

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**CASE NO. 12583
ORDER NO. R-11559**

**APPLICATION OF THRESHOLD DEVELOPMENT COMPANY FOR
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 22, 2001, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 2nd day of April, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Threshold Development Company ("Threshold"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Wolfcamp formation underlying the following acreage in Section 16, Township 24 South, Range 33 East, NMPM, Lea County, New Mexico:

- (a) the W/2 to form a standard 320-acre stand-up gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include only the Undesignated Johnson Ranch-Wolfcamp Gas Pool;
- (b) the NW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and

- (c) the NE/4 NW/4 (Unit C) to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent.

(3) These units are to be dedicated to the applicant's proposed Johnson Ranch "16" State Well No. 1 (API No. 30-025-35400) to be drilled at a location considered to be standard for all three units 990 feet from the North line and 1980 feet from the West line of Section 16.

(4) The applicant is a working interest owner within the acreage comprising all three units and therefore has the right to drill for and develop the minerals underlying these units.

(5) At this time, however, not all of the working interest owners in these units have agreed to pool their interests. After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

(6) No party affected by the forced pooling appeared at the hearing or objected to this application.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within these units.

(8) Threshold should be designated the operator of the subject well and units.

(9) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(10) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) Any non-consenting interest owner should be afforded the opportunity to

object to the actual well costs, but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(15) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before August 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(16) The operator may request from the Division Director an extension of the August 1, 2001 deadline for good cause.

(17) The operator of the well and units should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Threshold Development Company ("Threshold"), all uncommitted mineral interests, whatever they may be, from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 16, Township 24 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

- (a) the W/2 to form a standard 320-acre stand-up gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include only the Undesignated Johnson Ranch-Wolfcamp Gas Pool;
- (b) the NW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- (c) the NE/4 NW/4 (Unit C) to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent.

(2) These units are to be dedicated to Threshold's proposed Johnson Ranch "16" State Well No. 1 (API No. 30-025-35400) to be drilled at a location considered to be standard for all three units 990 feet from the North line and 1980 feet from the West line of Section 16.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before August 1, 2001, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Mississippian formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before August 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(3) Threshold is hereby designated the operator of the subject well and units.

(4) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(9) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(10) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby authorized to withhold

from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8)-royalty interest for the purpose of allocating costs and charges under this order.

(12) Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, that portion of this order authorizing compulsory pooling shall thereafter be of no further effect.

(15) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "Lori Wrottenbery".

LORI WROTENBERY
Director



LTR



Job separation sheet

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF THRESHOLD DEVELOPMENT)
COMPANY FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO)

CASE NO. 12,583

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 22nd, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 APR -5 AM 11:08

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

March 22nd, 2001
Examiner Hearing
CASE NO. 12,583

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>GARY O. TIDMORE</u> (Landman)	
Direct Examination by Mr. Feldewert	4
Examination by Examiner Stogner	14
<u>DAVID WHITE</u> (Geologist)	
Direct Examination by Mr. Feldewert	18
Examination by Examiner Stogner	24
<u>GARY O. TIDMORE</u> (Landman, recalled)	
Examination by Examiner Stogner	26
REPORTER'S CERTIFICATE	32

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	14
Exhibit 2	7	14
Exhibit 3	8	14
Exhibit 4	10	14
Exhibit 5	13	14
Exhibit 6	19	24
Exhibit 7	21	24
Exhibit 8	22	24

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
 110 N. Guadalupe, Suite 1
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 10:20 a.m.:

3
4 EXAMINER STOGNER: This hearing will come to
5 order. Call next case, Number 12,583, which is the
6 Application of Threshold Development Company for compulsory
7 pooling, Lea County, New Mexico.

8 At this time I'll call for appearances.

9 MR. FELDEWERT: Mr. Examiner, my name is Michael
10 Feldewert. I'm with the law firm of Holland and Hart and
11 Campbell and Carr here in Santa Fe, appearing for the
12 Applicant, Threshold Development Company, and I have two
13 witnesses here today.

14 EXAMINER STOGNER: Any other appearances?
15 Will the witnesses please stand to be sworn?
16 (Thereupon, the witnesses were sworn.)

17 GARY O. TIDMORE,
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. FELDEWERT:

22 Q. Would you please state your full name for the
23 record and where you reside?

24 A. Gary Owen Tidmore, I reside in Forth Worth,
25 Texas.

1 Q. And what is your current position with Threshold
2 Development Company?

3 A. I'm the land manager.

4 Q. Have you previously testified before this
5 Division?

6 A. No, sir, I have not.

7 Q. Okay, why don't you briefly review for the
8 Examiner your educational background?

9 A. I received a BBA from Texas A&M University in
10 1978, and I have been employed as a landman since 1979.

11 Q. Are you a member of the professional petroleum
12 landman's association?

13 A. I am.

14 Q. And how long have you been a member?

15 A. Approximately 15 years.

16 Q. Okay, would you please summarize for the Examiner
17 your recent work experience?

18 A. I've been with Threshold Development Company for
19 approximately four years as land manager, and prior to that
20 I was employed by Dura Wagner and Company in Fort Worth,
21 Texas, as a landman. My primary areas of responsibility
22 were Texas and New Mexico.

23 Q. The four years that you have been with Threshold,
24 have your responsibilities included the southeastern part
25 of New Mexico?

1 A. They have.

2 Q. Okay. Are you familiar with the Application that
3 has been filed by Threshold in this case?

4 A. Yes, sir, I am.

5 Q. And are you familiar with the status of the lands
6 in the subject area?

7 A. Yes, sir.

8 MR. FELDEWERT: Mr. Examiner, I would tender Mr.
9 Tidmore as an expert witness in petroleum land matters.

10 EXAMINER STOGNER: Mr. Tidmore is so qualified.

11 Q. (By Mr. Feldewert) Mr. Tidmore, could you please
12 tell the Examiner briefly what Threshold Development
13 Company seeks with this Application?

14 A. Yes, we're requesting an order pooling all the
15 minerals from the surface to the base of the Wolfcamp
16 formation, underlying the west half of Section 16, Township
17 24 South, Range 33 East, more specifically, the west half
18 for all formations and pools developed on 320-acre spacing,
19 including but not necessarily limited to the Undesignated
20 Johnson Ranch-Wolfcamp Gas Pool; with respect to the
21 northwest quarter for all formations and pools developed on
22 160-acre spacing; and as to the northeast quarter of the
23 northwest quarter for all formations and pools developed on
24 40-acre spacing.

25 Q. And what do you propose this spacing to be --

1 Which well do you propose this spacing to be dedicated to?

2 A. The Johnson Ranch State 16 Well Number 1.

3 Q. And where is that going to be located?

4 A. That will be drilled at a standard well location
5 in the northeast quarter of the northwest quarter, Unit C
6 of Section 16.

7 Q. Okay, why don't you identify and review for the
8 Examiner Threshold Exhibit Number 1?

9 A. Threshold Exhibit Number 1 is a land plat that
10 identifies the 320-acre spacing unit for the proposed well,
11 comprised of the west half of Section 16. The next page on
12 that exhibit shows the actual footage location for the
13 well.

14 And Exhibit Number 2 is a list of the other
15 working interest participants or people who had the right
16 to participate in this well, exclusive of Threshold's
17 interest, which is 50 percent.

18 Q. Okay. What is the status of the acreage in the
19 west half of Section 16?

20 A. These are all state lands.

21 Q. All right, and what is the primary objective of
22 your proposed well?

23 A. The Wolfcamp formation and the Undesignated
24 Johnson Ranch-Wolfcamp Gas Pool.

25 Q. Are there any of the interest owners on Exhibit

1 Number 2 that you have been unable to locate?

2 A. No, sir.

3 Q. And how many of these interest owners are subject
4 to today's pooling Application?

5 A. Two parties.

6 Q. Who are they?

7 A. Samson Resources Company and Geodyne Nominee
8 Corporation.

9 Q. To your knowledge, are the principals in Samson
10 Resources Company and Geodyne the same?

11 A. That's correct, they are.

12 Q. Would you identify for the Examiner and just
13 briefly review Threshold Exhibit Number 3?

14 A. Exhibit Number 3 is a compilation of letters that
15 we have sent out to the working interest participants in
16 this unit, since we initially proposed it. We didn't
17 include -- If you'll note, in there is a letter dated
18 September 8th, which we did not, but that was at a
19 different location.

20 But with respect to the location that we're
21 discussing today, these are the letters that we have mailed
22 to the working interest participants in this -- or have the
23 opportunity to participate.

24 There's a letter dated October 27th of 1999
25 proposing the well.

1 A subsequent letter dated December the 8th, 2000,
2 again proposing it.

3 And then the last letter, or letters, dated
4 January 4th, 2001, specifically to Samson Resources where
5 we provided them with some title information and geological
6 information, and a subsequent letter dated January 29th,
7 2001, to Samson Resources, providing them with the proposed
8 joint operating agreement and AFE.

9 Q. Is Samson Resources at this particular address,
10 the address that you've also used to have your contact with
11 Geodyne?

12 A. That is correct.

13 Q. Okay, and have you had telephone discussions with
14 representatives of Samson and Geodyne in addition to these
15 letters?

16 A. Yes, sir, I have. Following the -- Approximately
17 towards the end of 2000, after our December 8th letter, we
18 were contacted, or I was contacted, by Steve Stacey with
19 Samson Resources, and he advised me that they were
20 evaluating their desire to participate. And that led to
21 their request for our interpretation of the geology in the
22 area and some title information, which we did provide to
23 them.

24 And then subsequent to that, we provided them
25 with the joint operating agreement, the one that all the

1 remaining parties had already signed, and the AFE, and
2 awaited their written election or confirmation that they
3 wanted to participate.

4 Q. That was at the end of January of this year?

5 A. Yes, sir.

6 Q. And did you advise them at that time by telephone
7 that the other interest owners had executed the JOA that
8 you provided to them?

9 A. Yes, sir, I did.

10 Q. To date are you still waiting for Samson to
11 execute the JOA and get back to you?

12 A. Yes, sir.

13 Q. Okay. In your opinion, have you made a good-
14 faith effort to obtain voluntary joinder of Samson and
15 Geodyne in this project?

16 A. Yes, sir, I have.

17 Q. Why don't you identify for the Examiner Threshold
18 Exhibit Number 4?

19 A. That is our AFE for the proposed well.

20 Q. Okay. Has this been provided to all the interest
21 owners?

22 A. Yes, sir, it has.

23 Q. And why don't you review briefly the dryhole
24 totals and the completed well totals?

25 A. We have estimated dryhole costs of \$1,197,225 and

1 completed well costs of \$1,606,225.

2 Q. Mr. Tidmore, at the time that this AFE was
3 presented, were these costs in line with what has been
4 charged by other operators in the area for similar wells?

5 A. Yes, sir.

6 Q. And have you made an estimate of overhead and
7 administrative costs while drilling this well and also
8 while producing this well if you are successful?

9 A. Yes, sir, we have.

10 Q. And what are those costs?

11 A. The drilling overhead rates are \$6000 a month,
12 and the producing well rates of \$600 a month.

13 Q. No, you've testified that there is a JOA for this
14 property; is that right?

15 A. That is correct.

16 Q. Are these the overhead rates that have been
17 accepted by other interest owners who have signed the JOA?

18 A. They have.

19 Q. Okay. Are these overhead and administrative
20 costs in line with what is being charged by other operators
21 in the area?

22 A. Yes, they are.

23 Q. And how do you know that?

24 A. The offset -- one of the offset owners that -- or
25 offset operators, also owns an interest and will be

1 participating in this well with us. That's Murchison Oil
2 and Gas, and I worked with him to -- that's based on the
3 numbers that they're charging for the Jackson Unit that he
4 operates.

5 Q. Now, is this spacing unit part of a unitized
6 area?

7 A. Pardon me?

8 Q. Is this spacing unit part of a unitized area?

9 A. It is.

10 Q. Is that the Jackson Unit?

11 A. That is correct.

12 Q. And I neglected to go through this earlier, but
13 on Exhibit Number 2, the percentage interest that you show,
14 does that percentage interest extend to all spacing unit
15 configurations within this Jackson Unit?

16 A. That is correct.

17 Q. So it's not going to change between a 320 and a
18 40?

19 A. No, sir.

20 Q. Okay. These figures that we went over, do you
21 recommend that they be incorporated into any order that
22 results from this hearing?

23 A. Yes, I do.

24 Q. Are there COPAS guidelines that are attached to
25 the JOA for this project?

1 A. There are.

2 Q. And do you recommend that the overhead figures
3 approved by the Division be subject to the adjustment in
4 accordance with the COPAS guidelines that are applicable to
5 the other interest owners in this well?

6 A. Yes, sir, I do.

7 Q. Does Threshold seek to be designated operator of
8 this well?

9 A. Yes, sir.

10 Q. And is there any reason that Threshold would like
11 to have this order expedited, if possible?

12 A. If possible. We do have an April 1 spud date in
13 the joint operating agreement that we'd like to honor if we
14 can.

15 Q. Okay. Were Threshold Exhibits -- I'm sorry, is
16 Threshold Exhibit Number 5 an affidavit with attached
17 letters giving notice of this hearing?

18 A. That is correct.

19 Q. Okay. Now, attached to that there's one party
20 for which we did not receive a green card, a Mr. Dennis D.
21 Corkran. Do you see that?

22 A. Yes, sir.

23 Q. Have you reached an agreement with Mr. Corkran
24 and Mr. Andrews?

25 A. I have, they have signed a joint operating

1 agreement and AFE.

2 Q. Okay, so they are not subject to this pooling
3 Application?

4 A. No, sir.

5 Q. All right. Were Threshold Exhibits 1 through 5
6 prepared for you or compiled under your direction and
7 supervision?

8 A. Yes, sir.

9 MR. FELDEWERT: Mr. Examiner, at this time I
10 would move admission into evidence of Threshold Exhibits 1
11 through 5.

12 EXAMINER STOGNER: Exhibits 1 through 5 will be
13 admitted into evidence.

14 MR. FELDEWERT: And that concludes my examination
15 of this witness.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Mr. Tidmore, tell me about that Jackson Unit.
19 Who's the operator of it, and what formations does it refer
20 to?

21 A. The operator is Murchison Oil and Gas, based out
22 of Dallas, Texas, and it is a Wolfcamp unit. No, it's --
23 You're looking at our lands. The lands that Threshold
24 Development Company bought at the state sale is the north
25 half of the northwest quarter and the north half of the

1 southwest quarter, which for some reason were not included
2 in the Jackson Unit.

3 Q. Okay. So even though it's shown in this --

4 A. -- bold outline, that's correct, it is not a part
5 of the actual Jackson Unit. I know that's rather
6 confusing, and I probably should have delineated that
7 better for you, but...

8 Q. Do you know when this unit agreement came to
9 hearing before this body?

10 A. No, sir, I do not.

11 Q. Now, have you actually seen a description of that
12 unit, and is it left out of there?

13 A. Yes, sir.

14 Q. And you said there was a drilling deadline of
15 April 1st?

16 A. That's just a contractual deadline under the JOA
17 that we proposed to the participants.

18 Q. And how long has that contractual agreement been
19 around?

20 A. It went out with the proposal letters.

21 Q. In what, December of 1998?

22 A. Let's see, the first time it went out -- Well,
23 April 1st was the December 8th letter. That's when that
24 date was proposed, December 8 of 2000.

25 Q. Okay, I'm looking for that April 1st date in this

1 agreement.

2 A. Oh, it's in the proposed joint operating
3 agreement. I don't believe you have that exhibit. I'll be
4 happy to provide that to you.

5 In the -- The joint operating agreement that we
6 sent out for this, that all the other parties have
7 executed, is an operating agreement dated January 5th,
8 2001. And in Article 6 of the joint operating agreement
9 provides for the initial well. That's where that April 1st
10 date comes from.

11 On your initial wells in these operating
12 agreements you specify a date that you commence the well
13 by, and that's where the April 1st date came from.

14 Q. Have you got a drilling rig ready to go on that?

15 A. Yes, sir, we have a rig ready to drill a well
16 on -- down in Section 28, and then we'll move from there up
17 to the Section 16 well, if everything goes well.

18 MR. FELDEWERT: Section 28, Mr. Examiner, was the
19 other Application we had on file today that we were able to
20 dismiss because we've reached an agreement with all the
21 parties involved.

22 Q. (By Examiner Stogner) Now, have you spoke to Mr.
23 Stacey after this January 29th letter?

24 A. Yes, sir, I did. I've had two or three
25 conversations with him since that date.

1 Subsequent to those, this project was turned over
2 to a gentleman by the name of Garland Robinson who works
3 for Samson, and I've had have the course of the last week
4 or so probably four or five conversations with him, trying
5 to have them save me a trip coming up here. But it didn't
6 work out.

7 MR. FELDEWERT: Having trouble getting it on
8 their radar scope.

9 THE WITNESS: And as a matter of fact, my last
10 conversation with him was Tuesday afternoon, about five
11 o'clock, of this week.

12 Q. (By Examiner Stogner) Did he indicate why he
13 hadn't signed it at that point?

14 A. He said that they had numerous changes that they
15 wanted to propose to us on the joint operating agreement.

16 Q. And was that the only reason, or --

17 A. Yes, sir, that was the only thing that he --

18 Q. That he --

19 A. -- that he indicated to me that was...

20 EXAMINER STOGNER: All right. Any other
21 questions of this witness?

22 MR. FELDEWERT: No, Mr. Examiner.

23 EXAMINER STOGNER: Okay. Mr. Tidmore, you may be
24 excused.

25 Mr. Feldewert?

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DAVID WHITE,

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

DIRECT EXAMINATION

BY MR. FELDEWERT:

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

A. David White. I live in Midland, Texas.

Q. And by whom are you employed and in what capacity?

A. I'm a consulting exploration geologist with Threshold Development.

Q. Have you previously testified before this Division as a geologist and had your credentials accepted and made a matter of record?

A. Yes.

Q. And are you familiar with the Application that has been filed by Threshold in this case?

A. Yes.

Q. Have you made a technical study of the area which is the subject of this Application?

A. Yes.

Q. And are you prepared to share the results of your work with the Examiner?

A. I am.

1 MR. FELDEWERT: Mr. Examiner, are the witness's
2 qualifications acceptable?

3 EXAMINER STOGNER: They are.

4 Q. (By Mr. Feldewert) What's the primary target of
5 your proposed well?

6 A. The primary target is the Wolfcamp limestones of
7 the Johnson Ranch area.

8 Q. Okay, and are you prepared to make a
9 recommendation to the Examiner as to the risk penalty that
10 should be assessed against the nonconsenting interest
11 owners?

12 A. Yes, 200 percent.

13 Q. And briefly, upon what do you base this 200-
14 percent recommendation?

15 A. First, there's drilling risks associated with
16 drilling a well to this depth, approximately 14,000 feet.
17 We also have a potential drainage risk, since our proration
18 unit is offset by a Wolfcamp well that has been in
19 production for three years. And also there's geologic
20 risk, since we are stepping out to the west of the known
21 economic production.

22 Q. Okay, why don't you turn to Threshold Exhibit
23 Number 6, identify that and review that for the Examiner,
24 please.

25 A. Okay, Exhibit Number 6 is a structure map on the

1 top of the Pennsylvanian, which directly underlies the
2 Wolfcamp. It shows structural dip, downdip to the west and
3 actually in the direction in which our well is moving.

4 It also is highlighted in yellow are the Wolfcamp
5 producers from this interval in this area.

6 And in red are highlighted the nonproductive
7 Wolfcamp wells, whether dry holes or tested wells that were
8 also nonproductive.

9 Q. Just for purposes of the record, I think we have
10 your well designated in red; is that correct?

11 A. Yes, and our location is designated in the red
12 box. And also the type log, which is the offset well to
13 us.

14 Q. Okay, and I think you indicated that the
15 nonproducing Wolfcamp wells were in red, or actually I
16 guess pink; is that right?

17 A. Pink, pink.

18 Q. Okay.

19 A. Yes, highlighted.

20 Q. And what does this demonstrate to you?

21 A. It demonstrates part of our risk in drilling this
22 well, because, as you notice, quite a few of the dry holes
23 are on the western side. We are stepping out to the west.
24 And although there hasn't been a lot of problem with water,
25 even the fact that we are moving downdip does bring that

1 potential into fact.

2 Q. Okay, now you mentioned a type log. Why don't
3 you review for the Examiner and identify Threshold Exhibit
4 Number 7?

5 A. That is the type log. It's on the offset well
6 which is the Murchison Enron State Com "9" Number 1. It's
7 over the productive Wolfcamp interval, and I have broken
8 that out for mapping purposes into the upper Wolfcamp
9 limestone and the lower Wolfcamp limestone, and I've
10 highlighted in blue the reservoirs, limestones in this well
11 and in the area, actually.

12 Q. What do you think your best chance is for a
13 commercial well?

14 A. In this location, our best chance is in the upper
15 Wolfcamp limestone. As you can see in the offset well, the
16 lower Wolfcamp is very thin and discontinuous. The lower
17 is more productive as you move towards the east. The wells
18 in 9, for example, almost all are productive, mainly out of
19 the upper Wolfcamp.

20 And that's our objective, although we do plan to
21 test by drilling the full extent, I'm optimistic that we
22 may have it, although -- it may have the lower Wolfcamp,
23 but it's not a very high...

24 Q. Why don't you then identify for the Examiner and
25 review Threshold Exhibit Number 8?

1 A. Exhibit Number 8 is an isopach map of the upper
2 Wolfcamp limestone. Again, indicated is the type log which
3 had 43 feet of Wolfcamp lime.

4 Our location, as I have mapped, has the potential
5 of having 40 feet or so. Our risk is that it could either
6 be considerably thinner than that, and even nonexistent as
7 to the upper, basically because we are moving towards the
8 west.

9 As you can see up in Section 9, in the northeast
10 of 9, there was a well that drilled that had 50 feet.
11 Recently the operator moved slightly to the west, and as
12 you can see they lost 12 feet. It's still a good well, but
13 it does seem that you're losing interval, the more westerly
14 you move.

15 Q. Is there anything of particular interest in
16 Section 4?

17 A. Section 4, yes, that is an interesting one. That
18 is a well that was drilled as a Morrow well. It was
19 completed in the Atoka. The operator then attempted a
20 completion in the Wolfcamp. And even though it has 50 feet
21 of interval, they reported testing just a small amount of
22 gas. Now, I don't know whether perhaps the zone was
23 damaged when they drilled it or whether a frac job might
24 have helped it, or simply that it just had very poor
25 reservoir rock.

1 And you also notice as you step into 10, there
2 was a well drilled by one of the other -- I mean in 5, a
3 well drilled by one of the other operators, attempting to
4 find that, and they encountered only 10 feet of
5 nonproductive rock, having lost the upper as they moved to
6 the west.

7 Q. So that well in Section 4 and that well in
8 Section 5 you just referred to, they're both nonproducers
9 in the Wolfcamp?

10 A. That's correct.

11 Q. Okay. Is it possible that your contours here may
12 not be as far -- in terms of thickness, may not extend as
13 far to the west as you project?

14 A. Oh, yes.

15 Q. Do you consider this well to be an exploratory
16 stepout for this area?

17 A. Yes, I do.

18 Q. Is there anything of particular interest about
19 the well in Section 21?

20 A. The well in Section 21 is another dry hole. That
21 was drilled by Murchison, obviously an experienced operator
22 here. They believed that they could find the upper in
23 their location, and they were unfortunate in encountering
24 only nine feet of productive interval. It basically shows
25 the discontinuous nature of this reservoir.

1 Q. Do you believe that there's a chance you could
2 drill a well at this location that would not be a
3 commercial success?

4 A. Yes.

5 Q. And do you believe that these risks that you've
6 identified today justify a 200-percent risk penalty?

7 A. Yes.

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

12 A. Yes.

13 Q. Were Exhibits 6 through 8 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes.

16 MR. FELDEWERT: Mr. Examiner, I would move
17 admission into evidence of Threshold Exhibits Numbers 6
18 through 8.

19 EXAMINER STOGNER: Exhibits 6 through 8 will be
20 admitted into evidence.

21 MR. FELDEWERT: And Mr. Examiner, that concludes
22 my examination of this witness.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Okay, in referring to your Exhibit Number 6, now,

1 all of the wells marked yellow are Wolfcamp?

2 A. Yes.

3 Q. They are. Okay, now you show three producers in
4 Sections 9, 10 and 15. Are they currently producing
5 Wolfcamp production?

6 A. Yes.

7 Q. Wolfcamp oil or gas?

8 A. Gas.

9 Q. Are these recent --

10 A. Yeah, these are the 160 -- What's the word I'm
11 looking for? 320 spacing with the 160 -- oh, shoot, what's
12 the --

13 MR. FELDEWERT: Infill?

14 THE WITNESS: Yeah.

15 Q. (By Examiner Stogner) Optional infill.

16 A. Optional.

17 MR. FELDEWERT: Optional infill.

18 THE WITNESS: That's right.

19 EXAMINER STOGNER: Okay, I have no other
20 questions of this witness.

21 I'll tell you what, though, I do want to talk to
22 your landman again. I'm a little confused here on
23 something.

24 MR. FELDEWERT: Okay.

25 MR. FELDEWERT: Mr. Tidmore, do you still have

1 the exhibits?

2 MR. TIDMORE: Yes, I do. Yes, sir.

3 MR. FELDEWERT: Okay.

4 GARY O. TIDMORE (Recalled),

5 the witness herein, having been previously duly sworn upon
6 his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Okay, Mr. Tidmore, I'm still a little confused
10 here. On page 1 -- And I'll remind you you're still under
11 oath.

12 Okay, as I understand, that north half of the
13 northwest quarter and the north half of the southwest
14 quarter are not part of the old Jackson Unit. Or it may
15 not even be that old.

16 A. That's correct.

17 Q. Okay, what is the interest in a 40-acre tract,
18 being the northeast of the northwest quarter?

19 A. Are you trying to figure or understand why all
20 the interests would be the same?

21 Q. Yes, since it's not part of the unit.

22 A. Well, it's not a part -- With respect to the
23 owners in the Jackson Unit, they all owned different
24 interest in different leases that made up the unit. And
25 when they unitized the Jackson Unit, basically it's like a

1 declaration of pool, if you will, where you're agreeing
2 that your interests are based on your contribution at the
3 time, and anything produced from that pool will be shared
4 and borne on that basis.

5 And since we are doing a unit based in the
6 Wolfcamp and will be drilled -- our joint operating
7 agreement will comprise the west half, and these parties
8 will have the right to participate on that basis.

9 So that's how the risk will be borne, therefore
10 that's how all of the -- if there's any uphole serendipity,
11 that's how that will be shared, regardless of record title.

12 That's how the well -- if you're drilling down to
13 the Wolfcamp, and those parties -- We did not split it out
14 by zone. It's as to -- from surface to the base of the
15 Wolfcamp will be based on this ownership.

16 That's how the joint operating agreement is set
17 up.

18 Q. Okay, so this is a San Andres shallow 40-acre
19 tract, but it's not part of the unit?

20 A. That's correct. We've agreed contractually with
21 these people, when we signed the JOA to share whatever is
22 developed from that wellbore on this basis.

23 Q. Oh, okay.

24 A. It's a contractual relationship. It's not a
25 record title, no, sir.

1 Q. Okay, so if I just look at just that lease, that
2 covers that north half of the northwest quarter, who is
3 actually the working interest there?

4 A. We are, 100 percent.

5 Q. One hundred percent.

6 But because of this contractual agreement, you're
7 sharing it with everybody?

8 A. That's correct. The people who elect to
9 participate and put their money in the well to take the
10 risk of drilling the Wolfcamp test will also own in the
11 same basis, regardless of where we complete the well,
12 whether it's totally on our 40 or wherever it may be.

13 Q. How does the State Land Office fit into this
14 contractual agreement?

15 A. I've spoke with Mr. Murch- -- not Mr. Murchison,
16 with a representative from Murchison Oil and Gas. They are
17 -- matter of fact, in their plan of development that they
18 have to file annually -- and I'm not real familiar with
19 that because I've never done it.

20 But Mr. Michael Daugherty, who's the vice
21 president at Murchison, advised me that they got -- they
22 have to file a yearly plan of development for their Jackson
23 Unit.

24 And they did not include anything for this west
25 half of Section 16, and when we proposed the well

1 subsequent to that, the State recommended that they do
2 something with the west half of Section 16. And so
3 actually it dovetails quite well into helping them with
4 their plan of development.

5 So the State is aware, he has discussed this
6 pooling matter with them, the unitization, the execution of
7 the joint operating agreement, and he has verbally advised
8 me that there is no conflict with the state, as operator of
9 that unit.

10 Q. Okay. Now, you have been the landman working on
11 New Mexico properties for how long?

12 A. Since I've been at Threshold Development, four
13 years with Threshold Development, and I worked New Mexico
14 for probably four years prior to that with Dura Wagner and
15 Company, not exclusively, but --

16 Q. So eight years' experience?

17 A. Yes, sir.

18 Q. So you're familiar with state lands and
19 properties?

20 A. Yes, sir.

21 Q. Okay, in Section 16, or is it the beneficiary and
22 that north half of the northwest quarter? Do you know who
23 that is, or how is that going to be handled?

24 A. I'm not sure I understood the question, Mr. --

25 Q. That's why I asked you a question, how long have

1 you been working in New Mexico. So I'm using a word you're
2 not familiar with, the beneficiary of the state acreage?

3 A. No, sir, I'm not familiar with that term.

4 Q. How old is that Jackson Unit?

5 A. I really don't know.

6 Q. Have you looked at it and researched this
7 particular --

8 A. I had Mr. Daugherty send me a copy of the unit,
9 yes, I did.

10 Q. Okay, do you -- whenever you saw it, you said
11 you've been working New Mexico properties for eight years,
12 is actually looking at the paper and looking at the
13 documents going to tell you, kind of give you a good
14 idea --

15 A. It's --

16 Q. -- if it's an old unit or a relatively new one.

17 A. I would say probably -- I'm just guessing. I'd
18 say maybe mid-1980s.

19 EXAMINER STOGNER: Mid-1980s, okay, so it's
20 relatively new.

21 Well, I had all these boxes in some sort of an
22 order. That unit agreement is in there somewhere.

23 Tell you what I'll do, I'll take this case under
24 advisement and then do my research later, and if there's
25 any questions we may have to reopen it. But I'll take this

1 case under advisement at this time.

2 And since there's nothing else further in this
3 matter and this docket, then this hearing is adjourned.

4 MR. FELDEWERT: Thank you, Mr. Examiner.

5 (Thereupon, these proceedings were concluded at
6 10:58 a.m.)

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I do hereby certify that the foregoing is
* a correct record of the proceedings at
the Examiner's hearing of Case No. 12583
heard by me on 22 March 2001
Michael J. [Signature], Examiner
Of Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) SS.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 28th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002