

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

EXAMINER HEARING

IN THE MATTER OF:

Application of OGS Operating Case 9749
Company for compulsory pooling
and an unorthodox oil well
location, Roosevelt County,
New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

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ORIGINAL

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1 HEARING EXAMINER: We'll call the next
2 case, No. 9749.

3 MR. STOVALL: Application of OGS Operating
4 Company for compulsory pooling and an unorthodox oil
5 well location, Roosevelt County, New Mexico.

6 HEARING EXAMINER: Call for apperances?

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

11 HEARING EXAMINER: Are there any other
12 appearances?

13 Will the witnesses please stand and be
14 sworn at this time?

15 (Witnesses sworn.)

16 MR. KELLAHIN: Mr. Examiner, at this time
17 we'd call our first witness, Mr. Thom O'Brien.

18 Mr. Examiner, by way of explanation, Mr.
19 O'Brien is a landman. We have marked his package of
20 exhibits as OGS Exhibit No. 5. Then within that
21 package of exhibits marked under that number is
22 numbered each of the pages for his correspondence and
23 other documentation as a landman.

24 Exhibits 1 through 4 represent the geologic
25 displays, which the second witness will address

1 himself to, that pertain to the risk factor that
2 they're proposing for adoption by the Examiner in a
3 pooling order.

4 So if we may take these slightly out of
5 order, Mr. Examiner, I'll commence with Mr. O'Brien.

6 HEARING EXAMINER: Thank you, Mr. Kellahin.

7 THOM O'BRIEN,

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

10 DIRECT EXAMINATION

11 BY MR. KELLAHIN:

12 Q. Mr. O'Brien, for the record, sir, will you
13 please state your name and occupation.

14 A. My name is Thom O'Brien. I'm a landman for
15 O'Brien Goins Simpson Exploration and vice president
16 of OGS Operating Company.

17 Q. Mr. O'Brien, on behalf of your company,
18 have you on prior occasions testified as a petroleum
19 landman?

20 A. Yes.

21 Q. And pursuant to your employment and in
22 discharge of your responsibilities to OGS Operating
23 Company, have you made yourself familiar with the
24 various working interests, royalty interest ownership
25 within the proposed spacing unit that is the subject

1 of this application?

2 A. Yes.

3 Q. Have you had correspondence with, and have
4 you exhausted efforts to form on a voluntary basis the
5 appropriate spacing units for the production, if
6 successful, from the subject well?

7 A. Yes.

8 MR. KELLAHIN: At this time, Mr. Examiner,
9 we tend Mr. O'Brien as an expert petroleum landman.

10 HEARING EXAMINER: Mr. O'Brien is so
11 qualified.

12 Q. (BY MR. KELLAHIN) We'll take a moment and
13 have you adjust yourself to the package of exhibits,
14 and before we go into the exhibit pages, identify for
15 the Hearing Examiner how you have organized your
16 exhibits.

17 A. This package is copies of a scheduled
18 ownership of the acreage in question, the unit
19 composed of the north half of Section 15. Also copies
20 of all of the correspondence I've had with the various
21 owners in the unit, a copy of our AFE setting forth
22 the estimated costs of the proposed well, some cost
23 information on a well we drilled just offsetting this
24 well that sets forth the actual costs that we
25 incurred, and an operating agreement and some

1 information on overhead rates that we have in the
2 operating agreement.

3 Q. Let's turn to page 1 and page 2 of Exhibit
4 5, and let's look at them at the same time.

5 A. Okay.

6 Q. Page 1 is what, sir?

7 A. That is a breakdown of the working interest
8 ownership in the proration unit for the well.

9 Q. Let's look at page 2 and have you identify
10 what you mean by the term "proration unit for the
11 well"?

12 A. The proration unit is 320 acres for a gas
13 well and 80 acres for an oil well, and we're proposing
14 formation of a working interest unit composed of the
15 north half of Section 15, Township 8 South, Range 37
16 East.

17 Q. The proposed gas spacing on 320 is subject
18 to some special rules with regard to the location of
19 wells for this pool; is that not true?

20 A. Yes.

21 Q. What is the pool name by which this acreage
22 would be known if you're successful with this well?

23 A. The Bluitt-San Andres Associated Pool, I
24 believe.

25 Q. The Bluitt-San Andres Associated Pool

1 requires, to the best of your knowledge, wells to be
2 located where within 320 acres in order to be standard
3 well locations?

4 A. For a standard gas well, it would be 990
5 feet to the quarter section line, not closer than 990
6 feet to the quarter section line nor closer than 330
7 feet from any quarter quarter section line, and it
8 shall be located within 150 feet of the center of the
9 quarter quarter section.

10 Q. To the best of your knowledge, information,
11 and belief, Mr. O'Brien, is the proposed location one
12 that is standard with regards to the gas spacing for
13 this pool?

14 A. Yes.

15 Q. In the event that this is classified as an
16 oil well, what would be the acreage to be dedicated to
17 the well?

18 A. 80 acres.

19 Q. And if it is an oil well, will the location
20 of the well at this point be standard or unorthodox?

21 A. It would be unorthodox.

22 Q. Let's look at Section 15. Help us
23 understand in a brief way the compilation of the
24 acreage with regards to that spacing unit in the north
25 half that consists of 320 acres.

1 A. The east half of the northeast quarter is
2 fee acreage, privately owned minerals. We own oil and
3 gas leases covering approximately 76 percent of the
4 minerals. The balance of the mineral interests in
5 that tract are owned by Walter Duncan, Inc., in
6 Oklahoma, and they are going to join the well.

7 And there's a very small mineral interest
8 in there that we've been unable to locate the owner
9 of.

10 Q. That's the Hammer Estate interest that you
11 haven't been able to locate?

12 A. Right.

13 Q. That information is compiled, is it not,
14 Mr. O'Brien, on page 3 of Exhibit 5?

15 A. Yes, it is.

16 Q. If the examiner desires to see the
17 breakdown of the individual tracts, he can do so by
18 looking at that page?

19 A. That's correct.

20 Q. When we look at the northwest quarter in
21 the north half of the northeast, to the best of your
22 knowledge, who's the majority working interest owner
23 in that acreage?

24 A. Murphy Operating Corporation.

25 Q. Let's now look back on page 1. With

1 regards to the 320-acre spacing unit, does the
2 percentage allocated under the working interest
3 ownership represent their interest with regards to a
4 320-acre spacing unit?

5 A. That's correct.

6 Q. Then in the comments section, what does
7 that represent?

8 A. That represents the status of the response
9 of the parties to my efforts to obtain voluntary
10 joinder in the cost of drilling the well, or some
11 other form of the like, agreeing to farmout, or the
12 fact that we haven't received any response at all.

13 Q. For convenience, Mr. O'Brien, let's use the
14 numbering system you have shown on page 1. Simply
15 start at the top, and tell us the number for the entry
16 in which you have not at this point produced on a
17 voluntary basis a commitment of that interest to the
18 well.

19 A. The number of parties that we have not?

20 Q. No, sir, just indicate.

21 A. The numbers that have not?

22 Q. Yes, as you read down the column.

23 A. We've had no response from Nos. 8 or 9.

24 Q. I'm looking for parties that you proposed
25 to have pool pursuant to the order.

1 A. Okay. It would be No. 16 and No. --

2 Q. I'm confusing you, sir. If we look at the
3 schedule, I'm looking for those parties that have not
4 signed all the appropriate documents to commit their
5 interest to the well and, at least as of today, need
6 to still be included under the proposed pooling.

7 It would appear to me that you would start
8 with No. 7; is that correct?

9 A. Yes.

10 Q. How about No. 8?

11 A. Yes.

12 Q. 9?

13 A. Yes.

14 Q. 10?

15 A. Yes.

16 Q. 11?

17 A. Yes.

18 Q. In fact, all the way through the balance of
19 the display from 7 through 18?

20 A. Well, with the exception of 13 and 14
21 because they have signed an AFE and agreed to join.
22 Walter Duncan, Inc., and the Wiser Oil Company, and
23 Mr. Sieszinski also, No. 18; he has signed an AFE and
24 agreed to join.

25 Q. 7 through 11 then and 14 through 17?

1 A. That's correct.

2 Q. Let's turn now to the efforts that you have
3 made --

4 HEARING EXAMINER: Excuse me, Mr.
5 Kellahin.

6 EXAMINATION

7 BY HEARING EXAMINER:

8 Q. Let's go back to Exhibit 1 here. I got 7
9 through 12. Let's look at No. 13. You sent a signed
10 AFE, but you haven't received it back from him; isn't
11 that correct?

12 A. Yes, we have.

13 Q. So he's not included in?

14 A. He has agreed to join and has done so.

15 Q. So he's not included in the fourth pooling?

16 A. Yes.

17 Q. Not included is No. 14, Wiser Oil Company,
18 have you received the proper forms from him?

19 A. Yes. They're not to be included in the
20 forced pooling.

21 Q. Let's look at 15, Latimer?

22 A. He is to be included.

23 Q. 16, Murphy Operating Corporation, of 42.5
24 percent?

25 A. They are to be included in the forced

1 pooling, and so is --

2 Q. Before we move any further, let's look at
3 Murphy Operating Company. They own 41.25 percent in
4 the north half of the section; is that correct?

5 A. Yes, in the unit compiled of the north
6 half.

7 Q. The proration unit, the east half -- I'm
8 sorry. I'm now referring to the oil proration unit
9 consisting of the east half of the northeast quarter?

10 A. They wouldn't own any interest in that.

11 Q. Let's refer to page 3. I have the Murphy
12 Operating owning the east half, northeast quarter, and
13 the northwest quarter?

14 A. That should be west half, northeast
15 quarter. I'm sorry.

16 Q. That should be the west half?

17 A. The top one should be east half, northeast
18 quarter, and then the other one should be west half,
19 northeast quarter. That's a typo.

20 Q. Let's go back to 1. 17, that's Tom L.
21 Ingram?

22 A. Yes, sir.

23 Q. And they are to be included?

24 A. Yes.

25 Q. No. 18, how do you pronounce that, and

1 spell that name?

2 A. It's pronounced Sieszinski. It's spelled
3 S-i-e-s-z-i-n-s-k-i.

4 Q. Are they to be included?

5 A. No. They have signed an AFE.

6 HEARING EXAMINER: Thank you, Mr.
7 Kellahin. You may proceed

8 DIRECT EXAMINATION

9 -Continued-

10 BY MR. KELLAHIN:

11 Q. Let's now turn to page 3 and talk about the
12 status of commitment of the working interest owners in
13 the east half of the northeast quarter with regards to
14 the oil spacing. Page 1 represented the gas spacing?

15 A. That's right.

16 Q. Page 3, please use that display and
17 identify for us the parties then that you have not
18 been able to locate or, as of the date of the hearing,
19 have not to your satisfaction committed their share to
20 the well.

21 A. Walter Duncan, Inc., has agreed to join in
22 the well. The A.J. Hammer Estate, we've been unable
23 to locate. OGS Exploration and OGS Operating,
24 obviously, are going to participate in the well.

25 Great Western has verbally indicated they

1 will participate. However, I have not received
2 anything in writing; so I would like to include them
3 in a forced pooling act.

4 The same is true of Morris, White, Sam
5 Mizel. Mr. Gates is here. I assume you're going to
6 participate in the well.

7 And the rest of them are all going to
8 participate and do not need to be included.

9 Q. So from the entries saying Great Western
10 down through the name Morris, Mizel, those are parties
11 that you propose to keep subject to the pooling order?

12 A. That's correct.

13 Q. Along with the parties that own the
14 purported Hammer Estate interests?

15 A. That's correct.

16 Q. Without going through an extensive
17 recitation of your efforts to get voluntary joinder
18 from the various parties, let me have you summarize
19 for us why, as of this point, you have been unable to
20 reach an agreement with the major interest owners in
21 the gas basin unit, particularly the Murphy Operating
22 Corporation interests?

23 A. You want my efforts to --

24 Q. Summarize those. What's your first effort
25 to get them?

1 A. My first effort was a letter back in May,
2 expressing our interest in drilling another well and
3 requesting a farmout basically on the same terms that
4 we drilled our first well out there under in the west
5 half of Section 14.

6 Q. Did you follow that May 4, 1989, letter?
7 Apparently, it was sent certified mail?

8 A. Yes.

9 Q. Did you follow that up with additional
10 correspondence or telephone conversations to the
11 appropriate personnel at Murphy Operating Corporation?

12 A. Yes, several times.

13 Q. As of today's hearing, what is the status
14 of your efforts to obtain voluntary commitment?

15 A. We haven't received any voluntary
16 commitment that is acceptable.

17 Q. Have they proposed to you farm-out terms by
18 which they would farm out their interests so you could
19 drill the well?

20 A. Yes. They counterproposed with a 50
21 percent back-in, or we carry them to the tanks with a
22 25 percent, and we don't find those terms acceptable.

23 Q. With regards to the custom and practice of
24 the industry for wells of this type in the immediate
25 area, what is the highest rate of back-in interest

1 that is being utilized either by your company or
2 others, to your knowledge?

3 A. 25 percent.

4 Q. The Murphy proposal represents twice what
5 you understand to be the maximum back-in rate utilized
6 in your area?

7 A. Right.

8 Q. In your opinion, is that fair and
9 reasonable?

10 A. Yes.

11 Q. It is not, is it?

12 A. No, it is not fair and reasonable.

13 Q. Have you also, notwithstanding unsuccessful
14 efforts to get Murphy to join, sent similar
15 correspondence to Mr. Ingram and any of the other
16 parties that you propose to still include in the
17 pooling order?

18 A. All the parties have been contacted.

19 Q. At this point is it fair to summarize your
20 testimony that you have been unsuccessful despite
21 those efforts?

22 A. That's correct.

23 Q. Identify for the examiner what efforts you
24 have made to locate and identify the Hammer Estate
25 personnel.

1 A. We have located three addresses. We've
2 sent correspondence to those addresses. We sent a
3 letter to all the other mineral interest owners under
4 the same tract of land, asking them if they knew of or
5 knew anybody that knew of the Hammer Estate and the
6 heirs to the Hammer Estate, various names, and
7 received no information whatsoever. We are unable to
8 find a telephone number or any updated addresses on
9 them.

10 Q. In your opinion, do any further efforts to
11 attempt to locate and contact those purported owners
12 have the likely opportunity of any success?

13 A. Not in my opinion.

14 Q. Let me have you turn now to page 49 of the
15 package of information shown on Exhibit No. 5 and
16 identify for us the AFE that has been circulated to
17 all parties.

18 A. This is an AFE that was prepared by people
19 in our office. It's the same AFE that we prepared for
20 the first well that we drilled earlier this year.

21 Q. Have you received any objections or
22 comments with regards to your use of an AFE showing
23 this total dry hole and completed well cost?

24 A. Only approval.

25 Q. The AFE was submitted to all the working

1 interest owners as early as May of this year when you
2 initially proposed the well?

3 A. That's right.

4 Q. Do you have a recommendation to the
5 examiner as to the overhead charges to include in the
6 pooling order if the examiner enters such an order?

7 A. Yes. They are the same as the overhead
8 rate charges that we had on the first well, which were
9 agreed to by all the parties concerned here, which is
10 \$3,000 drilling well rate and \$300 producing.

11 Q. You've also submitted a proposed operating
12 agreement that will be utilized among those working
13 interest owners that in fact reached voluntary
14 agreement with you?

15 A. That's right.

16 Q. That utilizes what particular form?

17 A. It's the A.A.P.L. 1982 form.

18 Q. Model Form Joint Operating Agreement?

19 A. Right.

20 Q. Have you received any objection or comments
21 with regard to the use of that form for controlling
22 operations of the well?

23 A. No. In fact, it's identical to the one
24 that covers the operations of the No. 1 well which
25 everybody had agreed to.

1 Q. In your opinion, Mr. O'Brien, have you
2 exhausted all efforts to obtain voluntary joinder by
3 all the appropriate parties with regards to the well?

4 A. Yes.

5 Q. At this point are you requesting the
6 examiner to enter a forced pooling order?

7 A. Yes.

8 MR. KELLAHIN: That concludes my
9 examination of Mr. O'Brien, Mr. Stogner.

10 We would move the introduction of Exhibit
11 No. 5.

12 HEARING EXAMINER: Exhibit No. 5 will be
13 admitted into evidence at this time.

14 DIRECT EXAMINATION

15 BY HEARING EXAMINER:

16 Q. You mentioned in the A.J. Hammer Estate
17 that you had three addresses. Where did you get those
18 addresses, and how did you find them to be?

19 A. They were -- memory doesn't -- they were
20 very old. I want to say back in the 40's.

21 Q. And there has been nothing surface that you
22 even know of a new address or their whereabouts or
23 even if they're alive?

24 A. Not since then.

25 Q. When did you start your service for the

1 Hammer Estate?

2 A. When we drilled the first well, a little
3 less than a year ago.

4 Q. Were they a party to the forced pooling of
5 the well in the west half of Section 14?

6 A. Yes, they were.

7 HEARING EXAMINER: I have no other
8 questions of Mr. O'Brien.

9 Are there any other questions of this
10 witness? If not, he may be excused.

11 Mr. Kellahin?

12 MR. KELLAHIN: At this time, Mr. Examiner,
13 I would like to call OGS's geologist, Mr. Gates.

14 MICHAEL W. GATES,
15 the witness herein, having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q. Mr. Gates, would you please give us your
20 name and occupation.

21 A. Michael W. Gates. I'm a geologist and
22 partner in O'Brien Goins Simpson.

23 Q. Mr. Gates, on prior occasions, have you
24 testified before the Oil Conservation Division of New
25 Mexico?

1 A. Yes.

2 Q. In fact, you presented the geologic
3 testimony with regards to the compulsory pooling of
4 the west half of Section 14, did you not?

5 A. Yes.

6 Q. Pursuant to your employment as a geologist,
7 have you made a geologic investigation of the Bluit
8 prospect that you've identified on your Exhibit No. 1?

9 A. I have.

10 Q. Have you, based upon that study, been able
11 to come to a geologic conclusion about a risk factor
12 penalty to recommend to the Examiner in this pooling
13 case?

14 A. Yes.

15 MR. KELLAHIN: At this time, Mr. Examiner,
16 we tender Mr. Gates as an expert petroleum geologist.

17 HEARING EXAMINER: Mr. Gates is considered
18 qualified.

19 Q. (BY MR. KELLAHIN) Before you describe the
20 details of your display, would you simply refer to
21 Exhibit No. 1 and identify and explain to us how to
22 read the information on the display?

23 A. In Exhibit No. 1, on the left-hand side is
24 the structure map on the San Andres gamma marker,
25 which is basically on the top of the producing

1 horizon. In the center is a production display which
2 gives accumulated production, the current daily
3 production, the producing interval, and the date of
4 the first production. And then on the right is the
5 index map showing the prospect area.

6 Q. When we go to the structure display on the
7 left side of Exhibit No. 1, having prepared that
8 exhibit and examined the structure, Mr. Gates, what
9 does it tell you as a geologist?

10 A. We anticipate encountering the San Andres
11 formation approximately 60 feet low to the well we
12 drilled earlier this year in Section 14.

13 Q. What impact does that have upon your
14 opinion of the risk involved in drilling the well at
15 this particular location?

16 A. It tells me that the P-2 zone, which is the
17 zone that's in orange on the production display, will
18 be wet because we tested it in the first well, which
19 was high to this anticipated top that we will
20 encounter at the proposed location.

21 Q. The first well is which well?

22 A. That's the well in the northwest quarter of
23 Section 14.

24 Q. Bill Berry No. 1?

25 A. Yes.

1 Q. And it is low to that well, and in that
2 well you found the P-1 interval to be wet?

3 A. Correct. We perforated that interval,
4 acidized, and we produced a slight oil show but mostly
5 water.

6 Q. Can you draw any geologic correlations or
7 comparison to the relationship of your proposed
8 location to the Ingram well in the southeast of
9 Section 15?

10 A. We expect to be high to that well, as shown
11 on the structure map. That's our target horizon,
12 which is the zone that's producing in the Ingram
13 well. That well is almost depleted. It's been
14 producing since 1971.

15 Q. In examining the north half of Section 15,
16 in your opinion, are you at the optimum geologic
17 position at which to locate a well to test the P-1
18 zone?

19 A. Yes.

20 Q. In your opinion as a geologist, does it
21 diminish the risk to have located the well in
22 proximity to wells that at least are capable of gas
23 production out of the P-1 zone?

24 A. Yes. The zone is present in all of the
25 area wells. However, they produce in varying

1 degrees. The risk is basically in drainage.

2 Q. The fact that you are in proximity to known
3 producing gas wells, does that diminish the risk
4 factor, in your opinion, to less than the maximum 200
5 percent authorized by statute?

6 A. No.

7 Q. Let's go to Exhibit No. 2 --

8 A. That's 4.

9 Q. 4. We've numbered them different than the
10 way I learned them. Let's go to No. 4, if that's not
11 too confusing, and I've already confused the
12 examiner. We're going to skip the cross-section for a
13 moment and go to Exhibit No. 4.

14 Describe for us, Mr. Gates, the basis by
15 which you are able to conclude that despite its
16 proximity to known producing gas wells, you believe
17 the risk factor penalty represents the maximum 200
18 percent?

19 A. That's what I've tried to show in this
20 Exhibit No. 4. It's a production comparison of area
21 gas wells. And our well is displayed in red. We only
22 have four months production to base our --

23 Q. Your well in red means the Bill Berry No. 1
24 well in the west 14?

25 A. Correct.

1 Q. And you have four months of production?

2 A. Right.

3 Q. Let's go next up to the green line. That
4 represents which well?

5 A. The Ingram No. 1 Light will be the well
6 directly south of our proposed location.

7 Q. That's the well in the southeast of 15?

8 A. Right.

9 Q. As we go up the display, the yellow line
10 represents which of the wells on Exhibit No. 1?

11 A. It's the Murphy Operating No. 3
12 Kirkpatrick, and it's the well in the northeast
13 quarter of Section 14.

14 Q. Then finally the top blue line represents
15 the production from which well?

16 A. It's the well in the southeast quarter of
17 Section 11, the Murphy Operating No. 16 Bluitt-San
18 Andres Unit.

19 Q. Having plotted the production data in
20 relation to time, what does this show you, Mr. Gates?

21 A. Well, it shows that we have suffered some
22 drainage. Our well has not performed as good as the
23 other three gas producers. While it is economic, we
24 are on the edge of a good investment. It's shown more
25 decline than we would like to see as compared to the

1 other wells.

2 Q. Can you give us some estimate of the
3 pay-out period that you anticipate for your Bill Berry
4 No. 1 well based upon this rate of decline?

5 A. Just over three years.

6 Q. Is that a rate of payout that, in your
7 opinion, should diminish the risk factor penalty to
8 something less than the 200 percent maximum?

9 A. No.

10 Q. Why not, sir?

11 A. Just from an investor's standpoint,
12 anything more than a three-year payout is considered a
13 marginal investment but worthwhile.

14 Q. Now draw the comparison, if you will, sir,
15 between the Bill Berry No. 1 well, which has its
16 production shown on Exhibit No. 4, the red line, and
17 what you anticipate with regards to the proposed
18 location of the subject well.

19 A. Since the proximity of it is to nearby
20 producers that have been producing since the early
21 70's, it's about the same. So we anticipate it will
22 be similar in production characteristics.

23 Q. It is, however, at a less favorable
24 structural position in relation to the Bill Berry No.
25 1 well, is it not?

1 A. Right. It's low.

2 Q. Would that further influence your
3 recommendation about a penalty factor?

4 A. Yes.

5 Q. It makes the risk higher, doesn't it?

6 A. It does.

7 Q. Let's turn to Exhibit No. 2 which is marked
8 as the B-B Prime cross-section.

9 I don't propose that you go through all the
10 information on the display, but I would like to
11 address your specific comments to the relationship of
12 the two wells shown on each side of the projected well
13 location, which is on the far left margin of Exhibit
14 No. 2.

15 First of all, identify the wells on each
16 side of the proposed location.

17 A. The first well in the cross-section is the
18 Tom Ingram No. 1 Light, which is directly south of the
19 proposed location. That well attempted to complete in
20 the P-2 zone. It produced 14 barrels of water per
21 hour; so it's definitely wet. In the P-2, they
22 plugged back to the P-1 zone. Perforations are shown
23 in the P-1. That made a successful gas completion in
24 that well.

25 And, similarly, that's what happened in our

1 well, the second well on the cross-section. We also
2 attempted to produce out of the P-2, and you can see
3 the results here. We swabbed mostly water with a
4 slight show of oil. We plugged back to the P-1 and
5 completed in the gas zone.

6 Q. When we go back to Exhibit No. 1, that
7 exhibit will show the cumulative and current producing
8 rates of the Ingram No. 1 well and the Bill Berry No.
9 1 well?

10 A. Right.

11 Q. Are both of those wells still competing for
12 the same gas reserves out of the P-1 zone?

13 A. Yes.

14 Q. Are you subject to drainage then by both
15 wells?

16 A. Yes.

17 Q. That, in fact, is your ultimate concern, is
18 it not?

19 A. It is. That's the risk.

20 Q. I won't ask you to go through the data on
21 the A-A Prime cross-section. That's marked as Exhibit
22 No. 3. Simply, is that work that you have performed
23 in making your study?

24 A. Yes. It shows the other gas wells and
25 perforations.

1 Q. Are there any particular specific
2 conclusions you want to draw with regards to the A-A
3 Prime cross-section?

4 A. I just wanted to show that, since I
5 referred to it on the decline curves and the Exhibit
6 No. 4, the well in the southeast quarter of Section
7 11, it shows the perforations and where that gas is
8 coming from that we're competing for the same gas
9 reserves.

10 Q. Let me ask you the same question I asked
11 Mr. O'Brien. Have you satisfied yourself, sir, that
12 the proposed well location as to the gas zone on
13 320-acre spacing is at a standard well location?

14 A. Yes.

15 Q. And it would be unorthodox as to the oil
16 pool?

17 A. Right.

18 Q. When do you propose to drill the well?

19 MR. O'BRIEN: Before the end of the year.

20 HEARING EXAMINER: Gentlemen, one at a
21 time.

22 Q. (BY MR. KELLAHIN) Mr. Gates, what is the
23 plan?

24 A. Before the end of the year. We'd like to
25 get it done. We've got some investors lined up.

1 Q. What is the approximate cost of the well?

2 A. \$220,000 completed. I think it's 227 and
3 something.

4 MR. KELLAHIN: Sir, that concludes my
5 examination of Mr. Gates.

6 We would move the introduction of his
7 exhibits 1 through 5, Mr. Stogner.

8 HEARING EXAMINER: Thank you, Mr.
9 Kellahin.

10 Exhibits 1 through 5 will be admitted into
11 evidence.

12 MR. KELLAHIN: I notice Mr. Stovall is not
13 here, but I imagine he'll want to look at our notices
14 that we sent for the hearing. I have them in the
15 other room. Before we close the case, if you'll give
16 me a moment, I'll get them. They're marked as Exhibit
17 No. 6, and they're notices our office sent out to the
18 various parties showing notification.

19 HEARING EXAMINER: Thank you, Mr.
20 Kellahin. We'll recess for about 5 minutes so you can
21 get them.

22 (Thereupon, a recess was taken.)

23 HEARING EXAMINER: We'll speed this five
24 minutes up and go back on the record, Mr. Kellahin.

25 MR. KELLAHIN: Mr. Examiner, I submit to

1 you and request introduction in evidence what is
2 marked as OGS Exhibit No. 6, which is our Certificate
3 of Mailing to all the parties to be pooled by this
4 application.

5 HEARING EXAMINER: These were sent in
6 August and September, August 25 and September 6 is
7 what I show; is that correct?

8 MR. KELLAHIN: Yes, sir. This case was
9 originally docketed earlier. It was continued on a
10 prior docket. With regards to the original Notice of
11 Hearing plus notice of the continuation, we sent
12 letters to all the parties.

13 HEARING EXAMINER: With the exception of
14 the A.J. Hammer Estate, those --

15 MR. KELLAHIN: We sent those notices, Mr.
16 Examiner, but we did not get return receipt cards
17 back.

18 HEARING EXAMINER: So you got them back
19 undeliverable?

20 MR. KELLAHIN: Yes, sir.

21 HEARING EXAMINER: And you have those in
22 your files?

23 MR. KELLAHIN: Yes, sir.

24 HEARING EXAMINER: If there are no other
25 questions of either of these witnesses, they may be

1 excused.

2 Mr. Kellahin, do you have anything further
3 in this case?

4 MR. KELLAHIN: No, Mr. Examiner.

5 HEARING EXAMINER: Does anybody else have
6 anything further in Case 9749?

7 This case will be taken under advisement,
8 and we'll take a 10-minute recess.

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1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO)

4) SS.

5 COUNTY OF SANTA FE)

6 I, Deborah O'Bine, Certified Shorthand

7 Reporter and Notary Public, HEREBY CERTIFY that the

8 foregoing transcript of proceedings before the Oil

9 Conservation Division was reported by me; that I

10 caused my notes to be transcribed under my personal

11 supervision; and that the foregoing is a true and

12 accurate record of the proceedings.

13 I FURTHER CERTIFY that I am not a relative

14 or employee of any of the parties or attorneys

15 involved in this matter and that I have no personal

16 interest in the final disposition of this matter.

17 WITNESS MY HAND AND SEAL November 1, 1989.

18 Deborah O'Bine

19 DEBORAH O'BINE

20 CSR No. 127

21 My commission expires: August 10, 1990

22

23 I do hereby certify that the foregoing is

24 a complete record of the proceedings in

25 the Examiner hearing of Case No. 9749,

heard by me on 4 October 1989.

Michael E. Starnes, Examiner

Oil Conservation Division

Exhibits 1 through 6
Complete set