

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
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7 EXAMINER HEARING
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9 IN THE MATTER OF:

10 Application of Chevron USA, Case 10092
11 Inc., for acreage rededication
12 two nonstandard gas proration
13 units, simultaneous dedication,
and two unorthodox gas well
locations, Lea County, New Mexico

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17 TRANSCRIPT OF PROCEEDINGS

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19 BEFORE: DAVID R. CATANACH, EXAMINER
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22 STATE LAND OFFICE BUILDING

23 SANTA FE, NEW MEXICO

24 September 19, 1990

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ORIGINAL

A P P E A R A N C E S

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3 FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Divison
State Land Office Building
Santa Fe, New Mexico

6 FOR THE APPLICANT:

KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
117 N. Guadalupe
Santa Fe, New Mexico 87504
BY: W. THOMAS KELLAHIN, ESQ.

9 FOR DOYLE HARTMAN:

GALLEGOS LAW FIRM
Attorneys at Law
141 East Palace Avenue
Santa Fe, New Mexico 87501
BY: JOANNE REUTER, ESQ.

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| 1 | I N D E X | |
| 2 | | Page Number |
| 3 | Appearances | 2 |
| 4 | WITNESS FOR APPLICANT: | |
| 5 | 1. AL BOHLING | |
| 6 | Direct Examination by Mr. Kellahin | 10 |
| 7 | Cross-Examination by Ms. Reuter | 23 |
| 8 | Cross-Examination by Hearing Examiner | 28 |
| 9 | Further Cross-Examination by Ms. Reuter | 32 |
| 10 | WITNESSES FOR DOYLE HARTMAN: | |
| 11 | 1. BRYAN JONES | |
| 12 | Direct Examination by Ms. Reuter | 33 |
| 13 | Cross-Examination by Mr. Kellahin | 39 |
| 14 | Redirect Examination by Ms. Reuter | 43 |
| 15 | 2. MICHAEL STEWART | |
| 16 | Direct Examination by Ms. Reuter | 44 |
| 17 | Certificate of Reporter | 66 |
| 18 | E X H I B I T S | |
| 19 | EXHIBITS FOR APPLICANT: | |
| 20 | Exhibit No. 1 | 11 |
| 21 | Exhibit No. 2 | 17 |
| 22 | Exhibit No. 3 | 21 |
| 23 | EXHIBIT FOR DOYLE HARTMANT: | |
| 24 | Exhibit No. 1 | 34 |
| 25 | Exhibit No. 2 | 50 |
| | Exhibit No. 3 | 53 |

1 HEARING EXAMINER: Call the hearing back to
2 order at this time, and at this time we'll call Case
3 10092, Application of Chevron USA, Inc., for acreage
4 rededication, two nonstandard gas proration units,
5 simultaneous dedication, and two unorthodox gas well
6 locations, Lea County, New Mexico.

7 Are there appearances in this case?

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

12 HEARING EXAMINER: Other appearances?

13 MS. REUTER: Mr. Examiner, I'm Joanne
14 Reuter of the Gallegos law firm appearing on behalf of
15 Doyle Hartman.

16 HEARING EXAMINER: Are there any other
17 appearances? Mr. Kellahin, you'll have witnesses, and
18 will you have witnesses, Miss Reuter?

19 MS. REUTER: We'll have two witnesses.

20 (Witnesses sworn.)

21 MR. KELLAHIN: Mr. Examiner, as a
22 preliminary matter, I would appreciate your decision
23 on the question of the notification here in Case 10092
24 in which it has been advertised that there are two
25 unorthodox gas well locations involved in the

1 application.

2 I share with you for your reference a copy
3 of the Eumont Gas Location Rules. It appears to me
4 that the Meyer Bell Ramsey, No. 5 well, to be located
5 in the Section 9 tract, which is the newest basin
6 unit, to be formed in Section 9, that that well
7 location is 990 from the south line and 1,980 from the
8 west line of Section 9, and that the proposed
9 nonstandard proration unit after reconfiguration for
10 that well would consist of 240 acres. And under the
11 Eumont gas rules then, the spacing that would apply is
12 shown under Rule 2-B, No. 4, and it says: "The
13 location should be 660 to one boundary and no closer
14 than 990 to the other boundary."

15 It appears to me that the new well, which
16 is the Meyer Bell Ramsey No. 5 well in Section 9, will
17 be at a standard location.

18 Other than that, I think the docket
19 correctly reflects what I think the applicant is
20 seeking, but it's unclear to me as to whether or not
21 there is any necessity to discuss or consider the fact
22 that this new well is at a unorthodox location when
23 the rules appear to provide it to be a standard
24 location.

25 HEARING EXAMINER: Well, Mr. Kellahin, that

1 appears to be the case that it indeed is a standard
2 location. As far as readvertisement, I don't think
3 that that's necessary.

4 MR. KELLAHIN: Based upon that, Mr.
5 Examiner, we don't propose to provide testimony with
6 regards to the specific nature of the location. The
7 issue as to whether it's unorthodox having been
8 decided, we don't propose to discuss that.

9 HEARING EXAMINER: Okay.

10 MS. REUTER: Can we go off the record just
11 a minute?

12 (Thereupon, a discussion was held
13 off the record.)

14 MR. KELLAHIN: Mr. Examiner, Chevron seeks
15 to reform two existing nonstandard Eumont gas spacing
16 units. In order to consolidate the acreage for the
17 drilling of a new well, to avoid any confusion, I may
18 often refer to it as "the new well" because the new
19 well's name is very similar to one of the two existing
20 wells.

21 The existing well, as you can see from the
22 plat, has an existing 120-acre nonstandard proration
23 unit, and that's the Bell Ramsey No. 5.

24 In Section 4, there is another 120-acre
25 nonstandard proration unit dedicated to the Bell

1 Ramsey No. 8. The new well is to be located in the
2 40-acre tract, which is the southeast to the southwest
3 of nine, and that's the Meyer Bell Ramsey No. 5. The
4 applicant proposes to reconfigure the two existing
5 spacing units so that the No. 8 and the No. 5 well
6 will be dedicated to 160-acres contained within
7 Section 4, and that the new spacing unit for the new
8 well would be 240 acres.

9 Mr. Al Bohling is a proration engineer for
10 Chevron, and his testimony will be that all of the
11 working interest owners within the existing and the
12 new spacing unit have no objection to the reformation
13 of the spacing units to provide a new spacing unit for
14 the new well; that the two existing wells currently
15 are marginal wells and lack the capacity to produce
16 all the allowable currently assigned to the respective
17 120-acre spacing units, and, therefore, in order to
18 maximize the opportunity for the recovery of
19 hydrocarbons, the 80-acre tract that is taken out from
20 the existing spacing units will be added to what
21 currently is undrilled 160 acres, being the east half
22 of the west half of Section 9.

23 Consolidated together then will more
24 effectively and efficiently develop the acreage
25 involved with the concurrence and consent of all those

1 interest owners that share in that production. And
2 that there will be no dilution of interest of the
3 owners involved in the existing well. And those
4 owners will benefit then from the opportunity to drill
5 and develop the new well and recover additional Eumont
6 gas reserves.

7 The proof is that Mr. Hartman has no
8 interest in either of the two existing nonstandard
9 units, nor will he have an interest in those units
10 when they're reconfigured, nor will he have an
11 interest in the new spacing unit.

12 He has a working interest in the adjoining
13 Section 8. He and Chevron have an interest in the
14 northeast quarter in a different matter. The
15 prehearing statement filed by Mr. Hartman's counsel
16 indicates that Mr. Hartman supports the approval by
17 this Division of an order as requested by this
18 applicant in Case 10092.

19 The approval of this application based upon
20 Mr. Al Bohling's testimony, it is our contention and
21 our tender of proof that it's an appropriate
22 resolution of the situation here where we will have
23 then the opportunity to maximize the production,
24 utilize allowable that currently is not being
25 utilized, and for the benefit of those working

1 interest owners then will have the opportunity to
2 drill this new well.

3 That's what we propose to show to you this
4 afternoon.

5 HEARING EXAMINER: Would you like to make
6 any statements at this time, Miss Reuter?

7 MS. REUTER: Certainly. I'd first like to
8 correct something that Mr. Kellahin said. We do
9 support this application conditionally, on the
10 condition that the similar applications that were
11 filed by Doyle Hartman to establish a nonstandard
12 proration unit adjacent to that proposed in this case,
13 and Chevron's application in Case No. 9949 to
14 establish a 400-acre nonstandard proration unit to the
15 west of Mr. Hartman's proposed nonstandard proration
16 unit, all be approved by the Division.

17 We would oppose approval of the nonstandard
18 unit application in this case if Mr. Hartman's
19 application is not approved, the reason being, as the
20 examiner knows, since he was the examiner in that
21 case, Chevron came in and objected that their interest
22 was being diluted. And, essentially, the application
23 in this case provides for the same type of nonstandard
24 proration unit for the same reasons that Hartman
25 proposed his and for the same reasons that the Chevron

1 application in 9949 was approved. The three are the
2 same. Chevron is taking an inconsistent position in
3 Mr. Hartman's application with that being taken here,
4 and it's our position that the Division should be fair
5 and equitable among all parties involved and approve
6 all three.

7 HEARING EXAMINER: Is that all?

8 MS. REUTER: Yes.

9 MR. KELLAHIN: Mr. Kellahin, you can
10 proceed.

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

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Bohling, would you please state your
17 name and occupation.

18 A. My name is Alan Bohling, and I'm a
19 proration engineer for Chevron, USA.

20 Q. Have you testified on prior occasions
21 before the Division as a proration engineer?

22 A. Yes, sir, I have.

23 Q. Describe generally what it is that you do
24 as a proration engineer insofar as it applies to the
25 Eumont gas production of your company.

1 A. Part of my duties as a proration engineer
2 with Chevron relative to the Eumont Pool and our
3 operations in the Eumont Pool are to insure that we do
4 our best to comply with OCD regulations in placing
5 wells and their appropriate associated proration
6 units.

7 Q. In discharging those duties, have you made
8 a specific examination of the producing rates and the
9 allowables available to the Bell Ramsey No. 8 well in
10 Section 4?

11 A. Yes, sir, I have.

12 Q. Have you also made a study of those facts
13 surrounding the Bell Ramsey No. 5 well, also located
14 in Section 4?

15 A. Yes, sir.

16 MR. KELLAHIN: We tender Mr. Bohling as an
17 expert proration engineer.

18 HEARING EXAMINER: He is so qualified.

19 Q. (BY MR. KELLAHIN) Mr. Bohling, let me have
20 you direct your attention, sir, to what is marked as
21 Exhibit No. 1. Describe for us what this is.

22 A. Exhibit No. 1 depicts what the current
23 dedicated and undedicated acreage is associated with
24 our application here today.

25 Q. Let's specifically look at how you

1 color-coded the display. What do the colors tell you?

2 A. In Section 4 of Township 21 South, Range 36
3 East, and portions of Section 9 of Township 21 South,
4 36 East, we have two 120-acre proration units outlined
5 and hachured in blue. Within those two individual
6 proration units, we have two wells indicated with a
7 red marking. Those would be our Meyer Bell Ramsey
8 Well No. 8 located in Lot 12 of Section 4 and our Bell
9 Ramsey Well No. 5 located in unit letter U of Section
10 4, Township 21 South, 36 East.

11 Q. On the display there's a color code in
12 green. What is that?

13 A. Yes. That is currently undedicated
14 acreage. It's NMFU acreage, New Mexico Federal Unit
15 acreage. There's 160 acres there, and there are no
16 wells dedicated to that acreage.

17 Q. Who would be the operator of that
18 undedicated acreage?

19 A. Conoco is the operator of that acreage.

20 Q. Who are the working interest owners and
21 their percentages as you understand them to exist?

22 A. Conoco as the operator has 25 percent
23 working interest. Another working interest owner
24 party is Amoco also with 25 percent working interest.
25 ARCO with 25 percent working interest, and Chevron

1 with 25 percent working interest.

2 Q. To your knowledge, does Mr. Hartman have
3 any interest in the undedicated acreage in Section 9?

4 A. To my knowledge, he does not.

5 Q. Does he have any interest in the currently
6 dedicated acreage for either the No. 8 or the No. 5
7 well?

8 A. No, sir, he does not.

9 Q. Let's examine the No. 8 spacing unit. What
10 is the current classification of the No. 8 well either
11 as a marginal or a nonmarginal well?

12 A. The No. 8 well is a marginal, 120-acre unit
13 well.

14 Q. When we examine the allowable available for
15 the No. 8 well, it is calculated based upon 120 acres?

16 A. Yes, sir, it is.

17 Q. Have you made a calculation of what in your
18 opinion is the average allowable available to that
19 well on its existing 120-acre spacing unit?

20 A. The average allowable for this well over
21 the last year or 12 months is 320 Mcf per day.

22 Q. What is the last proration schedule in
23 which you would have information available to you from
24 which to calculate the allowable?

25 A. The August proration schedule.

1 Q. If you take the August proration schedule,
2 and using the acreage factor available to the No. 8
3 well, what would be the allowable available to the No.
4 8 well?

5 A. In that case, the allowable would be 332
6 Mcf per day.

7 Q. What is the most recent monthly production
8 available to you on a daily basis from which to
9 determine on a daily basis what the well is actually
10 doing?

11 A. Per the August proration schedule, I
12 believe it's June sales is 153 Mcf a day. If we look
13 at the last year's average producing rate over the
14 last 12 months, the producing rate for well -- I'm
15 sorry. We're talking about Well No. 8.

16 Q. Yes, sir, No. 8 well. Let's go back and
17 start over. I think you were giving me the other
18 information.

19 A. Right.

20 Q. As to the nonstandard proration unit for
21 the No. 8 well, what is your opinion for the allowable
22 that's available for that well to produce?

23 A. Over the last 12 months, it has an average
24 allowable available to it of 320 Mcf per day.

25 Q. As to that well then, how much of its

1 allowable is it actually producing on a daily basis?

2 A. Over the last year, its average producing
3 rate was 191 Mcf per day.

4 Q. What in your opinion then is the
5 approximate range of the unused allowable available
6 for that spacing unit?

7 A. Based on those two numbers I've just cited,
8 that would leave a margin of 129 Mcf a day, that being
9 the difference between the allowable and the producing
10 rate.

11 Q. Is that, in your opinion, sufficient margin
12 of unused allowable to support the drilling of another
13 well on this same nonstandard spacing unit?

14 A. No, sir, it is not.

15 Q. Let's turn now to the No. 5 well, Bell
16 Ramsey No. 5.

17 A. Right.

18 Q. What, in your opinion, is the allowable
19 available to that nonstandard spacing unit?

20 A. That is also a nonstandard 120-acre unit,
21 and it would also have the same average allowable
22 available to it of 320 Mcf per day.

23 Q. That is based upon --

24 A. Last year's average allowable, last 12
25 months.

1 Q. What, in your opinion, is the actual rate
2 at which that well is being produced on a daily basis?

3 A. Last year's average producing rate over the
4 last 12 months was 152 Mcf per day.

5 Q. What, in your opinion, as a proration
6 engineer is the approximate volume on a daily basis of
7 the unused allowable for that spacing unit?

8 A. That would be in the proximity of 168 Mcf
9 per day.

10 Q. Is that sufficient unused allowable -- is
11 that unused allowable sufficient to support the
12 drilling of a second well on that existing spacing
13 unit?

14 A. No, sir, it is not.

15 Q. Can you take the unused allowable for both
16 the No. 8 well and the No. 5 well and add them
17 together in some fashion and then have sufficient
18 allowable to support the drilling of a new well?

19 A. If we combine Well No. 5's 120-acre unit
20 with Well No. 8's 120-acre unit to make a 240-acre
21 spacing unit, the average allowable based on the last
22 12 months available to that unit would be 639 Mcf per
23 day. The combined producing rate over the last 12
24 months for those two wells would be approximately 343
25 Mcf per day. And this would leave a margin or

1 difference between the available allowable and the
2 producing rate of approximately 296 Mcf per day.

3 Q. Is that sufficient to support the drilling
4 of a third well then on the combined two existing
5 nonstandard spacing units?

6 A. No, sir, to my knowledge, that is not.

7 Q. Have you explored ways in which to take
8 advantage of the unused allowable that's left over for
9 each of these spacing units in order to justify the
10 drilling of a new well to produce additional Eumont
11 gas reserves?

12 A. Yes, sir, I have. That is what we are here
13 to do today. We are proposing to simultaneously
14 dedicate the Bell Ramsey No. 5 and Well No. 8 to a
15 reconfigured proration unit of 160 acres, which would
16 be comprised of Lots 12 and 13 of Section 4 and the
17 west half of the southwest quarter of Section 4. This
18 would free up approximately 80 acres now comprising
19 the west half of the northwest quarter of Section 9,
20 to which we would like to add 160 acres, comprising
21 the east half of the west half of Section 9, which is
22 currently undedicated, making a 240-acre unit in
23 Section 9.

24 Q. Let me direct your attention to Exhibit No.
25 2. What have you displayed on that exhibit?

1 A. This exhibit displays what I have just
2 described as what we would like to do with the acreage
3 and well configuration in this area. The hachured
4 yellow in Section 4 would be the 160-acre
5 simultaneously dedicated acreage to the Bell Ramsey
6 Well No. 5 and Bell Ramsey No. 8, and the hachured
7 yellow designated outline in Section 9 would be the
8 240-acre unit that we would like to dedicate to a new
9 well that we propose to drill, 990 feet from the south
10 line and 1,980 feet from the west line, that well
11 being the Meyer Bell Ramsey No. 5.

12 Q. Let me ask you to focus your attention on
13 the reformed spacing unit for the 8 and 5 well that
14 will include the yellow acreage within Section 4; all
15 right, as to that spacing unit?

16 A. Yes, sir.

17 Q. When you examine the allowable under the
18 reconfigured spacing unit for that new 160 acres, will
19 you have sufficient allowable available to those two
20 existing wells so that they are not restricted by the
21 allowable?

22 A. Yes, sir, we will.

23 Q. For the interest owners involved in the
24 existing nonstandard units for the No. 5 and the No. 4
25 well, do you have an opinion as to whether or not

1 their interests are going to be diluted by taking out
2 the 80 acres and adding it in to the undrilled and
3 undedicated acreage for the new well?

4 A. The acreage involved here is in the Bell
5 Ramsey lease, which is a 100 percent working interest
6 lease with Chevron. And by rededicating the 80 acres
7 to 240-acre new well, we do not see that that is
8 diluting the interest, principally because the
9 production from Well No. 5 and Well No. 8 are
10 marginal, and there will be no change to that
11 production and where it's being allocated to.

12 Q. Will the interest owners then in the
13 reconfigured spacing unit for the No. 5 and the No. 8
14 well share in that production based upon the new
15 spacing unit?

16 A. They will not share in the production from
17 Wells No. 5 and No. 8.

18 Q. I confused you. I'm simply dealing with
19 the reconfigured spacing unit within Section 4.

20 A. Yes. The parties involved in the
21 reconfigured acreage in Section No. 4 will receive
22 approximately 33 percent of the production in the new
23 well located in Section 9.

24 Q. As to the production from the old wells,
25 the No. 8 and the old No. 5, will that production be

1 required to be shared with the interest owners in the
2 undedicated tract?

3 A. No, it will not.

4 Q. Are you asking any of the existing interest
5 owners to take production out of the No. 8 and the No.
6 5 well and have that applied for to pay for the new
7 well?

8 A. No, we are not.

9 Q. Do you anticipate a need to force-pool any
10 working interest owners in any of these spacing units
11 in order to consolidate that acreage for the drilling
12 of the new well?

13 A. No. We have already asked the working
14 interest owners in the current undedicated NMFU
15 property, the 160 acres I've previously described in
16 Section 9, and they are all in favor and willing to
17 either participate or farm out in the process of
18 forming this 240-acre new well unit.

19 Q. Will approval of this application, Mr.
20 Bohling, change in a material way any of the
21 components by which the existing No. 5 well competes
22 for Eumont gas reserves from any Eumont gas well
23 located in the northeast quarter of 8?

24 A. No, sir, it will not. Its producing rate
25 will stay the same.

1 Q. In your opinion, do you see any correlative
2 rights impairment by the approval of this application?

3 A. No, I do not. The rights of the parties
4 involved in our reconfiguration to me stand to gain
5 through this better utilization of excess allowable.

6 Q. Let me direct your attention to Exhibit No.
7 5.

8 MS. REUTER: Excuse me, did you say Exhibit
9 No. 5?

10 MR. KELLAHIN: I did, and it's No. 3.

11 Q. Exhibit No. 3, is this something you
12 prepared, Mr. Bohling?

13 A. Yes, it is.

14 Q. What's the purpose of the exhibit?

15 A. I was attempting to show by this exhibit
16 that through the combining of the production from Well
17 No. 5 and Well No. 8, that that production will not be
18 curtailed or restricted when we apply that production
19 to a 160-acre proration unit and allowable.

20 Currently, the Well No. 5 is, over the last
21 12 months, is averaging 152 Mcf per day. The Well No.
22 8, over the last 12 months, has averaged approximately
23 191 Mcf per day, for a total combined production over
24 the last 12 months averaging 343 Mcf per day.

25 I've also shown that the 160-acre allowable

1 averaged over the last 12 months is approximately 426
2 Mcf per day, and this will leave a margin on an
3 average basis of 83 Mcf per day, which illustrates
4 that the Bell Ramsey No. 5 and Bell Ramsey No. 8 are
5 marginal producing wells.

6 I've also indicated on this as notes that
7 we are currently anticipating approximately 450 Mcf a
8 day of production from our new well, and that the Bell
9 Ramsey lease's proportionate share of that 450 Mcf a
10 day would be approximately 150 Mcf a day; so they
11 would stand to improve by 150 Mcf a day.

12 Q. From your perspective as a proration
13 engineer, Mr. Bohling, do you see that your proposed
14 reconfiguration of the spacing units for this case is
15 identical to what Mr. Hartman seeks to accomplish in
16 the offsetting properties? I believe that was case
17 No. 9994.

18 A. The principal difference I see between Mr.
19 Hartman's case and the case that we are presenting
20 here today is that we are not diluting any interest in
21 the working interest owners, nor are we taking
22 proceeds or production from any existing production to
23 apply towards the paying of our new well.

24 Q. Chevron has an interest in the spacing unit
25 that Mr. Hartman is attempting to form in Case 9994?

1 A. Yes, sir, we do.

2 Q. That interest is being subject to the
3 forced-pooling procedures of the Division?

4 A. Yes, it is.

5 Q. To the best of your knowledge, Mr. Hartman
6 has no interest in your spacings units that are the
7 subject of this case?

8 A. That is correct.

9 MR. KELLAHIN: That concludes my
10 examination of Mr. Bohling. We'd move the
11 introduction of his Exhibits 1, 2, and 3.

12 HEARING EXAMINER: Exhibits 1, 2, and 3
13 will be admitted into evidence.

14 Miss Reuter.

15 MS. REUTER: Thank you.

16 CROSS-EXAMINATION

17 BY MS. REUTER:

18 Q. Mr. Bohling, are the Bell Ramsey Wells
19 Numbers 5 and 8 currently producing at capacity?

20 A. Yes, they are.

21 Q. On Exhibit 1, if you would look at that for
22 me, please, the green outline showing the 160 acres
23 that are not currently dedicated to a Eumont well, can
24 you tell me whether that 160 acres has ever been
25 committed to a Eumont proration unit?

1 A. To my knowledge, it has not.

2 Q. I believe earlier in your testimony you
3 stated that the average allowable for the past 12
4 months for the 120-acre proration unit containing the
5 Bell Ramsey No. 8 was 320 Mcf per day?

6 A. The average allowable over the last 12
7 months, yes.

8 Q. When did that period end? What were the 12
9 months you were speaking of?

10 A. Twelve months would be from August 1989 to
11 July of 1990.

12 Q. Wasn't the June allowable for an acreage
13 factor of 1 in the Eumont Gas Pool increased to 600
14 Mcf per day?

15 A. That is correct.

16 Q. How did that compare to the allowables that
17 had occurred previous to that in the Eumont Gas Pool
18 for an acreage factor of 1?

19 A. There were two or three other months
20 previous to June's allowable that were also at
21 approximately 600 Mcf a day also. The prior month of
22 April was down around 240 Mcf a day.

23 Q. Can you tell me what it was for all of
24 those months during that year?

25 A. Yes, I can.

1 Q. Would you please do so for me.

2 A. For the month of August 1989, I calculated
3 160-acre allowable of 299 Mcf per day. For September
4 of 89, I calculated 284 Mcf per day. For October of
5 89, 375. November of 89, 348 Mcf a day. December of
6 89, 244 Mcf per day. January of 90, 581 Mcf per day.
7 February of 90, I calculated 643 Mcf per day
8 allowable; I used 28 days for that month. March of
9 90, 581 Mcf per day. April of 90, 240 Mcf per day.
10 May of 90, 581 Mcf per day. June of 90, 600 Mcf per
11 day. And July of 90, 348 Mcf per day.

12 Q. You stated also that the average daily
13 production from the Bell Ramsey No. 8 was 191 Mcf per
14 day?

15 A. Yes, ma'am. That was over that same period
16 of time, the last 12 months.

17 Q. And the average daily production for the
18 Bell Ramsey Well No. 5 was 152 Mcf per day; correct?

19 A. That is correct.

20 Q. And the total is 343 Mcf per day?

21 A. Yes, ma'am.

22 Q. So if you combine production from those two
23 wells during, let's say, December of 89, August of 89,
24 September of 89, for April of 90, you would have
25 exceeded the allowables, and those wells would not

1 have been marginally producing; is that correct?

2 A. That is correct.

3 Q. Do you recall testifying in Case No. 9994
4 that at that time -- let me back up a moment. Do you
5 recall testifying in that case on June 28, 1990?

6 A. Yes, ma'am, I do.

7 Q. Did you testify at that time for the
8 previous 12 months, the average allowable for 120-acre
9 proration unit was 293 Mcf per day?

10 A. The 292 Mcf per day was the average
11 allowable for the year of 1989 for a 160-acre unit and
12 not a 120-acre unit.

13 Q. Okay. Thanks. Are you familiar with
14 Chevron's objections in Case No. 9994, Doyle Hartman's
15 application for a nonstandard proration unit to the
16 west of the proration unit being proposed in this
17 case?

18 A. I'm aware of those objections, yes.

19 Q. Are you aware that the grounds of that
20 objection were that the percentage of working interest
21 in the new proration unit of -- excuse me -- Chevron's
22 working interest in the new proration unit that would
23 be created in that application would be diluted?

24 A. Yes.

25 Q. In the instant case, maybe if you look at

1 Exhibit -- let's look at Exhibit 2. In the instant
2 case, Chevron now owns 100 percent of the working
3 interest in the proration unit dedicated to the Bell
4 Ramsey No. 5; is that correct?

5 A. That is correct.

6 Q. And Chevron, therefore, under the new
7 proration unit that would be established as shown on
8 Exhibit 2, Chevron therefore would own 100 percent of
9 the working interest in the west half of the new
10 proration unit; is that correct?

11 A. They would have 100 percent of the west
12 half of the northwest quarter of Section 9, if that's
13 what you're asking.

14 Q. That's what I'm asking. Thank you.

15 On the eastern portion of the new proration
16 unit, what portion of the working interest does
17 Chevron have there?

18 A. In the 160-acres comprising the east half
19 of the west half of Section 9, Chevron has a 25
20 percent working interest.

21 Q. If you combine the 100 percent working
22 interest in the 80 acres in the western portion of
23 that proration unit and Chevron's working interest in
24 the eastern section of the new proration unit, isn't
25 it correct that Chevron's working interest in the

1 total proration unit would be 50 percent?

2 A. That is correct.

3 MS. REUTER: I don't have anything further.

4 MR. KELLAHIN: No redirect.

5 CROSS-EXAMINATION

6 BY HEARING EXAMINER:

7 Q. Mr. Bohling, you said that you anticipated
8 450 Mcf per day from the new well?

9 A. That is what our engineering analysis
10 within our company came up with, yes, sir.

11 Q. That's based on what, do you know?

12 A. Principally existing wells to the south,
13 the Texaco Coleman Well No. 3, I believe, and I
14 believe they used the Texaco Coleman -- I believe
15 that's Skelly B State No. 7 Well.

16 I might add that there have been two new
17 wells completed by Texaco in the same two sections,
18 the Coleman Well No. 6, which is located in unit
19 letter G of Section 16, 21 South, 36 East, and that
20 had a calculated actual open flow potential of 2.2
21 million on May 22nd of 1990.

22 Also Texaco -- excuse me, that was the
23 Skelly B State No. 2.

24 Texaco's Coleman No. 6 in unit letter B of
25 Section 16, 21 South, 36 East, had a calculated actual

1 open flow potential of 848 Mcf per day on May 20 of
2 90. Relating to these two recent completions, the 450
3 Mcf per day would be conservative.

4 Q. So it could be much more?

5 A. Yes, sir.

6 Q. What is the closest offset Eumont
7 production to the proposed new well?

8 A. From Exhibit No. 2, that would be the
9 ARCO's Ernest C. Atkins Well No. 9, located in the
10 southwest of the southeast quarter of Section 9.

11 Q. You cited one in Unit G of Section 16; is
12 that correct? Would that be another Eumont?

13 A. That would be the new completed well of
14 Texaco, Skelly B State No. 2 Well.

15 Q. Are there any additional Eumont wells in
16 the north half of 16?

17 A. There's Skelly B's State Well No. 7 located
18 in unit letter E, and then they also have -- there is
19 another well located in unit letter J of Section 16.
20 I'm not real sure who has that. It looks like
21 Carpenter Oil & Gas.

22 Q. There is a Eumont well, it looks like, in
23 Unit A of 17?

24 A. That is correct. That would be the O. L.
25 Coleman No. 3 Well of Texaco.

1 Q. Unit P of Section 8 is another one?

2 A. Correct. It would be Chevron's Bell State
3 A No. 2 Well.

4 Q. Do you know what the status of these
5 various wells that we've just gone over is in terms of
6 whether they're marginal or nonmarginal in the Eumont?

7 A. I couldn't cite those right now. I could
8 look them up on the proration schedule.

9 Q. I can do that. Let me ask you, in your
10 opinion, by virtue of forming this big unit, you're
11 going to have a much higher allowable. Do you feel
12 that Chevron's gaining any kind of advantage over
13 these offset operators?

14 A. No, sir, I don't believe there will be any
15 advantage gained. We stand a chance, based on the
16 production I cited to the south, of actually being
17 curtailed depending on what the rate of the new well
18 comes in at.

19 Q. Mr. Bohling, on the docket for today is an
20 additional case to establish a minimum allowable in
21 the Eumont. Are you familiar with that case?

22 A. Yes, sir.

23 Q. I want to ask you a hypothetical question.
24 Answer it if you can. If indeed a minimum allowable
25 is established for the Eumont, would this reformation

1 of these proration units be necessary?

2 A. Yes, sir, we feel that it would still be
3 necessary in order to better utilize the acreage in
4 that area. There is currently allowable that is
5 available that's not being utilized, and by
6 reconfiguring our acreage in this manner, we would be
7 able to utilize that allowable.

8 Q. That's only assuming that the new well
9 produces in excess of, say, 600 Mcf a day? It would
10 only benefit you in that instance, if the new well was
11 capable of producing in excess of 600 Mcf a day?

12 A. Correct, or if its production would be able
13 to -- would be enough to also make up for the
14 allowable that's not being utilized. It may not take
15 a full 600 to make up the underutilized production or
16 underutilized allowable from Well No. 5. You're
17 correct.

18 Q. So --

19 A. I was misunderstanding your question for a
20 minute.

21 Q. Restated, assuming your new well comes in
22 at less than 600 Mcf a day, and assuming that the
23 minimum allowable is approved, it would be of no
24 benefit to Chevron to reconform these proration units;
25 is that correct?

1 A. If the new allowable is set at 600 Mcf a
2 day --

3 Q. And the new well was not capable of making
4 600 Mcf a day?

5 A. Then that is correct, we would probably
6 have to go back to reconfiguring back to what we are
7 today.

8 Q. Would you in fact do that if all these
9 assumptions came true? There's too many hypothetical
10 questions out right now. Let's just drop this. I
11 believe that's all I have at this time.

12 MR. KELLAHIN: We have nothing further, Mr.
13 Examiner.

14 MS. REUTER: If I could just follow up on
15 one question that you asked.

16 HEARING EXAMINER: Okay.

17 FURTHER CROSS-EXAMINATION

18 BY MS. REUTER:

19 Q. Mr. Bohling, if a minimum allowable were
20 approved, wouldn't the combined production of the Bell
21 Ramsey No. 5 and 8 be marginal?

22 A. Yes, it would.

23 MS. REUTER: That's all I have.

24 HEARING EXAMINER: The witness may be
25 excused.

1 MS. REUTER: I'd like to call Mr. Bryan
2 Jones.

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

6 DIRECT EXAMINATION

7 BY MS. REUTER:

8 Q. Could you please state your name and place
9 of residence.

10 A. Bryan Ek. Jones, Midland, Texas.

11 Q. By whom are you employed?

12 A. Doyle Hartman.

13 Q. In what capacity?

14 A. As a petroleum landman.

15 Q. How long have you been a landman?

16 A. About 17 years.

17 Q. Have you previously testified before the
18 Oil Conservation Division or other regulatory bodies?

19 A. Yes, I have.

20 Q. Have you had your credentials accepted and
21 made a matter of record?

22 A. Yes, I have.

23 Q. Has your testimony been qualified as that
24 of an expert?

25 A. Yes, it has.

1 Q. Are you familiar with the application filed
2 in the instant case on behalf of Chevron for a
3 nonstandard proration unit?

4 A. Yes, I am.

5 Q. Are you familiar with the application filed
6 by Doyle Hartman in Case No. 9994 to establish a
7 nonstandard proration unit adjacent to the proration
8 unit that is proposed by Chevron in this case?

9 A. Yes, I am.

10 Q. Are you familiar with Chevron's application
11 in case No. 9949 for a 400-acre nonstandard proration
12 unit adjacent to and west of Hartman's proposed
13 nonstandard proration unit in Case No. 9994?

14 A. Yes, I am.

15 MS. REUTER: I'll tender the testimony of
16 this witness as expert testimony.

17 HEARING EXAMINER: He is so qualified.

18 Q. (BY MS. REUTER) Mr. Jones, have you
19 prepared an exhibit in preparation for testimony in
20 this case?

21 A. Yes, I have.

22 Q. If you would look at that exhibit which we
23 have marked as No. 1, could you please tell me what it
24 shows.

25 A. This is a land map of a portion of

1 southeast New Mexico, Lea County, southeast New
2 Mexico, in Township 21 South, Range 36 East, covering
3 portions of Sections 4, 5, 6, 7, 8 and 9.

4 If we start down on the far right-hand
5 corner of this, the 240-acre proration unit that we
6 have colored in pink is the Case 10092 that we are
7 currently hearing in Chevron's proposed application
8 for a 240-acre nonstandard Eumont proration unit.

9 Q. What is reflected in the yellow?

10 A. Let me get to that in one second; okay? It
11 also shows the location of Chevron's proposed Meyer
12 Bell Ramsey No. 5 Well in Section 9.

13 The yellow outline depicts what Mr.
14 Hartman's proposed 280-acre nonstandard proration unit
15 was or is in Case No. 9994. It shows the location of
16 our proposed Eumont infill well, the State "A" Com No.
17 5. And then moving on further to the west, the other
18 pink outline shows Chevron's pending application,
19 9949, which is a 400-acre nonstandard Eumont proration
20 unit. And, again, it shows Chevron's location of its
21 proposed Graham State NCTE No. 3 Well.

22 Q. Mr. Jones, how does the instant application
23 relate to Hartman's application in Case No. 9994?

24 A. The application at hand is very similar to
25 our application in the fact that Chevron is diluting

1 its own working interest by proposing to form the
2 240-acre Eumont proration unit.

3 We had in our proposal in our application
4 in Case 9994, had proposed to dilute their working
5 interest by approximately 42 percent.

6 In the case at hand, Case No. 10092,
7 Chevron has voluntarily, apparently, agreed to reduce
8 its working interest in that proration unit by
9 approximately 50 percent.

10 Q. So what is Mr. Hartman's position in this
11 case?

12 A. We are conditionally opposed to the
13 approval of Chevron's current application regarding
14 the proposed proration unit in Section 9 due to the
15 fact that it would be inconsistent with their position
16 in our case in Sections 5 and 8. They have opposed
17 our application due to the fact that they were
18 objecting to their dilution of the interest when in
19 fact they have voluntarily done so in their own
20 application.

21 Q. At this time are there any parties other
22 than Chevron who are objecting to Hartman's
23 application in Case 9994?

24 A. No, there are not. We currently have
25 consent from all of the working interest owners within

1 our proposed 280-acre proration unit with the
2 exception of Chevron.

3 Q. Was there an attempt in Hartman's
4 application to obtain information concerning this
5 application?

6 MR. KELLAHIN: Objection, Mr. Examiner.
7 Irrelevant.

8 MS. REUTER: I believe that it is relevant
9 to show in part why they're examining witnesses and
10 presenting testimony in this case.

11 MR. KELLAHIN: Mr. Examiner, I object to
12 using this case as a forum by which Mr. Hartman can
13 reargue his forced-pooling case. The Commission has
14 treated these as separate cases.

15 I think we have Mr. Jones' testimony as to
16 why he thinks they're the same. We're prepared to
17 show otherwise. To talk about subpoenas in the
18 forced-pooling case for information which this
19 Division determined to be beyond the scope of that
20 case is what we're beginning to touch upon. I think
21 it's irrelevant and immaterial to what you're doing
22 here today, and we object.

23 MS. REUTER: Mr. Catanach, it may be
24 necessary, and I can't say that it definitely will,
25 but it may be necessary at some point to attempt to

1 incorporate some of the information in this case in
2 our case or vice versa. I think it's important to
3 show that this is the informing that we are seeking
4 there, and that we're not coming a day late and a
5 dollar short in attempting to bring this information
6 to your and the Commission's attention.

7 MR. KELLAHIN: It's inappropriate, Mr.
8 Examiner, to use a landman as an expert witness with
9 which to argue her legal points, and she simply asked
10 this witness about subpoenaed information. If she
11 wants to talk about that, let's talk about it among
12 lawyers. It's beyond the scope of the expertise of
13 this landman to broach that subject.

14 HEARING EXAMINER: Let's take a break at
15 this point, and I'll see Mr. Kellahin and Miss Reuter
16 outside.

17 (Thereupon, a discussion was held
18 off the record.)

19 HEARING EXAMINER: We're back on the
20 record. The objection that Mr. Kellahin has set forth
21 will be sustained in this case, and if Miss Reuter
22 would like to cite the factual information that came
23 from the previous two cases, that would be appropriate
24 in a closing-type statement.

25 You may proceed, Miss Reuter.

1 Q. (BY MS. REUTER) Mr. Jones, is it Mr.
2 Hartman's position that his proposal will prevent
3 waste by preventing the drilling of unnecessary wells
4 at this point in time?

5 A. Yes, it is. The reason being is because
6 for us to protect our correlative rights under all of
7 Sections 5 and 8, in the event our application is
8 denied in Case 9994, it will necessitate the drilling
9 of two wells, one in Section 5 and one in Section 8.

10 Q. Do you have anything to add to your
11 testimony?

12 A. Yes, I do.

13 Q. Aside from the subpoena?

14 A. One other thing. It's our opinion that the
15 approval of Chevron's applications both in Case 9949
16 and in the current case would constitute waste also in
17 that Mr. Bohling has stated in his testimony here
18 today that neither one of the revised proration units
19 would be capable of producing an allowable equal to or
20 in excess of a 600 Mcf allowable in the event that it
21 were approved by the OCD.

22 MS. REUTER: I have nothing further.

23 HEARING EXAMINER: Mr. Kellahin?

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

25 CROSS-EXAMINATION

1 BY MR. KELLAHIN:

2 Q. Mr. Jones, let me refer you to your exhibit
3 and direct your attention to the area outlined for the
4 Meyer Bell Ramsey, 240 spacing unit. Are there
5 currently any producing Eumont gas wells in the west
6 half of the northwest quarter of 9, to your knowledge?

7 A. Not currently, no, sir.

8 Q. Does your information reflect that the
9 undeveloped tract which is the east half, the west
10 half of 9 does not have a producing Eumont gas well on
11 it?

12 A. At the current time, it does not. It had
13 one up until March of 1986.

14 Q. Your information then would agree with Mr.
15 Bohling that the proposed nonstandard proration unit
16 in Section 9, the 240 acres, currently does not have
17 in it an existing Eumont gas well?

18 A. At the present time, that is correct.

19 Q. When we look over into Section 8, into Mr.
20 Hartman's nonstandard unit, looking at the northeast
21 quarter of 8, which is a portion of that unit, there
22 is an existing Eumont gas well that is continuing to
23 produce in that northeast quarter, is it not?

24 A. That's correct.

25 Q. That's the No. 4 well?

1 A. That's correct.

2 Q. What is the nonstandard proration unit
3 currently dedicated to the No. 4 well?

4 A. The northeast quarter of Section 8.

5 Q. When we move up into Section 5 and examine
6 the balance of the proposed nonstandard unit for Mr.
7 Hartman, the new well, the No. 5, is shown in red?

8 A. Yes, sir.

9 Q. Are there any other, within Section 5, any
10 other existing producing Eumont gas wells in that
11 portion of the spacing unit?

12 A. Within that 120 acres?

13 Q. Yes, sir.

14 A. No, sir, not at this time.

15 Q. Am I correct in understanding that Mr.
16 Hartman's proposal for the plan of operation for his
17 nonstandard spacing unit is to take the northeast
18 quarter of 8 and apply that to the acreage in Section
19 5 and put those two together?

20 A. It is our intent, yes, sir, to combine the
21 160 acres in the northeast of 8 with the 120 acres in
22 the southeast of 5.

23 Q. In doing so, you will have to
24 simultaneously dedicate the existing No. 4 well to the
25 new No. 5 well?

1 A. That is correct.

2 Q. Do you see any simultaneous dedication over
3 in the Chevron proposed spacing unit in Section 9?

4 A. There's none in because there's not an
5 active well right now. They plugged that well in
6 March of 86, and they converted to a water injection
7 well for the deeper waterflood unit in there.

8 Q. When we look at the Hartman nonstandard
9 spacing unit then, the proposal to those interest
10 owners is currently existing Eumont gas production
11 from the No. 4 well for which Chevron has a current 50
12 percent interest is to be diluted to include interest
13 owners that don't currently share in that production;
14 isn't that true?

15 A. I'm not sure I understand your question
16 completely.

17 Q. When you look at the northeast quarter,
18 that's current spacing unit for the No. 4 well?

19 A. That's correct.

20 Q. Chevron has 50 percent of that, doesn't it?

21 A. Yes, they do.

22 Q. By adding in the additional acreage in
23 Section 5, it reduces Chevron's share of actual
24 current Eumont gas production to 28.5 percent, doesn't
25 it?

1 A. If you take into consideration the fact
2 that they don't give any weight to the proposed well
3 they drill, yes, it will result in a loss to them, but
4 you have to give some effect to the well that we
5 proposed to drill, and Mr. Stewart will address that
6 later.

7 Q. Part of Mr. Hartman's plan is to take the
8 proceeds derived from the No. 4 well and apply it to
9 the cost for drilling the No. 5 well, isn't it?

10 A. On a pro rata basis, yes, that's correct.

11 Q. Do you see any of that occurring over in
12 Section 9 with the Chevron proposed nonstandard unit?

13 A. There's not an active well over there at
14 this time as to the Eumont formation.

15 Q. So those problems that exist with Chevron
16 and you in No. 4 well in Section 8 don't exist in the
17 spacing unit in 9, do they?

18 A. I respectfully disagree because they are
19 agreeing to a dilution of their working interest over
20 there, whether there is an active well or not.

21 MR. KELLAHIN: No further questions.

22 MS. REUTER: I have one question.

23 REDIRECT EXAMINATION

24 BY MS. REUTER:

25 Q. Is the northeast half of the southeast

1 quarter of Section 5 in Mr. Hartman's proposed
2 proration unit dedicated to a well?

3 A. No, it is not. It has never been dedicated
4 to the Eumont. It has been drained by surrounding
5 leases for approximately 40 years.

6 Q. Is it dedicated to a proration unit?

7 A. No, it is not.

8 MS. REUTER: I have nothing further.

9 HEARING EXAMINER: The witness may be
10 excused.

11 MS. REUTER: I'd like to call Mike Stewart.

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

15 DIRECT EXAMINATION

16 BY MS. REUTER:

17 Q. Mr. Stewart, would you state your name and
18 place of residence?

19 A. Michael Stewart, Midland, Texas.

20 Q. By whom are you employed?

21 A. Doyle Hartman.

22 Q. In what capacity?

23 A. Petroleum engineer.

24 Q. How long have you been a petroleum
25 engineer?

1 A. Approximately six years.

2 Q. Have you previously testified before the
3 Oil Conservation Division and other regulatory bodies?

4 A. I have.

5 Q. And had your credentials accepted as that
6 of an expert?

7 A. I have testified, and they have been
8 accepted.

9 Q. Are you familiar with the application for a
10 nonstandard proration unit filed in this case by
11 Chevron?

12 A. Yes, I am.

13 Q. Are you familiar with the application filed
14 in Case No. 9994 on behalf of Doyle Hartman to
15 establish a nonstandard proration unit?

16 A. Yes, I am.

17 Q. Are you familiar with Chevron's application
18 in Case 9949 for a 400-acre nonstandard proration
19 unit?

20 A. I am.

21 Q. Mr. Stewart, are you familiar with Exhibit
22 No. 1 that was introduced by Mr. Jones?

23 A. Yes, I am.

24 MS. REUTER: At this time, because I forgot
25 to do it when Mr. Jones was on the stand, I'll ask to

1 admit Exhibit 1.

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

4 Q. (BY MS. REUTER) Mr. Stewart, will you tell
5 us what the purpose of Mr. Hartman's application in
6 Case 9994 was?

7 A. First, Doyle Hartman's application was to
8 simultaneously force-pool and combine 120 acres in the
9 southeast quarter of Section 5, Township 21 South, 36
10 East, Lea County, New Mexico, in the Eumont Gas Pool.
11 Of that 120 acres, the 80 acres consisting of the
12 north half of the southeast quarter of Section 5, has
13 never been dedicated to a Eumont well, has never had a
14 Eumont well drilled on it. Along with that 120 acres,
15 we propose to force-pool or to combine the 160 acres
16 northeast quarter of Section 8 to form one, 240-acre
17 unit pool.

18 Q. What do you understand the purpose of
19 Chevron's application in this case to be?

20 A. I understand Chevron's application to be
21 simultaneously dedicate the Bell Ramsey No. 5 and the
22 Bell Ramsey No. 8, both located in Section 8 of 21
23 36. Both wells currently have 120-acre proration
24 unit. That's an acre factor of .75. They will
25 simultaneously dedicate those to a new 160-acre

1 proration unit, and take the balance of the 80 acres
2 from the Bell Ramsey No. 5 and combine it with the
3 east half of the west half of Section 9 to form a
4 240-acre proration unit. And with that 240-acre
5 proration unit, drill the proposed Meyer Bell Ramsey
6 No. 5.

7 Q. Mr. Stewart, what is Mr. Hartman's goal in
8 his application? What is he ultimately trying to
9 achieve?

10 A. The goal in our application is to protect
11 correlative rights, and in that protection is the 80
12 acres Coke State "A" Tract in Section 5 that's never
13 been drilled nor dedicated. It's been drained for 40
14 some years by offset production, primarily Chevron.

15 The other goal is to prevent the drilling
16 of unnecessary wells.

17 Q. What do you understand Chevron's goal to be
18 in this application?

19 A. I understand Chevron's goal in this
20 application to form a proration unit big enough that
21 they can justifiably and economically justify drilling
22 a new well, that being the Meyer Bell Ramsey No. 5.

23 Q. What was the goal of Chevron's application
24 in Case 9949 in proposing a 400-acre nonstandard
25 proration unit?

1 A. I believe the goal in that Case 9949 is the
2 same as the goal in their case that's before us today,
3 to combine enough acreage to economically develop the
4 Eumont Gas Pool reserves, in their opinion.

5 Q. What is your opinion then of the goal in
6 the three cases compared to each other?

7 A. I think all three of us here -- excuse me
8 -- both operators, Doyle Hartman and Chevron, are here
9 to develop the Eumont field, to prevent waste and
10 produce some of the resources that the State of New
11 Mexico has.

12 Q. Do you see any different in the purposes
13 and goals of the three?

14 A. No, no difference.

15 Q. What was your understanding of Chevron's
16 objection in Doyle Hartman's Case 9994?

17 A. Chevron's objection, as Bryan Jones touched
18 on, was that they would be going from a 50 percent
19 working interest in 160 acres that has the State "A"
20 No. 4 well, which produces approximately 170 Mcf a day
21 on it -- it would be going from a 50 percent working
22 interest in that 160 acres to approximately a 28
23 percent working interest in our proposed 280-acre
24 proration unit.

25 They talked a lot about dilution. They

1 recognized that their 28 percent working interest of
2 the existing 170 Mcf per day would not be equivalent
3 to their current 50 percent working interest in the
4 170 Mcf per day, but they failed to give any weight
5 nor recognize the fact that we propose an infill well,
6 the No. 5 well, which we feel will produce at above
7 allowable limits. We'll have deliverability above
8 allowable limits, thus fully utilizing our acreage, as
9 Mr. Bohling stated earlier was one of Chevron's goals,
10 to fully utilize their acreage corresponding to
11 allowables.

12 I think they also failed to overlook that
13 we presented before the Commission in our case some
14 estimates and some dollar figures attributable to the
15 State "A" No. 4 well to reimburse the owners as they
16 exist, that being Hartman 50 percent, Chevron 50
17 percent for their wellbore.

18 Q. Was it your testimony in that case that
19 they were or were not in fact being diluted?

20 A. It is my testimony that they were not being
21 diluted.

22 Q. Have you prepared any exhibits to reflect
23 that testimony in this case?

24 A. I have. I have prepared one exhibit that
25 is -- I believe that you have.

1 Q. Marked No. 2?

2 A. That's correct.

3 Q. Will you please describe to me what this
4 exhibit shows.

5 A. This exhibit primarily shows Chevron's net
6 gain in wells in deliverability as we proposed under
7 the Coke State "A" Com agreement, Case 9994. It shows
8 Chevron owning 50 percent of 160 acres in the existing
9 northeast quarter of Section 8. Gross production for
10 the No. 4 well based on 1989's averages was 155 Mcf
11 per day. Chevron's 50 percent working interest of
12 that gross would be 78 Mcf per day.

13 The next column I show the proposed effect
14 of Chevron should this acreage be force-pooled.
15 Chevron will go from a 50 percent working interest in
16 160 acres to 28.5714 working interest in 280 acres.
17 Their net acres are unchanged.

18 On down there I show that Chevron will
19 increase their net number of wells. They'll go from
20 one-half of the well to .57, more than one-half of the
21 well after the unitization.

22 Further, I assume that when we drill the
23 State "A" Com No. 5 well, an infill Eumont well, based
24 on our past results, will complete and have a well
25 that's a top allowable well.

1 All my calculations are done based on 1989
2 calendar year allowables, that being 293 Mcf a day for
3 a 160-acre unit.

4 Mr. Bohling referred to the last 12 months
5 running allowable. I think we need to look at that
6 and applaud Texaco for their efforts early on in the
7 year getting their allowables up, but we don't feel --
8 we're a little bit hesitant to jump forward with the
9 projections of 600 a day or better allowables at this
10 time. We've got a case pending, and we support that
11 fully after this case. But all my calculations are
12 based on 293 Mcf per day for 160 acre factor.

13 We estimate that the No. 5 well will be a
14 top allowable well. That means that 280 acre
15 proration unit will produce 513, or its allowable will
16 be 513 Mcf per day. We have all the confidence that
17 the well can produce that. Chevron's net share of
18 that production, 28.57 percent, would leave them with
19 147 Mcf per day. That shows a net gain to Chevron of
20 69 Mcf per day, plus a monetary adjustment for their
21 wellbore.

22 Q. Is there anything else significant about
23 this exhibit that you would like to point out?

24 A. None at this time.

25 Q. Have you formed an opinion in this case,

1 and I don't want you to go into it yet, as to whether
2 Chevron is being diluted in this application?

3 A. I don't believe that Chevron is being
4 diluted. I believe that they are simultaneously
5 dedicating two wells, No. 8 and 5, which, based on
6 1989 allowable levels, those wells would be allowable
7 constrained. They've taken two -- the No. 8 well, I
8 show, based on 1989's production and 1989's allowable
9 levels, to be a nonmarginal well, the No. 5 being a
10 marginal well. When you add those two production
11 together, you get production in excess of the 1989
12 calendar year allowable level.

13 It appears to me that they're taking two
14 wells, one being a nonmarginal, one being a marginal,
15 based on 1989 calendar year classifications, and will
16 be forming 160-acre proration unit, a nonmarginal
17 proration unit. They've taken the 80 acres out of the
18 120 acres dedicated to the Bell Ramsey No. 5, which
19 they own 100 percent, and cooperated with the other
20 NMFU partners, that being Amoco, Chevron, Conoco, and
21 ARCO, to combine to form a 240-acre proration unit.

22 So to answer your question, I've prepared
23 an exhibit that does not show Chevron being diluted in
24 their new proposed proration unit. What I show is
25 them having a net gain in production almost exactly

1 similar to the net gain that we give them credit for
2 in our proposed State "A" Com.

3 Q. Would that be Exhibit No. 3?

4 A. That's correct. Exhibit No. 3 shows the
5 effect to Chevron based on the existing units and then
6 the effect to Chevron based on the proposed units.

7 Notice the Bell Ramsey No. 8, No. 5, and
8 the Meyer Bell Ramsey No. 5 as proposed. In the Bell
9 Ramsey No. 8, existing unit, Chevron owns 100 percent
10 of 120 acres. 1989's production on that proration
11 unit was a nonmarginal well, produced 219 Mcf per
12 day. Averaged through the year that coincides with
13 the allowable 120-acre proration unit at 1989 levels.

14 The Bell Ramsey No. 5, Chevron owns 100
15 percent of that. As it exists today, it is a 120-acre
16 proration unit. 89 production on that was 165 Mcf per
17 day. It's a net to Chevron of also 165 Mcf per day.

18 I've illustrated under the existing units a
19 successful drilling and completion of the Meyer Bell
20 Ramsey No. 5 on 160 acres as it exists today, being
21 the east half of the west half of Section 9.

22 I might have a little bit more confidence
23 in Chevron's ability than Mr. Bohling does. I think
24 they have a chance of getting a good well there. In
25 fact, we've tried to acquire that acreage on many

1 occasions. But with that in mind, I've given that
2 160-acre unit the top allowable well which was based
3 on 1989 levels of 293 Mcf a day.

4 Chevron currently owns 25 percent working
5 interest in that NMFU property, being 160 acres, east
6 half of the west half. That would be a net 73 Mcf a
7 day to Chevron's interest.

8 When you sum all of the existing units, net
9 production to Chevron, we show that their net
10 production is 457 Mcf per day. Their net wells would
11 be 2.25, that being they own two wells 100 percent,
12 and they would own a quarter of the Meyer Bell
13 Ramsey.

14 I've extended the work sheet and shown the
15 units as proposed, that being the 160-acre Bell Ramsey
16 No. 5, and they simultaneously dedicated to the 160-
17 acre units, Chevron owning 100 percent of that.
18 There's two wellbores that they own 100 percent of;
19 that's two net wellbores. I show production on that
20 of 293 Mcf a day. As I stated earlier, when you
21 combine the 1989 production for the No. 8 and No. 5,
22 it's in excess of the 1989 allowable for 160-acre
23 proration unit. So I've limited their production
24 there to 293 Mcf per day, consistent with the 1989
25 allowable level.

1 Then I show Chevron owning half. That
2 would be 50 percent or 120 acres of the proposed 240-
3 acre Meyer Bell Ramsey proration unit. Here again,
4 I've had confidence in Chevron that they'll have a
5 successful completion and have a top allowable well.
6 Top allowable based for a 280-acre proration unit
7 based on 1989 levels again of 293 for 160 acres is 439
8 Mcf. Add their existing to the proposed, you get 723
9 Mcf -- or excuse me, you get 512 Mcf to Chevron's net
10 working interest.

11 If you take the difference from what they
12 would have -- the difference from what they've
13 proposed from the existing, you get 55 Mcf a day net
14 increase to Chevron. I think it compares very readily
15 to the 69 Mcf a day that we show them or give input
16 for on the proposed State "A" Com No. 4 and 5.

17 MS. REUTER: At this point I'll move the
18 admission of Exhibits 2 and 3.

19 HEARING EXAMINER: Exhibits 2 and 3 will be
20 admitted as evidence.

21 MR. KELLAHIN: We'll impose an objection to
22 Exhibit No. 2. It's not relevant to this case. It's
23 an attempt to reargue the forced-pooling case. We
24 object to Exhibit No. 2.

25 MS. REUTER: May I respond, or is it

1 already admitted?

2 HEARING EXAMINER: No, it's not already
3 admitted. You may respond.

4 MS. REUTER: The reason Exhibit No. 2 is
5 relevant is because we're trying to show the
6 similarities between the two cases, and Exhibit No. 2
7 shows why Case No. 9994 is similar to this case, just
8 as Exhibit No. 3 shows the same thing. They're
9 basically companion exhibits.

10 HEARING EXAMINER: I'm going to allow that
11 in, Mr. Kellahin. Exhibits 1 through 3 will be
12 admitted as evidence.

13 Q. (BY MS. REUTER) Mr. Stewart, would you
14 summarize for me why you see these two applications as
15 similar?

16 A. I see the applications being very similar.
17 We're all here to try to effectively produce and
18 utilize the acreage that we have in the best interest
19 of the state to protect the correlative rights and to
20 prevent the unnecessary drilling of wells. I believe
21 they're similar in that respect.

22 Q. Any other respects?

23 A. I would like to note that Well No. 299 as
24 it shows on the plat was a Eumont well that was
25 plugged in 3 of 86 in favor of a water injection

1 well. That well was making 120 Mcf per day. The NMFU
2 group owned a quarter of that.

3 It's kind of troublesome to me that Chevron
4 is putting so much weight on the production from the
5 State "A" No. 4, that being 155 Mcf a day in 1989, and
6 they elected to plug a well that was making 120 Mcf a
7 day, and now we're back redrilling that acreage
8 factor, that proration unit.

9 Q. Mr. Stewart, could you tell me whether Mr.
10 Hartman's proposed well and proration unit would
11 utilize the full allowable for that unit?

12 MR. KELLAHIN: Objection, Mr. Examiner.
13 I've been very patient, but we're getting into the
14 other case entirely. It's not important for you to
15 decide that.

16 HEARING EXAMINER: I'll sustain the
17 objection.

18 Q. (BY MS. REUTER) In your opinion, would
19 Mr. Hartman's proposal in the other case protect
20 correlative rights and prevent waste?

21 MR. KELLAHIN: Same objection, Mr.
22 Examiner.

23 MS. REUTER: I would just add that it goes
24 to the very basic purpose of the application which is
25 the same as the very basic purpose of this

1 application.

2 MR. KELLAHIN: You've taken that other case
3 under advisement, Mr. Examiner. It's done and over
4 with.

5 HEARING EXAMINER: I'll sustain that as
6 well.

7 Q. (BY MS. REUTER) Mr. Stewart, can you tell
8 me whether Chevron recognizes the increased production
9 from the State "A" in talking about dilution?

10 MR. KELLAHIN: Objection. It calls for
11 speculation on the part of this witness as to what
12 Chevron intends or recognizes.

13 MS. REUTER: I'll rephrase the question to
14 be what Mr. Stewart understands.

15 THE WITNESS: I understand Chevron's
16 objection to be dilution of their existing production,
17 and they get no weight nor recognize the increased
18 production that they will benefit from a top allowable
19 well drilled in Section 5, that being the State "A"
20 Com No. 5.

21 Q. (BY MS. REUTER) Is it your understanding
22 that Chevron in proposing its Meyer Bell Ramsey new
23 well does consider increased production from the
24 proposed new well?

25 A. It's my understanding that they do

1 recognize increased production.

2 Q. Do you have an opinion as to whether
3 Chevron's application prevents waste and protects
4 correlative rights?

5 A. I believe that their application does
6 prevent waste. I believe that it protects correlative
7 rights. But I also believe that the Commission has
8 got to make consistent rulings, and that all operators
9 should have the same opportunity to develop the Eumont
10 field.

11 Q. Do you have an opinion as to whether
12 Chevron would be gaining an unfair advantage over
13 Hartman as an offset operator if this application were
14 granted and Hartman's were not?

15 A. Yes, I do believe that Chevron would be
16 gaining an unfair advantage. I'll rephrase that and
17 say that Chevron would be gaining an additional
18 advantage. They've already been draining the State
19 "A" acreage for approximately 40 years with the
20 majority of the offset wells being owned and operated
21 by Chevron.

22 Q. Would you please summarize your testimony
23 very briefly?

24 MR. KELLAHIN: She's asked him that
25 question twice now, Mr. Examiner. It's repetitive.

1 HEARING EXAMINER: Is that an objection,
2 Mr. Kellahin?

3 MR. KELLAHIN: Yes, sir.

4 MS. REUTER: I can ask him if he has
5 anything to add.

6 MR. KELLAHIN: That's a nonresponsive
7 question. It calls for a narrative answer. It's
8 objectable, Mr. Examiner. How many times are we going
9 to ask the witness the same thing and let him give his
10 narrative conclusions about this case?

11 HEARING EXAMINER: Mr. Stewart, very
12 briefly give your summary.

13 THE WITNESS: My summary is I think Doyle
14 Hartman and Chevron are out here to do the same
15 thing. We're out here to develop the Eumont field.
16 We're out here to cooperate. It appears -- we're not
17 trying to stand in Chevron's way. We just want equal
18 treatment.

19 MS. REUTER: I'll pass the witness.

20 MR. KELLAHIN: No questions.

21 HEARING EXAMINER: I have no questions of
22 the witness. He may be excused.

23 Miss Reuter, would you like to give a
24 closing statement?

25 MS. REUTER: Yes, I would, Mr. Examiner.

1 First, I would like to point out, as the
2 Examiner permitted me to do, that the testimony that
3 we are eliciting in this case and the application that
4 was filed in this case was information and testimony
5 that we sought to elicit in Case No. 9994. We had
6 obtained a Subpoena Duces Tecum from the Commission on
7 June 22 attempting to discover Chevron's plans
8 regarding the reconfiguration of the two existing
9 Eumont proration units at issue in this case, and that
10 subpoena was quashed on June 25th by ruling of the
11 N.M. OCD.

12 I think that's important for the reasons
13 stated earlier that we felt at that time this
14 information was pertinent to that case, and we would
15 request that the Examiner consider it when he is
16 considering that case, and vice versa, consider 9994
17 when he is considering this case.

18 In summary though, our position ultimately
19 is to urge the approval of all three of the
20 applications as expeditiously as possible. We feel
21 that in total, they prevent waste and protect
22 correlative rights. We feel time is of the essence in
23 these cases. I know Mr. Hartman wants to drill by the
24 end of October to meet the winter season. If the
25 application is approved, he needs to go ahead and

1 drill. If it's not approved, he'll need to come in
2 and file a few other applications so that he can drill
3 two other wells and cover the reserves in that area.

4 In the long run, it is our position that
5 all three of these applications are in the best
6 interests of the state to maximize recovery, maximize
7 state revenues, and further the interests of the Oil
8 Conservation Act.

9 However, as the witnesses have stated, we
10 feel that it's necessary that all the producers in the
11 area be fairly treated, that Hartman's correlative
12 rights will be impaired if his application is denied
13 because Chevron and other producers in the area are
14 draining his acreage, particularly the 80 acres that
15 are undedicated, and particularly the State "A" No. 4
16 well, I believe is the existing well, which is a
17 marginal well.

18 We would point out that Chevron has taken
19 inconsistent positions in the two cases. In this
20 case, they're saying they're not diluted, whereas they
21 really are on an acreage basis. In our case, they are
22 saying they are diluted. More importantly, the type
23 of evidence presented in both cases shows that Chevron
24 will obtain a net gain based on industry standard
25 projections and drilling programs.

1 I have nothing further.

2 HEARING EXAMINER: Mr. Kellahin.

3 MR. KELLAHIN: Mr. Examiner, both Mr.
4 Hartman and Chevron are sophisticated participants in
5 how to manage the acreage with regards to Eumont
6 production. These cases are very much different.
7 There is certainly no inconsistency in Chevron's
8 position. Let me demonstrate quickly why I believe
9 Mr. Hartman's contention that these cases are
10 identical and therefore need similar treatment is
11 fundamentally flawed.

12 If you'll look in Section 9, we're creating
13 a new nonstandard proration unit of 240 acres for
14 which there is no existing well. We have the
15 unanimous agreement of all the working interest
16 owners. We have the opportunity to utilize
17 underdeveloped allowable by the reconfigurations of
18 the spacing unit. And we are not diluting anyone's
19 proceeds derived from current production by the
20 approval of this application. We are not seeking to
21 utilize forced pooling in order to accomplish that
22 objective. Significant difference exists in the two
23 cases.

24 Mr. Hartman seeks to take the existing 160
25 acres in the northeast quarter of Section 8 for which

1 there is an active producing Eumont gas well, and he
2 wants to add in his own acreage, and he bridges it
3 with that 40 acres in the southeast of the southeast
4 of Section 5. If that's not a dilution of Chevron's
5 share of actual Eumont production, I can't imagine
6 what is. We object to having that done. The fact
7 that he has undedicated acreage needs to be solved in
8 a different way, but it is not his right to diminish
9 our share of actual production in order to accomplish
10 that fact. But that's a different case for you to
11 decide.

12 The similarities between the two are
13 apparent to me and I hope obvious to you, that there
14 is no inconsistency in granting Chevron's two
15 applications and denying to Mr. Hartman the
16 opportunity to force-pool Chevron in Section 8
17 acreage. They are significantly and materially
18 different, and in all fairness can be treated
19 separately.

20 HEARING EXAMINER: Mr. Kellahin, one thing
21 you didn't touch on in this case, and maybe I can get
22 you to submit this as additional information, the
23 breakdown of the working interest in the current
24 units, working and royalty interests?

25 MR. KELLAHIN: Mr. Bohling's testimony was

1 that was all the same base lease. It's the Bell
2 Ramsey lease, and it's 100 percent Chevron.

3 HEARING EXAMINER: Okay.

4 MR. KELLAHIN: Maybe it was confusing when
5 he said it, but it's identical, Mr. Examiner.

6 HEARING EXAMINER: And the royalty is all
7 the same?

8 MR. KELLAHIN: To the best we know, it is.
9 That's fine. Is there anything further in this case?

10 MS. REUTER: Nothing.

11 HEARING EXAMINER: Case 10092 will be taken
12 under advisement.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10092,
heard by me on September 19 1990.

David R. Catani, Examiner

Oil Conservation Division

1 CERTIFICATE OF REPORTER

2

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

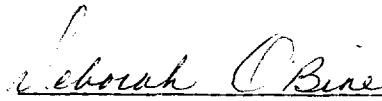
6

7 I, Deborah O'Bine, Certified Shorthand
8 Reporter and Notary Public, HEREBY CERTIFY that the
9 foregoing transcript of proceedings before the Oil
10 Conservation Division was reported by me; that I
11 caused my notes to be transcribed under my personal
12 supervision; and that the foregoing is a true and
13 accurate record of the proceedings.

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

18 WITNESS MY HAND AND SEAL September 25,
19 1989.

20


DEBORAH O'BINE
CSR No. 127

21

22

23 My commission expires: August 10, 1994

24

25