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

EXAMINER HEARING

IN THE MATTER OF:

Application of Oryx Energy Case 9782  
Company for an unorthodox well  
location and compulsory pooling,  
Lea County, New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

October 18, 1989

**ORIGINAL**

CUMBRE COURT REPORTING  
(505) 984-2244

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1 HEARING EXAMINER: This hearing will come  
2 to order. We'll call the next case, which is 9782,  
3 which is the application of Oryx Energy Company for an  
4 unorthodox location and compulsory pooling, Lea  
5 County, New Mexico.

6 At this time I'll call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom  
8 Kellahin of the Santa Fe law firm of Kellahin,  
9 Kellahin & Aubrey. I'm appearing on behalf of the  
10 applicant, Oryx Energy Company, Mr. Examiner.

11 MR. LOPEZ: Mr. Examiner, my name is Owen  
12 Lopez with the Hinkle law firm in Santa Fe, New  
13 Mexico, appearing on behalf of Joe J. Reynolds.

14 Mr. Examiner, at this time I would like to  
15 move that this case be continued to the next hearing  
16 examiner docket or later.

17 The basis for my request is that the  
18 parties were in good faith negotiating to try and  
19 settle their differences in this matter and, at least  
20 from our point of view, had every expectation of  
21 succeeding. But these negotiations broke down Monday,  
22 and we have not had as much time to prepare as  
23 adequately as we would have liked.

24 Secondly, we feel that the application is  
25 premature because the well in the north half of

1 Section 27 in a companion case in all probability and  
2 by all logic will be drilled first before this  
3 proposed well in Section 22 is drilled.

4 And our third reason is that the AFE  
5 submitted for the Reynolds' consideration indicated  
6 that it was going to be an Atoka test and not a Morrow  
7 test, and therefore we would argue that the notice is  
8 deficient.

9 HEARING EXAMINER: Mr. Kellahin, any  
10 response?

11 MR. KELLAHIN: Yes, Mr. Examiner. Mr.  
12 Examiner, my client has been actively working with Mr.  
13 Reynolds and his group for some period of time in this  
14 general area, and certainly by mid-September had  
15 proposed to the Reynolds group this specific well. I  
16 did not know until the examiner called the docket this  
17 morning, slightly after 8:15, that, in fact, Mr. Lopez  
18 represented the Reynolds group.

19 I'm disappointed that I was not told before  
20 I brought some seven people to Santa Fe to participate  
21 in the hearing preparation, as well as the expense and  
22 effort of getting ready today for the hearing. Had I  
23 been told that earlier, we might have been able to  
24 make some accommodation.

25 I have been instructed by my client to

1 proceed with today's hearing. We hold little or no  
2 hope of resolving this matter without the interjection  
3 of the hearing examiner in the pooling process.

4           The fact that Mr. Lopez contends the AFE  
5 does not give them adequate notice of the Atoka  
6 prospect, I think, is diminished by the certified  
7 letter that we sent to his client on September 25,  
8 which included a copy of the application in this  
9 case.

10           The application reads and identifies the  
11 Atoka formation as the primary target. It identifies  
12 the Antelope Ridge Atoka Gas Pool.

13           I can't believe that there is any surprise  
14 to the Reynolds family about this particular case. I  
15 know that their technical people have been talking to  
16 my technical people for some time, and I can't believe  
17 that that is going to surprise the Reynolds parties.

18           The case has been properly filed. The  
19 application has been served on the opposing parties 20  
20 days before the hearing date, and we are ready to  
21 proceed this afternoon, Mr. Examiner.

22           MR. LOPEZ: If I just might briefly  
23 respond, Mr. Examiner. With respect to bringing the  
24 witnesses, as I've indicated previously, Mr. Kellahin  
25 has companion Cases 9783 and 9784, to which we are

1 unopposed and which he will need the witnesses that he  
2 brought.

3           There is no compelling time constraints to  
4 have heard Case 9782.

5           With respect to notification that this is  
6 an Atoka test, if you will refer to the advertisement  
7 in Case 9782, it is, in fact, a Morrow compulsory  
8 pooling case, and the AFE indicates it to be an Atoka  
9 test, with which I agree with Mr. Kellahin, but, in  
10 fact, he is requesting the Commission to force pool  
11 through the Morrow. In that respect, we argue that  
12 the notice is deficient.

13           HEARING EXAMINER: Mr. Lopez, did your  
14 client receive the letter of September 25, 1989, in  
15 which it shows that Joe Reynolds of Lubbock, Texas,  
16 was presented a copy of the application?

17           MR. LOPEZ: Yes.

18           HEARING EXAMINER: This is the same  
19 document which I prepared the advertisement for. So  
20 on that basis I find your motion to continue at this  
21 time unacceptable, and we'll go on with the hearing  
22 today.

23           MR. LOPEZ: Fine.

24           HEARING EXAMINER: Are there any other  
25 appearances?

1 Mr. Lopez, do you have any witnesses?

2 MR. LOPEZ: Yes, Mr. Examiner, I have one  
3 witness.

4 HEARING EXAMINER: Mr. Kellahin, how many  
5 witnesses do you have?

6 MR. KELLAHIN: I have two witnesses, Mr.  
7 Examiner.

8 HEARING EXAMINER: Are there any other  
9 appearances? Will the witnesses please stand?

10 (Witnesses sworn.)

11 MR. KELLAHIN: Mr. Examiner, as our first  
12 witness, we would call Mr. Alan Beers. Mr. Beers is a  
13 petroleum landman with Oryx Energy Company.

14 C. ALAN BEERS,  
15 the witness herein, after having been first duly sworn  
16 upon his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q. Mr. Beers, for the record, would you please  
20 state your name and occupation.

21 A. Alan Beers. I'm a petroleum landman for  
22 Oryx Energy Company.

23 Q. Mr. Beers, how long have you been employed  
24 as a petroleum landman?

25 A. I started work for Phillips Petroleum in

1 May of 79 as a landman trainee and worked with them  
2 through November of 87. At that time I accepted a job  
3 with Oryx Energy and have been working for them for  
4 the past two years.

5 Q. Where do you reside Mr. Beers?

6 A. Dallas, Texas.

7 Q. With regards to land duties assigned to you  
8 by your company, are you responsible for certain areas  
9 of southeastern New Mexico?

10 A. Yes, sir.

11 Q. Would those responsibilities include the  
12 particular acreage that is involved in Lea County, New  
13 Mexico, that's the subject of this application?

14 A. Yes.

15 Q. Would your knowledge and information with  
16 regards to land title matters extend to the immediate  
17 adjacent areas within this Township 22 South, Range 34  
18 East?

19 A. Yes, it would.

20 Q. And you have specific knowledge about the  
21 interests of the working interest in Section 22 of  
22 that township and range?

23 A. Yes, sir.

24 Q. In fact, have you been the landman  
25 responsible to your company for efforts to obtain

1 voluntary agreement among the working interest owners  
2 for this particular well?

3 A. Yes, I have.

4 Q. How long have you been specifically working  
5 on that particular task?

6 A. I started my work on September the 12th  
7 with a proposal.

8 Q. That is with regards to this specific well?

9 A. Yes, sir.

10 Q. For purposes of the hearing today, that's  
11 identified as the Antelope No. 2 Well?

12 A. Yes, sir, that is correct.

13 Q. Have you been involved in consolidating  
14 working interest ownerships for other Atoka and Morrow  
15 wells in this area?

16 A. Yes, I have.

17 Q. How long have you been working on this  
18 particular area?

19 A. I started working on this area in October  
20 of last year, as a matter of fact.

21 Q. Did your efforts in October of last year  
22 through the current include prior correspondence and  
23 conversations with the Joe Reynolds group?

24 A. Yes, it did.

25 Q. What particular individuals with Joe

1 Reynolds have you had discussions?

2 A. Joe Reynolds himself and I believe his son,  
3 Jeff Reynolds.

4 Q. Do they have other working interest in  
5 other spacing units or wells that Oryx has drilled in  
6 this area on the Atoka or the Morrow formation?

7 A. Yes, they do, two previous wells.

8 MR. KELLAHIN: At this time, Mr. Examiner,  
9 we tender Mr. Beers as an expert petroleum landman.

10 HEARING EXAMINER: Are there any  
11 objections?

12 MR. LOPEZ: No objections.

13 HEARING EXAMINER: Mr. Beers is so  
14 qualified.

15 Q. (BY MR. KELLAHIN) Mr. Beers, let's take a  
16 few moments and use what is marked as Exhibit No. 1 as  
17 a means by which to orient us all as to what  
18 particular tasks you performed.

19 Before we discuss your particular  
20 involvement, would you take a moment and identify the  
21 display for us and tell us how to understand what it  
22 says?

23 A. Yes. This is a plat of the acreage in the  
24 working interest ownership in Township 22 South, 34  
25 East, in about a nine-section area, including the

1 proposed pooling of the south half of Section 22. And  
2 it sets out at the bottom the working interest owned  
3 by the various parties.

4 Q. The color code will correspond then to the  
5 working interest ownership within those particular  
6 sections or portions of sections?

7 A. Yes, sir.

8 Q. And that represents the working interest?

9 A. Yes, sir.

10 Q. Let me direct you to the south half of  
11 Section 22. Is that the proposed Atoka-Morrow spacing  
12 unit for the subject well for this case?

13 A. Yes, it is.

14 Q. When we look at the south half of 22, what  
15 percentage of that spacing unit does Oryx have  
16 voluntarily committed to it at this point?

17 A. Just our own 75 percent.

18 Q. The balance of that south half of 22, to  
19 the best of your knowledge, is held by what parties?

20 A. Pacific Enterprises, Joe Reynolds, and BTAO  
21 Producers.

22 Q. When we look at the south half, the display  
23 shows Oryx with 75 percent. It says Pacific has  
24 13.75?

25 A. Yes, sir.

1 Q. BTA has 5 percent?

2 A. Yes, sir.

3 Q. And Joe Reynolds has 6.25 percent?

4 A. Right.

5 Q. How did you make that determination of the  
6 percentage of the working interest owners?

7 A. Well, I took the ownership in the southwest  
8 quarter and also the ownership in the southeast  
9 quarter and formed the working interest as shown.

10 Q. I show you what's marked as Exhibit No. 2,  
11 Mr. Beers. What is this exhibit?

12 A. It's a summary of events of the proposed --  
13 starting with the proposal with the attached AFE and  
14 all conversations between the parties to date.

15 Q. These represent your personal efforts with  
16 regards to the various parties to form a voluntary  
17 unit?

18 A. Yes, sir.

19 Q. Before we get into the specifics of your  
20 efforts to form on a voluntary basis the spacing unit,  
21 let's go back to Exhibit No. 1 and have you identify  
22 some more of that information. When we look at the  
23 display, there appears to be two wells that currently  
24 exist in some status?

25 A. Right.

1 Q. What is the first well drilled?

2 A. The first well was drilled in the south  
3 half of 27, being the Sun Federal Com, and the second  
4 well drilled and is currently preparing to complete is  
5 in the north half of 26, being the Ojo Chiso Federal  
6 No. 1.

7 Q. Approximately when was the well in the  
8 south half of 27 completed?

9 A. I believe it was spudded in June, and I  
10 believe it was completed sometime, say, late July,  
11 first of August, possibly.

12 Q. That's of this year?

13 A. Right.

14 Q. You're now currently completing the Ojo  
15 Chiso Federal No. 1 Well?

16 A. That is true.

17 Q. Do you have documentation to support your  
18 summary as shown on Exhibit No. 2 of your efforts to  
19 contact these parties and obtain a voluntary  
20 agreement?

21 A. Yes, I do. I believe it's the next  
22 exhibit.

23 Q. Let me show you what is marked as Exhibit  
24 No. 3, Mr. Beers, and ask you if this represents true  
25 and accurate copies of your correspondence with the

1 various working interest owners?

2 A. Yes, it does.

3 Q. When you submitted this letter to the  
4 various working interest owners, did you attach to it  
5 an an itemized estimate of well costs?

6 A. Yes, sure did.

7 Q. Subsequent to sending out the letter, what,  
8 if anything else, did you do to in your efforts to  
9 consolidate the acreage?

10 A. Basically, just several phone calls to the  
11 parties to find out where they were and the status of  
12 our proposal.

13 Q. As of today, do you have a commitment from  
14 BTA with regards to committing on a voluntary basis  
15 their 5 percent interest in the spacing unit?

16 A. No, sir, I don't, but I think that could  
17 happen any time.

18 Q. Notwithstanding the issuance of a pooling  
19 order then, you're prepared to continue to negotiate  
20 with BTA and other working interest owners in an  
21 attempt to get a voluntary agreement?

22 A. Yes, sir.

23 Q. What is the current status of your efforts  
24 to get BTA committed to the well?

25 A. I've just had phone conversations. I do

1 believe they will participate in the well.

2 Q. Have they participated with their acreage  
3 in the other two wells that were drilled within the  
4 areas shown on Exhibit No. 1?

5 A. Yes, sir.

6 Q. And you did not have to force pool BTA in  
7 order to get their commitment to the acreage?

8 A. No, sir.

9 Q. When we look at the Pacific interest, is  
10 that Pacific Enterprises?

11 A. Yes, sir.

12 Q. Is that how they are identified?

13 A. Right.

14 Q. Do they also have interest in any of the  
15 other wells that were drilled as shown on Exhibit No.  
16 1?

17 A. Yes, sir, in both previous wells.

18 Q. Were you able to successfully achieve  
19 voluntary commitment of their interest to those wells?

20 A. Yes, sir.

21 Q. What is current status of your effort to  
22 get Pacific Enterprises committed to the well?

23 A. We've had phone conversations, as shown on  
24 the summary of events. They propose an acreage trade  
25 of some other acreage we had in Lea County, and we

1 evaluated that trade and decided to turn down their  
2 proposal.

3 Q. Let's go specifically to what is identified  
4 as the Joe Reynolds interest. On either of the two  
5 existing wells, either the completed well or the well  
6 that's in the completion process, did Mr. Reynolds and  
7 his group have an interest in either one of those  
8 wells?

9 A. Yes, sir, in both wells.

10 Q. What interest did they have in either one  
11 of those wells in terms of a percentage?

12 A. In the well in the south half of 27, the  
13 Sun Federal Com, I believe they participated with a 3  
14 percent working interest.

15 In the well in the north half of 26, they  
16 participated with a 12.5 working interest.

17 The other interest outstanding in the south  
18 half of 27 was farmed out to BTA.

19 Q. What is the current status of your efforts  
20 to have Joe Reynolds commit his interest on a  
21 voluntary basis to the south half of Section 22?

22 A. We've just had conversations on the phone,  
23 and every time I have got an answer of they're  
24 evaluating and polling their people to see if they  
25 they want to participate or not.

1 Q. Have they communicated to you any offer of  
2 trade, farmout, or participation that you have not yet  
3 evaluated?

4 A. Not to me directly, they have not.

5 Q. All of their proposals to you have been  
6 responded in kind by your company through you?

7 A. Yes, sir.

8 Q. Do you have any agreement with them at this  
9 point on a method by which their acreage can be  
10 voluntarily committed to the well?

11 A. No, sir.

12 Q. Let me ask you to identify for us Exhibit  
13 No. 4, Mr. Beers. What is Exhibit No. 4?

14 A. It's our proposed AFE for the proposed well  
15 in the south half of 22.

16 Q. Is this the AFE that was attached to your  
17 letter of September 12 that was submitted to the  
18 various working interest owners as shown on Exhibit  
19 No. 3?

20 A. Yes, it was.

21 Q. To the best of your knowledge, is this  
22 still a current and accurate AFE for the proposed  
23 costs of drilling and completing the subject well?

24 A. Yes, it is.

25 Q. Have you received any objections or

1 comments from any of the proposed working interest  
2 owners about the AFE costs?

3 A. No, sir, I have not.

4 Q. Let me ask you to identify what is marked  
5 as Exhibit No. 5, Mr. Beers. What is that, sir?

6 A. This is our previous operating agreement  
7 that we used on the well that's currently completing  
8 in the north half of 26, and we will propose to use  
9 the same operating agreement and cost as we have on  
10 the two previous wells.

11 Q. Is this a form as to a joint operating  
12 agreement as to substance and form that has been  
13 approved and signed off by other working interest  
14 owners for other wells?

15 A. Yes. The same parties that we are pooling  
16 on the current well have all signed this previous  
17 agreement on our well that's now completed.

18 Q. That's the well in the north half of 26?

19 A. Yes, sir.

20 Q. What did you utilize for overhead rates on  
21 a monthly basis for a producing well rate and a  
22 drilling well rate in the COPAS attachment to that  
23 operating agreement for the well in the north half of  
24 26?

25 A. For a drilling well rate, we used \$5,800,

1 and for a producing well rate, we used \$580.

2 Q. Are those the proposed charges that you're  
3 recommending to the examiner for the Antelope Ridge  
4 No. 2 well in the south half of 22?

5 A. Yes, sir.

6 Q. To the best of your knowledge, are there  
7 any other working interest owners that you need to  
8 contact other than BTA, Pacific Enterprises, and Joe  
9 Reynolds with regards to the formation of the spacing  
10 unit?

11 A. No, sir.

12 Q. What is your understanding, Mr. Beers, of  
13 the proposed formations that you're seeking to pool  
14 either in terms of the vertical limits or the  
15 particular formations that you're seeking a pooling  
16 order for?

17 A. We are seeking from the surface to the base  
18 of the Morrow and Pennsylvanian formations.

19 Q. What's your understanding of why you're  
20 doing that?

21 A. Basically, we would like to -- our main  
22 target is the Atoka formation, and if and when  
23 drilling the well, the Atoka is dry, we propose to  
24 drill on down to the Morrow to test it.

25 Q. In the event the Atoka and the Morrow are

1 both unsuccessful, either being noncommercial or being  
2 nonproductive, do you want the opportunity to come  
3 back up the hole and potentially complete in shallow  
4 of either oil or gas zones?

5 A. Yes, sir.

6 Q. With regards to the spacing now, if it's  
7 ultimately determined the well can produce from a  
8 spacing unit as small in size as 40 acres around the  
9 subject well location, would the percentages and the  
10 parties differ in any way between what would be  
11 involved in the south half of Section 22?

12 A. The parties would be the same. The  
13 interest would differ.

14 Q. Let's go down to 160. Assume you had gas  
15 spacing on 160 acres, that would be the southwest  
16 quarter of 22, how would the percentages change?

17 A. Oryx would have 50. Pacific Enterprises  
18 would have 27-1/2. Joe Reynolds would have 12.5. And  
19 BTA would have 10 percent. I believe that's correct.

20 Q. If the spacing units should be reduced to  
21 40 acres, would the parties remain the same?

22 A. Yes, sir.

23 Q. Would the percentages differ from those  
24 you've described for 160 acres?

25 A. No, sir. It would be the same.

1           MR. KELLAHIN: Mr. Examiner, that completes  
2 my examination of Mr. Beers. We would at this time  
3 move the introduction of Exhibits 1 through 5.

4           HEARING EXAMINER: Are there any  
5 objections?

6           MR. LOPEZ: No, sir.

7           HEARING EXAMINER: Exhibits 1 through 5  
8 will be admitted into evidence at this time.

9           Mr. Lopez, your witness.

10          MR. LOPEZ: Thank you, Mr. Examiner.

11                           CROSS-EXAMINATION

12 BY MR. LOPEZ:

13          Q. Mr. Beers, referring to your Exhibit No. 1,  
14 the plat, I notice you don't show any ownership for  
15 the north half of Section 15. Is that because you  
16 don't know the ownership?

17          MR. KELLAHIN: Excuse me. I'm sorry.  
18 Where is it?

19          MR. LOPEZ: North half of 15 is white. I  
20 was wondering why that was left blank.

21          Q. I guess my question is, to be perfectly  
22 candid, isn't the ownership of the north-half tract  
23 the same as it is in Section 21, 27, and 26?

24          A. I believe your correct.

25          Q. It's just a question of curiosity.

1           A.       I just didn't put it on there. I can tell  
2 you the ownership. Oryx has 50. I believe it's the  
3 same ownership as shown in Section 21 as shown on the  
4 plat.

5                   HEARING EXAMINER: Mr. Lopez, before we  
6 continue, could you sit here? I'm having a hard time  
7 hearing.

8                   MR. LOPEZ: Okay. We're in agreement.

9           Q.       Again, referring to your Exhibit 1, you  
10 show three proposed well locations. In what order do  
11 you propose to drill those wells?

12           A.       I believe we will simultaneously drill the  
13 well in Section 27, in Section 26, and we will move  
14 the rig from the north half of 27 directly to the  
15 south half of 22. That is our plan at the current  
16 time.

17                   MR. LOPEZ: No further questions.

18                               CROSS-EXAMINATION

19 BY HEARING EXAMINER:

20           Q.       Mr. Beers, I'm referring now to Exhibits 2  
21 and 3. Is this the first contact that you had with  
22 any of the parties about this proposed acreage?

23           A.       The September 12 letter was the first time  
24 that we actually proposed this well, the formal  
25 proposal, but this area has been talked about for

1 several months.

2 Q. With whom?

3 A. With the parties indicated on the plat.

4 Q. Why don't you refer back, give me some time  
5 constraints, and was there any correspondence to back  
6 your claim?

7 A. There's not any correspondence as far as  
8 the well proposal in the south half of 22. All  
9 parties have basically known through phone  
10 conversations our interest in the area. And the two  
11 previous wells, I think, set the tone of the two  
12 producers of what we wanted to do in the area.

13 Q. Let's refer to Exhibit No. 4. This was  
14 attached to the letter of September 12; is that  
15 correct?

16 A. Yes, it was.

17 Q. On it, it says drilling complete to 12,800  
18 feet as an Atoka gas well, and your application states  
19 to a Morrow. How deep will this well be if indeed it  
20 is drilled down to the Morrow?

21 A. I believe it will be approximately 13,700  
22 feet.

23 Q. Let's go to the second page of the AFE.  
24 Have you done calculations of how these figures will  
25 change?

1           A.       No, I haven't. The next witness might be  
2 able to answer that a little bit better. But from  
3 talking to people in my company, it won't change a  
4 great deal.

5           Q.       But they will change?

6           A.       I believe it will change just slightly.

7           Q.       When were you notified that you would  
8 indeed check on the Morrow or test the Morrow after  
9 preparing this AFE?

10          A.       I believe that I was notified probably  
11 after the AFE was sent out. I just think it's a good  
12 idea, and I think our company does, that we're  
13 drilling a hole, and if our target formation being the  
14 Atoka, that we ought to go on down to the Morrow if  
15 the Atoka is dry.

16          Q.       Did you submit an amended AFE to any of the  
17 parties after you found out that you would test the  
18 Morrow?

19          A.       No, I didn't.

20          Q.       Did you not think it was necessary, or were  
21 you not notified by your superiors to do that?

22          A.       Well, I didn't think it was necessary, and  
23 I also wasn't notified to do that.

24                    I think the basis was the fact that our  
25 main objective was the Atoka, and I just failed to do

1 it. And I think the dollars we're talking about, and  
2 the next witness might have an answer better than I do  
3 -- we're not talking about a whole lot of money, and  
4 she can probably answer that.

5 Q. When I have referred to Exhibit No. 1, and  
6 we look at this particular breakdown of the interests  
7 in the south half, Oryx being 75, Pacific, 13.75, Joe  
8 Reynolds, 6.25, and BTA, 5 percent, is this an  
9 undivided throughout the south half?

10 A. No, it's not. Oryx owns 100 percent in the  
11 southeast quarter and 50 percent in the southwest  
12 quarter.

13 Q. I'm sorry. In the southeast quarter, Oryx  
14 owns 100 percent?

15 A. Yes.

16 Q. And what was the other one?

17 A. In the southwest quarter, we own 50  
18 percent.

19 Q. So the figures I see here are for the south  
20 half?

21 A. Yes, sir.

22 Q. With respect to the southwest quarter, is  
23 that an undivided interest just when we look at the  
24 southwest quarter?

25 A. When we look at the southwest quarter, it

1 is an undivided interest.

2 Q. So if it was a 40-acre oil proration unit,  
3 the percentages would be the same for 160-acre gas  
4 proration unit?

5 A. Yes, sir.

6 Q. But those two would be different than a  
7 320?

8 A. Yes, sir.

9 Q. But all the parties to be force-pooled are  
10 Pacific, BTA, and Joe Reynolds; is that correct?

11 A. Yes, sir.

12 HEARING EXAMINER: I believe, Mr. Kellahin,  
13 you presented the operating agreement with this  
14 witness?

15 MR. KELLAHIN: Yes, sir.

16 HEARING EXAMINER: Let's refer to the  
17 overhead charges? Is it that time, Mr. Kellahin, or  
18 is your other witness going to testify to those?

19 MR. KELLAHIN: No, Mr. Beers is ready to  
20 testify about the overhead rates, and he has referred  
21 to the rates shown in that joint operating agreement.  
22 I believe they were the \$5,800 and the \$580 rates.

23 Q. (BY HEARING EXAMINER) Would you be a  
24 little more specific on how these overhead charges  
25 were figured, Mr. Beers?

1           A.       Well, our company puts out a list of  
2 charges that we use in certain areas that we operate  
3 in. These are the charges we use, and they were used  
4 on two previous wells we were drilled that were signed  
5 by all parties in this current pooling. And we feel  
6 that they are appropriate for this well.

7           Q.       So BTA, Pacific, and Joe Reynolds has  
8 previously approved of these overhead charges?

9           A.       Yes, sir.

10          Q.       Was that well that you said that they had  
11 all adjoined these figures for, was that on a forced  
12 pooling, or was it all voluntary?

13          A.       No, it was all voluntary.

14          Q.       And what was that well?

15          A.       It's the well shown on Exhibit 1, being the  
16 Ojo Chiso Federal No. 1 in the north half of 26.

17          Q.       Ojo Chiso?

18          A.       Right.

19          Q.       How long ago was that?

20          A.       That well is completing right now. We just  
21 finished drilling it.

22          Q.       Do you know when the overhead charges on  
23 that well were assigned by all these parties, roughly?

24          A.       Yes, I do. It's going to be approximately  
25 the end of July or the first of August.

1 Q. July-August of 89?

2 A. Right.

3 Q. And these figures appeared in that  
4 particular rate charges?

5 A. Yes, sir.

6 HEARING EXAMINER: I have no further  
7 questions of this witness at this time. Are there any  
8 other questions of Mr. Beers?

9 MR. LOPEZ: Maybe if Mr. Kellahin is going  
10 to go forward, if you could indulge me just a little  
11 bit, Mr. Examiner, I'd like to ask a few more  
12 questions.

13 REDIRECT EXAMINATION

14 BY MR. LOPEZ:

15 Q. Mr. Beers, referring to your Exhibit No. 2,  
16 I noticed your conversations with the Reynolds group  
17 go as far as September 16th?

18 A. You mean October 16th?

19 Q. I mean October 16th. Sorry about that.  
20 Now, my question is were not these conversations with  
21 respect to the communitization of a proration unit  
22 consisting of the west half of Section 22?

23 A. No, they were not.

24 Q. At what point in time did Oryx acquire the  
25 ownership to the east half of Section 22?

1           A.       I believe we acquired that in the August  
2 federal sale.

3           Q.       At what point did you discuss with Reynolds  
4 the fact that you wished to communitize the south half  
5 of 22 rather than the west half of 22?

6           A.       That was done on the first proposal that  
7 was sent out to them.

8           Q.       On September 12th?

9           A.       Right.

10           HEARING EXAMINER: I just noticed something  
11 here, Mr. Beers. I'm looking at Exhibit No. 5, dated  
12 July 21, 1989, north half of Section 26. Do we have  
13 the wrong operating agreement?

14           MR. KELLAHIN: No, sir, it's the right  
15 one. The Ojo Chiso well is in the north half of 26,  
16 and that is the operating agreement that all parties  
17 have committed to, and it's the same one he proposes  
18 to utilize or at least the same format for the subject  
19 case.

20           HEARING EXAMINER: I see. I misunderstood  
21 that.

22           THE WITNESS: I do have a blank copy if you  
23 would like it submitted as another exhibit.

24           HEARING EXAMINER: But it does not change  
25 except the locations?

1 THE WITNESS: Right.

2 MR. KELLAHIN: That's right.

3 RECROSS-EXAMINATION

4 BY HEARING EXAMINER:

5 Q. I do have a question, I see. Let's go to  
6 page 4, not on the AFE but the operating agreement.  
7 This one we covered a test to the Morrow formation at  
8 13-7?

9 A. Right. This was strictly a Morrow well in  
10 the north half of 26.

11 Q. Is it presently producing from the Atoka or  
12 the Morrow?

13 A. No. It's going to be attempted a Morrow  
14 completion.

15 HEARING EXAMINER: No other questions.

16 Is there anything else of Mr. Beers at this  
17 time?

18 MR. KELLAHIN: I have none, Mr. Examiner.

19 HEARING EXAMINER: Mr. Lopez?

20 MR. LOPEZ: No, Mr. Examiner.

21 HEARING EXAMINER: Thank you, Mr. Beers.

22 You may be excused.

23 Mr. Kellahin?

24 MR. KELLAHIN: Mr. Examiner, I would like  
25 to introduce at this time Exhibit No. 6 which is the

1 Certificate of Mailing with regards to the hearing.  
2 It was described earlier in the presentation, and I'd  
3 like to introduce it at this time as Exhibit No. 6.

4 HEARING EXAMINER: Mr. Kellahin, this  
5 Exhibit No. 6, you have a Certificate of Service, a  
6 copy of Exhibit A, and then the September 25, 1989,  
7 letter. Was a copy of the application submitted at  
8 that time?

9 MR. KELLAHIN: Yes, sir, it was. I simply  
10 didn't copy it onto the certificate.

11 HEARING EXAMINER: Thank you. Do you wish  
12 to admit Exhibit No. 6 at this time?

13 MR. KELLAHIN: If you please.

14 HEARING EXAMINER: Are there any  
15 objections?

16 MR. LOPEZ: No, Mr. Hearing Examiner.

17 HEARING EXAMINER: Exhibit 6 will be  
18 admitted into evidence at this time.

19 MR. KELLAHIN: Mr. Examiner, at this time I  
20 would like to call Oryx' geological witness, Miss  
21 Shelley Lane.

22 SHELLEY LANE,  
23 the witness herein, after having been first duly sworn  
24 upon her oath, was examined and testified as follows:

25 DIRECT EXAMINATION

1 BY MR. KELLAHIN:

2 Q. Miss Lane, for the record, would you please  
3 state your name and occupation.

4 A. Yes. Shelley Lane. I'm a geologist for  
5 Oryx Energy in Midland, Texas.

6 Q. Miss Lane, on prior occasions have you  
7 testified as a petroleum geologist before the  
8 Division?

9 A. Yes, sir.

10 Q. Would you summarize your particular  
11 involvement with regards to what has been identified  
12 by your company as this Antelope Ridge prospect?

13 A. Yes, sir. I began working the area about a  
14 little over a year ago, and my area of responsibility  
15 does include Lea County, New Mexico. So I've been  
16 involved with the prospect a little over a year.

17 Q. Were you involved as a geologist on behalf  
18 of your company for what has been identified as the  
19 Sun Federal Com No. 1 Well in the south half of  
20 Section 27 as shown on Exhibit No. 1?

21 A. Yes.

22 Q. Were you also involved in the Ojo Chiso  
23 Federal Well No. 1 in the north half of 26?

24 A. Yes, sir.

25 Q. When we identify the Antelope Ridge

1 prospect area, is it an area that is identified on  
2 Exhibit No. 7?

3 A. Yes, sir.

4 Q. Exhibit No. 7 is your structure map on the  
5 Atoka; all right?

6 A. Okay.

7 Q. Has it been your personal responsibility to  
8 pick the location and the spacing unit for the subject  
9 Antelope Ridge No. 2 well as part of the hearing in  
10 this case?

11 A. Yes, sir.

12 MR. KELLAHIN: At this time, Mr. Examiner,  
13 we tender Miss Lane as an expert petroleum geologist.

14 HEARING EXAMINER: Are there any  
15 objections?

16 MR. LOPEZ: No objections.

17 HEARING EXAMINER: Miss Lane is so  
18 qualified.

19 Q. (BY MR. KELLAHIN) Let me have you take  
20 Exhibit No. 7, Miss Lane, and identify that for us.

21 A. Yes. This is a structure map on the Atoka  
22 C Lime. It covers about a 16 square-mile area  
23 surrounding the Antelope Ridge and Ojo Chiso fields,  
24 and it does include Section 22, which is the section  
25 in question.

1           The wells are identified as gas wells or  
2 dry holes in this area.

3           Q.     Is this a structural interpretation of the  
4 Atoka that you have personally made yourself?

5           A.     Yes, it is.

6           Q.     What is the information that you utilized  
7 by which to interpret the Atoka structure?

8           A.     This is based on subsurface picks on logs.

9           Q.     Did you utilize the information available  
10 from the Sun Federal Com No. 1 Well in the south half  
11 of 27?

12          A.     Yes, I did.

13          Q.     Did you have any information available to  
14 you from the Ojo Chiso well in the north half of 26?

15          A.     That well was not logged at the time this  
16 exhibit was prepared.

17          Q.     Do you have the logs now on that well?

18          A.     Yes. And I do believe that the structure  
19 does accurately reflect the Atoka C on that particular  
20 one.

21          Q.     That additional information then didn't  
22 cause you to reinterpret or change the interpretation  
23 of the Atoka structure?

24          A.     No, sir.

25          Q.     Why have you utilized the Atoka structure

1 as part of your geological evaluation of this  
2 particular well location?

3 A. The Atoka structure does seem to have some  
4 slight influence on production and also the thickness  
5 of the Atoka lime in the area.

6 If you'll notice, the wells that are  
7 circled in red are the Atoka producers. All of those  
8 wells are primarily on the flanks of this structure.  
9 And you'll see on the next exhibit, for instance, in  
10 Section 34, the No. 2 well has about 30 feet of pay,  
11 and the No. 1 well has about 10 feet of pay, and that  
12 is a result of moving up on structure, and you're  
13 losing porosity there.

14 Q. Let's go to your isopach, which is Exhibit  
15 No. 8. I think it's helpful to look at those  
16 together. For the record, would you identify for us  
17 Exhibit No. 8?

18 A. Yes. This is on the same base map as the  
19 structure map. This reflects Atoka porosity greater  
20 than 4 percent.

21 Q. Again, this is also your geologic  
22 interpretation of the Atoka porosity?

23 A. Right, based on log evaluations, again.

24 Q. Let's look at 7 and 8 together and have you  
25 assess for us the geologic conclusions you reach when

1 you interpret both the structure and the isopach as it  
2 involves Section 22.

3 A. Right. As I stated before, structure does  
4 have some slight influence, and it does appear that  
5 the production is on the flanks of this structure.  
6 That may not be the case in all instances, but it is a  
7 general conclusion that you can draw.

8 The other thing to note is that there is  
9 really no control to the north or to the west of us.  
10 Now, Oryx and BTA did recently drill a well up in  
11 Section 16, and that was drilled as primarily an Atoka  
12 test and encountered no Atoka. So we really have no  
13 evidence to extend the Atoka any further than it is  
14 extended on my map.

15 And based on the log analysis in the area,  
16 we do think that the majority of the reservoir is  
17 limited to the south half of 22, which compels me to  
18 form or try to form a south half proration unit.

19 Q. Is the primary geologic formation that  
20 you're seeking to penetrate the Atoka formation?

21 A. Yes, it is.

22 Q. What is the likely opportunity to have a  
23 successful Morrow completion in this immediate area?

24 A. If we do not encounter the Atoka, we would  
25 like to continue drilling to the Morrow. I think you

1 would have to assess the risk of what chance do you  
2 have of getting an Atoka well. I would say that would  
3 be about 50 percent. And then once you drill that, if  
4 you do not encounter Atoka, then I think your Morrow  
5 possibility would be even less than that.

6 Q. How do I identify by looking at either one  
7 of these displays any wells that currently produce  
8 from the Morrow formation?

9 A. The Morrow producers are the gas wells that  
10 have no color coding on them.

11 Q. So if we look at either display then and  
12 find the ones with the red circles, those represent  
13 Atoka producers?

14 A. Right.

15 Q. Do any of those circles with red circles  
16 also have Morrow production currently being produced  
17 from those wells?

18 A. No, they do not.

19 Q. If we look at the well symbols that are not  
20 circled in red, those represent Morrow wells?

21 A. That's correct.

22 Q. Let's look at the well location itself.

23 A. Okay.

24 Q. The primary means by which you have  
25 determined the location is to pick the best point

1 after evaluating the geology for the Atoka?

2 A. That's correct.

3 Q. Where is that location?

4 A. That location is 1,090 feet from the south  
5 line and 990 from the west line.

6 Q. That is an unorthodox gas well location, is  
7 it not?

8 A. Yes, it is.

9 Q. You are too close to the western  
10 boundaries, if you will, for standard well spacing for  
11 deep gas wells?

12 A. That's correct.

13 Q. And you would be encroaching towards the  
14 same parties that are involved in the pooling case?

15 A. Yes.

16 Q. You're dealing with Pacific, BTA, and  
17 Reynolds, are you not?

18 A. That's correct.

19 Q. What causes you to reach the conclusion  
20 that the proposed unorthodox location is the optimum  
21 location over the nearest standard location?

22 A. It's essentially based on looking at a  
23 trend. The thick that you see in the well in the  
24 south half of 27, that's the thickest porosity that  
25 we've encountered. If I just line that trend up with

1 -- and then move my trend in between the well that has  
2 31 feet of porosity in the southeast of Section 34,  
3 and then the well that has 35 feet of porosity in the  
4 southwest of Section 35, if you just laid your pencil  
5 down there and looked at the trend, that's where you  
6 want to go. That's the location to pick.

7 Q. Have you been the primary individual,  
8 either engineer or geologic employee of your company,  
9 that has dealt with the other working interest owners?

10 A. Yes, sir.

11 Q. Have you had conversations with all of the  
12 other working interest owners in the proposed well?

13 A. Yes, sir.

14 Q. Have any of those parties objected to your  
15 proposed unorthodox location?

16 A. No, sir.

17 Q. In fact, there's agreement that this is the  
18 optimum location, is it not?

19 A. Yes.

20 Q. When we look at the risk factor that the  
21 examiner is allowed under the statute to award in a  
22 pooling case, that maximum percentage is 200 percent  
23 plus the cost of the well. You understand that, don't  
24 you?

25 A. Yes, yes.

1 Q. In terms of that statutory maximum, do you  
2 have a geologic opinion as to what percentage you  
3 would recommend to the examiner to include in the  
4 pooling order with regards to the Atoka participation?

5 A. Yes. I would recommend the 200 percent  
6 penalty.

7 Q. What is the basis upon which you reach that  
8 conclusion?

9 A. The basis is that we are extending this  
10 Antelope Ridge Pool to the north. We have no control  
11 to the north for essentially a mile or a  
12 mile-and-a-half, and we are looking at quite a lot of  
13 risk since we do not have any production to the north  
14 and to the west of us.

15 Q. Is there a direct or indirect relationship  
16 in terms of the thickness of the Atoka formation to  
17 the productivity of the well?

18 A. Yes, sir, there is, based on volumetrics --

19 Q. There's a direct or an indirect? It's a  
20 direct relation?

21 A. It's a direct -- I don't know if I can  
22 really say whether it's direct or indirect. I'm not a  
23 reservoir engineer. But I know that we do evaluate  
24 the wells and the recoverable reserves based on  
25 volumetrics, which includes a net-feet-of-pay factor,

1 which is based on the thickness.

2 Q. In evaluating the geology in terms of  
3 thickness of the reservoir --

4 A. Right.

5 Q. -- do you find any relationship between the  
6 thickness of offsetting wells and their corresponding  
7 productivity?

8 A. Yes. You could look as case in point at  
9 the wells in Section 34, and the well that has 11 feet  
10 of pay has only produced about 178 million cubic feet,  
11 and the well that has 31 feet of pay has produced, I  
12 believe, something around 750 million cubic feet and  
13 is still producing.

14 Q. Let me invite your attention to Section 35  
15 south and east of the proposed well location in 22.  
16 Do you find Section 35?

17 A. Yes.

18 Q. There are two gas wells in the northwest  
19 quarter?

20 A. Right.

21 Q. You see one with 17 feet and one with 4  
22 feet?

23 A. Yes.

24 Q. What's the corresponding quality of each of  
25 those wells?

1           A.       The well that has four feet of pay is  
2 currently a Morrow producer and has not been tested in  
3 the Atoka; so we don't know what its productivity  
4 might be from that four feet of pay.

5                    We do know that in that short distance of  
6 moving something less than 1,500 feet, you have, in  
7 effect, tripled your pay. So you do lose pay in a  
8 short distance in this area, which adds to the risk.

9           Q.       If you follow those contour lines around,  
10 and you get to your proposed unorthodox location,  
11 you're slightly above the 20-foot contour line in  
12 terms of thickness?

13           A.       Yes.

14           Q.       In your opinion, is that the optimum  
15 location within the entire setion in which to place  
16 the Atoka well?

17           A.       Yes, sir.

18           Q.       Let's talk about the Morrow. Have you  
19 shared with BTA and Reynolds and Pacific, any of their  
20 personnel, your proposal that this well, if  
21 unsuccessful in the Atoka, be drilled down to and  
22 tested in the Morrow?

23           A.       Yes, sir. We began discussions about  
24 drilling to the Atoka, and then if that was dry, to  
25 continue on to the Morrow after we drilled our Sun

1 Federal Com in the south half of 27.

2 We intended that well to go to the Morrow  
3 formation, but we encountered such high pressures in  
4 the Atoka and had to use such heavy mud weights that  
5 we stopped above the Morrow because we thought if we  
6 penetrated the Morrow with that heavy mud, we would  
7 damage the formation.

8 So we have chosen to set up the other Atoka  
9 wells in this area, set up our drilling program  
10 similar to the way we handled the Sun Fed Com, which  
11 is to drill to the Atoka. And then if that is dry, we  
12 will continue on drilling to the Morrow.

13 And the cost difference, if you encounter a  
14 dry Atoka, or you do not encounter Atoka, the cost  
15 difference to drill on to the Morrow is only about  
16 \$15,000 more. And the reason for that is you do not  
17 have that high bill for the mud to control the  
18 pressure in the Atoka.

19 Q. Have you shared your plan of drilling with  
20 representatives from Mr. Joe Reynolds' office?

21 A. Yes, sir, we have.

22 Q. Who specifically have you told your plan of  
23 operation of the subject well to?

24 A. I believe I've talked to David Pace and  
25 also the Reynolds group, Jeff Reynolds and Joe

1 Reynolds, in Lubbock. I've talked to all of them  
2 concerning several wells in the area, and this issue  
3 has definitely come up.

4 Q. You have specifically told them then of  
5 your proposed intention to drill down through and test  
6 the Morrow in the event the Atoka is unsuccessful?

7 A. Yes, sir.

8 Q. Have any of the employees, personnel, or  
9 interest owners in the Joe Reynolds group objected to  
10 that plan?

11 A. No, sir.

12 Q. When we look at the Section 22, the next  
13 topic I want to discuss with you is the orientation of  
14 that spacing unit. I would invite your attention to  
15 the well symbol in the southeast quarter of Section  
16 22.

17 A. Yes, sir.

18 Q. What is that?

19 A. That's a dry hole that was drilled by  
20 Apache in 1987.

21 Q. A dry hole in what formation?

22 A. It penetrated the Morrow, and they did test  
23 -- they actually perforated Morrow, Atoka, and Strawn,  
24 and the scout ticket does not have any mention of any  
25 sort of rates. They did try to stimulate, and the

1 well was then dry and abandoned.

2 Q. In terms of assigning values to the various  
3 quarter sections within 22 --

4 A. Yes.

5 Q. Let's examine your geologic opinion of the  
6 ability of the northwest quarter of 22 to add  
7 productive acreage to the well.

8 A. I have no indication that the northwest  
9 quarter of Section 22 has any porosity or that the  
10 Atoka extends that far north.

11 Q. What, in your opinion as a geologist, is  
12 the orientation of the 320 acres that most closely  
13 approximates the greatest reservoir volume in the  
14 Atoka formation?

15 A. That would be the south half of 22.

16 Q. Has that been a topic of conversation  
17 between you and members of the Joe Reynolds' interest?

18 A. Yes, it has.

19 Q. What have you specifically discussed with  
20 them?

21 A. We discussed the orientation, and David  
22 Pace, who is their geologist, expressed a desire to  
23 form a west half unit. I told them that I didn't show  
24 any net pay in the northwest quarter. And he said he  
25 didn't show any pay there either, but he also did not

1 show any pay in the southeast quarter. I told them  
2 that my map did show pay in the southeast quarter, and  
3 so that compelled me to lay the unit down.

4 Q. Did you discuss with Mr. Pace or any of the  
5 Reynolds group personnel what their opinion was of the  
6 well that's identified as a dry hole in the southeast  
7 quarter of 22?

8 A. Yes. Prior to the proposal of this well in  
9 general discussions of this area, Mr. Pace and Mr.  
10 Reynolds have both told me that they did not believe  
11 that that well was accurately reflected as a dry  
12 hole. I think they may have been partners in it or  
13 had some contact with it, and they thought that the  
14 well should have been productive, but that it was  
15 damaged during completion.

16 Q. When we look at the Atoka formation, what,  
17 in your opinion, would you recommend to the examiner  
18 as the risk factor penalty to assess against  
19 nonconsenting working interest owners?

20 A. It would be the 200 percent penalty.

21 Q. With regards to the Morrow formation?

22 A. It would also be the 200 percent penalty.

23 Q. In fact, the Morrow is more riskier than  
24 the Atoka, is it not?

25 A. Yes, sir.

1 Q. Let's go to an examination of your cross-  
2 sections, Miss Lane. I think I have selected the A-A'  
3 as the first one off the top of the exhibit package.

4 A. Right. That will be the only one for this  
5 case. It's the Atoka cross-section, since it's the  
6 primary objective.

7 Q. Let me mark that as Exhibit No. 9 then.  
8 Describe for us why you have selected the particular  
9 wells that you have shown in your cross-section.

10 A. Yes. This is a north-south cross-section,  
11 which passes through Section 22, and it does  
12 incorporate the dry hole in Section 22. The  
13 cross-section is limited to the Strawn and the Atoka  
14 formations vertically.

15 These wells are essentially selected to  
16 show that to the north, we really do not know how far  
17 the Atoka extends. We don't believe it extends  
18 farther than the south half of Section 22. And then  
19 it does encompass the well that we recently completed,  
20 the Sun Federal, which did have a significant amount  
21 of pay in the Atoka.

22 Q. Identify for us what is the significance of  
23 the areas shown with the blue shade.

24 A. The blue-shaded area is the Atoka limestone  
25 interval that produces, and the perforations are

1 marked on the Sun Fed Com and also on the Maxus well,  
2 which is to the south in Section 34. And the red then  
3 identifies the porosity in the Atoka greater than 4  
4 percent.

5 Q. Would you double-check your display for me  
6 and make sure that we have the correct identifications  
7 at the bottom of each of the logs for this particular  
8 Exhibit No. 9?

9 A. Yes, these are correct.

10 Q. How does this integrate itself into your  
11 conclusions with regards to location and risk factor  
12 penalties?

13 A. It does show that to the north there is a  
14 large degree of uncertainty as to how far the Atoka  
15 continues. It also shows that moving it from one mile  
16 -- just one mile away, the Sun Federal encountered 50  
17 feet of porosity, and then the Maxus well encountered  
18 only 11 feet of porosity. So there is a significant  
19 amount of risk in drilling to this Atoka formation.

20 MR. KELLAHIN: Mr. Examiner, that concludes  
21 my examination of Miss Lane.

22 I move the introduction of her Exhibits 7,  
23 8 and 9.

24 HEARING EXAMINER: Exhibits 7, 8, and 9  
25 will be admitted into evidence, if there are no

1 objections.

2 MR. LOPEZ: There are no objections.

3 HEARING EXAMINER: Mr. Lopez, your witness.

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

5 CROSS-EXAMINATION

6 BY MR. LOPEZ:

7 Q. Miss Lane, referring to the well that you  
8 have just recently completed in the north half of 26,  
9 is there any Atoka production in that well?

10 A. No, sir, there is not.

11 Q. So that is a Morrow producer?

12 A. It's not yet been tested. It's in the  
13 process of completing.

14 Q. Do you expect it to be a Morrow producer?

15 A. Yes, I do.

16 Q. So if I understand your exhibit correctly,  
17 it would seem that the Morrow wells on your map are  
18 situated on the eastern side of the plat, and the  
19 Atokas are more in the central or western part in the  
20 area that you've indicated?

21 A. Yes, sir.

22 Q. I'd like now to discuss the dry hole that  
23 was drilled in the southeast quarter of Section 22.

24 When you had these discussions with Mr.  
25 Pace, and he indicated that he thought the well was

1 damaged, the damage occurred in the Morrow, did it  
2 not, and did he not agree that the Atoka in that well  
3 was, in fact, dry?

4 A. We did specifically discuss the Morrow, and  
5 we talked about the Morrow being damaged during  
6 completion.

7 Now, the Atoka that occurs and that was  
8 tested in that what well is not equivalent to the  
9 Atoka that we are looking at here.

10 I believe in talking with Mr. Joe Reynolds,  
11 he did think that the Atoka would have produced in  
12 that well, but it is not an equivalent Atoka zone.

13 Q. I'm not sure I understand what you mean.  
14 Does that mean that the Atoka was commercial or  
15 noncommercial? I assume if it were commercial, it  
16 would have been put on production?

17 A. Right.

18 Q. So essentially, if I understand you  
19 correctly, at least with what we are discussing the  
20 Atoka for our purposes is dry in the southeast  
21 quarter?

22 A. Yes. That's what I've indicated with that  
23 zero. The zone that was tested was not equivalent to  
24 the zone we are looking for in the proposed location.

25 Q. Looking at this isopach map, there is no

1 well control in Section 22 or in any sections north of  
2 Section 27 that would confirm that the Atoka is  
3 present in Section 22 or Section 21, for that matter;  
4 is that not correct?

5 A. That's correct.

6 Q. So we could reach closure within Section 27  
7 just as easily; is that not correct?

8 A. Yes, sir.

9 Q. When the well in the south half of 27 was  
10 drilled, what was the last well control you had with  
11 respect to the Atoka production?

12 A. It was the Mattix B2 well, which is in  
13 Section 35. The well was 17 feet of pay or porosity.

14 Q. So, if I understand correctly again, but  
15 for the fact that you drilled the well in the south  
16 half of 27, you have not known necessarily that the  
17 Atoka extended on this what seems to be a northwest  
18 trend into Section 27?

19 A. That's correct.

20 Q. Since you've drilled the well in the south  
21 half of 27, as I understood Mr. Beers' testimony, the  
22 next two wells Oryx intends to drill, apparently  
23 simultaneously, are in the north half of 27 and then  
24 the south half of 26; is that correct?

25 A. Yes, sir.

1           Q.       Would you explain why it would not be more  
2 prudent to await the results of the drilling of those  
3 two wells, particularly the well in the north half of  
4 27, before deciding what kind of configuration a  
5 proration unit should be in Section 22?

6           A.       Yes, sir. With regard to the well in 26,  
7 as you stated, or as you alluded to, the well in the  
8 south half of 26 has no bearing, in my opinion, at  
9 all.

10                   But if we talk about the well in the north  
11 half of Section 27, what our proposal -- what Oryx  
12 would propose to do is drill the well in 27, and  
13 within 48 hours of looking at the logs, we would like  
14 all the partners to make their election on the well in  
15 the south half of Section 22. And the reason for that  
16 is we would like to move the rig from the north half  
17 of Section 27 up to the proposed location in the south  
18 half of Section 22.

19                   And the reason for that is because we can  
20 extend our drilling contract, which will give us  
21 cheaper drilling costs, and we can also save some  
22 money on the rig move. And we believe that log  
23 analysis will allow us to effectively evaluate the  
24 well in 27. We don't feel a need to see it completed  
25 and produced before we move to the south half of

1 Section 22.

2 Q. Miss Lane, I guess the point I'm trying to  
3 make is that if, as we all would hope and expect, that  
4 the well drilled in the north half of 27 is a  
5 successful Atoka producer, why wouldn't it be more  
6 logical and in the interests of protecting correlative  
7 rights to determine that a proration unit consisting  
8 of the west half of 22 and another one consisting  
9 perhaps of the east half of 21 would not be more  
10 logical in the sense that this trend could continue,  
11 as we've indicated it already has, in a northwesterly  
12 direction, indicating that the northwest half of 22 at  
13 least has the potential for being productive in the  
14 Atoka when we know that the southeast quarter of  
15 Section 22 has already been condemned by a dry whole?

16 A. Number one is I don't think the entire  
17 southeast quarter of Section 22 has been condemned by  
18 a dry hole. And the second thing would be that I  
19 don't believe that the well in the north half of 27 is  
20 going to give you any more information that's going to  
21 allow you to extend that reservoir to the northwest of  
22 Section 22.

23 I would not see any change in the  
24 orientation of the proposed units even after we drill  
25 the well in the north half of Section 27.

1 Q. If it were a dry hole, that may change  
2 plans radically?

3 A. If it were a dry hole, then this proposed  
4 location would not be drilled. And that's why we've  
5 said we would like to see the logs, and then within 48  
6 hours have partners make an election then.

7 We realize that we cannot ask partners to  
8 make an election right now in the well in 22 until  
9 they do see the logs in the north half of 27. And if  
10 that is a dry hole, then I don't believe that Oryx  
11 would drill the proposed location.

12 Q. I guess that was my point exactly.  
13 Wouldn't it be fairer, at least for the participants  
14 in the well in Section 22, to be allowed an  
15 opportunity to evaluate the results of the well in the  
16 north half of 27 even though I understand that the  
17 economics of moving a rig immediately might be more  
18 cost effective? I just wonder how much weight we  
19 should give to the cost effectiveness of such a move  
20 compared to whether or not correlative rights might  
21 otherwise be violated in terms of the orientation of  
22 the proration unit.

23 MR. KELLAHIN: Is that a question or a  
24 speech.

25 MR. LOPEZ: I think it was a question.

1           THE WITNESS: Could you ask me just one  
2 question or something specific because I've really  
3 gotten lost?

4           Q.       (BY MR. LOPEZ) I assume that you heard  
5 that I requested a continuance of this case because it  
6 was premature to determine whether or not our client  
7 should elect to join on a voluntary basis in a well  
8 proposed to be drilled in Section 22 until a well in  
9 27 was drilled.

10                   My question is does the fact that you want  
11 to move a rig within 48 hours because it's cost  
12 effective outweigh the rights of a party to have  
13 sufficient time to make a prudent decision as to  
14 whether or not to join in a well in 22?

15           A.       Well, in considering that Oryx has 75  
16 percent of the proposed unit, and we're willing to,  
17 with our 75 percent interest, take the risk of moving  
18 that up there, and your client has 6-1/4 percent, to  
19 me, all parties have been made aware of our aggressive  
20 drilling program and what we want to do in the area.

21                   If we're willing to spend our 75 percent of  
22 this \$1.3 million, and we feel confident enough to  
23 move the rig, then I think that the other parties  
24 should follow suit and be able to make their election  
25 within 48 hours, if that's the election that we're

1 willing to make. We're bearing the brunt of the risk.

2 Q. I understand that, but the parties'  
3 participation would change significantly if the  
4 proration units were stand-up rather than lie-down; is  
5 that not correct?

6 A. Yes, I believe they would.

7 Q. And that's probably one of the principal  
8 areas of disagreement between the parties at this  
9 point, is it not?

10 A. Yes.

11 Q. You stated that to deepen the proposed well  
12 in 22 through the Morrow if the Atoka proved dry would  
13 only be \$15,000 more.

14 My question to you is how did you determine  
15 that number? And in that connection, I'd like you to  
16 tell us what the daily drilling rate is, and how many  
17 days does it take to drill through the Morrow in this  
18 area.

19 A. The numbers that I have are provided by the  
20 drilling engineer. So what I'm testifying to is what  
21 he has told me.

22 The two numbers, the AFE for the Atoka test  
23 is \$1,361,000, and the AFE for a Morrow test is  
24 \$1,376,000. And that would be the difference in  
25 cost.

1           The number that I'm using for that Morrow  
2 test is the AFE for our well that we have proposed in  
3 Section 26.

4           But, essentially the difference is, as  
5 explained to me by our drilling engineers, that the  
6 cost to drill the additional however many days, and I  
7 don't know how many days it would take to drill to the  
8 Morrow, will be offset by not having to spend the  
9 dollars to buy the mud and all the additives of the  
10 mud if you encountered a high-pressured Atoka zone.

11           So, essentially, you're talking about the  
12 same numbers. If you encounter a high pressure Atoka  
13 zone and stop there, then your cost is \$1.361 million,  
14 and if you do not encounter the high-pressure Atoka,  
15 then your cost is \$1.376 million.

16           MR. LOPEZ: No further questions.

17           HEARING EXAMINER: Mr. Kellahin?

18           MR. KELLAHIN: Thank you, Mr. Examiner.

19                           REDIRECT EXAMINATION

20 BY MR. KELLAHIN:

21           Q. Miss Lane, let me make sure I'm clear on  
22 what you're proposing. The election period by which  
23 any parties will have the opportunity to pay their  
24 share of the cost of the well, which in the absence of  
25 an agreement with the Reynolds group would put them in

1 that category --

2 A. Yes.

3 Q. You're proposing a provision in the pooling  
4 order that would require Oryx to provide to those  
5 parties a suite of logs on the well in the north half  
6 of 27, which is the Antelope Ridge No. 1?

7 A. Yes, that's correct.

8 Q. And that within 48 hours of receiving that  
9 information, they would provide you with their  
10 commitment for the well?

11 A. That's correct.

12 Q. And that will be the same basis by which  
13 Oryx makes a determination about them going forward  
14 with the well?

15 A. That's correct.

16 Q. And that will be done in context of a  
17 pooling order and the election periods provided for  
18 those companies?

19 A. That's correct.

20 Q. Does it diminish, in your opinion as a  
21 geologist, the percentage of risk factor penalty to be  
22 applied for the No. 2 Antelope Well if you wait until  
23 the well in the north half of 27 is drilled?

24 A. No, sir. And just as the point was made  
25 earlier, as you move -- for instance, in Section 35,

1 you move less than 1,500 feet; you went from 4 feet to  
2 17 feet; so the interval can change drastically in a  
3 short distance of time. So the risk is still, even  
4 after the well is drilled in 27, the risk in 22 is  
5 still very high.

6 MR. KELLAHIN: No further questions, Mr.  
7 Examiner.

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

10 CROSS-EXAMINATION

11 BY HEARING EXAMINER:

12 Q. Miss Lane, I want to take a look at this  
13 unorthodox location a little bit closer. You're  
14 basing this on geology. That's the only aspect at  
15 this time; is that correct?

16 A. Of the unorthodox location?

17 Q. Yes.

18 A. It's based on geology and also some  
19 economics that were run.

20 Q. Oh, are those economics here? I'm sorry.

21 A. No, sir. My conclusions are based on  
22 geology --

23 Q. Just a second. What you're showing me  
24 today is just geology?

25 A. Yes.

1 Q. So economics, you haven't provided me with  
2 that information; so we can ignore that?

3 A. Okay.

4 Q. Based on geology alone, that's what we have  
5 today, that's what you're telling me, but at the same  
6 time you're asking for a 200 percent risk penalty  
7 factor. If a well was drilled in the south half at a  
8 standard location, how would that affect Oryx?

9 A. That would increase our risk, and we would  
10 have to -- I hate to get back to -- we would have to  
11 go back and run economics to see if we would drill the  
12 well.

13 Q. Like you said, you haven't presented  
14 economics; so we can ignore that. If you didn't feel  
15 it was prudent to submit it today, then we can just  
16 ignore that.

17 You just got through saying it would  
18 increase your risk. So what you're telling me, if we  
19 move a well from a standard location to this location,  
20 we would decrease risk. By how much?

21 A. You would go from approximately 17 feet of  
22 pay, or, I'm sorry, something around 12 to 15 feet of  
23 pay to 22 feet of pay, and I haven't really sat down  
24 and looked at exactly what the risk difference would  
25 be. I believe it would be something in the

1 neighborhood, just off the top of my head, of probably  
2 20 to 30 percent.

3 HEARING EXAMINER: I have no other  
4 questions of this witness. Are there any other  
5 questions of Miss Lane?

6 MR. KELLAHIN: Some follow-up questions,  
7 Mr. Examiner.

8 FURTHER EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Miss Lane, am I correct in understanding  
11 your responses to Mr. Stogner that at the proposed  
12 unorthodox location, that is the optimum location, but  
13 at that location, it still represents a 200 percent  
14 risk that you have recommended in the pooling order?

15 A. Yes, sir.

16 Q. If we move to the closest orthodox  
17 location, we are decreasing reservoir volume?

18 A. That's correct.

19 Q. And therefore it would be increasing the  
20 risk of the well?

21 A. Yes, sir.

22 Q. And you pegged that range at being 20 to 30  
23 percent additional risk at the standard location?

24 A. Yes.

25 Q. In terms of the statutory maximum then, the

1 standard location, in your opinion, would exceed the  
2 maximum risk factor penalty in a pooling case?

3 A. Yes, sir.

4 MR. KELLAHIN: No further questions.

5 MR. LOPEZ: I'd like to follow up with one  
6 question as a result of Mr. Stogner's questions.

7 FURTHER EXAMINATION

8 BY MR. LOPEZ:

9 Q. Miss Lane, if you were to drill at a  
10 standard location, would you rather be 1,980 from the  
11 west line and 660 from the south line, or would you  
12 rather be 660 from the west line and 1,980 from the  
13 south line?

14 A. I would rather be -- I wouldn't rather be  
15 at either one of those or I wouldn't have proposed  
16 this location. If I had a choice, I would rather than  
17 1,980 from the west line.

18 Q. And 660 from the south rather than the  
19 reverse?

20 A. Yes.

21 HEARING EXAMINER: Are there any other  
22 questions of this witness? If not, she may be  
23 excused.

24 MR. KELLAHIN: That concludes our direct  
25 presentation, Mr. Stogner.

1 HEARING EXAMINER: Let's take a 10-minute  
2 recess.

3 HEARING EXAMINER: Shall we continue? Mr.  
4 Lopez, I believe it's your turn.

5 MR. LOPEZ: Thank you, Mr. Examiner.

6 DAVID PACE,  
7 the witness herein, having been first duly sworn upon  
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. LOPEZ:

11 Q. Would you please state your name and where  
12 you reside.

13 A. David Pace, Midland, Texas.

14 Q. What do you do, Mr. Pace?

15 A. I am a geologist.

16 Q. Who are you appearing on behalf of in this  
17 hearing?

18 A. I'm appearing on behalf of Joe Jack  
19 Reynolds of the Reynolds group.

20 Q. Are you familiar with the area subject to  
21 Case No. 9782?

22 A. Yes, I am.

23 Q. How are you familiar with this area?

24 A. The acreage that -- predominantly, the  
25 acreage that Sun has an interest in in this immediate

1 area was an acreage block in which I, in essence, put  
2 together in 1981 and sold subsequent interest in that  
3 group of leases to an MGF Oil Company, a National Oil  
4 Company of Texas, Ackeman Petroleum, and the Joe J.  
5 Reynolds group.

6 Q. Have you been working with Mr. Reynolds  
7 since that date to explore and develop the acreage in  
8 question?

9 A. Yes, I have.

10 Q. Have you been representing him in all the  
11 negotiations with Oryx to date?

12 A. Yes. On a partial basis with Jeff  
13 Reynolds, each of us sharing some of the load.

14 Q. Have you previously testified before this  
15 Commission and had your qualifications as a geologist  
16 accepted as a matter of record?

17 A. Yes, I have.

18 MR. LOPEZ: Is the witness considered  
19 qualified?

20 HEARING EXAMINER: Are there any  
21 objections?

22 MR. KELLAHIN: No objection, Mr. Examiner.

23 HEARING EXAMINER: Mr. Pace is so  
24 qualified.

25 Q. (BY MR. LOPEZ) Mr. Pace, I'd like you to

1 refer to what's been marked Reynolds Exhibit No. 1 and  
2 ask you to identify and explain it. And in that  
3 connection, I'd like you to discuss a little more  
4 fully the history of your acquisition of the acreage  
5 in question.

6 A. This is a land map of Standard Midland Map  
7 Company -- a land map of the area which we have  
8 referred to in the past as the "bartender area."

9 The acreage outlined in yellow is the  
10 acreage in which the Joe J. Reynolds interest still  
11 has an interest in this particular area. We acquired  
12 this acreage in 1981, ten-year leases. They were  
13 drawn on a federal lottery by two different  
14 individuals.

15 The Federal Lease 43-9-64 -- it varies on  
16 each map -- 43-5-64, it appears, was the lease in  
17 which a Tony Lane from Roswell, New Mexico, had drawn  
18 this acreage. It was originally 1,980 acres.

19 The opposing acreage, or the Lease 43-3-65  
20 or 9, something to that effect, was 640 acres that a  
21 J. Ackerman out of Casper, Wyoming, I believe, had  
22 drawn in the lottery.

23 We negotiated a lease with both these  
24 individuals in 1981, with MGF, who had taken 50  
25 percent of this prospect from him, and were elected

1 the operator. We entered into an agreement with these  
2 individuals to take an oil and gas lease from them.

3           Subsequent to that, we went out in the east  
4 half of 22 and purchased the east half of 22 at a KGS  
5 sale. Of course, at the time in 1981, acreage prices  
6 were significantly different.

7           We ended up with right at \$3 million in  
8 acreage costs in this block and worked out somewhere  
9 around \$1,500 an acre as our basis in it.

10           Within three to four months after we had  
11 the prospect gather, by that had the leases tied up,  
12 we formed an AMI and a Joint Operating Agreement with  
13 MGF, naming MGF as the operator, pretty much  
14 encompassing the entire township in terms of an AMI  
15 for subsequent acreage acquisition and so forth,  
16 fairly standard deal.

17           Within three to four months after getting  
18 that done, MGF filed Chapter 11 and went bankrupt.

19           Within a period of two to three years after  
20 that, Ackeman Petroleum did the same thing, filed  
21 Chapter 11, and, as a result, it tied this acreage  
22 block up for many, many years. MGF was attempting to  
23 sell it due to the fact the gas bubble had burst. Gas  
24 prices -- when we first went into this, we used \$3.50  
25 for our economics, very conservatively. We had some

1 verbal offers up to \$9 an Mcf for the acreage.

2 To make a long story short, we were very  
3 proud of this acreage. We attempted to get numerous  
4 drilling deals, but with two of the partners in  
5 bankruptcy, it just wasn't possible.

6 And in about 87, I believe, an agreement  
7 was finally reached with Apache Petroleum in which we  
8 could finally proceed to drilling a location on this  
9 block. And Apache chose to drill the location in the  
10 east half of 22, which was expiring, I believe, in 87  
11 at the same time.

12 Being a federal lease, they were drilling  
13 on that location over the expiration of the primary  
14 term or drilling during or at the date of the  
15 expiration of the primary term. And we acquired a  
16 two-year extension of that under the federal statutes  
17 and held that acreage until, I believe, sometime last  
18 year or sometime earlier this year.

19 Anyway, that acreage expired, and we no  
20 longer had an interest in it.

21 Q. And, obviously, then Oryx was able to  
22 acquire the acreage after it lapsed; is that correct?

23 A. That is correct.

24 Q. What discussions have you had with Oryx in  
25 an attempt to settle your difference with respect to

1 this hearing?

2           A.       We have had numerous discussions. My  
3 discussions have centered around discussion with Mrs.  
4 Lane on how we would handle the Section 22 location.  
5 We have been discussing this program, as she  
6 mentioned, for a number of months. We felt like  
7 Section 27 was a fairly rank well. It was a wildcat,  
8 fairly risky. With the control we had at the time, we  
9 felt like the Atoka buildup -- what I'll refer to as  
10 the Atoka buildup -- was going to the northwest, and  
11 that location was a stepout in terms of that Atoka  
12 buildup.

13                   That location was drilled. We had, as she  
14 shows, 50-plus feet of porosity in that location, and  
15 felt like, as we had discussed, that we got one  
16 location at a time, moving north, to see just how far  
17 this Atoka buildup goes. We know it doesn't go to the  
18 northeast. We have sufficient control to the  
19 northeast, but we have no control in the immediate  
20 area until you get five to six miles further on to the  
21 north.

22                   So the discussion centered around the fact  
23 we would drill, take it one location at a time,  
24 drilling along the buildup, evaluating each location  
25 as to its effect, on to the next location.

1           We were somewhat surprised. Our discussion  
2 centered around the fact that if the location in the  
3 north half of 27 was good, what would be the  
4 likelihood of there being a location in 22.

5           Now, specifically, as we both felt like it  
6 would be in that southwest corner, but, then again,  
7 depending on where it could be, the center of the  
8 buildup may indicate we needed to drill into the east  
9 half of 21.

10           So we were somewhat shocked when we  
11 received AFE's for not only a location in the north  
12 half of 27 but also in what was the south half of 22.

13           At the time we discussed, it never occurred  
14 to us that there would be anything but a stand-up  
15 proration unit in 22. One, that is the direction the  
16 trend is going is in a northwest fashion. And, two,  
17 we felt like that it was fairly cut and dried that it  
18 would be a west half location because that was, as we  
19 thought, everyone's acreage position in there at the  
20 time.

21           It wasn't until fairly late, and I can't  
22 give you the exact date, probably late in September  
23 when we found out that Oryx had acquired the east half  
24 of 22.

25           Q.     In order to settle your difference with

1 respect to a liedown versus a standup proration unit  
2 in Section 22, did Reynolds group offer to buy their  
3 proportionate share of the east half acreage?

4 A. Yes. I believe it was Wednesday of last  
5 week, Shelley and I were discussing the fact that we  
6 had a difference on this location, a difference of  
7 opinion that would facilitate us opposing them at the  
8 hearings up here unless we could come to some kind of  
9 agreement.

10 And in an effort to reach an agreement, I  
11 made the suggestion to her that the Reynolds group  
12 would be willing to go ahead and pay for their 12-1/2  
13 percent of that acreage acquisition that they had  
14 made.

15 We would pay, as you would under standard  
16 area of mutual interest, our proportionate share of  
17 that acreage in cost basis and participate in any  
18 location drilled there based on that interest, thereby  
19 not diluting our interest by half with that additional  
20 acreage.

21 Q. Do you still think that the most logical  
22 proration unit from a geological standpoint is the  
23 standup west half?

24 A. Yes, I do.

25 Q. Do you think the principal reason for

1 Oryx's seeking a liedown south half unit is to dilute  
2 the other working interest --

3 MR. KELLAHIN: Objection. It calls for  
4 speculation on the part of the witness. He has no  
5 idea what is in Oryx's mind.

6 MR. LOPEZ: Mr. Examiner, it seems to me  
7 that the geologist can discuss at length regarding  
8 negotiations, and he can have an opinion as to why  
9 Oryx is seeking this lay-down rather than a stand-up.

10 MR. KELLAHIN: That wasn't the question put  
11 to the witness, Mr. Examiner. He asked him to  
12 speculate on whether Oryx's motives in proposing the  
13 laydown was to dilute the Reynolds' interest. And  
14 there has been no testimony before you today that that  
15 was at all an issue in my client's minds. And to let  
16 this witness speculate on that subject I think is  
17 inappropriate.

18 MR. LOPEZ: I can rephrase the question,  
19 Mr. Examiner.

20 HEARING EXAMINER: Would that be all right,  
21 Mr. Kellahin?

22 MR. KELLAHIN: He can try again, Mr.  
23 Examiner.

24 HEARING EXAMINER: All right. Try again.

25 Q. (BY MR. LOPEZ) Mr. Pace, why do you

1 believe that Oryx is insisting on a lie-down rather  
2 than a stand-up unit?

3 MR. KELLAHIN: Objection. Same question.  
4 He's asking the the witness to speculate on Oryx's  
5 motives.

6 HEARING EXAMINER: I'm going overrule your  
7 objection and let the witness answer this question.

8 THE WITNESS: Geologically, I have a hard  
9 time justifying including that acreage in the east  
10 half of 22 into the proration unit.

11 So it has been my feelings since I have  
12 found out that they have gone towards the south half  
13 proration unit that that was probably the motive in  
14 their mind to include that acreage was that they would  
15 probably like to have a larger interest in that  
16 location.

17 That could be accomplished by communitizing  
18 that southeast quarter in with the southwest quarter.

19 Q. (BY MR. LOPEZ) Would you be willing to  
20 participate in a stand-up unit of the west half at a  
21 standard location?

22 A. Yes, we would. I would like to preface  
23 that with the fact that we don't feel comfortable at  
24 all with that location in 22 until we see a location  
25 in 27. We consider it just maybe even riskier than

1 Oryx does that we drill in 22 without that geological  
2 information in 27.

3 Q. With that as a given, and I should have  
4 prefaced my remarks saying that depending on the  
5 results of a well in the north half of 27.

6 I'd now like you to refer to what's marked  
7 as Exhibit 2-A and 2-B and ask you to identify and  
8 explain them and what they are introduced to show.

9 A. 2-A and 2-B are copies of well logs, 2-A  
10 being -- we didn't mark these individually, but I  
11 believe 2-A is the Apache well located in the  
12 southeast quarter of 22, and 2-B being the BTA well in  
13 the north half of 23.

14 On those well logs, I have marked some tops  
15 which we call in the area and we feel like have some  
16 significance to this hearing, those tops being the  
17 tops that I have picked are the top of the Strawn,  
18 what I call the top of the Atoka. It's marked "BU."  
19 That's an abbreviation for Atoka buildup. Then I mark  
20 a base of Atoka buildup, and what I call the top of  
21 the Atoka lime. And then I mark a top of Atoka C  
22 zone, a top of Morrow, and a top of middle Morrow.

23 Those tops will be used on both Exhibits  
24 2-A, 2-B, and on 3-A, 3-B.

25 Q. Do you want to refer to 3-A and 3-B now and

1 identify them?

2 A. Yes. 3-A -- and, again, I'm not sure which  
3 one is which. I believe 3-A Is the Oryx Sun Federal  
4 Com No. 1, and 3-B is the Oryx Ojo Chiso Federal No.  
5 1, the Sun Federal being the Atoka location in the  
6 south half of 27, and the Ojo Chiso Federal being in  
7 the north half of 26 Morrow location.

8 Q. Again, have you used the same markers on  
9 Exhibits 3-A and 3-B?

10 A. Yes. All four logs are marked the same way  
11 with the exception of the Sun Federal well, due to the  
12 fact that we were not able to take the well into the  
13 Morrow, it does not have the top of Morrow or top of  
14 middle Morrow marked. That Section was not penetrated  
15 at that location.

16 Q. What is the purpose of introducing these  
17 exhibits? What is it that you intend to show?

18 A. It is the intent through our geological  
19 interpretation, that we do not feel there is any Atoka  
20 pay or any Atoka reservoir in the southeast quarter of  
21 22. We feel like that the Apache well did a fairly  
22 good job of condemning what has been called, what  
23 we're referring in here generally as the Atoka pay.  
24 It is the same zone in which I refer to on my logs as  
25 the Atoka buildup.

1           And we feel like that there was such a  
2 small amount of Atoka buildup in the Apache well that  
3 indicates that it was probably not within probably a  
4 half a mile of Atoka porosity or Atoka buildup.

5           Q.     If you compare the Exhibits 3-A and 3-B,  
6 does this confirm that Atoka buildup take significant  
7 distance in which to buildup, if that's the correct  
8 way to describe it, where it's present and not  
9 present, I think you described the half mile?

10          A.     Yes.   From locations to the south, which  
11 this particular play or particular Atoka horizon or  
12 Atoka pay zone is a trend that extends on to the south  
13 for another at least 7 to 8 miles and is productive  
14 for at least another 7 or 8 miles to the south.  It's  
15 got numerous completions, numerous penetrations, and  
16 numerous locations off of the buildup itself.

17                 Based on that, the Apache well looked very  
18 similar to some wells to the south that were at least  
19 a half a mile off of the Atoka buildup.

20                 I think I can give somewhat of an  
21 indication of that with these exhibits.

22          Q.     Would you try?

23          A.     Yes.

24                 MR. LOPEZ:  Mr. Examiner, can he come over  
25 and just explain?  I'm sorry that our exhibits aren't

1 a little more decorative.

2 HEARING EXAMINER: What are you going to be  
3 trying to show me that you can't mark that down there,  
4 Mr. Pace?

5 THE WITNESS: The comparison of what the  
6 Atoka buildup does, how it thickens in a relatively  
7 short period of time. With these logs, I think we can  
8 give you an idea of what kind of trap we're dealing  
9 with in the Atoka itself.

10 HEARING EXAMINER: This is part, pursuant  
11 to our rules and regulations -- this is within the  
12 undesignated Antelope Ridge Atoka Gas Pool. So,  
13 therefore, this is pretty much all on the record.

14 You have talked to our district office in  
15 Hobbs, I assume, on the Atoka geology?

16 THE WITNESS: No, sir.

17 HEARING EXAMINER: How does this geology  
18 differ from what we have on our record in the Antelope  
19 Atoka Gas Pool?

20 THE WITNESS: I'm not exactly sure. In  
21 many instances in the past, my geological  
22 interpretation has differed from the State's in  
23 several cases. So that's the reason that I'm showing  
24 my basis. I have not seen how they show the geology.

25 HEARING EXAMINER: I'll keep that in mind.

1 THE WITNESS: Exhibit 2-A are the two logs  
2 showing the BTA well in the north half of 23, and the  
3 south half of 22, the Apache well. This is the BTA  
4 well.

5 HEARING EXAMINER: Speak up, Mr. Pace.  
6 This is on the record.

7 THE WITNESS: What I have are showing a  
8 cross-section laid down side by side of the --

9 HEARING EXAMINER: Are you going to show me  
10 a cross-section?

11 THE WITNESS: Yes, sir, in essence, I am.

12 HEARING EXAMINER: Why don't you prepare  
13 that? Standing up here and giving geological  
14 testimony like this, I do not find that adequate at  
15 all. Mr. Padilla --

16 MR. LOPEZ: Mr. Lopez.

17 HEARING EXAMINER: I'm sorry, Mr. Lopez. I  
18 would suggest either we formulate a cross-section  
19 which we can all read or drop the geological evidence  
20 of this witness at this time.

21 MR. LOPEZ: Can I ask him a question as to  
22 what he concludes from a review of the logs?

23 HEARING EXAMINER: I think we can do that.  
24 Obviously, the geological testimony that your side is  
25 preparing is not adequate to that, nor is it

1 adequately prepared.

2 MR. LOPEZ: And in response, Mr. Examiner,  
3 that's precisely why I asked for a continuance because  
4 we thought we were going to be able to sub in that  
5 area but not have to be --

6 HEARING EXAMINER: Mr. Lopez, you did not  
7 ask for a continuance based on that you did not have  
8 enough time.

9 MR. LOPEZ: Yes, I did, Mr. Examiner. That  
10 was my first point. I had three points. The first  
11 was that we had failure to adequately prepare for this  
12 hearing because what we thought would be successful  
13 negotiations broke down. And my other two reasons --

14 HEARING EXAMINER: That's a difference,  
15 that they broke down.

16 MR. LOPEZ: No. That we didn't have time  
17 to prepare because we didn't think we would have to be  
18 protesting. I thought I made that clear.

19 HEARING EXAMINER: No, and you're still not  
20 making it clear.

21 MR. LOPEZ: My point is that the Reynolds  
22 group would have had time to prepare the proper  
23 exhibits for this hearing had we anticipated that we  
24 would be objecting to the application of Oryx, which  
25 we didn't and were unable to determine until late in

1 the game.

2 I was not contacted by Reynolds until last  
3 night, and we have tried to put together, as best  
4 case as we could, based on the fact that we weren't  
5 granted a continuance.

6 We would be happy to have the case  
7 continued to the next examiner hearing and prepare and  
8 introduce at that time proper cross-sections.

9 MR. STOVALL: If I may, Mr. Examiner, may I  
10 ask Mr. Lopez a question?

11 What are you hoping to show with the  
12 geological evidence? What is the purpose of putting  
13 this on?

14 MR. LOPEZ: The geological evidence is  
15 going to show that the southeast quarter affecting 22  
16 is not productive or cannot be considered productive  
17 in the Atoka and, therefore, should not be a part of a  
18 proration unit; that it should be a stand-up rather  
19 than a lie-down proration unit.

20 And if you compare Morrow producers  
21 offsetting Atoka producers in the vicinity of the area  
22 in question, based on these logs, you will see that  
23 you cannot anticipate any production in the Atoka  
24 within the southeast quarter of the dry hole that was  
25 already drilled in the Atoka in Section 22.

1           And the comparisons of these logs would  
2 show that you have to go some distance, a half a mile,  
3 before a sufficient buildup occurs in order to justify  
4 an Atoka target.

5           MR. STOVALL: Let's take a couple of  
6 minutes, Mr. Examiner.

7           (Thereupon, a recess was taken.)

8           HEARING EXAMINER: This hearing will come  
9 to order. Mr. Lopez, I still stand on my decision on  
10 the motion earlier today.

11           Mr. Pace, I will let you testify as far as  
12 geologic conclusions based on your individual logs  
13 today, but as far as sitting here, trying to build a  
14 cross-section, an invisible cross-section, I will not  
15 allow that in.

16           Mr. Lopez?

17           MR. LOPEZ: Thank you, Mr. Examiner.

18           Q.    Mr. Pace, would you explain what your  
19 conclusions are with respect to the introduction of  
20 these logs and what they would show if you were able  
21 to present, had you had adequate time to prepare, the  
22 type of cross-section that we would have wished?

23           A.    I will attempt to do so.    The Exhibits 2-A  
24 and 2-B would be to show that the correlative points  
25 at the time that the Atoka was deposited -- of course,

1 geologically, we always start our correlations and  
2 correlate from the bottom of the log working up; i.e.,  
3 the oldest geologic formations were deposited, of  
4 course, the earliest. And so you attempt to find your  
5 markers within each of those formations from the  
6 bottom, moving up.

7 I would attempt to show that what I  
8 indicate what I show in the exhibits as the base of  
9 the Atoka buildup is the same marker on all four of  
10 those logs. And, in essence, what it would show would  
11 be, in both the BTA well and the Apache well, that  
12 both of those wells show less than 40 feet of Atoka  
13 buildup.

14 The Apache well shows 21 feet of buildup,  
15 which is actually, in my interpretation also, closer  
16 to the Atoka buildup than even the BTA well in the  
17 north half of Section 23. And it would show 30 feet  
18 of Atoka buildup.

19 Using that same parameter, using those same  
20 correlative points, I would show that the Oryx well in  
21 the north half of 26 had something on the order of 70  
22 feet of Atoka buildup, whereas the south half location  
23 and which we feel is productive has over 200 feet of  
24 Atoka buildup.

25 It appears to me that the Apache well is at

1 least a minimum of a half mile from the buildup,  
2 possibly more. The correlation between the two Oryx  
3 wells, which are over a mile apart, shows 70 to 80  
4 feet of Atoka buildup is still not sufficient to get  
5 porosity development within Atoka. It takes probably  
6 somewhere on the order of, in my opinion, 180 -- 170  
7 to 180 of gross Atoka buildup to get in the geologic  
8 regime in which you develop porosity. That was what I  
9 would attempt to show with the cross-sections.

10 Even within the producing trend itself, for  
11 instance, a location in the south half of Section 35,  
12 the BTA well, that well, as Shelley indicates, had 35  
13 feet of porosity in it. That well potential is  
14 somewhere on the order of 6 to 7 million cubic feet of  
15 gas a day and 500 to 600 barrels of condensate. It's  
16 been a pretty tremendous producer.

17 Our location in the south half of 27  
18 indicates 50 feet or greater of -- net porosity  
19 greater than 4 percent. We have to date gotten 2  
20 million a day and somewhere around 200 barrels of  
21 condensate.

22 I think that indicates that even within the  
23 producing trend itself that porosities not only range  
24 quite a bit, but the well's producing capacity can  
25 vary significantly, making it a risky play in itself.

1 We agree with Oryx on that. But we feel like we need  
2 to take one location at a time, move to the north.

3 And, particularly, as to 22, we feel like,  
4 based on what we know at this time, we could drill a  
5 west half location at a standard location in the west  
6 half and not have any effect on the way we interpret  
7 the Atoka buildup going to the north.

8 Q. Do you think the northeast quarter of  
9 Section 22 is or would be productive in the Atoka?

10 A. Not the northeast quarter of 22. I do feel  
11 like with what we know at this point, the northwest  
12 quarter of 22 would be just as potentially productive  
13 as the southwest quarter of 22.

14 Q. In your opinion, would the denial of Oryx's  
15 application in this case be in the interest and  
16 protection of correlative rights and the prevention of  
17 waste?

18 A. We feel like at this time, yes, it would.

19 Q. Were Exhibits 1 through 3 prepared by you  
20 or under your supervision?

21 A. Yes, it was.

22 MR. LOPEZ: I'd like to introduce Exhibits  
23 1 through 3.

24 HEARING EXAMINER: Are there any  
25 objections?

1 MR. KELLAHIN: No objections.

2 HEARING EXAMINER: Exhibits 1 through 3  
3 will be admitted into evidence.

4 MR. LOPEZ: That concludes our direct.

5 HEARING EXAMINER: Thank you, Mr. Lopez.  
6 Mr. Kellahin, your witness.

7 MR. KELLAHIN: Thank you, Mr. Examiner.

8 CROSS-EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Pace, when we look at Section 22, am I  
11 correct in understanding that in the northeast quarter  
12 of that Section, it is your geologic conclusion that  
13 there is no sands that would contribute in the Atoka  
14 formation out of the northeast quarter?

15 A. The northeast quarter Atoka sands?

16 Q. Yes.

17 A. Yes, that's correct.

18 Q. Did Miss Lane testify truthfully when she  
19 testified awhile ago under oath that in conversations  
20 with you about the geology that you agreed with her  
21 that the northwest quarter of Section 22 could not be  
22 mapped at this point to include any Atoka sand  
23 reservoir?

24 A. Yes. In that same discussion, we not only  
25 included the northwest quarter, but we included the

1 southwest quarter. Our discussions were basically  
2 it's too early to determine anything in Section 22.

3 Q. My question to you, sir, is that, in the  
4 northwest quarter of that Section 22, you have agreed  
5 with her in telephone calls that in your opinion you  
6 could not map the Atoka formation in that 160 acres?

7 MR. LOPEZ: Mr. Examiner, I think he  
8 answered the question, and I think in the same  
9 question he said it also included the southwest  
10 quarter.

11 HEARING EXAMINER: Mr. Kellahin, was that  
12 your question? Did he answer your question the first  
13 time?

14 MR. KELLAHIN: No, sir, I didn't think so.

15 HEARING EXAMINER: Just repeat the  
16 question.

17 Q. (BY MR. KELLAHIN) Let me repeat the  
18 question for you. I don't want to confuse you or me  
19 on what was said.

20 In looking at the geology in the southwest  
21 quarter of the Section 22, both you and Mrs. Lane have  
22 mapped the Atoka reservoir in the southwest quarter,  
23 have you not?

24 A. Yes, we have.

25 Q. When we look at the northwest quarter of

1 Section 22, she has testified under oath that you have  
2 agreed with her that you could not map any Atoka  
3 reservoir in the northwest quarter of Section 22. Is  
4 that a correct statement?

5 A. Yes, sir. I might add in that same  
6 conversation with Mrs. Lane --

7 Q. Excuse me, Mr. Pace. It's not responsive  
8 to my question.

9 MR. LOPEZ: I think he's entitled to  
10 explain his answer, Mr. Examiner.

11 MR. KELLAHIN: He's not given me a direct  
12 answer to my question.

13 MR. LOPEZ: He said yes, and in that same  
14 conversation --

15 MR. KELLAHIN: I didn't ask him what the  
16 rest of the conversation was. That is Mr. Lopez's job  
17 and not mine. I want the witness to answer my direct  
18 question with a fair answer.

19 HEARING EXAMINER: Mr. Pace, you did answer  
20 the question "yes"; is that correct?

21 THE WITNESS: That's correct.

22 HEARING EXAMINER: Please continue, Mr.  
23 Kellahin.

24 Q. (BY MR. KELLAHIN) When we look in Section  
25 22 now, Mr. Pace, help me understand what Mr.

1 Reynolds' working interest is if the spacing unit is a  
2 south half orientation? What percentage is that?

3 A. A south half? May I borrow your map?

4 Q. Yes, sir.

5 A. If there is a south half proration unit,  
6 the Reynolds' interest would be a 6.25 percent working  
7 interest.

8 Q. In the north half of Section 22, what would  
9 Mr. Reynolds' interest be?

10 A. If we had a north half proration unit?

11 Q. Yes, sir.

12 A. It would be a 6.25 percent.

13 Q. If we have a west half proration unit, what  
14 is Mr. Reynolds' working interest?

15 A. A 12-1/2 percent.

16 Q. And for the east half of Section 22, what  
17 would his interest be?

18 A. Zero.

19 Q. The logs that you have taken copies and  
20 marked some of your geologic conclusions on are, in  
21 fact, logs that you received from Mrs. Lane; is that  
22 not true?

23 A. Yes, that is correct, I received the BTA  
24 logs from Mrs. Lane.

25 Q. Am I also correct in understanding that the

1 objection that you're posing in this particular case  
2 is as to the orientation of the spacing unit?

3 A. Yes, primarily, yes, it is.

4 Q. As to the proposed unorthodox location of  
5 the well, you are not recommending, are you, sir, as a  
6 party representing someone that has an interest in  
7 Section 21, which is the area to be encroached upon,  
8 that this well be penalized, are you?

9 A. I'm sorry. I'm not following your  
10 question.

11 Q. Mr. Reynolds has an interest, does he not,  
12 in Section 21?

13 A. That's correct.

14 Q. And the well is unorthodox because it moves  
15 to the western boundary, the spacing unit?

16 A. That's correct.

17 Q. You don't have any objection to that well  
18 location, do you, in terms of assessing a penalty  
19 against the well?

20 A. No.

21 Q. Do you have any objection to Oryx being the  
22 operator of the well?

23 A. No, we do not.

24 MR. KELLAHIN: No further questions.

25 HEARING EXAMINER: Mr. Lopez? Any

1 redirect?

2 MR. LOPEZ: No.

3 HEARING EXAMINER: I have no further  
4 questions of Mr. Pace. He may be excused.

5 Mr. Lopez, do you have anything further?

6 MR. LOPEZ: No, Mr. Examiner, we do not.

7 HEARING EXAMINER: Mr. Kellahin, do you  
8 have anything further in this case?

9 MR. KELLAHIN: No, sir.

10 HEARING EXAMINER: Are you prepared for  
11 closing statements, or do you wish to pass up on  
12 those?

13 MR. LOPEZ: I think it can be waived. I  
14 think the issues are clear.

15 HEARING EXAMINER: Mr. Kellahin?

16 MR. KELLAHIN: Mr. Examiner, we'd like the  
17 opportunity to submit to you a draft order, setting  
18 forth our position in the case.

19 MR. LOPEZ: I would welcome the same  
20 opportunity then.

21 HEARING EXAMINER: What kind of a time  
22 frame, gentlemen?

23 MR. LOPEZ: I'll be gone for a week.

24 MR. KELLAHIN: A week from today, Mr.  
25 Examiner.

1 MR. STOVALL: Mr. Kellahin is known for  
2 being a gentlemanly lawyer.

3 MR. LOPEZ: If I could have two weeks from  
4 Friday. I won't be getting back until next Thursday,  
5 a week from tomorrow, and I'm going to be out of town  
6 Friday. So I wouldn't have any time to start work on  
7 it until the next week.

8 HEARING EXAMINER: Are you talking about  
9 two weeks from this Friday?

10 MR. LOPEZ: Two weeks from this Friday.

11 HEARING EXAMINER: And you're saying a week  
12 from Wednesday?

13 MR. KELLAHIN: How about the 1st of  
14 November, Mr. Examiner? Would that be all right?

15 MR. LOPEZ: That's on a Monday, isn't it?

16 HEARING EXAMINER: No, that's on a  
17 Wednesday. It's two weeks from today.

18 MR. LOPEZ: Can't you give me two more  
19 days?

20 MR. KELLAHIN: I'll submit mine, and you  
21 can copy it and change what you don't like.

22 MR. LOPEZ: Can I have mine in by November  
23 3rd?

24 HEARING EXAMINER: Wednesday by five  
25 o'clock, November 1st.

1 MR. KELLAHIN: All right, sir. Thank you.

2 MR. LOPEZ: Thank you, Mr. Examiner.

3 HEARING EXAMINER: Thank you.

4 In that case, Case No. 9782 will be taken  
5 under advisement pending draft order from the  
6 gentlemen by five o'clock, November 1st.

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1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO )  
 ) ss.  
 4 COUNTY OF SANTA FE )

5

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 11, 1989.

18

*Deborah O'Bine*  
 \_\_\_\_\_  
 DEBORAH O'BINE  
 CSR No. 127

19

20

21 My commission expires: August 10, 1990

22

23

24

25

I do hereby certify that the foregoing is  
 a complete record of the proceedings in  
 the Examiner hearing of Case No. 9782,  
 heard by me on 18 October 1989.

*Mark E. Stagner*  
 \_\_\_\_\_  
 Examiner  
 Oil Conservation Division