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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. 10,996
APPLICATION OF ANADARKO PETROLEUM)
CORPORATION)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 18, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, August 18, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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August 18, 1994
 Examiner Hearing
 CASE NO. 10,996

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A P P E A R A N C E S

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3 FOR THE APPLICANT:

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7 Santa Fe, New Mexico 87504-2265
8 By: W. THOMAS KELLAHIN

9 FOR MEWBOURNE OIL COMPANY:

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15 FOR MURJO OIL AND ROYALTY, MR. C. DANIEL WALKER AND MR.
16 C.W. STUMHOFFER:

17 LOSEE, CARSON, HAAS & CARROLL, P.A.
18 300 American Home Building
19 Post Office Drawer 239
20 Artesia, New Mexico 88211-0239
21 By: ERNEST L. CARROLL

22 * * *

1 WHEREUPON, the following proceedings were had at
2 9:44 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order at this time and call Case 10,996, which is the
5 Application of Anadarko Petroleum Corporation for
6 compulsory pooling, Lea County, New Mexico.

7 Are there appearances in this case?

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant. I have two witnesses to be
11 sworn.

12 EXAMINER CATANACH: Additional appearances?

13 MR. CARR: May it please the Examiner, my name is
14 William F. Carr with the Santa Fe law firm Campbell, Carr,
15 Berge and Sheridan. I'd like to enter my appearance in
16 this case for Mewbourne Oil Company. I do not intend to
17 call a witness.

18 MR. CARROLL: Mr. Examiner, I'm Ernest Carroll of
19 the Artesia law firm of Losee, Carson, Haas and Carroll,
20 and I'm appearing here for a limited purpose on behalf of
21 Murjo, Mr. Walker and Mr. Stumhoffer.

22 We had earlier filed a petition or gave notice of
23 our opposition. We have now settled all matters with
24 Anadarko and therefore have no witnesses to call and do not
25 intend to contest anything in today's hearing.

1 EXAMINER CATANACH: Anybody else?

2 Okay. Will the two witnesses please stand to be
3 sworn in?

4 (Thereupon, the witnesses were sworn.)

5 MR. KELLAHIN: Mr. Examiner, at this time I'd
6 call Mr. George Buehler.

7 Mr. Examiner, we've elected to present the
8 engineering witness first in a pooling case, simply because
9 I think that's the easiest way to understand it.

10 Anadarko has acquired an interest in the west
11 half of this section, which includes an old well drilled in
12 1956 by Shell Oil Company. The ownership by Anadarko
13 started in September of 1990.

14 And what Anadarko proposes to do is to take this
15 old wellbore, recomplete it as a Morrow gas well, and
16 dedicate the west half of the section to the well. It is
17 the Querecho Plains Unit Well Number 1. It's down in the
18 southwest quarter of the section.

19 Anadarko controls the entire lease in the west
20 half, and could form a 320 spacing unit with the inclusion
21 of an additional 40-acre tract. There's a 40-acre tract in
22 the northeast northwest. And when you see the list of
23 ownership, it will be that 40-acre tract that we're seeking
24 to pool.

25 Certain owners of that tract have been

1 represented by Mr. Carroll, and we are in the process of
2 stipulating a settlement with his clients, Walker,
3 Stumhoffer and Murjo.

4 In addition, Anadarko will provide the same
5 opportunity to the other parties that have an interest in
6 that 40-acre tract.

7 The basic deal is this, that Anadarko will ask
8 those parties to pay for the recompletion costs to set up
9 this well for production out of the Morrow, but we're going
10 to waive any compensation for the value of the existing
11 wellbore. In exchange, Mr. Carroll's clients have agreed
12 that they will waive any claim for any past production out
13 of the well, and they will waive any claim for ownership of
14 the wellbore.

15 And so what will happen, or what we envision of
16 happening, is that those parties will have a chance to
17 participate for remaining future gas production out of the
18 Morrow by paying their proportionate share of those costs
19 to recomplete the well to reconfigure it for Morrow gas
20 production.

21 In addition, all parties have been offered the
22 opportunity to farm out, to exchange their interest or
23 otherwise reach a solution. And because there's an
24 extensive engineering history to the well, Mr. Buehler as
25 an engineer is going to present that background. I'll then

1 present Patrick Smith, who's the landman, and he'll show
2 you his efforts to consolidate the interest, and then we'll
3 be done.

4 GEORGE R.S. BUEHLER,

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

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Will you please state your name and occupation?

10 A. It's George R. S. Buehler. I'm a petroleum
11 engineer for Anadarko, office in Midland, Texas.

12 Q. You'll have to speak up in here, Mr. Buehler.

13 A. Okay.

14 Q. The microphones don't do anything to amplify your
15 voice.

16 On prior occasions, Mr. Buehler, have you
17 testified as a petroleum engineer before the Division?

18 A. Yes, sir, I have.

19 Q. And with regards to this particular well, what
20 are your personal responsibilities?

21 A. I am the production engineer for southeast New
22 Mexico for Anadarko. I'm responsible for completing the
23 wells, watching them while they're on production, and then
24 following them to their conclusion.

25 Q. Does this well come within your area of

1 responsibility?

2 A. Yes, sir, it does.

3 Q. And pursuant to discharging that responsibility,
4 have you made a study of the historical facts concerning
5 this well?

6 A. Yes, sir, I have.

7 Q. And did you prepare the AFE that you propose to
8 introduce to this Examiner?

9 A. Yes, sir, I did.

10 MR. KELLAHIN: We tender Mr. Buehler as an expert
11 engineer.

12 EXAMINER CATANACH: Mr. Buehler is so qualified.

13 MR. KELLAHIN: The exhibits are organized, Mr.
14 Examiner, so that each page is numbered at the bottom right
15 corner, and for simplicity I'll simply call all of these
16 Exhibit 1, and then we'll refer to the page number, and by
17 that way I hope we keep track.

18 Q. (By Mr. Kellahin) Looking at page 1, Mr.
19 Buehler, identify for the Examiner what you're showing.

20 A. Okay, this is a map showing the approximate
21 location of the Querecho Plains Unit Number 1. It's pretty
22 close to the center of the section in Section 22. Its
23 actual location is 1930 from the south and west line,
24 Section 22, 18 South, 32 East, Lea County, New Mexico.

25 Q. What is your proposed spacing unit orientation

1 within the section for production out of the Morrow?

2 A. We'd like to have a standup 320 on the west side
3 of the section.

4 Q. Is that wellbore located within an oil and gas
5 lease that's under the control of Anadarko?

6 A. Yes, sir, it is.

7 Q. Do you have the ability to assign an entire 320-
8 acre spacing unit to this well without the inclusion of
9 other acreage?

10 A. No, sir, we need to pick up an additional 40
11 acres to make that 320.

12 Q. And where does that 40-acre tract lie?

13 A. It would be the northeast of the northwest.

14 Q. Let's turn now, sir to page 2. Is this your
15 summary of the well history?

16 A. Yes, sir, it is.

17 Q. Give us a sense of what's happened with this
18 well, starting with its initial spud date and then what has
19 subsequently occurred.

20 A. The well was originally drilled by Shell Oil
21 Company. It spudded in July 10th of 1956.

22 In early 1957 Shell plugged back into the 7-inch.
23 The well had had an open-hole section from 13,755 down to
24 14,217, which proved noncommercial, so they went ahead and
25 set a cast iron bridge plug, a second one, with cement on

1 top, and came up. They refer to it in their well records
2 as a Des Moines (Penn). It's actually what we refer today
3 as the Strawn.

4 They perforated that section, and the well came
5 in flowing. It flowed till approximately 1959, when they
6 went ahead and put it on pump. And then as you look on
7 down there, it says "Change in Ownership". Shell went
8 ahead and sold the well, evidently, to Petroleum
9 Corporation of Texas, November 20th, 1967. They in turn
10 sold it to Breck Operating Corporation October 12th of
11 1983. They in turn sold it to Gary L. Bennett on June 27
12 of 1989.

13 Mr. Bennett applied for permission to deepen the
14 well within the casing and perforate and produce the
15 Morrow. Mr. Bennett had applied for a proration unit that
16 consisted of the southwest quarter of the section, the
17 south half of the northwest, and the west half of the
18 southeast, which is an illegal proration unit.

19 Q. Do you find any evidence in your record search
20 that he ever obtained approval of the Division for what
21 would be characterized a nonstandard proration unit?

22 A. Both in our well files and in the OCD files in
23 Hobbs, there is no permission granted, there is no approved
24 application. But Mr. Bennett went ahead -- or I should say
25 Gary L. Bennett went ahead; I don't know whether it's a

1 person or a company -- and perforated a zone in the Morrow.
2 Again, since there are no records, we have no idea where he
3 perforated the Morrow. We know that he did, based on two
4 things:

5 Number one, if you would turn to page 10, there's
6 a decline curve production graph, and you can see in late
7 1989 how the gas jumped. This gas production was reported
8 as Strawn gas production, not as Morrow gas production,
9 since he never was given an approved permit to perforate
10 within the Morrow.

11 The second reason we know, of course, is that
12 when we took the well over, the well was producing from
13 under a packer with the tubing deep enough to where the
14 only place that the gas could be coming from was the
15 Morrow. Gas could not have been coming from the Strawn
16 since there was -- Well, there wasn't an appreciable amount
17 of gas that could have been coming from the Strawn, as old
18 and depleted as it was. The increase was -- or had to be
19 from the Morrow.

20 Mr. Bennett, or Gary L. Bennett, evidently never,
21 to our knowledge, tried to squeeze off the Strawn perms.
22 We applied to the OCD --

23 Q. Well, let's talk about when you acquired the
24 interest in the well.

25 A. Okay, okay.

1 Q. When did that occur?

2 A. Okay, according to the C-104, which was approved
3 September 27th, 1990, I guess that would make the official
4 ownership then.

5 Q. All right. Let's turn to the schematic. I think
6 that will help you illustrate your point. If you'll look
7 at page 3 --

8 A. Okay.

9 Q. -- describe for the Examiner, using the schematic
10 of this well as an illustration, what you believe to be the
11 current configuration of that well.

12 A. Gary L. Bennett, in his application for a Morrow
13 recompletion, stated in the application that he wanted to
14 perforate between, 12,530 to 12,644. I have those
15 perforations tentatively marked with a question mark near
16 the bottom of the well sketch.

17 When Anadarko acquired the well, the packer that
18 is shown at 12,419, an on/off tool, and a string of tubing
19 were in the well, and the well was producing out of the
20 Morrow. The perforations for the Strawn were open behind
21 the tubing.

22 Anadarko, after --

23 Q. All right, you acquired the well September 26th
24 of 1990?

25 A. Yes, sir.

1 Q. What then did you do?

2 A. Well, Anadarko then went ahead and filed the
3 proper paperwork to produce the Morrow. At that time, once
4 it was received here at the OCD, we were told, You don't
5 have a proration unit, you cannot produce the Morrow.

6 We said, This is the proration unit that it's
7 been producing under. The OCD evidently had no idea that
8 the well had been producing out of the Morrow.

9 Q. What then did you do with the wellbore?

10 A. We had no choice but to TA the Morrow. We did
11 that by putting a blanking plug in the on/of tool profile
12 in the existing packer at 12,419. It appeared to be
13 leaking, so we went ahead and set a second plug at 11,909
14 to seal off the Morrow.

15 We then proceeded to run a string of tubing and
16 pumping rods, set a 640 pumping unit and put back on
17 production.

18 Q. And it's produced in that configuration since
19 then?

20 A. Yes, sir.

21 Q. All right. Describe for the Examiner what you
22 want to do with that well now.

23 A. We would propose one of two completion methods.

24 First off, what we would have to do, of course,
25 is to remove the tubing, the rods and the pump from the

1 well, pull the bridge plug. We're going to have to go in,
2 we feel, and probably jar on the packer at 12,419, blow the
3 well clean or swab it dry, and then we're going to have to
4 run a temperature survey or a casing inspection log to try
5 to find out where the Morrow was perforated. We have
6 absolutely no idea where the perfs are or how many there
7 are.

8 At that time, we're going to have to make some
9 sort of decision, then, whether to add additional perfs,
10 squeeze off some perfs. At that time basically what we're
11 going to have to do is come up with an actual completion
12 for the Morrow.

13 Once that's established and we feel that the
14 Morrow is commercial, we would probably go ahead and dual
15 the well back, with the Strawn being open to the annulus
16 and the Morrow producing under a packer.

17 Q. Have you assessed what the engineering risk is to
18 this well by undertaking that process?

19 A. Well, first off, I'd like to state that the well
20 was drilled in 1956, it's been on production ever since.
21 We really don't have any handle on the amount of -- or type
22 of corrosion that could be in the wellbore.

23 As the sketch shows, there's a cement top at 9900
24 on the 7-inch, and the 9 5/8 is set at 4539. There is a
25 possibility for excessive corrosion on the 7-inch between

1 those two points, which concerns me.

2 The other thing that concerns me is that not
3 knowing what was done down below, we're liable to get down
4 there and find we may have some junk or some other problems
5 that we can just at this time guess about. The records
6 after Gary L. Bennett took the well over basically are
7 nonexistent.

8 Q. Let's review some of the documents at this point.
9 If you'll start with the document on page 4, identify that
10 for us.

11 A. Okay, that is the first C-104, changing ownership
12 from Shell Oil Company to Petroleum Corp. of Texas.

13 Q. All right, sir. Then page 5?

14 A. Page 5 is, again, a C-104, changing ownership
15 from Petroleum Corporation of Texas to Breck Operating
16 Corporation.

17 Q. All right, sir, 6?

18 A. Is again a C-104 changing -- showing ownership
19 from Breck Oil Corporation to Gary L. Bennett.

20 Q. All right, sir, 7?

21 A. And then the final C-104 showing change of
22 ownership from Gary L. Bennett to the Anadarko Petroleum
23 Corporation.

24 Q. Do the records of the Division also include a
25 plat of the area?

1 A. Yes, sir, page 8 shows the original plat that
2 Shell Oil filed with the OCD back in 1956.

3 Q. All right. Now, let's turn to page 9. What have
4 you shown here?

5 A. Page 9 -- This is Gary L. Bennett's application
6 to the BLM for permission to deepen the well, which meant
7 drilling out a cement plug on top of a bridge plug, to
8 expose the Morrow pay within the casing.

9 He refers here to the perforations that he
10 intends to perforate, which are 12,530 to 12,644. He also
11 makes reference to the existing Strawn perforations, which
12 are overall 11,578 to 11,660.

13 Q. And this was filed in August of 1989?

14 A. Yes, sir, according to the dates.

15 Q. Okay. Anything else in the files that you can
16 find that's relevant as to this issue?

17 A. No, sir, not until Anadarko took the property
18 over, and then at that time we found out that the well was
19 being produced illegally without a proration unit.

20 Q. All right. Let's look at the production history.
21 Do you have a display or an exhibit, starting on page 11
22 and continuing through 16, that tabulates the production
23 data as reported to the Division?

24 A. Yes, sir, the -- I might point out that the
25 tabulated production is just from 1980 forward. That's

1 because of the graph and the way that the software is set
2 up --

3 Q. All right.

4 A. -- that the graph will print out what is on the
5 cumulative pages there below.

6 Q. All right, the graph is simply graphical form of
7 the production history that is shown in a tabular fashion
8 starting on page 11?

9 A. Yes.

10 Q. All right. You've already talked about that
11 then, and let's move on to 17, then. What's that show?

12 A. 17 is a file copy of the work that was performed
13 by Anadarko's Loco Hills staff to plug off the -- or
14 temporarily abandon the existing Morrow perms and to put
15 the well back on production in the Strawn.

16 Q. Are you seeking to recover any of those costs
17 against any nonconsenting interest owner?

18 A. No, sir.

19 Q. Are you asking any consenting owner if they
20 choose to participate in the Morrow production to pay for
21 any of the costs attributable to the work shown on 17 and
22 18?

23 A. No, sir.

24 Q. Let's turn now to 19 and have you show us what
25 you do in fact expect this to cost.

1 A. Okay, page 19 is basically the cover sheet. Page
2 20 actually covers the individual areas that we're asking
3 for help on from potential partners.

4 Q. All right, sir. That is an AFE you prepared?

5 A. Yes, sir.

6 Q. Summarize for us what you're seeking to recover
7 from other partners.

8 A. Okay. Basically what we want to recover from
9 those partners would be all work done on the Morrow only.
10 If we dualled the well back we would not, of course, charge
11 or try to recover from the partners any pulling unit time,
12 tubing, rods or anything to dual in the Strawn. That would
13 strictly be on us.

14 But on the Morrow side, we would probably for
15 location need a small reserve pit, pulling unit time,
16 fluids, logs to evaluate the well. To remove downhole
17 equipment, I've added in some fishing time and rental
18 tools. Of course, supervision, miscellaneous unknowns and
19 then a string of tubing for the production of the Morrow.

20 Q. Your total estimated costs, then?

21 A. Is \$63,400 gross, of which Anadarko would pay
22 87.5 percent.

23 Q. That's the AFE that was shared with Mr. Carroll's
24 clients and for which they have expressed no disagreement?

25 A. Yes, sir.

1 Q. All right. And that's the same AFE you're going
2 to utilize for any of the other interest owners out of that
3 40-acre tract, whether they participate on a voluntary
4 basis or are subject to a pooling order?

5 A. Yes, sir.

6 Q. When you look at that work, how much of that work
7 is going to be paid for by Anadarko in terms of their share
8 of the Morrow production?

9 A. According to the breakout on my AFE, it would be
10 approximately \$55,500.

11 Q. The Examiner has the discretion to compensate
12 Anadarko in terms of a penalty component to be recovered
13 out of production from those parties that decide not to
14 participate. He has the discretion to award costs plus a
15 penalty of up to two more times. It's a 200-percent
16 component. Are you with me?

17 A. Yes, sir.

18 Q. In terms of that maximum range, do you have a
19 recommendation to the Examiner as to a penalty factor to
20 charge for the risk involved in doing this work?

21 A. I believe a 200-percent additional would be
22 appropriate.

23 Q. Describe for us the reasons that have caused you
24 to reach that opinion.

25 A. First off, there are chances that we may do some

1 damage to the Strawn and not be able to get it back while
2 we're trying to do the work on the Morrow.

3 There's also the risk that the Morrow itself may
4 never pay out the work. This zone may possibly be in a
5 well to the south, which may be draining this particular
6 portion of the Morrow. We're taking a monetary risk here
7 which we don't know whether we'll be able to recover or
8 not.

9 We have no idea, other than Mr. Bennett's
10 application, what he perforated, and that was just overall.
11 We don't know how many shots, we don't know if -- He may
12 have put some stimulation on the zone and damaged it.
13 There's just too many unknowns down there. We don't know
14 what kind of junk, if any, may be in the bottom of the
15 well.

16 Again, we're paying the lion's share of this
17 work. You know, again, we're having to put the unit
18 together. That's another burden on us. And again, I'm
19 suspicious always of an older well, of how long it will
20 stand up or if it will give us problems during the
21 workover.

22 MR. KELLAHIN: That concludes my presentation of
23 Mr. Buehler's evidence. We move the introduction of that
24 portion of Exhibit 1 from page 1 through page 20.

25 EXAMINER CATANACH: Pages 1 through 20 of Exhibit

1 1 will be admitted as evidence.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Buehler, the portion of the Morrow formation
5 that you're targeting, you don't believe that that's been
6 perforated in the well?

7 A. Yes, sir.

8 Q. Oh, it has?

9 A. Yes, sir. Mr. Bennett did it -- or Gary L.
10 Bennett, I hate to put anybody personally on the spot --
11 but they perforated. And like I say, that's been proven
12 by, one, that the production has been reported --
13 misreported, and plus the -- just the physical evidence
14 that we encountered when we TA'd the Morrow.

15 Q. So that Morrow formation was produced from about
16 1987?

17 A. No, sir. If you look at the --

18 Q. Or 1989?

19 A. Yes, sir. I have no way of knowing, I don't
20 guess anybody would, except the person that did the work,
21 that the work could have been performed before, during or
22 after that application for recompletion was filed.

23 But based on the production that's reported, it
24 looks like it -- the work was performed right -- pretty
25 close to the time that that application was filed.

1 Again, it's dated 8-16-89. There's another date
2 on there, 8-1-89, on the recompletion application, and then
3 if you look at the graph and also the last -- well, let me
4 see, I believe it's page -- it would be page 14. If you
5 look on -- It would be the -- about the middle of the page,
6 around about -- to the far left side there, say right
7 around 10-89, you can see the gas has increased from 9.9 a
8 little bit up to 42.8. This is a daily average. It goes
9 on up to 121.1 and it jumps up to 272.1, 271, and it stays
10 up close to 300 MCF a day, up until you get near the bottom
11 of 1990.

12 Now, the gas stays up there for a short period of
13 time. If you'll flip over to page 15, you can see where it
14 stays up there, and then it has a dramatic drop back.

15 We believe that the reason that it stayed up for
16 a while after we did our recompletion or TA'd the Morrow
17 was that that packer or the tubing or the on/off tool or
18 something was leaking, and gas was entering the Strawn
19 formation and possibly charging it up, so that when we
20 isolated the Morrow below the blanking plug and the
21 existing packer and the retrievable bridge plug and we put
22 it back on production, we felt like we were probably
23 getting some flush gas production that entered the Strawn
24 from the Morrow.

25 And this gas entry could tentatively have started

1 right after Gary L. Bennett perforated the Morrow.

2 Q. This was all reported as Strawn production?

3 A. Yes, sir, these -- This curve and this tabulation
4 were taken off of *Dwight's*, and *Dwight's* pulls their
5 information right off of the reports. I believe it's
6 C-115s in New Mexico, is the reporting form?

7 Q. Uh-huh. So when you guys went in and TA'd the
8 Morrow, you did find -- you don't know where the perms are?

9 A. No, sir, there's no records anywhere.

10 Q. But you do know that that interval is perforated?

11 A. We know that something is perforated and giving
12 up gas, and we're just following a line of reasoning that
13 if he filed to perforate the Morrow and didn't get an
14 allowable and, you know, we go in and recover equipment
15 from right above the Morrow, that that's what has happened.
16 We're, you know, making -- coming to conclusions, based on
17 the evidence.

18 I wish I knew where the perms were. It would
19 make my job a lot easier.

20 Q. The risk penalty -- Did you propose a 200-percent
21 risk penalty?

22 A. Yes, sir, but that would just be on the AFE
23 amount.

24 Q. \$63,400. Is that just based mostly on mechanical
25 risk?

1 A. Yes, sir, but that -- We believe that there's
2 still commercial production to be had from the Strawn. We
3 also believe that we could make a larger impact on our
4 income by dualing the Morrow with it.

5 We're just afraid that, you know, a well this
6 deep, this hole, that all kinds of problems creep up. If
7 it was a fairly new wellbore, the risk wouldn't be near as
8 great.

9 Q. If you don't have any wellbore damage due to
10 recompletion efforts, you probably will establish more
11 production in the well; is that correct?

12 A. Yes, sir. Again, we believe that this zone is
13 being shared with the well to the south. We ran a bottom
14 on this well back shortly before we did the work, and it --
15 I believe the bottomhole pressure was around 1300 pounds,
16 which is significantly low for a virgin Morrow pressure.
17 And that's another reason I state that, you know, we don't
18 know whether we'll recoup our money or not. The reserves
19 may not be there.

20 Q. The agreement that's been reached with the
21 parties, is it better if I talk to the landman about that?

22 A. Yes, sir.

23 EXAMINER CATANACH: Okay. I don't have anything
24 else, Mr. Buehler. You may be excused.

25 THE WITNESS: Thank you.

1 MR. KELLAHIN: One follow-up question, Mr.
2 Examiner, if you please.

3 FURTHER EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Help me understand what you would need as an
6 engineer to quantify the remaining recoverable gas out of
7 the Morrow.

8 A. We'd basically need a little bit of production
9 history, probably run an initial bomb -- we don't believe
10 that the bomb that we ran gave us a true pressure, since we
11 now believe the gas was leaking from the Morrow past the
12 packer or the on/off tool, so as the pressure built, more
13 gas would bleed out and probably cross-flow up the hole
14 into the Strawn.

15 So we cannot really say right now what we think
16 those reserves are. We have no idea what the perforations
17 are, so we don't know what interval is contributing, so we
18 have no way to run volumetrics. There's just a whole bunch
19 of unknowns.

20 We're going to have to get in there and find,
21 one, what the perforated intervals are. Once we find that
22 out, we're going to have to decide whether he perforated
23 some stuff that may be contributing water or nothing at
24 all. We're going to have to probably do some kind of a
25 buildup to see if there's been damage done, to see if

1 additional stimulation may take care of the damage.

2 Then we're going to have to, after all of that,
3 watch it for a while and just see if it's going to fall off
4 on us fast or if we have a well that we can look to the
5 future producing out commercial reserves.

6 Q. Are you going to have to spend the \$63,000 on it?

7 A. Yes, sir.

8 Q. The AFE costs were estimated \$63,000. Are you
9 going to have to spend all of that before you have the
10 information that you just described you needed from this
11 wellbore?

12 A. As a production engineer, I tried to make that
13 AFE as plain and simple as possible, not knowing who all
14 the parties were that were in the 40 acres. I believe that
15 a knowledgeable person looking at that AFE can see between
16 the lines and understand that, you know, us not knowing
17 where those perforations are, that we're going to have to
18 find this information out.

19 Q. In order to find that information out, you're
20 going to have to spend this money to do this work?

21 A. Yes, sir.

22 Q. Okay.

23 A. When I show on line 260 there that \$9500, that
24 also includes some wireline work, which would either be a
25 caliper log, a multi-finger caliper log and/or a

1 temperature log that I would have to run to try to find
2 where these perforations are, or aren't.

3 Q. In summary, then, apart from the mechanical
4 difficulty, you're dealing with a partially depleted
5 reservoir for which you don't have sufficient information
6 to assess the risk, and therein lies the components for the
7 risk?

8 A. Yes, sir.

9 Q. And in your opinion, those added together reach
10 the 200 percent maximum?

11 A. Yes, sir.

12 MR. KELLAHIN: All right, no further questions.

13 EXAMINER CATANACH: The witness may be excused.

14 MR. KELLAHIN: Call at this time Patrick Smith.

15 PATRICK A. SMITH,

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

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Smith, would you please state your name and
21 occupation?

22 A. My name is Patrick A. Smith, and I'm a project
23 landman for Anadarko Petroleum out of Houston, Texas.

24 Q. Summarize for us your experience as a petroleum
25 landman, Mr. Smith.

1 A. I've been involved in land work as well as
2 geological field supervision for the past 22 years, both
3 with Chevron and Anadarko. My current area of expertise is
4 the Permian Basin. I handle the entire area.

5 Q. As part of those responsibilities, have you been
6 delegated the responsibility as a landman to attempt to
7 consolidate the interest owners so that the Morrow gas
8 production can be allocated back to those owners in Section
9 22?

10 A. Yes, sir, I was.

11 Q. In order to do that work, what did you review?

12 A. We basically ran title on the 140-acre section in
13 the northeast of the northwest, obtaining both the mineral
14 interests and the addresses of the parties involved in that
15 lease.

16 Q. Having determined those interests, then, was it
17 your responsibility to contact those parties and, once
18 contacted, to negotiate with them a voluntary agreement?

19 A. Yes, sir.

20 MR. KELLAHIN: We tender Mr. Smith as an expert
21 petroleum landman.

22 EXAMINER CATANACH: Mr. Smith is so qualified.

23 Q. (By Mr. Kellahin) Let's turn to page 21. Do you
24 have a copy of that before you?

25 A. Yes, sir.

1 Q. Does that represent your summary of the title if
2 we dedicate the west half of Section 22 to Morrow gas
3 production out of the subject well?

4 A. Yes, sir, it does.

5 Q. Summarize for us what you found.

6 A. Well, I found that in the northwest -- excuse me,
7 the northeast of the northwest quarter, that Murjo Oil and
8 Royalty own a 44.3-percent working interest; Debra J. Head,
9 a 14.7-percent working interest; the same for DeMar J.
10 Hopson; F. Kirk Johnson, an 8.1-percent tract working
11 interest; Ann H.J. McReynolds, 6.6-percent working
12 interest; C. Daniel Walker, 6.25-percent working interest;
13 and C.W. Stumhoffer, 5-percent working interest. This
14 would give them a proportionally reduced tract
15 participating working interests as outlined on the chart.
16 Do you want me to detail that?

17 Q. No, sir. Were you able to locate current
18 addresses for all those parties that you've listed as
19 working interest owners in the northeast of the northwest
20 of the section?

21 A. Yes, I was.

22 Q. Apart from the owners of that tract, what was the
23 ownership of the balance of the spacing unit for the west
24 half?

25 A. Anadarko owns 100 percent working interest in the

1 balance.

2 Q. Okay. Did you find current addresses for all
3 those individuals or interest owners?

4 A. Yes, I did.

5 Q. When did you first contact them in writing and
6 propose the sharing of remaining gas production out of the
7 Morrow in exchange for them paying a certain portion of the
8 cost of the well?

9 A. My letter is dated January 5th, but it was mailed
10 on or about January 21, waiting on a revised AFE.

11 Q. All right. So when we turn to page 22, what are
12 we looking at, at that point?

13 A. Basically it's requesting participation in the
14 well. Along with the letter I sent APL Form 610, dated
15 1982, which is a model form operating agreement, with a
16 1984 COPAS accounting procedure attached providing for
17 \$5439 producing well rate and -- excuse me, drilling rate,
18 and an \$863 producing well rate.

19 Q. Except for changing the addressee on each of
20 these letters, did you offer them the identical same terms?

21 A. Yes, all terms were identical.

22 Q. You offered them an opportunity to participate in
23 the recompletion?

24 A. Yes, or to farm out their interest.

25 Q. Let's continue to use page 21. As of today's

1 date, what's the status of your efforts to obtain a
2 voluntary agreement with Murjo?

3 A. We were unable to obtain a voluntary agreement
4 with Murjo. Evidently, they have just recently settled.

5 Q. All right. As of today I will represent to the
6 Examiner that through Counsel we have stipulated that their
7 interest has been agreed upon, and so once those documents
8 are finally executed, then we'll dismiss Murjo, pursuant to
9 the stipulation.

10 A. Yes.

11 Q. All right. Was Debra Head part of the stipulated
12 settlement?

13 A. No, she was not, but she approved all operations,
14 signed the AFE and executed the operating agreement.

15 Q. All right. So in your opinion, may we drop Debra
16 head from any pooling --

17 A. Yes.

18 Q. -- order?

19 DeMar Hopson?

20 A. The same, he signed the AFE and the operating
21 agreement.

22 Q. All right. Kirk Johnson, III?

23 A. Kirk Johnson signed the operating agreement but
24 did not return the AFE. Subsequent attempts were made to
25 acquire the signed AFE, and we've been unable to get him to

1 cooperate.

2 Q. What's your recommendation to the Examiner as to
3 Mr. Johnson's interest?

4 A. That he be included in the force pooling.

5 Q. Ann McReynolds?

6 A. Has not returned either the AFE or the joint
7 operating agreement.

8 Q. Your recommendation, then, for Ms. McReynolds?

9 A. To include in the pooling.

10 Q. Daniel Walker is part of the stipulated
11 settlement group?

12 A. Yes, sir.

13 Q. And then Mr. Stumhoffer is also part of the
14 stipulated settlement group?

15 A. Yes, sir.

16 Q. We look past the initial letters that you sent in
17 January, and those will take us through Exhibit 1, page 35.
18 Starting at page 36, what do we find in the exhibit
19 package?

20 A. Those are the certified return receipt
21 information table.

22 Q. All right --

23 A. All the parties signed off on the receipts,
24 indicating all parties had received the information as
25 described.

1 Q. All right. So at least initially you've
2 contacted everybody?

3 A. Yes, sir.

4 Q. You made reference in your letter to a proposed
5 overhead rate. You told me a while ago about \$5400 a
6 month?

7 A. That was in the operating agreement --

8 Q. All right, and part --

9 A. -- of the COPAS accounting procedure; it was not
10 part of the letter itself.

11 Q. All right, sir. But that was part of the
12 submittal to the parties?

13 A. Yes, sir.

14 Q. Did you receive any objection from any of those
15 parties to your proposed rates?

16 A. None at all.

17 Q. You're proposing \$5439 for the monthly drilling
18 or recompletion work rate?

19 A. Yes.

20 Q. And then a monthly operating rate of \$863?

21 A. Yes, sir.

22 Q. Where did you get those numbers?

23 A. Those are COPAS numbers, adjusted for depth.

24 Q. Apart from the parties that responded, their
25 desire not to pay for the value of the existing wellbore,

1 did you have any other objections to the proposed AFE?

2 A. No, not at all.

3 Q. Anyone object to the proposed penalty formulas or
4 anything else in the process?

5 A. None at all. Discussions resolved specifically
6 around the acquisition, the cost of the wellbore.

7 Q. All right. It was specific as to whether or not
8 they should reimburse you for some value of the wellbore?

9 A. Yes, sir, the discussions were as to the merit of
10 that proposal.

11 Q. At this point then, Anadarko is not seeking to be
12 reimbursed for the value of that existing wellbore from any
13 of the parties, whether pooled or otherwise?

14 A. That is correct.

15 MR. KELLAHIN: That concludes my questions of Mr.
16 Smith.

17 We move the introduction of Exhibit 1, starting
18 at page 21 through completion of the exhibit.

19 EXAMINER CATANACH: Pages 21 through -- I believe
20 it's --

21 MR. KELLAHIN: 35? 39.

22 EXAMINER CATANACH: -- 39 --

23 MR. KELLAHIN: Yes, sir.

24 EXAMINER CATANACH: -- will be admitted as
25 evidence.

EXAMINATION

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BY EXAMINER CATANACH:

Q. Mr. Smith, the parties that have voluntarily agreed to participate -- and I believe you said Ms. Head, the Hopson interest --

A. Yes.

Q. -- are the two that have agreed to --

A. That's correct.

Q. -- voluntarily participate?

What are the terms of those -- of their participation?

A. They will participate with their proportionately reduced working interest in the cost and production of the Morrow completion and production therefrom.

Q. They're carrying their share of the recompletion costs only, right?

A. Yes.

Q. The --

A. -- no other costs.

Q. -- \$64,000 --

A. Were not associated with the Strawn --

Q. Okay, they're not --

A. They're just dual.

Q. They're not reimbursing you for any value? They're doing basically the same terms as the Murjo?

1 A. Yes, sir, exactly.

2 Q. Okay, nobody's getting any kind of benefit, extra
3 benefit here?

4 A. No.

5 Q. Okay, they're all the same?

6 A. All participating equally.

7 Q. Okay. The Johnson interest, you said they signed
8 -- Did you say they signed an operating agreement?

9 A. Operating agreement, but we were unable to get
10 him to return the AFE.

11 Q. Okay. You've been unable to subsequently contact
12 him?

13 A. We mailed a certified letter to Mr. Johnson -- it
14 was received, but he has not returned the AFE -- specifi-
15 cally requesting the return of the AFE.

16 Q. The Murjo and Walker and Stumhoffer interests,
17 have they signed off, actually, on that agreement?

18 A. I'd have to have counsel --

19 MR. KELLAHIN: Mr. Examiner, I have Mr.
20 Stumhoffer's signed stipulation.

21 Mr. Carroll advised me this morning that he has
22 seen the Walker stipulation, it's executed and he has sent
23 it to me. He and I are both awaiting Murjo's signature to
24 the stipulation. Both of us believe it's forthcoming.

25 We will file all those with you for the case file

1 when we have them all put together.

2 Q. (By Examiner Catanach) At this point, you
3 believe the only interests you're pooling are the Johnson
4 and McReynolds interest?

5 A. Yes, sir.

6 Q. Mr. Smith, your proposed overhead rates were
7 included in the operating agreement that was signed by some
8 of these parties?

9 A. Yes, they were.

10 Q. And those were determined from what, now?

11 A. From published recommended rates that were
12 adjusted for depth.

13 Q. The rates of \$5439 while drilling and \$863 while
14 producing?

15 A. Yes.

16 EXAMINER CATANACH: I believe that's all the
17 questions I have of the witness, Mr. Kellahin.

18 You may be excused.

19 MR. KELLAHIN: Mr. Examiner, the last submittal
20 is not marked as an exhibit. It's my certificate of
21 mailing.

22 We'll mark it, if you allow me, as Exhibit 2, and
23 we would move its introduction. It's the notification of
24 hearing to all the parties that were shown on page 21 of
25 Exhibit 1.

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EXAMINER CATANACH: Okay, Exhibit Number 2 will be marked and admitted as evidence in this case.

MR. KELLAHIN: That concludes our presentation.

EXAMINER CATANACH: There being nothing further, Case 10,996 will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:33 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10996, heard by me on August 18 1984.
David K. Catanch, Examiner
Oil Conservation Division

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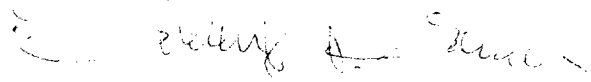
CERTIFICATE OF REPORTER

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
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 August 23, 1994.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994