, I  
22 filed a motion to dismiss when Mr. Carr recused himself,  
23 and I made that filing on November 1st. And I think they  
24 have released the attorney-client privilege as to that  
25 topic, and I want an affidavit from Mr. Carr as to whether

1 or not he had a commitment from Yates as to not filing a  
2 pooling dismissal case, because I did it, and I need to  
3 clarify that point.

4 THE WITNESS: You may not -- if I can --

5 CHAIRMAN LEMAY: Just hold on a second.

6 THE WITNESS: Okay.

7 CHAIRMAN LEMAY: Is that appropriate?

8 MS. HEBERT: Mr. Bruce, would you like to address  
9 this?

10 MR. BRUCE: Well, you know, I'm willing -- I've  
11 been letting Mr. Kellahin go on because most things are  
12 allowed in this case. I think these are nonissues.

13 I mean, the parties have been negotiating for  
14 five months and they can't agree on one thing. Who  
15 operates? I suppose we could go on for another three hours  
16 and discuss this, number one.

17 But number two, why? Everybody wants to drill  
18 the well, they've been negotiating for five months. We're  
19 bringing up all these defects in a proposal letter that was  
20 sent out in August. Who cares, number one. Number two,  
21 Mr. -- I'm not accusing, or neither is Mr. Quinn, Mr.  
22 Kellahin of doing anything but his job. Mr. Quinn is  
23 talking about what he perceived to be Yates' agreement.

24 We've been -- As Mr. Quinn testified, this  
25 hearing was continued four or five times before we finally

1 got to hearing, because every time we turned around Yates  
2 was seeking a continuance, filing a motion to dismiss,  
3 requesting to be operator, changing the unit, you name it.  
4 I think most of it's irrelevant to this case.

5 I suppose Mr. Quinn has informed the Commission  
6 of a communication he had with his attorney who Yates later  
7 made recuse, and I suppose Mr. Kellahin could get an  
8 affidavit giving Mr. Carr's recollection of the idea. But  
9 frankly, we need a decision today on this matter.

10 MS. HEBERT: So do you object or not object? I  
11 understand you --

12 MR. BRUCE: I object, just because he could have  
13 had Mr. Carr over here today, I suppose.

14 CHAIRMAN LEMAY: Give us a couple minutes here.

15 (Off the record)

16 MR. BRUCE: Ms. Hebert, my final comment is, this  
17 was brought up in the Division hearing also.

18 MR. KELLAHIN: If I might be heard, Mr. Chairman,  
19 before you rule, I have a small point.

20 CHAIRMAN LEMAY: Sure.

21 MR. KELLAHIN: I think Mr. Bruce misses the point  
22 of my discussion, and perhaps it's escaped you.

23 This is important for the Examiner decisions  
24 because it is the consistent practice of your Examiners to  
25 dismiss pooling cases, even after they've been continued,

1 if the applicant has prematurely filed to force-pool. Mr.  
2 Stogner did it to me in a Meridian case. It's Order  
3 R-10,545. That application was filed on November 8th of  
4 1995 based upon a well proposal of October 31st of 1995.  
5 He said we had not given the parties enough time.

6 He made that decision, however, after the case  
7 had been continued repeatedly to January 11th.

8 So the practice in one case is, despite  
9 continuances, you get thrown out of here. And yet here's a  
10 case where it didn't happen.

11 Now, I don't care which way it is, but let's do  
12 it the same way. That's my point.

13 CHAIRMAN LEMAY: Well, you're coming before the  
14 Commission to get a precedent set --

15 MR. KELLAHIN: Exactly right, Mr. Chairman.

16 CHAIRMAN LEMAY: I understand your reasons in the  
17 past for honoring Examiner priorities and precedents, but I  
18 understand you're looking for some criteria for not only  
19 this case but future force-pooling cases to -- that's  
20 relevant.

21 We don't consider this affidavit relevant to our  
22 decision, so if you -- There's no reason to get it,  
23 Counselor, that's all.

24 MR. KELLAHIN: All right, thank you, Mr.  
25 Chairman.

1 Q. (By Mr. Kellahin) Mr. Quinn, am I correct in  
2 understanding that your experience is in Oklahoma with  
3 regards to regulatory practices? Is that not where you  
4 have had your experience?

5 A. Oklahoma, Louisiana, yes.

6 Q. This pooling case before the Commission today is  
7 your first experience in a compulsory pooling case in New  
8 Mexico, is it not?

9 A. Yes, it is.

10 Q. Okay. When we look at the orientation of the  
11 spacing unit, whether it was north half or east half, that  
12 was not going to reduce Medallion's working interest share;  
13 is that not true?

14 A. That is correct, but I don't believe it was going  
15 to reduce Yates' either.

16 Q. That was not my question, you heard my question.  
17 It's not going to reduce the Medallion interest, is it?

18 A. I answered yes.

19 Q. Okay. Am I also correct in understanding that if  
20 Yates is allowed to operate, it does not reduce Medallion's  
21 interest?

22 A. No, it does not.

23 Q. Your farmout is not at risk if Yates is awarded  
24 the right to operate the well at this point; is that not  
25 true?

1 A. No.

2 Q. Okay. It is true? We've got a double negative  
3 here, let me try again.

4 A. I meant to agree with what your statement was.

5 Q. I thought you did.

6 Is your personal compensation affected upon  
7 whether or not Medallion operates or Yates operates?

8 A. No, it is not.

9 Q. Are you compensated based upon whether a well is  
10 drilled or not?

11 A. No, I am not.

12 Q. So that's not an issue for us?

13 A. It is not an issue.

14 Q. Have you kept track of the recent activities in  
15 Burton Flat-Morrow with regards to the renewed interest in  
16 that reservoir?

17 A. I'm aware of our interest in that particular  
18 reservoir but --

19 Q. No others?

20 A. (Shakes head)

21 Q. You're not aware, then, that the recent price  
22 escalation of gas in the last five or six months has  
23 resulted in OXY and Penwell and Mewbourne and Yates and you  
24 all looking for additional gas reserves out of this pool?

25 A. Oh, yes.

1 Q. Okay. So you're not representing that you found  
2 some new source of supply that no one else knows is there,  
3 and you ought to be rewarded for doing so?

4 A. No, I'm representing that we generated the  
5 prospect and we pursued it, and we have been the moving  
6 force in getting it accomplished.

7 Q. Let me see if there's any unsettled issues here,  
8 Mr. Quinn. I believe that Mecca and Yates have  
9 participated with you in discussing and resolving what I  
10 would characterize to be title issues; is that not true?

11 A. I guess you could put it that way. She's  
12 provided me with the list of the contractual owners under  
13 that Stonewall agreement, yes.

14 Q. Were you aware that Yates had title documents and  
15 abstracts and information with regards to most if not all  
16 of that section?

17 A. No.

18 Q. Okay. You then -- Did you make inquiry for that  
19 information?

20 A. With regard to Yates having --

21 Q. With regards to the balance of the section and  
22 Yates having the title documents that would assist you or  
23 anyone else in identifying and being able to pay all the  
24 proper parties for an east-half spacing unit?

25 A. Well, she testified that she had that information

1 available, yes, in the December 19th hearing.

2 Q. All right. When you made the farmout request on  
3 August 30th, 1996, you're only discussing the northeast  
4 quarter; is that not true?

5 A. I'm only discussing a well to be located in the  
6 northeast quarter.

7 Q. Well, you're discussing a Morrow attempt, though,  
8 are you not, sir?

9 A. Yes.

10 Q. Were you aware then that spacing rules in New  
11 Mexico required 320-acre gas dedications for a Morrow Gas  
12 well in Burton Flat-Morrow?

13 A. Yes, I was aware of that.

14 Q. But you didn't pursue a farmout request for any  
15 other additional acreage within the section?

16 A. Outside of our initial proration unit?

17 Q. Well, the northeast quarter is not a proration  
18 unit, sir. The proration unit would --

19 A. Repeat the question. I don't understand your  
20 question.

21 Q. Other than the northeast quarter, which is half a  
22 proration unit, did you attempt or pursue farmouts for the  
23 balance of another 160 acres so that you could form a  
24 standard spacing unit?

25 A. Yes, yes, I did.

1 Q. And that occurred after the pooling application  
2 was filed?

3 A. With regard to Yates? I guess I'm not  
4 understanding your question.

5 Q. Well, let me keep it real simple. Other than the  
6 farmout request for the northeast quarter, is there another  
7 farmout request for the northwest quarter?

8 A. I don't know where you get that that farmout  
9 request is limited to the northeast quarter.

10 Q. Well, if you'll read it, you're looking at the  
11 northeast quarter --

12 A. Yes.

13 Q. -- and you don't identify anywhere in here any  
14 other acreage in Section 20?

15 A. I captioned Section 20, not northeast quarter of  
16 Section 20. It was an oversight.

17 MR. KELLAHIN: All right. I have no more  
18 questions, Mr. Chairman.

19 CHAIRMAN LEMAY: Thank you.

20 Commissioner Bailey?

21 COMMISSIONER BAILEY: I think Mr. Bruce had some.

22 MR. BRUCE: Just a couple --

23 CHAIRMAN LEMAY: Oh, I'm sorry. Go ahead, Mr.  
24 Bruce.

25 MR. BRUCE: Just a couple of things.

## REDIRECT EXAMINATION

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BY MR. BRUCE:

Q. The case Mr. Kellahin was questioning you about, the pooling application that was filed in September of 1996 for a north-half unit, that was -- that's been dismissed, hasn't it?

A. Yes, it has.

Q. And we're here today on the east half, aren't we?

A. Yes, we are.

Q. And one final thing brought up, something about the casing. I mean, is Medallion willing to discuss with Yates 5-1/2-inch casing, as opposed to 4-1/2-inch?

A. I'm sure we're willing to discuss that with Yates.

Q. To the best of your knowledge has anyone from Yates --

A. To the best --

Q. -- called about that?

A. No, they have not.

MR. BRUCE: Thank you.

CHAIRMAN LEMAY: Thank you.

Commissioner Bailey?

## EXAMINATION

BY COMMISSIONER BAILEY:

Q. It appears as though both the northeast quarter

1 and the southeast quarter are held under state leases. Who  
2 are the lessees of record?

3 A. The record title owners in the northeast quarter  
4 is Kerr-McGee and Diamond Head Properties. I'd have to  
5 look at -- I believe it's Kerr-McGee and Diamond Head  
6 Properties. And in the southeast quarter it's Pennzoil.

7 Q. Has there been any attempt to have an assignment  
8 made of either one of those quarters?

9 A. Excuse me, I don't understand the question.

10 Q. An assignment of that lease for the records with  
11 the State Land Office, as to the ownership of that lease?

12 A. That was record title ownership. The operating  
13 rights are somewhat different than that, and --

14 Q. Exactly. We don't deal with the operating rights  
15 with the Land Office. We look at record title ownership.  
16 However, we do have assignments of that record title  
17 ownership. Has there been any discussion concerning that  
18 assignment process?

19 A. No, there has not. We would expect to have an  
20 assignment of that in the event that we earn under the  
21 farmout agreement.

22 Q. Is Medallion an operator for other Morrow wells  
23 in the area?

24 A. Not in this particular area. We -- Medallion is  
25 relatively new to the Permian Basin, or New Mexico. We

1 have been active for the past three years. Medallion does  
2 operate over 700 wells nationwide, and we have an interest  
3 in over 1200 wells.

4 COMMISSIONER BAILEY: That's all I have.

5 CHAIRMAN LEMAY: Commissioner Weiss?

6 EXAMINATION

7 BY COMMISSIONER WEISS:

8 Q. It's not clear to me why you guys want to operate  
9 this well. Can you tell me?

10 A. Well, we generated the prospect, we've been the  
11 moving force on it, we have the single highest cost-bearing  
12 interest on it, we have a farm-in agreement with the term  
13 expiration on it. We feel like all those issues add up to,  
14 we need to protect our best interests here by ensuring that  
15 we're able to get the well commenced in time.

16 Q. Your farm-in agreement, if it had expired, what  
17 happens then? I don't understand.

18 A. Well, then we just -- we're just out --

19 Q. You're out --

20 A. -- of the interest, we're completely out of the  
21 unit.

22 Q. And you --

23 A. And we --

24 Q. -- you've showed your cards and you don't get  
25 anything?



1 propose a well to the other owners of interests in there,  
2 and the moving force being that we have proposed it and we  
3 have generated the prospect and we have pointed it out to  
4 people, the merits of drilling a well in here.

5           And we believe -- When we say "moving force", we  
6 believe that without us being the moving force in here,  
7 there would not have been a well proposed or drilled in  
8 here, quite likely. Now, I could be wrong there, but it  
9 has been since 1978 that Yates has drilled any  
10 Pennsylvanian-age well in the Stonewall Unit area.

11           Q. You mentioned a well in, I guess, the northeast  
12 northeast of 21, the Petroleum Reserve. Were you involved  
13 in that or having something to do -- I thought you  
14 mentioned you had something to do with that one?

15           A. No, sir, I did not.

16           Q. That was my mistaken -- All right.

17                   When you speak "moving force", you're speaking  
18 specifically to this proration unit, to this prospect, not  
19 necessarily developing other wells in the area. This is  
20 your first development, your first involvement?

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

22           Q. What prompted you to get involved in the area?

23           A. We have an office in Midland, and a couple of  
24 geologists -- Bill Siruta works this particular area, and  
25 he stumbled upon this particular area, started looking at

1 it, correlating logs, looking at production, and came up  
2 with this geologic idea to drill a well in the northeast  
3 quarter.

4 And we subsequently pursued it from that point,  
5 the land.

6 Q. In terms of pursuing it, is your company policy  
7 generally to -- I guess for lack of a better expression,  
8 take it on the streets and sell interest in it, expose your  
9 geology, you know, when you're in the process of trying to  
10 sell the deal or not?

11 A. No, sir, we do not sell deals --

12 Q. Okay.

13 A. -- we take a hundred percent, and it's all  
14 internal. We do not shop deals.

15 Q. Okay. Well, I'm curious.

16 That's not necessarily -- I used to shop for a  
17 living. I mean, I --

18 A. Yeah.

19 Q. -- I understand the situation. If you have a  
20 deal, you've got to sell it. It wasn't a criticism.

21 MR. KELLAHIN: My wife, Mr. Chairman, she shops  
22 for a living too.

23 CHAIRMAN LEMAY: My former life, I should say, I  
24 don't do that now, or I'd be in trouble.

25 THE WITNESS: Well, it's a very competitive

1 situation and we are hungry for deals, and we look in  
2 producing old producing areas for prospects. This was  
3 generated by our geologist and, as you can tell, it's a  
4 very land-intensive deal.

5 Q. (By Chairman LeMay) Well, it is, and sometimes  
6 it's easy -- It's hard to understand for some people who  
7 has the interest. Example: The Yates group, they're all  
8 separate individuals who have their own corporations that  
9 participate, as I understand it. They can testify as to  
10 what the Yates group is. That's my understanding of the  
11 Yates group.

12 The Medallion -- Is it a stock company, is it a  
13 limited partnership, is it -- What participation does the  
14 ownership have in Medallion, or what is now --

15 A. We are a publicly traded company owned by KCS  
16 Energy Company, and so we are public, our stock is traded  
17 public on the New York Stock Exchange under KCS.

18 Q. Okay, so you'd be using capital assets to  
19 participate in the drilling of the well, not partnership-  
20 type --

21 A. Program-type thing, yes, sir, that's correct.

22 CHAIRMAN LEMAY: Well, it helps to understand, I  
23 think, from a deal point of view.

24 That's the only question I had, thank you. You  
25 may be excused.

1 Any other questions?

2 MR. BRUCE: I have nothing further of Mr. Quinn.  
3 Mr. Quinn may have already missed his plane, but with the  
4 Commissioners' approval, if necessary, could he be excused  
5 from this hearing?

6 CHAIRMAN LEMAY: Sure, it's all right with me.  
7 Is it all right with you, Tom?

8 MR. KELLAHIN: Yes, sir.

9 CHAIRMAN LEMAY: Okay. Careful driving, it's a  
10 snowy day out there.

11 THE WITNESS: Thank you.

12 CHAIRMAN LEMAY: Thank you.

13 Want to take a little break before you -- You've  
14 got two witnesses, Tom?

15 MR. KELLAHIN: Yes, sir.

16 CHAIRMAN LEMAY: That's -- You have the one  
17 witness?

18 MR. BRUCE: Yes, all I have. I rest the case.

19 CHAIRMAN LEMAY: Let's just take about a ten-  
20 minute break.

21 (Thereupon, a recess was taken at 2:59 p.m.)

22 (The following proceedings had at 3:14 p.m.)

23 CHAIRMAN LEMAY: We shall continue.

24 Mr. Kellahin?

25 MR. KELLAHIN: Mr. Chairman. I'd like to call

1 Mecca Mauritsen, Mr. Chairman.

2 I have distributed somewhere in front of you,  
3 members of the Commission, the Yates exhibits. There  
4 should be a set immediately on top of the pile or some  
5 AFEs, but below that, then, are going to be some geologic  
6 displays that Michael Hayes sponsored at the Examiner  
7 hearing.

8 And then below that, at the bottom of the pile,  
9 are Ms. Mauritsen's chronologies. There will be a tabbed  
10 set of legal-size documents, the first page of which has  
11 her chronology of events.

12 MECCA MAURITSEN,

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

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Ms. Mauritsen, for the record, ma'am, would you  
18 please state your name and occupation?

19 A. Yes, my name is Mecca Mauritsen, and I'm landman  
20 for Yates Petroleum Corporation.

21 Q. On prior occasions, Ms. Mauritsen, have you  
22 testified before the Division and qualified as an expert in  
23 the area of petroleum land management?

24 A. Yes, I have.

25 Q. And you've qualified and testified on behalf of

1 Yates Petroleum Corporation before Examiner Catanach back  
2 on December 19th in this case, as you know?

3 A. Yes, that's correct.

4 MR. KELLAHIN: We tender Ms. Mauritsen as an  
5 expert petroleum landman.

6 CHAIRMAN LEMAY: Her qualifications are  
7 acceptable.

8 Q. (By Mr. Kellahin) Are you knowledgeable about  
9 and are you familiar with the Stonewall Unit documents and  
10 agreements insofar as they affect Section 20?

11 A. Yes, I am.

12 Q. In addition, have you been the principal landman  
13 assigned by Yates Petroleum Corporation to deal with the  
14 request by InterCoast, now Medallion, with regards to wells  
15 in Section 20?

16 A. Yes.

17 Q. In addition, have you been the landman on behalf  
18 of your technical group to discuss with and attempt to  
19 resolve with InterCoast the operations of Section 20?

20 A. Yes, I have.

21 Q. We tender Ms. Mauritsen as an expert witness.

22 CHAIRMAN LEMAY: Her qualifications are  
23 acceptable.

24 Q. (By Mr. Kellahin) Let's start at the end. Let  
25 me have you describe for us at this point in time what is

1 the collective percentage in the east half of Section 20  
2 that you have been able to consolidate on behalf of Yates  
3 Petroleum Corporation for Yates to be the operator of the  
4 well in the east half.

5 A. Okay, the Yates group, et al, has 37.6 percent.  
6 Also, besides Medallion's interest and Diamond Head  
7 Properties interests that are not committed to the  
8 operating agreement, all the other interests are committed  
9 to the Stonewall operating agreement, and that's a total of  
10 about 52 percent of the east half.

11 And of that group, when we initially proposed our  
12 east-half well, 13 of the people either wrote letters in  
13 support of us or sent AFEs back to us. The interests are  
14 small. You've got a few large owners, and everybody else  
15 is really small. We actually got about 42 percent signed  
16 up, two AFEs or letters or otherwise, before the December  
17 19th hearing.

18 Q. Let's start with the September 3rd date on  
19 Exhibit Number 3, all right?

20 A. Okay.

21 Q. That is the date in your chronology that Yates  
22 received the Medallion farmout request in Section 20?

23 A. That's correct.

24 Q. What then transpired with Yates concerning this  
25 farmout and others? How do you handle this stuff?

1           A.    The farmouts come in they're logged in, they're  
2 assigned to a landman to take care of. The landman will  
3 normally make a plat of the area off our lease maps and  
4 send the request and the plat down to our geologists for  
5 review.

6           Q.    All right. You are the point person, if you  
7 will, to negotiate with other companies and to discuss  
8 things like farmout requests and well proposals?

9           A.    That's correct.

10          Q.    The technical decision and the management  
11 decision for those judgments are made by others, are they  
12 not?

13          A.    Oh, yes.

14          Q.    For this particular area, when we look at the  
15 Yates group, all the Yates entities' operations within the  
16 Burton Flat-Morrow Pool, is there a principal geologist  
17 among the group that is knowledgeable and experienced in  
18 this area?

19          A.    Yes, Mr. Ray Beck handles this area, and he's  
20 been with Yates for, I think, around 20, 25 years.

21          Q.    Okay. Were you in meetings with Mr. Beck and Mr.  
22 Quinn and other representatives of your company on November  
23 7th of 1996?

24          A.    Yes, I was.

25          Q.    And that meeting occurred in Artesia?

1           A.    Yes, it did.

2           Q.    Okay.  Mr. Quinn has characterized that meeting  
3 in a particular way, and you heard his testimony?

4           A.    Right.

5           Q.    Do you agree or disagree with his  
6 characterization of that meeting?

7           A.    I disagree with part of it as far as the  
8 recollection of the way we felt about the well being  
9 drilled.

10          Q.    Let's talk about that.  Let's talk about how  
11 Yates felt about this asset.  Mr. Quinn pulls out a display  
12 and says there's been no activity in this area in years,  
13 and we ought to be rewarded, Medallion, rewarded for  
14 initiating this prospect.

15                   How did Yates feel about this property?

16          A.    When the initial request went down to Ray Beck  
17 for the farmout, he immediately said, No, we're not going  
18 to farm anything out.  I mean, we've --

19          Q.    Well, why would he say that?

20          A.    -- been operating this area since 1973, and he  
21 has always like this area and has always thought there was  
22 deep prospects, and he just said no pretty quickly.

23          Q.    Well, why have not Yates and the other historical  
24 operators in the pool drilled additional wells until  
25 recently?

1           A.    The main reason is price.  Most of these wells --  
2   I did a little research.  Most of the wells were drilled  
3   late Seventies, early Eighties, before the price was  
4   deregulated.  Once that happened, the -- you know, price of  
5   gas just dropped and everybody out there quit drilling.

6                    In fact, from what I looked at, I think 93  
7   percent of the wells still producing in that field were  
8   drilled before 1995.  There's only been eight drilled since  
9   like 1989.  There just hasn't been much activity, mainly  
10  due to price.  It's just not economic.

11           Q.    Had you or Yates any experience with InterCoast  
12  or Medallion operating in this area before?

13           A.    No, we have not.

14           Q.    No exchanges, no discussions, this is the first  
15  deal you've had with them?

16           A.    That I'm aware of.  We might have had some a  
17  couple years ago, but in this area this is the only one  
18  that I'm aware of.

19           Q.    Okay.  In your opinion, do you believe Medallion  
20  should deserve credit or some initiative for proposing a  
21  well in this section?

22           A.    I honestly don't know if they -- I mean, they  
23  obviously have done some work to get it done, but if this  
24  was 1988, 1989, nobody would be drilling out here.  And I  
25  do believe that eventually Mr. Beck would have looked at

1 this area again with the prices up and would have probably  
2 come up with this prospect.

3 Q. The catalyst, then, is the recent price increase  
4 and not the initiation by Medallion, in your opinion?

5 A. It seems to be. There are several -- There's, I  
6 think, five or six wells posted right now to be drilled to  
7 the Morrow in this particular area, more than there've been  
8 in the last several years.

9 Q. Mr. Quinn was discussing his recollection of Mr.  
10 Beck's conversations at the November 7th meeting, and he  
11 characterized Yates' position as assertion that the  
12 northeast-quarter location was too risky?

13 A. That's correct, that's what he states.

14 Q. And is that true?

15 A. No, the one problem he had, the whole sticking  
16 problem was, they wanted a north-half spacing. That's what  
17 they told us, that's what they pooled us on. He preferred  
18 a northwest quarter over a northeast quarter, and if you  
19 drill north half, you're going to drill one well, and that  
20 will be it, at this time. So --

21 Q. He was not suggesting that only one well in the  
22 section be drilled?

23 A. No, he wasn't. He just said, If you're going to  
24 do north half, I want this location.

25 When they suggested splitting it east half/west

1 half, he said, Well, I don't think that's a problem, I  
2 think you've got room for two wells out there, and we'll  
3 visit with management about it.

4 Q. Was there any discussion agreement or settlement  
5 with regards to who should operate the wells in Section 20  
6 as a result of the meeting on November 7th?

7 A. No, they did say, you know -- There was no  
8 question who was going to drill a west half. West half is  
9 completely under the Stonewall operating agreements. It's  
10 one state lease. We won't have anything com'd, it's one  
11 lease. There was no doubt who would be operating that.  
12 The east half --

13 Q. Well, who operates that?

14 A. Yates Petroleum will operate that.

15 The east half, they mentioned they wanted to  
16 operate, but there was no discussion about it, because  
17 until we talk to management we don't usually discuss issues  
18 like that.

19 Q. When we look at Yates Petroleum Corporation and  
20 Yates Drilling, Myco Industries, collectively, what is  
21 their percentage in the spacing unit?

22 A. It's about 37.5 percent.

23 Q. All right. Are those companies arranged in such  
24 a way that they support each other in terms of developing  
25 prospects and participating in wells?

1 A. Oh, yes, they almost always support each other.

2 Q. In the recent past this Commission, and  
3 particularly the Examiners, have dealt with what I have  
4 characterized as the force-pooling wars between Yates and  
5 Nearburg in Dagger Draw. Do you remember those, Mecca?

6 A. Yes, I'm aware of those.

7 Q. All right. And you know why we don't do those  
8 here anymore?

9 A. Yes, I do.

10 Q. Tell the Commission why we have not brought those  
11 to --

12 A. We've pretty much made an agreement with Nearburg  
13 that from now on whoever had the largest percentage would  
14 operate. And that just saves us both a lot of time and  
15 effort and saves you all time and effort also.

16 Q. And when you talked about the largest percentage,  
17 you're talking about the Yates groups as a collective  
18 group?

19 A. Oh, that's correct, Nearburg recognizes that.

20 Q. So to single out Yates Petroleum and suggest they  
21 have a small interest in relation to Medallion is not how  
22 these things are being settled out in the field, is it?

23 A. No, and that's not how we talk about it  
24 ourselves. When we represent ourselves to anybody, we say  
25 we have this much, we mean totally Yates. We always add it

1 up and take care of it. One landman takes care of all the  
2 interests at one time. We don't assign them to different  
3 landmen.

4 Q. Okay. When you deal with your experience and  
5 expertise with agreements, trying to reach a voluntary  
6 agreement, do those unit agreements and operating  
7 agreements provide for the majority operating?

8 A. Yes, they do.

9 Q. The industry is organized in that way, is it not?

10 A. Yes, normally it's a majority of one or two  
11 people, so one with the majority won't get the votes; you  
12 have to have at least one person in support of yourself.

13 Q. Why does the industry do that?

14 A. I just think that's the most logical way to do  
15 it.

16 Q. And why?

17 A. Normally if you have the largest interests,  
18 you're going to be more apt to pay more particular  
19 attention to what's going on and because you're the one  
20 with the most money at risk.

21 Q. Mr. Quinn described for the Commission his  
22 anxieties and difficulties in obtaining a rig for this  
23 particular well, and he finally ended up with some Peterson  
24 rig, right?

25 A. That's correct.

1 Q. Did Yates have available then, now, a rig that we  
2 could have put on this well --

3 A. Yes.

4 Q. -- in order to save their farmout?

5 A. We -- When the hearing came up, we -- I contacted  
6 the gentleman who takes care of our rigs and lines them up  
7 and told him what was going on; if we were awarded  
8 operations in this case, we would have to immediately get  
9 on it.

10 And he subsequently called me almost every week  
11 to see how it was going, if we got an order so that he  
12 would be sure to have a rig available.

13 Q. And you made that commitment to Medallion to get  
14 the well spudded in order to save their farmout?

15 A. Yes, we did it to them. We also did in writing  
16 to Diamond Head Properties. They were concerned about us  
17 dragging our feet and losing the farmout for Medallion, and  
18 we put it in writing to her -- I think the letter is in  
19 here -- that we would -- no other farmout, they would not  
20 have to be concerned about that.

21 Q. You're talking about Ms. Redfern. She's got  
22 another name now?

23 A. Mrs. Grover.

24 Q. Mrs. Grover is former Ms. Redfern --

25 A. That's correct.

1 Q. -- and she is Diamond Head?

2 A. That's correct.

3 Q. All right. And you've had communications with  
4 her?

5 A. Yes, I have.

6 Q. And she elected to stay neutral on this topic?

7 A. Yes. She just finally called and just said,  
8 Look, I just -- We want the well drilled, we don't care who  
9 operates, and we're going to stay neutral until it's  
10 decided by the Commission.

11 Q. Okay. And you want the well drilled in the  
12 northeast quarter too, don't you?

13 A. Yes.

14 Q. Let's turn to the Exhibit 1. It's the plat.

15 A. Right. This is just a plat of the area of the --  
16 All leases that Yates Petroleum or Yates, et al., has an  
17 interest in are shaded in yellow, the green outline is the  
18 outline for the Stonewall operating agreement, and of  
19 course is the red outline for the proposed spacing unit.

20 Q. This is a one-time deal for Medallion, isn't it?

21 A. Yes.

22 Q. To the best of your knowledge, they have no other  
23 interest in this area, do they?

24 A. Not that I'm aware of.

25 Q. This well gets drilled, and they're done for now?

1 A. That's correct.

2 Q. They have no development prospects and no  
3 ownership to drill subsequent wells?

4 A. As far as I know, as at this time.

5 Q. All right. Let's look at Exhibit 2 and have you  
6 describe for me what you've tabulated here, Ms. Mauritsen.

7 A. Exhibit 2 is just a list of all the parties and  
8 our working interests for an east-half spacing unit. I've  
9 shaded in the people who either sent their AFEs back or  
10 sent us letters of support for operations, and then I then  
11 totaled the interest at the bottom.

12 And attached to it are the letters or AFEs signed  
13 by the parties that sent them in.

14 Q. When we look at the chronology, your chronology  
15 sheet shows that on the 17th of September, Mr. Quinn is  
16 having conversations with Janet Richardson?

17 A. Yes.

18 Q. During that conversation, you've verified that he  
19 proposed to send an operating agreement and an AFE?

20 A. Right, her notes said just, Quinn called, I told  
21 him no farmout, and he said he will send an operating  
22 agreement and AFE.

23 Q. Okay.

24 A. And it was then -- She took the initial call. It  
25 was then turned over to me to handle the OA and AFE when it

1 came in.

2 Q. So after that, you're the land person involved?

3 A. That's right.

4 Q. When you received the force pooling application  
5 on the 30th of September, did you note in that application  
6 that in the north half of Section 20 Medallion or  
7 InterCoast was claiming to have 47.5 percent interest of  
8 the spacing unit?

9 A. That's what it stated.

10 Q. That's not right, is it?

11 A. No, it's not right.

12 Q. All right. You brought that matter to Mr.  
13 Quinn's attention?

14 A. Yes, I did.

15 Q. And did you aid him in understanding where he had  
16 made his mistake?

17 A. Yes, I explained to him who I thought it was.  
18 And even at the November 7th meeting, is when we really  
19 discussed it, I told him I thought it was Diamond Head  
20 Properties, which used to be Mrs. Redfern.

21 Q. And November 7th, they're still insisting they  
22 have 47.5 percent of the spacing unit?

23 A. That's what they said, yes.

24 Q. When we go back to the tabulation, some of these  
25 interest owners are the Stonewall interest owners under

1 that agreement which Yates operates?

2 A. They all are, except for the InterCoast/Medallion  
3 interest.

4 Diamond Head properties actually has less than 1  
5 percent interest that is committed to the unit operating  
6 agreement.

7 The -- If you look at the plat, the northeast  
8 quarter and the northwest -- I mean the northeast of the  
9 southeast is the same lease. The committed that 40 acres,  
10 but they held out the rest of it. So they have this little  
11 tiny interest under the operating agreement.

12 Q. How many of these interest owners are you seeking  
13 to be pooled by Yates for the east half of the section?

14 A. Just two, the Diamond Head Properties interest  
15 that's not committed and the Medallion interest.

16 Q. All the rest of them are committed to Yates?

17 A. They're committed to the operating agreement,  
18 yes.

19 Q. Yeah, and then you can therefore commit their  
20 interest to this well?

21 A. Right, we could nonconsent them or let them  
22 participate, whatever they prefer.

23 Q. Okay. You have some AFEs in your package, Ms.  
24 Mauritsen. I think the first one is Exhibit 4?

25 A. Right, Exhibit 4 is --

1 Q. Let's identify and describe that exhibit.

2 A. It's the Yates Petroleum Corporation AFE. Here  
3 it is. This is the AFE that we sent out to all the  
4 partners for our Stonewall AQK State Com Number 1.

5 Q. And what's the total completed well cost from  
6 your AFE?

7 A. Total cost is \$861,500.

8 Q. Okay. Mr. Quinn testified earlier today that he  
9 had submitted the August 30th proposal showing an estimated  
10 cost of \$697,000. He later said that when he gave you the  
11 actual AFE subsequently, that was -- I forgot the numbers,  
12 six hundred and --

13 A. I think it was \$736,000, possibly.

14 COMMISSIONER WEISS: That's Exhibit 12?

15 MR. KELLAHIN: Yes, sir.

16 Q. (By Mr. Kellahin) When they finally got around  
17 to submitting you the AFE, the \$697,000 goes up to  
18 \$775,425? All right?

19 A. That's correct.

20 Q. Okay.

21 A. That's the initial AFE we received back in  
22 October.

23 Q. And that's the one we discussed before Examiner  
24 Catanach?

25 A. That's right.

1 Q. Subsequent to having the order issued, did you  
2 receive notification pursuant to the pooling order to make  
3 an election under that order?

4 A. Yes, we did.

5 Q. And in that package, did you receive from  
6 Medallion an AFE that's different than the AFE they  
7 submitted to Examiner Catanach?

8 A. Yes, it is different.

9 Q. And do we have a copy of the one they gave you  
10 pursuant to the pooling order?

11 A. Right, it's -- Here, the Yates Exhibit Number 12.

12 Q. Okay, and what is the cost now on the AFE they've  
13 given you post-order?

14 A. It's \$818,625.

15 Q. \$818- --

16 A. Right, -625.

17 Q. -- -625. All right.

18 Unless the Commission takes action, what is the  
19 date at which Yates and the Yates group must make an  
20 election to participate pursuant to the pooling order?

21 A. It's going to be February 26th, approximately two  
22 weeks.

23 Q. And two weeks from now, you have to make an  
24 election, unless the Commission modifies the dates?

25 A. That's right.

1 Q. Okay. Subsequent to that hearing, have you  
2 received any additional elections to support Yates for  
3 operating the well in the east half of Section 20?

4 A. We received one from Kerr-McGee.

5 Q. I'm sorry?

6 A. We received one from Kerr-McGee about a week  
7 after the hearing.

8 Q. Kerr-McGee is the party that farmed out to  
9 Medallion?

10 A. That's right.

11 Q. But they've elected to support you as the  
12 operator of the well?

13 A. That's right.

14 Q. And that's included as part of the Exhibit 2?

15 A. Right, it's on the back of Exhibit 2.

16 Q. It's the last attachment to Exhibit 2?

17 A. That's right.

18 Q. Okay. You have -- We've identified Exhibit 4.  
19 What was Exhibit 5?

20 A. That's Mr. Fant's.

21 Q. All right. So we've completed identifying your  
22 exhibits.

23 Exhibit 12 was the post-order AFE that you got  
24 from Medallion?

25 A. That's correct.

1 Q. Okay. Now, the original force-pooling by  
2 Medallion was a force-pooling application that was filed on  
3 the 24th of September of 1996, and after that you got the  
4 information concerning the well, the AFE and the spacing  
5 unit; is that not true?

6 A. That's right, a couple weeks later.

7 Q. All right. When -- Subsequent to the meeting on  
8 November 7th, after the parties have discussed reorienting  
9 the spacing units, did you receive any communications from  
10 Mr. Quinn on behalf of Medallion before Medallion filed  
11 their next force-pooling application on November 12th?

12 A. No, we haven't talked to them, or they did not  
13 call us.

14 Q. So they filed again to force-pool you before  
15 sending you the information?

16 A. Right, I had not had a chance to talk to  
17 management yet, by the time they filed that saying they  
18 agreed or disagreed, either way.

19 Q. All right. When after the 24th of November did  
20 you then get the information with regards to their modified  
21 proposal for Medallion?

22 A. We actually received the proposal --

23 Q. On the 18th of November, right?

24 A. -- on the 18th, right --

25 Q. Okay.

1           A.    -- November 18th.

2           Q.    All right.  Summarize for us what Yates advised  
3 you to inform Medallion concerning this dispute over  
4 operations in Section 20.

5           A.    Okay, after the November 7th meeting where they  
6 proposed east half/west half, we visited with management  
7 and they said east half/west half was fine, the geologists  
8 recommended both wells be drilled.

9                   And management said, Please suggest to them  
10 that -- to let the largest working interest owner operate,  
11 whoever that may be.  They thought still they had 47.5.  
12 You know, we didn't think they did.  And they were thus  
13 checking after I told them that I didn't think they owned  
14 that.  And management just said, Offer that to them.

15                   When I asked them that they just said, No, we  
16 want to operate.

17           Q.    Let's address Commissioner Weiss's question, is,  
18 why are we having a dispute over operations?  Why is it  
19 important to Yates and why do you want to operate?

20           A.    I think it's mostly important because we have  
21 operated and drilled numerous wells out here, several -- I  
22 think five or six -- to the Morrow formation.  We have  
23 quite a bit of experience out here, and knowing that they  
24 have not drilled anything out here, we're real concerned  
25 about their lack of experience costing us.

1           And we are the largest owner; we will be paying  
2 the majority of the costs if they do operate and if  
3 anything goes wrong.

4           Q.    Are you also expressing a concern on behalf of  
5 your engineering department with regards to the way the  
6 wellbore has been designed in terms of its casing program.

7           A.    Yes, they are concerned about the casing program.

8           Q.    We'll let Mr. Fant describe that.

9           Do you have additional concerns on behalf of your  
10 company with regards to how they will attempt to settle and  
11 resolve these disputes with other operators so that we can  
12 avoid coming to the Commission and have these problems  
13 aired here?

14          A.    We have a little concern at having somebody with  
15 a lot smaller interest force-pooling us right off the bat.  
16 That kind of puts us in a position where we feel like we're  
17 going to have to react in some manner.

18                We'd prefer they come and talk to us first, and  
19 then if we're at odds then, of course, the cases are going  
20 to be filed.

21                But we are afraid they're going to be -- we could  
22 be -- there are more and more with cases like this, and  
23 we'd prefer not to be.

24                MR. KELLAHIN: That concludes my examination of  
25 Ms. Mauritsen, and we would move the introduction of her

1 Exhibits 1 through 5, plus 12. Did I get that right?

2 THE WITNESS: One through 4.

3 MR. KELLAHIN: One through 4, plus 12.

4 CHAIRMAN LEMAY: Without objection, Exhibits 1  
5 through 4, plus 12, will be admitted into the record.

6 Mr. Bruce?

7 CROSS-EXAMINATION

8 BY MR. BRUCE:

9 Q. Yeah, Mecca, looking at your Exhibit 3, the very  
10 first tab --

11 A. Right.

12 Q. -- there's handwriting on there. Is that your  
13 handwriting?

14 A. No, that is the handwriting of Janet Richardson.

15 Q. Okay, this prospect was originally assigned to  
16 Janet Richardson?

17 A. The farmout request was assigned to her. She's  
18 done some work in the Stonewall area, along with me. For  
19 some reason she initially got it, but when it came down to  
20 actually being a well proposal and being taken care of it,  
21 they asked me to take care of it.

22 Q. Okay. Looking at it over on the left-hand side,  
23 right by "Gentlemen", somebody obviously understood this  
24 would be a north-half unit, don't they? Didn't they?

25 A. Well, I think, from what Janet told me, upon

1 talking to Mr. Quinn, that he indicated it was north half,  
2 probably, and that's why she put it --

3 Q. Okay.

4 A. -- but they were considering going north half at  
5 that time.

6 Q. Okay. So as of September 3, or soon thereafter,  
7 people knew this was a north-half well proposal?

8 A. Actually, we didn't consider it a well proposal,  
9 we -- farmout request --

10 Q. Okay.

11 A. -- and we actually don't review them until --

12 Q. Well, okay, I'm not --

13 A. -- the AFEs come.

14 Q. Okay, I'm not --

15 A. Okay.

16 Q. -- meaning to use that term --

17 A. Right.

18 Q. -- I'm just saying, the well was -- They were  
19 looking at a north-half unit?

20 A. Right, that's correct.

21 Q. Now, before October, 1996, say for a couple of  
22 years before that, did Yates have any internal proposals  
23 circulating regarding drilling a well in Section -- a  
24 Pennsylvanian-age well, in Section 20?

25 A. No proposals, no.

1 Q. Has, say, during the 1990s, has Yates drilled any  
2 other Pennsylvanian-age wells in southeast New Mexico?

3 A. In southeast New Mexico? Oh, yes. I couldn't  
4 tell you the number, but yes.

5 Q. Many? Few? More than 10, more than 20?

6 A. I honestly couldn't say. We've drilled hundreds  
7 upon hundreds of wells in the 1990s in southeast New  
8 Mexico.

9 Q. Okay, many of them are --

10 A. I honestly couldn't pull a figure out of my head.  
11 I --

12 Q. Okay. Many of those are gas wells??

13 A. Yes, some.

14 Q. And so you drilled those despite the price of  
15 gas?

16 A. Most of the time if we're drilling with low  
17 prices, it's because of lease problems, lease expirations,  
18 things like that.

19 Q. But not all the time?

20 A. I don't know. I mean, I honestly couldn't say.

21 Q. So you didn't always need these winter, 1996, gas  
22 prices to drill Morrow wells in the state?

23 A. I don't know if I can honestly say that. Without  
24 really reviewing what all we've drilled, I couldn't tell  
25 you.

1 Q. Okay. But I haven't heard you -- You haven't  
2 disputed Medallion's Exhibit B which shows that in this  
3 area the last Morrow well drilled was 1978?

4 A. No. I believe that's correct, if they've looked  
5 at the cards.

6 Q. Now, what -- When did you send on behalf of Yates  
7 a well proposal on the east half of Section 20 to  
8 Medallion?

9 A. On the east half?

10 Q. Yeah --

11 A. Let me --

12 Q. -- what was the date of your letter?

13 A. Let me look here and I'll make sure.

14 Q. Sure.

15 A. November 22nd.

16 Q. Okay. Do you recall or do you have an idea of  
17 when InterCoast, now Medallion, received that?

18 A. Let me look. I think I have the card. That's  
19 Number 9. If I remember, I copied the receipt here.  
20 November 25th.

21 Q. And when was Yates' application for compulsory  
22 pooling of the east half filed?

23 A. I honestly don't recall the date. It was in  
24 November, but I don't recall the date.

25 MR. BRUCE: I'm sure that's in the record, Mr.

1 Chairman. I believe it was around November 26th.

2 THE WITNESS: 25th, 26th, sticks in my mind, but  
3 I don't recall because I don't have it here.

4 Q. (By Mr. Bruce) So Medallion at most had one day  
5 to consider this before Yates filed this pooling  
6 application?

7 A. That's correct.

8 Q. Okay. So really on these east-half proposals,  
9 there's no difference between the two companies: They both  
10 wanted a well drilled and they both sent out proposal  
11 letters, and they both filed pooling applications; is that  
12 correct?

13 A. That's correct?

14 Q. And one of the reasons -- And one of reasons is  
15 Medallion's farmout; is that correct? I mean, Medallion  
16 had to file because it did have a farmout?

17 A. That's correct, yes.

18 Q. Your leases were HBP?

19 A. Well, actually all the leases are HBP, but they  
20 do have that farmout date.

21 Q. All right, excuse me. Excuse me.

22 A. Yeah, the farmout date is the critical date.

23 Q. But you don't have to worry about any lease or  
24 farmout expiration?

25 A. No.

1 Q. Now, Yates did propose a well in the northwest  
2 quarter. What is the status of that well at this time?

3 A. We just found out yesterday that our order for  
4 the unorthodox location -- Actually, it was dismissed  
5 because it wasn't actually unorthodox according to the 1970  
6 pool rules. So as soon as I get back, we'll inform  
7 everybody and we'll try to get a rig to drill it.

8 Q. Okay. So that hearing also came on --

9 A. December 19th, we just did not know the status of  
10 the order until yesterday.

11 Q. It was originally proposed as an unorthodox  
12 location, I believe?

13 A. Right, it was.

14 Q. And due to some concern by offsets it was moved  
15 back, moved further south?

16 A. Yeah, it was 990/990 out of the corner. We then  
17 moved it 1650 and 990.

18 Q. But you have not yet commenced that well?

19 A. No, due to the fact we didn't know anything about  
20 the order until yesterday. We could have, we had a rig  
21 available, but we went ahead and moved it to another  
22 location because we didn't have any order in hand.

23 Q. Now, you stated Medallion doesn't have any other  
24 interests in this area. It's certainly possible for  
25 Medallion to acquire interests in this area, is it not?

1           A.    Through farmouts, acquisitions, yes.

2           Q.    Okay.  Now, you've got your upcoming election  
3 decision under the current order.  I guess I'm kind of at a  
4 loss.  Doesn't Yates want to participate in the well?

5           A.    That's a decision to be made by management.

6           Q.    But you want to operate the well regardless?

7           A.    If it's going to be drilled, we prefer to operate  
8 it.  The only reason they might consider doing otherwise is  
9 having an operator that they're not sure that they want to  
10 be participating in with that large an interest.

11          Q.    Okay.

12          A.    And that decision has not been made.

13          Q.    Should Yates be the operator if it's not going to  
14 participate in the well?

15          A.    I'm not sure I follow your question, Mr. Bruce.

16          Q.    I'm just asking your opinion.  Do you think Yates  
17 should operate the well if it's not participating in it?

18          A.    They will participate if they're the operator.

19                The only decision to be made if we're not elected  
20 operator is whether they want to put 37.5 percent of their  
21 interest into a well operated by an operator that they are  
22 not familiar with and not sure about.  We're putting quite  
23 a bit of money at risk.

24          Q.    You don't have anything that Medallion is an  
25 unqualified operator, do you?

1           A.    No, but we don't have anything saying otherwise  
2 either.

3           Q.    Did you receive Mr. Quinn's phone call on or  
4 about January 22nd?

5           A.    I believe so, yes.  I believe there was a note.

6           Q.    Did -- You never returned the call?

7           A.    Obviously, I didn't.

8           Q.    Do you know why?

9           A.    No, I don't know why.  I know I was in meetings  
10 that day.  I remember seeing the note.  Obviously, I  
11 misplaced it.

12          Q.    Just one final question, Mecca.  I mean, you've  
13 talked about the Yates group, but Myco, Abo, Yates  
14 Petroleum and Yates Drilling Corporation, they're all  
15 corporations, are they not?

16          A.    Yes, they are.

17          Q.    And they're separate legal entities, are they  
18 not?

19          A.    Yes, they are.

20                MR. BRUCE:  That's all I have, Mr. Chairman.

21                CHAIRMAN LEMAY:  Thank you, Mr. Bruce.

22                                REDIRECT EXAMINATION

23           BY MR. KELLAHIN:

24           Q.    Ms. Mauritsen, other than one phone call from Mr.  
25 Quinn, did you get any other phone messages from him?

1           A.    No, I think he did call about two weeks before  
2           that and we discussed a title opinion that they had done,  
3           mentioned rigs a little bit, mentioned receiving the order  
4           shortly. But other than that, no, we've had no  
5           conversations.

6           Q.    You were not trying to avoid his phone calls,  
7           were you?

8           A.    Oh, no. Obviously, I misplaced it. I do  
9           remember it when he mentioned it, but I obviously misplaced  
10          it.

11          Q.    And he did not call you?

12          A.    No.

13          Q.    And he didn't send you a fax or anything else to  
14          communicate anything about the well?

15          A.    No, he didn't.

16                   CHAIRMAN LEMAY: That's it, Mr. Kellahin?  
17                   Commissioner Bailey?

18                                   EXAMINATION

19                   BY COMMISSIONER BAILEY:

20                  Q.    Your Exhibit 1 indicates that the Stonewall Unit  
21                  boundary incorporates the entire Section 20?

22                  A.    Yes, I only did that because 5 percent of the  
23                  northeast is committed, and it's kind of hard to  
24                  differentiate that since it's a partial commitment.

25                  Q.    But the unit agreement that was approved by all

1 the regulatory agencies does not use that quarter quarter  
2 as committing portion for that unit?

3 A. I'm not sure I understand your question.

4 Q. Is this a state exploratory unit?

5 A. No, no, this is just a working interest unit  
6 agreement.

7 Q. Okay, so --

8 A. It's not a federally or state-approved unit.

9 Q. Okay, that answers --

10 A. Yeah, by reference we just call it the working  
11 interest unit -- I mean, unit -- but it's just a working  
12 interest unit.

13 Q. So you don't submit plans of development to  
14 promote this unit to --

15 A. No, ma'am, we don't.

16 Q. -- regulatory agencies?

17 A. No, ma'am.

18 Q. As a communitized well, would that be a portion  
19 of this unit operating agreement?

20 A. Yes.

21 Q. Are there any Morrow wells in this Stonewall unit  
22 that are producing now? The map was very unclear as to  
23 what the producing wells --

24 A. I believe there's -- I believe there's still one  
25 producing.

1 I think there were six drilled originally, and I  
2 do believe one, if not two, are producing still from the  
3 Morrow.

4 MR. KELLAHIN: If I may interrupt, Commissioner  
5 Bailey, the geologic displays will show not only the  
6 geology but they will show the well status --

7 COMMISSIONER BAILEY: Okay.

8 MR. KELLAHIN: -- by color code, and that may be  
9 of assistance.

10 Q. (By Commissioner Bailey) Did you state that you  
11 have a rig available now?

12 A. We have three or four rigs that are capable of  
13 drilling to this depth.

14 Most of them are on location. Some are almost  
15 done, some are starting. But we have the possibility of  
16 moving any of those, you know, when they're completed to  
17 this location.

18 I mean, it doesn't matter now, there's a rig out  
19 there. But we would have had that possibility before.

20 Q. So what would you assume would be the soonest  
21 that you could commit a rig to drilling this well, if  
22 you --

23 A. I would have to check with our people and let you  
24 know what we're at on the current wells.

25 COMMISSIONER BAILEY: That's all I had.

1 CHAIRMAN LEMAY: Commissioner Weiss?

2 EXAMINATION

3 BY COMMISSIONER WEISS:

4 Q. Does Yates do farmout deals with majors? Do you  
5 pursue farmouts with other people?

6 A. We request farmouts? Is that what you're --

7 Q. Yeah, such as --

8 A. Yes, we do.

9 Q. -- such as KCS.

10 A. Yes, we do.

11 Q. How long does it take to get a deal done,  
12 normally?

13 A. I would say on average it takes, you know, a  
14 month or more, because normally after the first request --  
15 you know, very likely with a major you don't response for  
16 three or four weeks unless you call them and, you know,  
17 push them along quite a bit, and then you've got to  
18 negotiate an agreement which could take, you know, a couple  
19 weeks to do, if they're agreeable to even farming out to  
20 begin with.

21 So I would say average, you know, you're looking  
22 at a couple months with one of the majors.

23 Q. I'm surprised it's that fast.

24 And then if you run into trouble, do you force-  
25 pool them, you know, if you have arguments? I'm just

1 wondering if the shoe's on the other foot, how do you guys  
2 work? Do you follow the same course of business or --

3 A. Normally, if we were in a case like this where we  
4 didn't have, we couldn't farm it out all, a lot of times we  
5 don't pursue it unless we can get a majority interest,  
6 first of all. We prefer to have the majority interest so  
7 we can operate.

8 An interest like this, with an old operating  
9 agreement in place from an operator, normally, I would  
10 think we'd go to the operator first and try to work out a  
11 deal with them and get them tied up to maybe farming out or  
12 doing something before you pursue any other actions.

13 Q. Does that typically happen? I'm just wondering  
14 how this --

15 A. Typically, yes. We usually don't force pool  
16 until after some negotiation with everyone, and I've never  
17 force-pooled without sending out an AFE, an operating  
18 agreement and a proposal.

19 And a lot of times in our proposal we will put  
20 a -- farmout terms in there. If you don't want to  
21 participate, we'll consider a farmout at these terms.

22 But we usually try to get several letters in and  
23 phone conversations in.

24 Q. Maybe you're not the person to ask, but now that  
25 there's a drilling rig out there that's --

1 A. Right.

2 Q. -- down several hundred feet, what happens if you  
3 win this case here?

4 A. I'm assuming we will take over the operations  
5 from Medallion?

6 Q. Go move that rig off?

7 A. No, no. No, we will keep the same rig and use  
8 it. It's a Peterson rig. We use Peterson rigs ourselves.  
9 We have no problem with the contractor.

10 COMMISSIONER WEISS: I think that's all my  
11 questions. Thank you.

12 THE WITNESS: Uh-huh.

13 EXAMINATION

14 BY CHAIRMAN LEMAY:

15 Q. A couple, Ms. Mauritsen.

16 I understand that you either didn't like the  
17 prospect or it didn't occur to you to pursue it because --  
18 You stated the price of gas was too low up to the fall of  
19 this year, so you didn't approach Kerr-McGee on a farmout  
20 or anything?

21 A. No, actually what I was trying to refer to --  
22 Maybe I misunderstood.

23 Mr. Beck, in working this area with him, has  
24 mentioned to me several times that he has always like this  
25 area for deep north half. But I believe he hadn't -- or

1 Yates hasn't asked him to pursue it because of price and  
2 plus plenty of other areas that we're active in.

3 Q. So if Ray liked it a lot, you would have probably  
4 gone after a Kerr-McGee farmout, wouldn't you?

5 A. Well, actually, we would have probably just gone  
6 west half and not gone after the northeast quarter at that  
7 time. And if successful there, yeah, we probably would  
8 have jumped over.

9 Q. The Yates group, I'll get back to that.

10 A. Right, right.

11 Q. It's a common term around here.

12 A. Yes.

13 Q. You mentioned some of the Yates group. Is  
14 Explorers or Yates Energy part of the Yates group?

15 A. No, Yates Energy is Mr. Fred Yates in Roswell.  
16 It's a different company, different family. I mean --  
17 Yates Petroleum has three brothers who have all had their  
18 families, and Harvey Yates split off, I think 1960, and  
19 went to Roswell to make Heyco, and Fred is on that side of  
20 the family. He has Yates Energy.

21 Q. Well, it could be part of the Yates group if you  
22 include cousins; that's my point. I didn't know how far  
23 the --

24 A. Oh, no, I work --

25 Q. -- I mean, do you go brothers, do you go cousins,

1 what --

2 A. Oh, I see what you're -- No, we talking about  
3 Yates Petroleum and their family that operate Yates  
4 Petroleum, and they then each have their own companies.  
5 That's the Yates group we refer to.

6 Q. Have you ever gone nonconsent on each other, do  
7 you know?

8 A. Not of my knowledge. They have farmed out to  
9 each other, but I don't think they've ever nonconsented.

10 Q. Your operating concerns, you've mentioned them.  
11 Are they concerns more to the casing point through  
12 completion, or after the well was completed -- we'll assume  
13 it's a gas well -- operations from that point on? Is that  
14 a concern? What -- Can you prioritize your concerns?

15 A. Well, I -- I'll do it, but I think Mr. Fant will  
16 do a little bit too. I think it's more of just having an  
17 unknown operator with no experience out here that we're  
18 aware of.

19 There is a problem with the casing program as our  
20 engineers see it, and there is some concern that based on  
21 the farmout with, I'm assuming, some back-ins and different  
22 things, you know, they might have some other reasons for  
23 not wanting it to pay out or -- You know, and I'm not  
24 accusing them of anything, but we've had people do that to  
25 us before, and I'm not -- I don't know of Medallion ever

1 doing that, because we've never dealt with them.

2 Q. Has Yates ever taken a farmout with a back-in?

3 A. Oh, all the time, you have to. I'm just  
4 saying --

5 Q. -- other operators that you might --

6 A. No, I'm more --

7 Q. -- postpone the --

8 A. No, our more concern is, I believe there's no  
9 back-in on this but I think there's an increased override.  
10 And, you know, it's to your negative to have it pay out and  
11 get docked another 5 or 10 percent. And I'm not saying  
12 they will, I'm not accusing them, but we have had people  
13 slow down payouts before by increasing operating costs and  
14 different things.

15 Q. Has Yates done that when they've gotten farmouts  
16 with excess overrides --

17 A. Not that I'm aware of.

18 Q. Final question --

19 A. Uh-huh.

20 Q. -- Medallion has characterized, and I know the  
21 Examiner's order has emphasized, that they were the moving  
22 force or they were the initiator of the prospect in the  
23 area. Would you characterize them as that?

24 A. That's a hard one. I don't know. I know we have  
25 had ideas about deep prospects out here, you know, just in

1 my talking to Mr. Beck. But he has not come forward with  
2 any real proposal, you know, up to this date until this  
3 came up, and then he automatically said, Yeah, I want to  
4 drill up here, because he already had the idea of drilling  
5 on that site. But they did work it and did propose first,  
6 yes.

7 Q. So that would be a fair statement, you wouldn't  
8 challenge that statement?

9 A. Well, I don't if I'd call him the moving force.  
10 They did propose it first. The moving force was force-  
11 pooling everyone before proposing it, though.

12 CHAIRMAN LEMAY: Okay, thank you. That's the  
13 only question I have. You may be excused, Mecca.

14 THE WITNESS: Thank you.

15 MR. KELLAHIN: Mr. Chairman, I'd like to call my  
16 last witness, Mr. Bob Fant.

17 ROBERT S. FANT,

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

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. For the record, Mr. Fant, would you please state  
23 your name and occupation?

24 A. My name is Robert Fant. I'm a petroleum engineer  
25 for Yates Petroleum Corporation.

1 Q. Did you testify in that capacity on behalf of  
2 your company before Examiner Catanach on December 19th when  
3 he heard the Examiner-level hearing in this case?

4 A. Yes, sir, I did.

5 Q. And as part of your preparation for that case,  
6 did you analyze and compare the drilling and completion  
7 programs proposed by the two companies, as well as the AFE  
8 costs?

9 A. Yes, sir, I did.

10 Q. Based upon that comparison, were you able to  
11 conclude that the costs, the bottom-line costs, if you  
12 will, at that time, before they submitted to you the  
13 revised AFE, were reasonably equivalent?

14 A. Yes, sir, that was one of my conclusions.

15 Q. Before we get into the topic of the latest  
16 revised AFE from Medallion, is there a display that you  
17 have before you that we've shared with the Commission to  
18 show the single entry point which you want to talk about  
19 today concerning the 4-1/2-inch casing? Is there a price  
20 related to the difference between the 4 1/2 and the 5 1/2?

21 A. Yes, okay, the basic differential cost between  
22 the two production casing strings is \$41,700. That's  
23 estimated costs on AFEs.

24 Q. Describe for us why you were arguing before the  
25 Examiner for having him order that the 5-1/2-inch be put in

1 the wellbore?

2 A. Well, basically what we've talked about here  
3 today -- and the prospect was initially generated based  
4 upon Morrow gas -- the potential pays in this well, there  
5 are seven.

6 You've got the -- You start at the bottom with  
7 the Morrow, and forgive me if I get out of order but you've  
8 got the Atoka, the Strawn, as you're coming up the hole  
9 you've got the Wolfcamp, you've got Bone Spring, two  
10 separate Delaware zones, which I'm lumping into one, and  
11 then you've got potential in the Yates formation.

12 You have seven potential pays in this well.

13 Q. When you look at the Medallion design, they are  
14 focusing only on the single deepest, the Morrow zone?

15 A. That is my conclusion, and that's all that has  
16 been talked about from their standpoint, is the Morrow.

17 These other zones, several of these other zones,  
18 especially the Bone Spring, Delaware and Yates formations,  
19 are oil-bearing formations that also produce water. You  
20 must move large volumes of water, generally, in association  
21 to get the oil and the gas out.

22 4-1/2-inch casing restricts that. It limits your  
23 ability to move fluid. 5-1/2 is the standard in the  
24 industry, and it will allow you to move the fluid volumes  
25 necessary to efficiently complete those zones.

1           And it's these other zones that help make this  
2 particular prospect attractive. It's not just the Morrow.  
3 It's -- In the last few years, we've had the growth of the  
4 Delaware formation within our state. Not -- The formation  
5 has always been there, but the activity within the Delaware  
6 formation has increased.

7           Just recently we have had a tremendous amount of  
8 interest in the Bone Spring formation and increased  
9 activity in the Bone Spring and learning how to complete in  
10 the Bone Spring and make wells there.

11           So it's the increased interest in other zones,  
12 along with the Morrow. The Morrow is there and it's been  
13 there, but the additional gas prices help to bring the  
14 whole package to economic.

15           And you need a well plan that can tap all of  
16 those reserves, not just one of them, not just the Morrow.  
17 The Atoka is gas too. I mean, it's not going to affect  
18 that much either.

19           But when you get into those oil-bearing liquid-  
20 production zones, it's very important to have the larger  
21 casing.

22           Q. Let's talk about the relative potential of this  
23 Morrow gas area in 20, as opposed to other deep gas areas  
24 in terms of sequencing how Yates has drilled for those  
25 wells with escalating prices.

1           A.    Oh, well, there are other areas that -- and Ms.  
2   Mauritsen spoke of several -- or another type of concern.  
3   She spoke of a concern in terms of whether we drill wells  
4   at low gas prices.  She said, we drill some -- that we have  
5   drilled some Pennsylvanian wells, Pennsylvanian Morrow gas  
6   wells, when prices were lower, due to lease considerations.

7                    But -- And we have also drilled other Morrow  
8   targets that were -- when the -- that were not lease  
9   considerations.  Those were larger targets.  The potential  
10  gas that we were going for was larger.  If your target's  
11  larger, you can survive a lower gas price if you have more  
12  gas that you can get out of the well.

13           Q.    And that was not the case in this particular area  
14  of Section --

15           A.    This particular area has had several wells  
16  drilled in it, and there are some wells with some very good  
17  cums.

18                    But the potential that's left out there is not  
19  the 2.5 or 3 BCF of many of these wells.  The potential out  
20  here is a BCF or less, in which case, in low gas prices,  
21  it's not very attractive.

22           Q.    Yates has learned that over time by being an  
23  operator in the pool?

24           A.    Being an operator in the pool and being an  
25  operator in the Morrow in southeast New Mexico.  I mean, we

1 not only do that, but -- I mean, we not only drill here,  
2 but we drill a tremendous -- we operate in the Delaware  
3 Basin, where a lot of this Morrow is.

4 Q. Let's touch on the subject of the latest revised  
5 AFE from Medallion that was received with your post-order  
6 election. That's Exhibit Number 12, is it?

7 A. Yes, sir, it is.

8 Q. What's the bottom line on that exhibit?

9 A. The bottom line, total well cost, \$818,625.

10 Q. What's the comparison and how did it get to be  
11 different? Have you analyzed that to figure that out?

12 A. Where the differences are in their two AFEs? Is  
13 that what you're asking?

14 Q. Yes, sir.

15 A. Okay, going from the Division hearing to the *de*  
16 *novo* hearing here, they increased their footage costs, they  
17 went up by approximately \$56,000 for the rig costs. That's  
18 one major item where they went up.

19 There are -- There's at least one more item, that  
20 is unusual to me, that went up and that was their  
21 intermediate casing string. On their original proposal --  
22 and I believe they submitted that AFE to you as one of  
23 their exhibits in the Division hearing -- they proposed  
24 running 8-5/8-inch intermediate casing to 3000 feet.  
25 That's what we had proposed.

1           On their revised AFE that they sent us in  
2     January, after the Examiner hearing, it suddenly has 9-5/8-  
3     inch intermediate casing to 3000 feet. So now we're  
4     running a bigger string of casing that costs more, and  
5     we're still putting 4-1/2-inch casing inside of that. That  
6     doesn't make much sense, really, unless that's all the  
7     casing you happen to have around. But there is 8-5/8-inch  
8     casing in the market today that can be bought. And 8-5/8  
9     is all that's necessary for that.

10           The standard casing program for this type of well  
11     would be 13-3/8 surface casing, 8-5/8-inch intermediate  
12     casing and 5-1/2-inch production casing.

13           We have gone to a larger intermediate string,  
14     which doesn't make any sense, but it does increase the  
15     costs.

16           Q.    Commissioner Weiss and others have asked, Why is  
17     Yates so concerned about operations, and why do they want  
18     to operate this well?

19           A.    Well, I believe --

20           Q.    What does that mean here?

21           A.    Yeah, I believe I've covered a few of those. We  
22     don't have a historical basis in dealing with them, but  
23     what experience we do have relates to these AFEs.

24           They're running too small a casing to the bottom  
25     of the well, and now they want to put too big a casing in

1 the intermediate string.

2 And there's one more thing with regards to  
3 running small casing to the bottom of the string. You  
4 drill the same size hole to put 5-1/2-inch or 4-1/2-inch  
5 casing in. You drill a 7-7/8-inch hole, or you use a  
6 7-7/8-inch bit. Which means you're going to spend more  
7 money to cement that 4-1/2-inch casing in the ground. This  
8 is just -- You've got more volume to fill up, it take more  
9 cement to fill it. So you're going to spend more money.

10 So the cost differential between 4-1/2-inch and  
11 5-1/2-inch is smaller than it looks. It's not just the  
12 difference in cost between the casings.

13 Q. When Yates as an operator operates a well and is  
14 responsible for drilling it and completing it, are there  
15 decisions made by you as the operator, or any operator,  
16 that are independent of and free from prior approval of the  
17 other working interest owners? You're going to make  
18 decisions in the field by those technical people, are you  
19 not?

20 A. There's decisions that are going to be made on  
21 the -- quote, unquote, on the fly, that as the well is  
22 being drilled that are being done and --

23 Q. That's simply the nature of the business?

24 A. That is the nature of the business. InterCoast  
25 -- or, excuse me, Medallion, would make those decisions

1 while they're drilling.

2           They made those decisions already by obtaining --  
3 When they built the location, they decided how they were  
4 going to build it and may have spent more money than  
5 somebody else might have spent, based upon decisions that  
6 they made.

7           Q.   And those are all decisions the operator gets to  
8 make, which are free from prior approval of the working  
9 interest owner?

10          A.   Pretty muchly, yes, sir.

11          Q.   And so you become concerned when there is an  
12 inexperienced party operating the well?

13          A.   Yes.

14          Q.   And your anxiety level increases where your  
15 collective group of owners has a substantially larger  
16 investment in the outcome than the party operating the  
17 well?

18          A.   Yes. Our interest, in terms of how we watch  
19 things, is directly proportional to our financial burden  
20 there. And when we have a larger financial burden but  
21 don't have any say in what's going on, it is a concern,  
22 when we have the largest financial burden.

23          Q.   If you are allowed to operate the well, will you  
24 commit your interest and the Yates group commit its  
25 interest to participating in the well?

1           A.    Absolutely.

2           Q.    The question was raised about changing the rig.  
3    What is the obvious first choice, and what does your  
4    experience tell you you ought to do if Yates is allowed to  
5    be operator?

6           A.    We would prefer to just assume the operations  
7    with Peterson and allow Peterson to continue drilling the  
8    well.

9           Q.    They would be the drilling contractor, and then  
10   you would put your own geologist and technical people that  
11   are appropriate on the site and take over from there?

12          A.    Yes, sir.

13               MR. KELLAHIN:  That concludes my examination of  
14   Mr. Fant.

15               CHAIRMAN LEMAY:  Thank you.

16               Mr. Bruce?

17               MR. BRUCE:  Just a couple questions, Mr.  
18   Chairman.

19                               CROSS-EXAMINATION

20   BY MR. BRUCE:

21           Q.    Mr. Fant, looking at your Exhibit 5, are you  
22   saying that if Medallion uses 5-1/2-inch casing the costs  
23   are equivalent?

24           A.    I believe that -- I'm saying basically the costs  
25   are equivalent either way.  \$42,000 difference in AFEs on

1 this size is not a major difference. I'm not saying that  
2 that's a difference that -- the one item -- You look,  
3 there's \$43,000 difference in total well costs, and \$42,000  
4 of that is that 5-1/2-inch versus 4-1/2 inch.

5 Q. It's a few percent. I mean, it's a lot of money,  
6 but they're roughly equivalent?

7 A. Yes, when you're dealing in this scale.

8 Q. Okay. I'm sorry, Mr. Fant, I don't have anyone  
9 here. I mean, the printout on 9-5/8-inch casing, could  
10 that be a typo?

11 A. No, I don't believe so, because they changed the  
12 costs.

13 Q. Oh, okay.

14 A. That was my first question.

15 Q. Okay. On their footage rate, I mean, that's gone  
16 up. Have -- Rig availability has been a problem recently,  
17 hasn't it?

18 A. Oh, yeah, I'm not saying that -- I think they're  
19 getting more in line with that footage rate. I'm thinking  
20 they did the right thing in changing that number.

21 Q. Costs have gone up quite recently?

22 A. Costs have gone up recently, with the increase in  
23 the price of gas and oil.

24 Q. More activity, supply and demand?

25 A. Supply and demand, absolutely.

1 Q. Have you ever called any drilling engineer,  
2 drilling people, at Medallion to discuss your concern about  
3 5-1/2-inch casing?

4 A. No, sir, I have not.

5 Q. One thing, Mr. Fant. You might not have it in  
6 front of you, but your Exhibit 12, which is Medallion's new  
7 AFE --

8 A. Okay.

9 Q. -- it shows a TD of 11,500 feet. Their first AFE  
10 had a different depth, did it not?

11 A. Yes, sir, their first AFE had 11,250. And if you  
12 look on the casing programs over in tangible costs, they  
13 still -- they're only talking -- they still say 4-1/2-inch  
14 at 11,250 feet, so that's kind of --

15 Q. Okay. But Yates would prefer to go to 11,500  
16 also?

17 A. Mr. Beck would prefer to go to 11,500 to log-  
18 cross an unconformity that exists at that -- near that  
19 depth, and wanted to pull logs across it.

20 Q. I know you've expressed your concern about  
21 Medallion, but do you have any knowledge of Medallion being  
22 a poor operator or an unqualified operator?

23 A. No, sir, I do not. All I have is the experience  
24 we have here.

25 Q. And finally, you've mentioned these potential pay

1 zones, Atoka and others. Those are obviously 320-acre  
2 spacing, correct?

3 A. No, sir, some of them would be smaller spacing.

4 Q. Okay. But the Atoka, for instance, would be 320?

5 A. I would be beyond my specific knowledge at this  
6 point. I would assume so.

7 Q. But some of the shallower ones -- you mentioned  
8 Yates, Delaware, Bone Spring -- those are on -- depending  
9 on oil or gas, they would be 40- or 160-acre spacing; is  
10 that correct?

11 A. Yes, uh-huh.

12 MR. BRUCE: That's all I have, Mr. Chairman.

13 CHAIRMAN LEMAY: Commissioner Bailey?

14 EXAMINATION

15 BY COMMISSIONER BAILEY:

16 Q. With the seven potential zones, with the price of  
17 gas, is Yates going to end the preferred location in the  
18 northwest quarter? Is Yates going to drill that west half?

19 A. Yes, ma'am. We are going to drill the northwest  
20 quarter. I mean, there's potential pays in both wells, and  
21 we will drill both -- we will drill the northwest, and we  
22 will -- if elected as operator of the northeast, we will  
23 drill that.

24 Q. How soon would you expect a well in the northwest  
25 quarter?



1 number that you can put a number down on an AFE, but it's  
2 really much more determined by what the well requires.

3 Q. I notice that Medallion only scheduled one.

4 A. Yes, sir. And would, I would suspect, would be  
5 for the Morrow zone, and they would not test other zones.

6 But again, that's an AFE number, and it's really  
7 something that -- Those things are really driven by what  
8 kind of samples and shows you get, coming out of the well.

9 COMMISSIONER WEISS: Okay. Well, that's my only  
10 question. Thank you.

11 EXAMINATION

12 BY CHAIRMAN LEMAY:

13 Q. Mr. Fant, I guess I want to -- I had the same  
14 question that Commissioner Weiss had, actually, the DST and  
15 testing cost.

16 Look at the land map. This gets in the area of  
17 operating concern or concern of nonoperators, the fact  
18 Yates has acreage both sides of this proration unit, would  
19 probably benefit by more tests than fewer tests, because  
20 they could test up their acreage as far as other zone.

21 If Medallion comes in with just a 160-acre  
22 farmout, they're limited what they can develop, so it may  
23 be less incentive to test a lot of zones, especially  
24 marginal calls on drill stem tests. Is that a fair  
25 characterization?

1           A.    We have additional acreage to the west.  We're  
2 going to drill that.  I mean, period.  We are going to  
3 drill that.

4                    So I'm not sure that that's an absolute -- I  
5 think I see your concerns that we would be proving up our  
6 own acreage with dollars in this particular well.

7           Q.    Well, I mean, you know --

8           A.    Yeah.  Well, it wouldn't be the first time it had  
9 happened in the world.  I don't know about this particular  
10 instance.  I do know we are going to drill the west half.

11                   If somebody would like to have us run less tests,  
12 we could do that.  I don't think that's to the benefit of  
13 the owners in this particular well.

14           Q.    That probably -- I wasn't coming from that.  I  
15 was trying to come to grips with the idea that it was  
16 stated the operator has lots of discretion drilling the  
17 well.

18           A.    That is --

19           Q.    You can call the tests, you're not going to -- I  
20 mean, you can expend usually on -- \$15,000 or \$20,000 or  
21 something before you get other approvals.

22           A.    Uh-huh.

23           Q.    There's some discretion given to you in there?

24           A.    Yeah, within -- And especially it's much higher  
25 during the drilling operations of the well.

1 Q. Yeah, than it would be afterwards.

2 A. Uh-huh.

3 Q. But even afterwards, if you're going to  
4 production-test a lot of zones that may be more beneficial  
5 to an operator who has lots of acreage in the area than one  
6 who doesn't?

7 A. Yes, the production tests of multiple zones,  
8 since this is a Morrow test, would probably require a  
9 recompletion.

10 Q. Say the Morrow is dry, then --

11 A. Say the Morrow's dry, then --

12 Q. -- you've got all these other zones you might or  
13 might not play with?

14 A. Yeah, I mean -- we would -- It's still in our  
15 best interest to do what's best for the well.

16 Q. Well, there's so much operator discretion  
17 involved that we get conflicting testimony. What's in the  
18 best interest of one person may not be another person.

19 A. Yes.

20 Q. I don't know how you could ever weigh all of the  
21 competing interests and come up with one, quote -- a fair  
22 person who would not -- who could not operate according to  
23 their own best self-interest, and maybe at someone else's  
24 lesser interest.

25 We're asked to view on these competing force

1 pooling applications. It's very difficult, to be honest  
2 with you, because if you look at correlative rights, if you  
3 look at waste issues, my own personal view is that -- and I  
4 think it's shared by a lot of people -- those aren't  
5 paramount in these kind of things.

6 Two operators can operate a well and probably do  
7 a pretty good job, it boils down to one of control --  
8 wanting to control your own financial interest, that type  
9 of thing.

10 So we look at our statutory obligations, they're  
11 kind of minimal if you're talking about waste and you're  
12 talking about correlative rights, compared to other things  
13 we hear. I mean, I hear from Mr. Kellahin all the time  
14 that we need to look at our -- how we view these cases so  
15 we send signals to the industry, what's important.

16 I can tell you right now, correlative rights and  
17 waste, those two issues are very important, and they're  
18 always less important, what we've seen in these force  
19 pooling cases, than they have been in other types of cases.

20 So we're looking at areas where we can make these  
21 kind of decisions as to who should be the best operator.  
22 And we come down to interest. In this particular case,  
23 Examiner Catanach emphasized the fact that the originator  
24 of the prospect should be rewarded or, because they were  
25 the movers in the area, should be the operator. That's one

1 aspect under our consideration today.

2 So what I'd like to have is testimony as to  
3 input, what's important to you, maybe from our point of  
4 view, if you see what I mean.

5 Let me ask you another question in this regard.  
6 We're talking about operator discretion, operator  
7 priorities. Is it more important for you to operate, if  
8 you had the choice, through completion of the well or after  
9 -- say it's a gas well in the Morrow -- after the well was  
10 completed and on production?

11 A. Boy, that's a tough one. Quite honestly, my  
12 experience is, over the life of a well you spend more money  
13 operating it than you do drilling it, especially in a  
14 multi-pay interval such as we have in this particular case,  
15 because we complete in the Morrow, it plays out. You look  
16 at many of the wells in this area. They've been completed  
17 in the Morrow, then they've been completed in the Atoka,  
18 then the Strawn, and maybe they're moved up to the Bone  
19 Spring or something.

20 Every time you move -- Every time you change zone  
21 you're going to spend some money. I mean, it would not be  
22 uncommon to spend \$100,000 each time. Plus operating costs  
23 go on top of that.

24 I believe, you know -- This is the opinion of Bob  
25 Fant, okay? I can't exactly state this as the opinion of

1 Yates Petroleum, but this is my opinion, that it's more  
2 important, the operations of the well day to day for the  
3 life of the well, are more important once the well is down  
4 and completed.

5 The problem with that here is, we can be left  
6 with something that's not in the best of conditions for  
7 operating. We could be left with a casing program that is  
8 too small.

9 Now, and my experience is, in 4-1/2-inch casing  
10 over the life of the well you spend more money than you do  
11 in 5-1/2-inch casing, because the tools of the industry are  
12 designed to work in 5-1/2-inch casing. 5-1/2-inch tools  
13 are cheaper than 4-1/2-inch tools, generally.

14 Q. Where you have -- Have you been involved in  
15 relatively inexperienced operators in the past, in the  
16 areas?

17 A. I don't get greatly involved in the operation, in  
18 those operations of what other people are doing. I work in  
19 the -- I'm in the oper- -- I'm in the engineering group,  
20 but I work on operated properties. That's where the  
21 majority of my experience is.

22 I know what we would do, I know why we would do  
23 these things, I know the reasons why we would do these  
24 things. And therefore, when I see somebody else doing  
25 differently it concerns me.

1 I do not work with the other operators real  
2 closely, just in my job.

3 Q. Well, I guess that was where I was going. Is  
4 there anything to preclude you from working with another  
5 operator, making some recommendations or discussing like  
6 the casing program, doing a more cooperative effort, rather  
7 than saying, Hey, you're the operator, whatever you do,  
8 I've got no input to it?

9 A. Well, we would certainly provide our input if we  
10 were not elected as operator. But we believe that the  
11 prevailing concern here is the majority of interest, and  
12 that -- you know, we believe that is one of the pre-eminent  
13 issues.

14 And we have not only the majority of the  
15 financial interest, we have the majority of the backing  
16 interest in terms of the people who had a choice to go  
17 either way, the people who did have a choice of signing one  
18 way or the other, supporting us.

19 Q. Meaning who?

20 A. Well, the other people that Ms. Mauritsen had --  
21 You know, Kerr-McGee, for instance, could have signed  
22 with -- for --

23 Q. I thought they were neutral in this.

24 MR. KELLAHIN: Kerr-McGee?

25 CHAIRMAN LEMAY: Yeah.

1 THE WITNESS: No, Kerr-McGee has signed our AFE.

2 MR. KELLAHIN: They signed our AFE.

3 CHAIRMAN LEMAY: But they're not --

4 THE WITNESS: Ms. Redfern.

5 MS. MAURITSEN: Diamond Head.

6 THE WITNESS: Diamond Head is the one --

7 CHAIRMAN LEMAY: Rosalind Redfern signed your AFE  
8 but didn't sign the other AFE?

9 MR. KELLAHIN: We're talking two different --

10 THE WITNESS: No, no, I'm sorry. Rosalind  
11 Redfern --

12 CHAIRMAN LEMAY: She married Ivan Grover, didn't  
13 she?

14 THE WITNESS: -- Grover. Grover, yes, sir. She  
15 was neutral in this. I'm talking about the small Kerr-  
16 McGee interests that signed up just after --

17 MS. MAURITSEN: Exhibit 2 --

18 THE WITNESS: Huh?

19 MS. MAURITSEN: Exhibit 2 has --

20 THE WITNESS: Oh, all the people on Exhibit 2,  
21 basically.

22 CHAIRMAN LEMAY: Okay, well, I can check that.

23 THE WITNESS: Yeah.

24 CHAIRMAN LEMAY: That's easier.

25 THE WITNESS: Yeah, I apologize for --

1           CHAIRMAN LEMAY: That's fine. I'm kind of  
2 exploring these avenues, Mr. Fant. I hope you don't mind.  
3 You like to talk and I like to listen a lot of times,  
4 but...

5           (Laughter)

6           CHAIRMAN LEMAY: We have these force-pooling  
7 cases and they're difficult, I want to tell you they're  
8 very difficult for the reasons I've stated, and yet I think  
9 the industry deserves some signals out there, what we do  
10 prioritize in terms of --

11          THE WITNESS: Yes.

12          CHAIRMAN LEMAY: -- of granting operations to one  
13 person or another.

14          THE WITNESS: Yes, and my opinion in looking at  
15 -- and when we talk about the signals that are sent to the  
16 industry, is that if the signal is, if you get the prospect  
17 first you're going to win, there's going to be a lot of  
18 force pooling cases up here with somebody with just a small  
19 interest. And that's not in the -- I don't know that  
20 that's in the interest of everybody.

21                 This well -- It was characterized that these  
22 wells would not be drilled if it were not for the continued  
23 efforts of Medallion. I would disagree with that. Yes,  
24 they brought us that, and we would -- we're certainly  
25 willing to drill the well in the northeast quarter and to

1 allow them to participate. But we didn't have to come this  
2 far. I mean, it's --

3 CHAIRMAN LEMAY: You're right, you didn't have to  
4 come this far.

5 (Laughter)

6 THE WITNESS: And I wish it wasn't this way. I  
7 think everybody wishes it wasn't this way.

8 CHAIRMAN LEMAY: Okay, okay.

9 THE WITNESS: But I'm concerned -- Personally,  
10 I'm concerned about the -- what's going to happen if we do  
11 continue to allow -- or if we send the signal that, hey, if  
12 you generate it first, you're going to get to operate.  
13 Somebody with 2-percent interest and somebody with 98-  
14 percent interest -- That one, you know, that's an extreme.

15 CHAIRMAN LEMAY: Well, that's what they do in  
16 Oklahoma, they -- 1 percent can force pool 99 percent.

17 THE WITNESS: Yeah, and see, that -- I mean, that  
18 may be the way it is. I -- My experience in Oklahoma was  
19 in a leased-up area that did not have any of that  
20 particular stuff occurring. But I've heard those type of  
21 things.

22 CHAIRMAN LEMAY: I have too.

23 THE WITNESS: And I think the way we have -- that  
24 it has been handled in New Mexico in the past is a very  
25 good way. I think it has provided a lot of order. And I

1 wish we didn't have these force-pooling hearings too, but I  
2 haven't been here on many lately either, and I was several  
3 years ago here for quite a few.

4 CHAIRMAN LEMAY: Well, fortunately you and  
5 Nearburg found a formula that worked for you.

6 THE WITNESS: Yes, and we think that would work  
7 well for the industry also, sir.

8 CHAIRMAN LEMAY: Commissioner Weiss, you look  
9 like you're --

10 FURTHER EXAMINATION

11 BY COMMISSIONER WEISS:

12 Q. Yeah, I've got another question. I was looking  
13 at the AFEs again.

14 Ten years ago, people who knew how to complete  
15 Morrow wells made wells. People who didn't -- You know, it  
16 was the completion fluids, I think, or something --

17 A. There was a lot of technological advancement in  
18 the mid-Eighties in completion fluids with the Morrow, and  
19 fracturing techniques and things of that nature.

20 Q. You're all over that hump now, and that's pretty  
21 standard? I mean, all the --

22 A. I don't know that it's standard, but the service  
23 companies certainly are aware of the -- what needs to be  
24 done, and they can make recommendations on those things,  
25 and that's -- that's a fact.

1           We have -- You know, we feel we have in-house  
2 expertise on knowing how to do that, but you can buy that  
3 expertise at the service companies.

4           Q.    That was just another thought I had.  I was  
5 wondering if it was still secret.  But apparently it's not.

6           A.    No, it's hard to hold much of anything secret in  
7 this industry.

8           COMMISSIONER WEISS:  That was my only question.  
9 Thank you.

10          CHAIRMAN LEMAY:  Anything else here?

11          That's all we have.  Thank you very much, Mr.  
12 Fant.

13          THE WITNESS:  Thank you.

14          MR. KELLAHIN:  That completes the presentation of  
15 my evidence, Mr. Chairman.

16          CHAIRMAN LEMAY:  Do you want to wind it up?  Any  
17 summations?

18          MR. KELLAHIN:  Please.  Do you want to go first?

19          MR. BRUCE:  Sure, you gave me the benefit of  
20 going first before.

21          Mr. Chairman, Medallion, of course, asks that the  
22 Commission affirm the Division's order, which we believe  
23 was consistent with prior Division orders and is based upon  
24 logical principles.

25          The principles affecting an award of operations

1 are pretty easily recognized by reviewing prior Division  
2 orders. I think Mr. Kellahin has touched on a few of these  
3 already. In no particular order, they're percentage  
4 interest in the well, well costs, geology, and I think who  
5 initiated efforts to get the well drilled.

6 Let's look at each of these briefly.

7 Geology, I don't think we really have to discuss  
8 here. Both geologists for Medallion and Yates think this  
9 is the optimum well location in -- for an east-half unit.  
10 Obviously, if the parties had proposed different locations  
11 I think we could look forward to a couple more hours of  
12 hearing.

13 On well costs, Mr. Fant likes the 5-1/2-inch  
14 casing, but even if you have 5-1/2-inch casing in  
15 Medallion's proposal, there's really no dispute here as to  
16 well costs between the two parties. The AFEs are  
17 comparable, and really that doesn't factor much into a  
18 decision, I believe. If the Commission wants to order  
19 5-1/2-inch casing, I believe it could do so, and I don't  
20 think anybody would have a problem in complying with that.

21 Percentage ownership is the third issue, again an  
22 obvious factor. I do not believe it's the controlling  
23 factor, which Mr. Kellahin would have you believe. I mean,  
24 this isn't the case, but obviously if you had a case where  
25 there was one interest owner had a 51-percent interest but

1 who consistently overran AFEs, consistently had problems  
2 completing a well, I don't think you could award  
3 operatorship just based on percentage interest alone.  
4 Again, we don't have that position or problem today.

5           But let's look at the percentage interests. Yes,  
6 I know the Yates group has -- whatever it is, 37 percent.  
7 But Medallion is the single largest interest owner in the  
8 east-half unit. It has 24 percent. That's not a small  
9 interest. We're not here, like those stories you heard in  
10 Oklahoma with the 1-percent interest pooling 99 percent of  
11 the interest.

12           The second-largest interest owner, Diamond Head  
13 Properties, the former Redfern interest, has 23.5 percent.  
14 That interest has been committed to Medallion as well.  
15 Together they have, Diamond Head and Medallion, about half  
16 the well.

17           But what if a well was subsequently completed in  
18 shallower zones? Mr. Fant was here testifying about these  
19 shallower zones. Bone Spring, Delaware, Yates, those are  
20 going to be on 40 or 160-acre units. If that's the case,  
21 Medallion and Diamond Head together would have 95-percent  
22 interest in those zones, versus about 2-percent interest  
23 for the Yates group. We think this is a reasonable factor  
24 for the Commission to consider.

25           And if you look at all of those together, I think

1 it's reasonable to say that Medallion has the most at issue  
2 here today, and just looked at percentage interest,  
3 Medallion should be awarded operations.

4 Now, Mr. Kellahin has mentioned certain things,  
5 certain cases today where he said, you know, Yates and  
6 Nearburg have worked out this or worked out that. But  
7 really, if you look at recent decisions by the Division,  
8 they do not look strictly at interest ownership.

9 One that Mr. Kellahin had recently in front of  
10 the Commission and the Division, the Penwell-Burlington  
11 fight, Burlington owned only 13 percent of the operating  
12 rights and Penwell had over 85 percent of the operating  
13 rights committed to it. But because Burlington had tried  
14 for a long time to get a well drilled, the Division awarded  
15 operatorship to Burlington. That's Mr. Kellahin's case.

16 Similarly, Order Number R-10,742, that was a  
17 fight that I had with Mr. Carr between Santa Fe Energy and  
18 Penwell. Santa Fe Energy had 50 percent of that well;  
19 Penwell had 8 1/4 percent. And the Division awarded  
20 operatorship to Penwell. Why? Because they had taken the  
21 initiative in getting wells drilled in the area. And I  
22 think that's what you have to look at here today.

23 The record is clear that Yates didn't have any  
24 interest in doing anything in Section 20 until contacted by  
25 Medallion. Yates hasn't drilled a deep well in the area in

1 almost 20 years.

2 But since Medallion took the initiative in this  
3 area, soon two wells will be drilled in Section 20, two  
4 Morrow wells. One in the northwest quarter with a west-  
5 half unit, and then the one we're here for today with an  
6 east-half unit.

7 As Mr. Quinn testified, Medallion was the  
8 initiator in getting this well drilled, and I think it  
9 deserves a pat on the back for that, and that pat on the  
10 back should be an award of operations.

11 I mean, I guess things would be easier if we just  
12 let Yates operate the state. But seriously, the Division's  
13 order is logical and it's consistent with Division  
14 precedent.

15 As I said, two or three days after the case we're  
16 here on today I got an order from the Division ruling  
17 directly -- ruling against me. But the Division ruled the  
18 same on all of the issues in both cases.

19 For those reasons, we ask you to affirm the  
20 Division's order.

21 And with that, I'd pass it over to Mr. Kellahin.

22 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

23 Mr. Kellahin?

24 MR. KELLAHIN: Thank you, Mr. Chairman.

25 Members of the Commission, it's obvious to me

1 that you recognize the issue we place before you this  
2 afternoon. What you're dealing with is using the  
3 incredible police powers of the State of New Mexico to  
4 decide over someone's objection what happens with someone's  
5 property. And while we do that within the context of  
6 prevention of waste and protection of correlative rights,  
7 you are doing something more. You are making decisions  
8 over the objection of one group of interest owners for  
9 another group.

10           Fortunately in New Mexico, we have the  
11 flexibility to make decisions on how that is done. The  
12 Statutory Unitization Act, when we use the police powers  
13 and those concepts, require that the voluntary interest  
14 owners collectively must equal 75 percent before they can  
15 compel the minority interest owners into their waterflood  
16 or pressure-maintenance project.

17           While we don't have a written rule as to a  
18 minimum percentage for pooling -- we've escaped thus far  
19 the experience Mr. Quinn brings to this state from his work  
20 in Oklahoma -- this has the flavor, the feel, the taste, of  
21 somebody from Oklahoma using Oklahoma strategies in New  
22 Mexico. And that strategy is, to hold a club of force  
23 pooling over someone's head and use that as a negotiating  
24 tool to get results.

25           Mr. Bruce says Mr. Quinn deserves a pat on the

1 back. Had this been my case the Examiner would have kicked  
2 me in the butt, and he's done so frequently. When we file  
3 force-pooling cases for a client that has failed to  
4 specifically provide a written document with an AFE and  
5 giving those parties a reasonable period of time to join,  
6 they dismiss those cases.

7 I've given you two examples in the end of the  
8 handout I've just given you. One is a Maralo case. They  
9 sought to pool Bass without giving them a fair opportunity.  
10 It was dismissed.

11 The other case is the Meridian case. I described  
12 to you my opening comments. It's the one for Examiner  
13 Stogner, who after Meridian had repropose a well and given  
14 Doyle Hartman and Texaco a week's notice, they filed a  
15 pooling case.

16 In January, after all these continuances and  
17 further discussions, he says, You did this wrong, and  
18 you're going to be punished for doing it. And he dismissed  
19 the case, required us to negotiate for 60 days and then  
20 refile.

21 When we look at the issue of taking of property,  
22 majority means a lot here. I think all of you have  
23 experienced the intricacies and the important  
24 responsibilities an operator has.

25 Mr. Fant emphasized some operational problems

1 because that's his point of view.

2           When Mr. Hayes testified before the Examiner he  
3 had a different perspective, which was, it was incredibly  
4 important to him as a geologist to have his company in  
5 control of operations. He is the well-site geologist on  
6 location, makes incredibly important decisions. When he  
7 sees cuttings and sees informations and sees drilling times  
8 and looks at all that kind of stuff, he is making important  
9 decisions for everyone.

10           And what is the best way to organize those  
11 decisions? You let the people that have collectively  
12 agreed on the largest percentage of who operates. And when  
13 we look down the list, we can't find anyone else that wants  
14 InterCoast to operate.

15           Now, Mr. Bruce wants to capture the fact that Ms.  
16 Redfern sat on the sidelines, and only after InterCoast is  
17 awarded operations does she elect to participate. She said  
18 it then, she says it now. He wants bonus points for it.  
19 It's an empty victory, because that's not how this ought to  
20 be decided.

21           This case is important to Yates but it's also  
22 important to me. I practice a lot of cases before you.  
23 This is how I make my living. And we attempt to try to  
24 counsel clients on how not to get to this place this  
25 afternoon.

1           You may not see it because you see the tip of the  
2 iceberg, but we deal with hundreds of these things. And we  
3 have learned to coach them into negotiating solutions using  
4 what Mr. Catanach developed and which is the first sheet of  
5 the handout. It says April 5th, 1995, decision-making-  
6 process guideline, if you will, for dispute resolutions of  
7 these issues.

8           He says, first of all, relevant, the very first  
9 thing he says: Information relating to prehearing  
10 negotiation conduct by the parties. In this instance, the  
11 conduct by the party that's adverse here has not been fair  
12 and appropriate. I'm sorry they had a farmout, but we have  
13 seen how easily that farmout is extended.

14           Isn't it interesting that you can construct a  
15 time deadline by contract that then becomes the driving  
16 force by which you compel the entire deal to move forward,  
17 and at the moment of crisis, when their attorney is telling  
18 you we have an expiring deadline and can't stay drilling  
19 the well, isn't it interesting to find out that he's got a  
20 30-day extension in his pocket? That troubles me greatly,  
21 when we bring cases before you, to find out the thread of  
22 an expiring farmout evaporates when it's convenient to do  
23 so.

24           But look what Mr. Catanach lists. He says,  
25 second of all, willingness of operator to negotiate a

1 voluntary agreement. They didn't come to us with any  
2 willingness; they came to us with a club and beat us on the  
3 head with it.

4 Third, third, interest ownership within the  
5 particular spacing unit sought. It's the highest priority  
6 of selection of any of the items Mr. Catanach selected in  
7 this order. If you'll turn to the tab -- I have put a  
8 yellow tab on the order he entered, and if you'll turn with  
9 me to page 7 of the order, get to the punch line.

10 In prior pages, he has taken care to describe the  
11 fact that he has agreed that for purposes of this decision,  
12 the control that Yates has consolidated is the 52.5  
13 percent. He has concluded that the control that Medallion  
14 has is the 24.1 percent.

15 He then goes over and in 23, on page 7,  
16 subsection (b), he says, although there is a fairly  
17 significant difference in interest ownership in the east  
18 half between the Yates group and InterCoast, this criteria  
19 should not be the deciding factor in this case.

20 Why? I'm looking at his guidelines and it's the  
21 first priority item. Where did this train come off the  
22 track? He dismisses it as not being a deciding factor, and  
23 we know it's a significant difference.

24 And then he goes down -- and it's cleverly done.  
25 He says in 24, then, he says, in absence of other

1 compelling factors. Well, the compelling factor that  
2 decides past cases is the one that he dismissed. I'm  
3 having trouble with the logic. But that's what he's done.  
4 He says, in absence of that factor, then the operatorship  
5 should be awarded to the operator who originated the  
6 prospect and initially proposed the farmout, et cetera, et  
7 cetera.

8 My conclusion from analyzing the orders of  
9 significance by the Division is in this package. After the  
10 guidelines, I've gone through and found out of the Division  
11 records those orders on which the Division begins to  
12 initiate the guidelines.

13 And the first one we come to, guidelines are  
14 issued in April of 1995, a month later, May 2nd of 1995.  
15 We've got an order, R-10,358 -- it's the Fairchild 13 well;  
16 this is one of the Nearburg-Yates fights -- and what we're  
17 doing here is, we're deciding this case based upon the  
18 consolidation of the largest percent in ownership. He  
19 decides it on that fact.

20 When you look at the arithmetic you find that the  
21 Yates group has consolidated 33 percent, the Nearburg  
22 consolidated 50 percent. Both parties contended that  
23 Holmquist's 16 percent was in their pocket. That was in  
24 dispute in quiet title suit, and he -- in the order, Mr.  
25 Catanach ignored that order. He said when you set it

1     aside, it's a dispute I can't resolve and I will not  
2     resolve. He says the majority is Nearburg.

3             He then goes through the analysis, and in finding  
4     aid, he concludes that he can't decide it based upon where  
5     you put the Holmquist interest. He ignores it. He then  
6     goes on after excluding it, outlines the interest.

7             And then he says in 27, based upon interest  
8     ownership, geologic interpretation, location of operation  
9     of facilities, Nearburg wins. That's what he did. It  
10    looks to me like he's deciding it on the primary criteria  
11    majority controls.

12            We look next at another Nearburg dispute. It's  
13    Yates versus Nearburg, it's Order 10,434. This is the Ross  
14    EG 14. This is another one that is decided by majority.

15            When you look how that order is organized -- this  
16    is Mr. Catanach again. He is organizing this based upon a  
17    percentage, and there's a standout. The standout interest  
18    is Conoco. They're sitting on the sidelines. Yates is  
19    able, through negotiations, persuasions, to get Conoco to  
20    support their position. That becomes the deciding factor.  
21    Yates wins that case. Why? Majority. That's how that was  
22    done.

23            Here's another. This is the one Mr. Stogner did,  
24    it's the next one in the package. It's 10,520. This is --  
25    We're now dealing in August of 1995. And Mr. Stogner is

1 using the same decision-making process and analysis that  
2 Mr. Catanach is using, with the primary criteria being  
3 majority.

4 This is an interesting one because we did it  
5 twice. Ernie Carroll came in to represent Yates, and I  
6 represented Nearburg. We got into this commotion over  
7 competing pooling cases.

8 This is one of those Dagger Draw cases that you  
9 heard us talk about, and isn't it interesting to find out  
10 that the Yates group had 37.5 percent, Nearburg had 37.5  
11 percent, everyone was waltzing and romancing Unit Petroleum  
12 Corporation. That was the Ms. Redfern in the deal. Too  
13 bad she didn't vote and we could all go away. But she sat  
14 on the sidelines.

15 In this case, Unit voted for Yates. And what  
16 happens? Unit wins. That's how this turned out. You  
17 can't tell me we're not deciding these things by majority.  
18 And why is it fair? Because the industry does it for  
19 themselves.

20 And we ought to do it for them too when they  
21 can't agree. And if you decide that that's the pattern of  
22 solution, then a lot of these are not going to show up  
23 here, because Mr. Bruce and Mr. Carr and I know how to  
24 counsel parties on dispute resolution. We now have  
25 guidelines for that dispute resolution that makes some

1 sense to the industry and tell us how to encourage them to  
2 solve their own problems.

3           The next one is 10,626. It's another one of Mr.  
4 Stogner's. This is June of 1996 at this point. This is a  
5 Nearburg-Mewbourne decision. And on page 3 of that order -  
6 - it's organized in an interesting way -- Nearburg has  
7 remembered the lesson they learned from the past disputes  
8 with Yates and has recognized that if they come in here  
9 with 14 percent, as they did in this case, they were in big  
10 trouble.

11           And so what did they do? Nearburg initiated this  
12 prospect. They were first to initiate, first to file force  
13 pooling application. Mewbourne came along, filed a  
14 competing one. And they agreed during the process, as  
15 documented in the order, that by acquiescence Nearburg  
16 would defer to the majority to have the first chance to  
17 drill the well.

18           And that's the way Examiner Stogner organized the  
19 order. He gave Mewbourne the first chance to drill the  
20 well. If they didn't do it by a certain period of time,  
21 then Nearburg had a turn.

22           And that's what happened when you heard the  
23 Penwell-Burlington dispute just last month. Mr. Bruce  
24 wants you to believe that that was a tiny interest winning  
25 over a big interest.

1           But remember the facts. That was a case where  
2 the majority interest ownership was controlled by Trainer  
3 and his buddy. And after 17 months of begging Trainer to  
4 get this well drilled, Burlington finally was fed up and  
5 filed a force pooling action against Trainer.

6           After he's served, he jumps and runs and gets  
7 Penwell to take his interest at a discount. And they say,  
8 Hey, we've got the biggest interest, we ought to win.  
9 Well, at least at the Examiner level they didn't, and  
10 you're still ready to decide that case.

11           We think that's entirely consistent with what I'm  
12 suggesting now. The majority controls, and they're given a  
13 reasonable opportunity to act.

14           In this case we had that chance, and we're denied  
15 that chance. We promised, we committed, we pledged to  
16 commence this well in time to save their farmout. It could  
17 have been done, we should have had the chance, we could  
18 have done it.

19           The next one in the handout is Examiner  
20 Catanach's order that we're talking about now. We get down  
21 to Mr. Bruce's favorite one that he just described, having  
22 lost before Examiner Catanach recently; it's Order Number  
23 R-10,742. This is the Santa Fe Energy-Penwell dispute. He  
24 would have you characterize that as an instance where  
25 Penwell, with a minority interest share, gets to win.

1 I've examined that transcript, I've looked at  
2 those exhibits. I invite you to do so. There was a  
3 horrendous fight over geology.

4 Santa Fe proposed a well in the northeast quarter  
5 of the east half of this section for a deep gas spacing  
6 unit. The southeast quarter was Penwell. They had offset  
7 drilling wells going on. Penwell was drilling them. Each  
8 had a substantially different point of view on geology.  
9 And based upon a geologic preference, geology moved to the  
10 head of the list, and rightfully so.

11 When you see a dispute on different locations  
12 with substantially different geology, that's where we need  
13 the expertise of your Examiners. That's where you need to  
14 make judgments for these people on who wins. And that's  
15 how that case was won. It wasn't won by Penwell with 8  
16 percent. It was won because he liked their geology better,  
17 and he gave them the chance to drill their location. And  
18 that's what that case is about.

19 And if you analyze these and agree with my  
20 analysis, then I'm having trouble rationalizing and  
21 understanding and fitting into the logic of this sequence  
22 of decision-making how in the world Mr. Catanach put us in  
23 the position we're in now with this case. I have great  
24 respect for him, he's a good friend of mine, I like him  
25 very much; but he's made a mistake here.

1           And the mistake is that he has chosen to go off  
2 the train, he has changed the decision-making process from  
3 what he's done in the past.

4           I didn't develop his guidelines, these are his  
5 guidelines. And the first priority is majority wins, and  
6 he goes down the sequence of events.

7           He did not follow that process here. I don't  
8 know why he didn't. It doesn't matter. We're asking you  
9 to change it and, in doing so, send signals to the industry  
10 so that we can solve these things and not burden your time  
11 and the industry's time trying to resolve it.

12           You have a chance to set policy. If you want Mr.  
13 Catanach and Mr. Stogner to decide cases this way, tell us,  
14 because then we need to tell our clients how to work, how  
15 to operate and how to function. We're not asking you waste  
16 your time, we're asking you to give us help. And we think  
17 when you give us that help, you will decide that it's  
18 appropriate in this case to award operations to Yates,  
19 require Medallion/InterCoast to turn over operations to us,  
20 and we'll proceed from there with your assistance and  
21 guidance.

22           Thank you very much.

23           CHAIRMAN LEMAY: Thank you, Mr. Kellahin.  
24 Anything else in this case?

25           We shall take the case under advisement.

1           And could I request some draft orders from you  
2 two gentlemen?

3           MR. KELLAHIN: Yes, Mr. Chairman, we'd be happy  
4 to do that.

5           CHAIRMAN LEMAY: Thank you.

6           MR. BRUCE: What time?

7           CHAIRMAN LEMAY: Two weeks?

8           MR. KELLAHIN: I need to do it real quick, and  
9 unless we've got -- We've got an expiring commitment --

10          CHAIRMAN LEMAY: You've got the twenty- --

11          MR. KELLAHIN: We've got the 27th.

12          CHAIRMAN LEMAY: You've got the 28th?

13          MR. BRUCE: Next week.

14          MR. KELLAHIN: What's our date? What's  
15 Mecca's --

16          MR. FANT: The 26th was the date she quoted as  
17 the --

18          MR. KELLAHIN: I can have an order to you on  
19 Monday.

20          MR. BRUCE: Sure, that's fine.

21          MR. FANT: I think we would rather -- we would  
22 like to have the time --

23          CHAIRMAN LEMAY: You would like --

24          MR. KELLAHIN: I can get you a draft order on  
25 Monday.

1           CHAIRMAN LEMAY:  -- an order issued before the  
2 28th, or give you some -- Let me ask you this --

3           MR. KELLAHIN:  What I'm asking --

4           CHAIRMAN LEMAY:  Can we extend the election  
5 period?

6           MR. KELLAHIN:  You can, on your own motion,  
7 decide to extend the election period, and it would take the  
8 heat off us from making a decision that then had time to --

9           CHAIRMAN LEMAY:  I'd like to rule from the bench  
10 on that one to extend the election period.  As far as you  
11 know, there's not going to be anything known in the  
12 prospect for a while, is there?

13          MR. BRUCE:  I believe -- Although it's not in the  
14 testimony, I believe that this well -- and Bob could say  
15 more -- is probably going to take 30 to 45 days to reach.

16          MR. FANT:  The only consideration is the  
17 intermediate casing.

18          MR. BRUCE:  Okay.

19          MR. FANT:  I'm just laying that on the table --

20          MR. KELLAHIN:  It takes 40 days, Mr. Chairman --

21          MR. FANT:  -- for you to think about.  Once  
22 they've put in the hole and cemented it in, it's --

23          CHAIRMAN LEMAY:  Why don't you prevail upon them  
24 to run eight-and-five and see how that --

25          MR. BRUCE:  And I will --

1 MR. KELLAHIN: Mr. Bruce and I will work on that.

2 CHAIRMAN LEMAY: Will you work on that? Okay.

3 The other thing is, what kind of period of time?

4 Do you want a week after or two weeks after that, or what's  
5 your --

6 MR. FANT: Forgive me, I'd rather have Mecca  
7 answer that. Let me --

8 MR. KELLAHIN: I'm just going to have to find out  
9 what --

10 CHAIRMAN LEMAY: Why don't you two get back to us  
11 on --

12 MR. KELLAHIN: Can we tell you on Monday --

13 CHAIRMAN LEMAY: -- Monday, their election  
14 extension, and we can issue that rather quickly. We hate  
15 to have that be the driving force.

16 MR. BRUCE: Yeah. No, we don't have any --

17 MR. KELLAHIN: May we tell you on Monday, Mr.  
18 Chairman?

19 CHAIRMAN LEMAY: You certainly may.

20 MR. KELLAHIN: Thank you.

21 CHAIRMAN LEMAY: Yes?

22 MR. FANT: Mr. Gum says he believes they already  
23 have intermediate set on the well, which is --

24 CHAIRMAN LEMAY: Nine and five, or eight and  
25 five?

1 MR. GUM: I don't know what you -- I think --

2 CHAIRMAN LEMAY: Okay, well, it's a done deal.

3 MR. GUM: They're getting close to it if they  
4 haven't already --

5 CHAIRMAN LEMAY: By Monday. Give us an extension  
6 date on what's agreeable.

7 MR. KELLAHIN: We'll do that, Mr. Chairman.  
8 Thank you.

9 CHAIRMAN LEMAY: Thank you, we'll take the case  
10 under advisement.

11 (Thereupon, these proceedings were concluded at  
12 4:54 p.m.)

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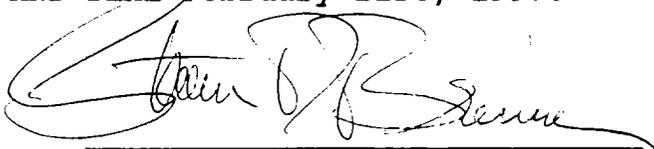
## CERTIFICATE OF REPORTER

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 Commission 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 February 21st, 1997.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998